

Crowe Chizek and Company LLC



**State of Indiana
Indiana East-West Toll Road
Financial Analysis**

Submitted to the:

**State of Indiana
Indiana Finance Authority**

Submitted by:

**Crowe Chizek and Company LLC
Mr. Scott R. Nickerson, Executive
3815 River Crossing Parkway, Suite 300
Indianapolis, Indiana 46240-0977**

March 7, 2006



Table of Contents

1. EXECUTIVE SUMMARY	1
2. FINANCIAL ANALYSIS OF REVENUES AND EXPENDITURES	2
3. SUMMARY OF SIGNIFICANT ASSUMPTIONS	3



Executive Summary

Purpose of the Financial Analysis

The Indiana East-West Toll Road (Toll Road) serves as a critical transportation link between highways leading to major East Coast cities and northwestern Indiana, the City of Chicago, and the western U.S. It is a primary traffic artery in northern Indiana connecting many metropolitan areas of the State including Angola, Goshen, Elkhart, Mishawaka, South Bend, La Porte, Chesterton, Valparaiso, Hobart, Portage, Gary, Hammond and East Chicago. It spans approximately 157 miles between the Ohio Turnpike and Chicago Skyway.

To respond to information requests regarding the Major Moves Initiative, the Indiana Finance Authority engaged Crowe Chizek and Company LLC (Crowe) to perform an independent analysis of Toll Road operations over a 75 year period from 2006 through 2081. This analysis is a way to evaluate the business case for the Toll Road operations. Crowe has familiarity with the Toll Road through its external audit relationship with the Toll Road for over 15 years. Crowe is an independent certified public accounting and consulting firm with over 20 offices throughout the United States. Founded over 60 years ago in South Bend, Indiana, Crowe is the 9th largest accounting and consulting firm in the United States, according to the Public Accounting Report.

This analysis does not examine the financial or non-financial merit of the current lease bids, nor does it include any inherent value of performing Toll Road operations under the current State of Indiana model.

Methodology

The assumptions used for this analysis were based on historical Toll Road performance, economic market analysis information, State of Indiana communicated plans, and State of Indiana traffic studies performed by Wilbur Smith Associates, a long time consultant to INDOT and the Toll Road. Wilbur Smith Associates is an infrastructure consulting firm that provides planning, engineering, design, financial, and economic services for infrastructure projects for transportation and non-transportation projects. The major assumptions include:

- Wilbur Smith Associates' traffic projections on annual traffic volume and toll revenue
- Operating expense growth at 5.1%
- Repairs and renovations expense growth at 2.5%
- Capital improvement requirements
- Discount rate used for Net Present Value (NPV) of future cash flows at 6%

The NPV of future cash flows is a common method used to calculate the cash flow value of an investment. NPV is the sum of the present values of the annual cash flows (revenues less expenditures) generated during a specified period of time.

Results

Under State of Indiana operation and current financial analysis assumptions, the NPV of future cash flows was calculated at \$1.92 billion, as compared to the current \$3.85 billion lease bid.



Financial Analysis of Revenues and Expenditures

The results of the financial analysis are shown below:

Cash Flows (in millions)	Years		Years		Years		Years		Years		Total Gross Cash Flows
	2006-2015	2016-2025	2026-2035	2036-2045	2046-2055	2056-2065	2066-75	2076-2081			
Revenues:	\$ 1,746.6	\$ 2,604.6	\$ 3,908.2	\$ 5,453.6	\$ 7,588.6	\$ 10,749.0	\$ 14,656.2	\$ 11,797.9	\$ 58,504.6		
Expenditures:											
General operating	468.8	771.0	1,267.8	2,084.9	3,428.6	5,638.3	9,272.1	8,227.9	31,159.5		
Repairs and renovations	577.8	705.2	839.4	1,011.2	1,231.2	1,512.7	1,873.1	1,337.8	9,088.4		
Debt service	248.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	249.1		
Total expenditures	<u>1,294.9</u>	<u>1,477.0</u>	<u>2,107.3</u>	<u>3,096.2</u>	<u>4,659.8</u>	<u>7,151.0</u>	<u>11,145.2</u>	<u>9,565.7</u>	<u>40,497.1</u>		
Revenues over Expenditures	<u>\$ 451.7</u>	<u>\$ 1,127.7</u>	<u>\$ 1,800.9</u>	<u>\$ 2,357.4</u>	<u>\$ 2,928.8</u>	<u>\$ 3,597.9</u>	<u>\$ 3,511.0</u>	<u>\$ 2,232.2</u>	<u>\$ 18,007.6</u>		

Cash flows (in billions)	Gross Cash Flows	NPV
Revenues	\$ 58.50	\$ 5.30
Expenditures:		
General operating	31.16	1.97
Repairs and renovations	9.09	1.23
Debt service	0.25	0.18
Total expenditures	<u>40.50</u>	<u>3.38</u>
Revenues over Expenditures	<u>\$ 18.01</u>	<u>\$ 1.92</u>



Summary of Significant Assumptions

This financial analysis has utilized historical financial statement data and prospective information that to the best of the State of Indiana's knowledge and belief, is reasonable to utilize in projecting the Toll Road's revenues and expenditures for the period 2006 through 2081. The analysis reflects the State of Indiana's judgment as of February 28, 2006, the date of this financial analysis, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that we believe are significant to the financial analysis. There will usually be differences between financial analyses and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

A. DESCRIPTION OF TOLL ROAD

The financial analysis relates to the operation of the Toll Road. The Toll Road serves as a critical transportation link between highways leading to major East Coast cities and northwestern Indiana, the City of Chicago and the western United States. It is a primary traffic artery in northern Indiana connecting many metropolitan areas of the State including Angola, Goshen, Elkhart, Mishawaka, South Bend, La Porte, Chesterton, Valparaiso, Hobart, Portage, Gary, Hammond and East Chicago. It spans approximately 157 miles between the Ohio Turnpike and Chicago Skyway.

The operations are the result of a lease agreement between the Indiana Finance Authority (IFA) and the Indiana Department of Transportation (INDOT) to finance and operate the Toll Road as defined in the lease agreement between the two parties. INDOT established the Toll Road District to manage and operate the Toll Road as a unit separate from any INDOT unit. A condensed summary of the Toll Road operating revenues and expenses for the years ended June 30, 2005 and 2004 reflects earnings before consideration of the cash flow needs from debt service and capital asset expenditures, as shown below in the condensed summary statement of cash flows:

Summary of Operating Revenues and Expenses (in millions)

	<u>2005</u>	<u>2004</u>
Revenues		
Tolls	\$88.0	\$85.0
Concessions	7.0	7.0
Investment income	2.8	1.4
Other	0.8	0.7
Total revenues	<u>\$98.6</u>	<u>\$94.1</u>
Expenses		
General operating	35.2	32.2
Repairs and renovations	32.7	25.1
Interest	15.4	15.3
Depreciation	3.6	3.1
Total expenses	<u>\$86.9</u>	<u>\$75.7</u>
Revenues over expenses	<u>\$11.7</u>	<u>\$18.4</u>

A. DESCRIPTION OF TOLL ROAD (Continued)
Summary Statement of Cash Flows (in millions)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Cash received from tolls	\$ 88.2	\$ 84.9
Cash received from concessionaires	7.5	7.6
Cash paid to employees for payroll and benefits	-25.3	-22.7
Cash paid to contractors and suppliers	-42.0	-34.0
Net cash from operating activities	<u>28.4</u>	<u>35.8</u>
Cash flows from investing activities		
Net purchases of investments	-0.3	-8.3
Investment income	2.8	1.4
Net cash from investing activities	<u>2.5</u>	<u>-6.9</u>
Cash flows from capital and financing activities		
Capital expenditures	-24.1	-20.5
Proceeds from sale of fixed assets	0.1	0.0
Principal payment on revenue bonds	-13.0	-12.4
Interest paid on revenue bonds	-10.0	-12.9
Net cash from capital and financing activities	<u>-47.1</u>	<u>-45.8</u>
Net change in cash and cash equivalents	<u>\$ -16.2</u>	<u>\$ -16.8</u>

B. REVENUE ASSUMPTIONS
I. Toll Revenues

Toll Revenues are generated from passenger and commercial vehicle traffic at varying toll rates depending on the revenue miles of each trip. Toll rates have not changed since 1985. Therefore the changes in toll revenue over the period from 2001 through 2005 are primarily attributable to changes in traffic volume and traffic mix between passenger and commercial vehicles. Historical Toll Revenue and Vehicle data follows:

Toll Revenue Historical Statistics

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Toll Revenues (in millions)					
Passenger vehicle	\$34.7	\$35.4	\$34.8	\$34.8	\$32.7
Commercial vehicle	53.3	49.6	47.2	47.5	49.2
Total toll revenue	<u>\$88.0</u>	<u>\$85.0</u>	<u>\$82.0</u>	<u>\$82.3</u>	<u>\$81.9</u>
Toll Revenue Growth (%)					
Passenger vehicle	-2.0%	1.6%	0.0%	6.4%	0.8%
Commercial vehicle	7.5%	5.1%	-0.6%	-3.5%	-5.5%
Average revenue growth based on vehicle mix	3.5%	3.6%	-0.4%	0.5%	-3.1%
Vehicle Traffic (in millions)					
Passenger	45.0	45.0	44.7	46.1	43.3
Commercial	9.7	9.0	8.5	9.0	9.1
Revenue per Vehicle Trip (in dollars)					
Average passenger revenue per trip	\$0.77	\$0.78	\$0.78	\$0.76	\$0.75
Average commercial revenue per trip	\$5.48	\$5.48	\$5.54	\$5.28	\$5.40
Average revenue per trip based on vehicle mix	\$1.56	\$1.49	\$1.54	\$1.57	\$1.61

B. REVENUE ASSUMPTIONS (Continued)

Toll and Vehicle Traffic Assumptions:

Significant assumptions on toll revenue and annual traffic volume in the financial analysis come from a study performed by Wilbur Smith Associates.

Years 2006 through 2010: For the period 2006 through 2010, the annual traffic volume and toll revenues is the data from a separate study performed by Wilbur Smith Associates on revenue estimates for traffic volume and revenue through 2010. The study was based on a proposed rate increase of 72% for passenger vehicles and 120% increase phased-in over four years for commercial vehicles. For that period, the implied toll rate is calculated as the estimated toll revenue divided by the annual traffic volume. Implied toll rates range from \$1.60 to \$3.41 during this period.

Summary information is provided below:

	Years 2006 through 2010			
	<u>----Range----</u>		<u>Average</u>	<u>Median</u>
Annual Traffic Volume (in millions)	47.2	56.6	50.5	49.3
Implied Toll Rate (in dollars)	\$1.60	\$3.41	\$2.68	\$2.83
Toll Revenues (in millions)	\$90.3	\$162.3	\$133.3	\$139.7

Years 2011 through 2030: For the period 2011 through 2020, the annual traffic volume is data from a separate study performed by Wilbur Smith Associates. The traffic volume has a 1.1% growth assumption from 2021 through 2030 as estimated by Wilbur Smith Associates. It is assumed that passenger and commercial vehicle traffic mix will remain constant during the period 2021 through 2030.

The toll rate for passenger vehicles has changed seven times in the 50 year history (1956 through 2006). The average historical growth over that time period is calculated at approximately 22% for passenger vehicles and 16% for commercial vehicles for every seven year average period. The financial analysis uses the 22% toll rate growth assumption starting in 2013 with a new increase of 22% every seven years. Between the seven year increases in toll rate, it is assumed that the toll rate will remain flat. The 50 year historical data assumes a new 2006 toll rate for full use of the entire toll route of \$8 for passenger vehicles and a \$32 rate for commercial vehicles (Class 5) that will be phased-in over a four year period. Implied toll rates range from \$3.41 to \$6.20 during the period.

B. REVENUE ASSUMPTIONS (Continued)

Summary information is provided below:

	Years 2011 through 2030			
	<u>-----Range-----</u>	<u>Average</u>	<u>Median</u>	
Annual Traffic Volume (in millions)	47.2	58.6	52.8	52.8
Implied Toll Rate (in dollars)	\$3.41	\$6.20	\$4.82	\$5.08
Toll Revenues (in millions)	\$164.5	\$363.0	\$256.9	\$268.3

Years 2031 through 2081: For the period 2031 through 2081, the annual traffic volume is based on .55% growth assumption which is one-half the growth rates for the period 2011 through 2030. The implied toll rate growth assumption is a 22% increase in 7 year increments similar to the period 2011 through 2030. It is assumed that passenger and commercial vehicle traffic mix will remain constant during the period. Implied toll rates range from \$6.20 to \$24.94 during this period.

Summary information is provided below:

	Years 2031 through 2081			
	<u>-----Range-----</u>	<u>Average</u>	<u>Median</u>	
Annual Traffic Volume (in millions)	58.9	77.5	67.8	67.5
Implied Toll Rate (in dollars)	\$6.20	\$24.94	\$14.14	\$13.73
Toll Revenues (in millions)	\$365.0	\$1,931.8	\$989.3	\$927.5

B. REVENUE ASSUMPTIONS (Continued)**II. Other Revenues**

Other revenues primarily consist of concession revenue and investment income earnings. For the period 2006 through 2010, Other Revenues is based on a separate study by Wilbur Smith Associates. No other sources of revenue are contemplated.

Concession Revenues: Concession revenues arise from lease contracts entered into with vendors for the operation of the restaurants and motor fuel vending service stations on the Toll Road. The operators pay rentals based on a percentage of gross revenues or guaranteed rent, as defined in the respective contracts.

For assumption purposes of the financial analysis for years 2011 through 2081, Concession revenues are estimated to grow at a rate of 2% per year. Concession revenues have average growth rates of approximately 2% per year for the ten year period 1996 through 2005.

Investment Income Earnings: The Toll Road Trust Indentures authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, commercial paper rated in the highest rating category, tax exempt securities, certificates of deposit, repurchase agreements secured by U.S. government securities, investment agreements with a qualified financial institution and any other obligation rated in one of the two highest rating categories by a rating agency. Due to fluctuations in the economic market, for assumption purposes of the financial analysis for years 2011 through 2081, investment earnings are based on current money market or institutional rates.

C. OPERATING EXPENDITURE ASSUMPTIONS

The financial analysis uses amounts which are based upon a modified cash basis of accounting using the following assumptions:

- Historical accrual based operating expenditure growth approximates cash expenditures growth.
- No depreciation expense is used because it is a noncash expense.
- All maintenance and repairs on existing capital assets and expenditures on new capital assets are recorded as cash expenditures.

The following table presents a summary of the operating expenditures of the Toll Road for the year ended June 30, 2005 using a modified cash basis as compared to the accrual basis of accounting used in the Toll Road audited financial statements:

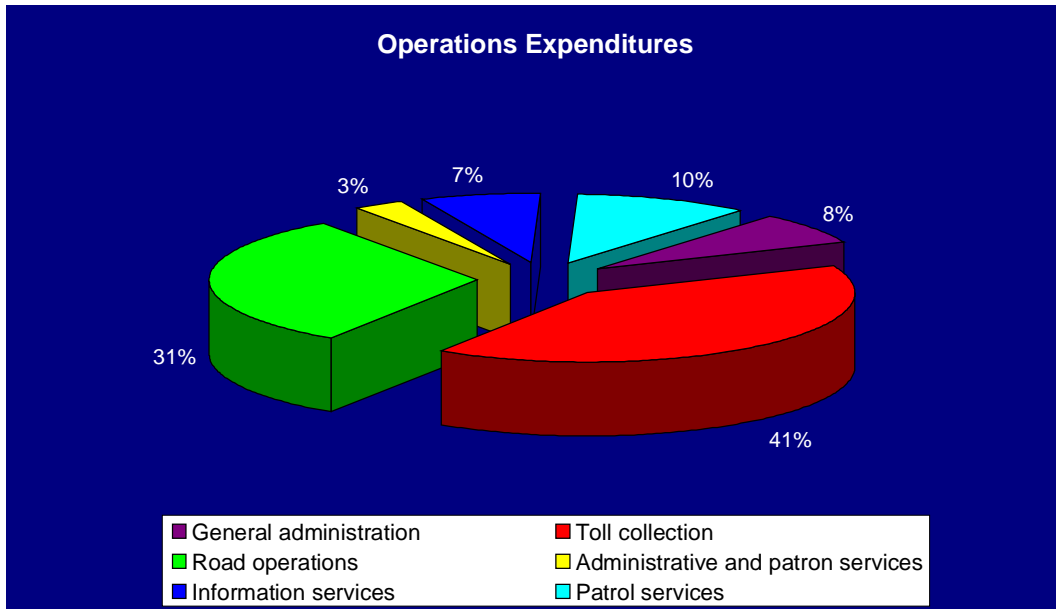
Summary of Expenses (in millions)

	2005 Modified Cash Basis	2005 Accrual Basis
General operating	\$35.3	\$35.3
Repairs and renovations	32.6	32.6
Debt service:		
Interest	15.4	15.4
Principal	9.8	0.0
Depreciation	0.0	3.6
Total expenses	<u>\$93.1</u>	<u>\$86.9</u>

C. OPERATING EXPENDITURE ASSUMPTIONS (Continued)

I. Operating Expenditures

Operating expenditures include general administration, toll collections, road operations, administrative services, patron services, patrol services and information services. Toll Road operations for 2005 were broken down as follows:



Operational Expenditures Assumptions:

Based on an average annual growth rate during the period of 1998 through 2005, operations expenditures have an assumption of 5.1% growth per year during the entire financial analysis period. Operating data related to the time period follows:

Operational Expenditures for Years 1998 through 2005 (in millions)

----Range----		Average	Median					
\$24.9	\$35.3	\$29.7	\$29.9					
<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	
\$24.9	\$26.2	\$27.5	\$28.9	\$30.4	\$32.0	\$33.6	\$35.3	

C. OPERATING EXPENDITURE ASSUMPTIONS (Continued)**II. Expenditures for Repairs and Renovation**

A substantial portion of expenditures are dedicated to repairing, renovating and upgrading aging Toll Road infrastructure. The costs for major repairs and renovations may increase in conjunction with projects to enlarge or improve parts of the Toll Road. As repair and renovation projects vary from year to year, this component of expenditures will also vary.

The State of Indiana has set standards for the quality of the Toll Road's roads and bridges. The condition of road pavement is measured using a pavement quality index, which is based on a weighted average of six distress factors found in pavement surfaces. It is the State's policy to maintain at least 85% of its road system at a good or better condition level. No more than 10% should be in substandard condition. The condition of the State's bridges is determined using its Bridge Management and Inspection Program. It is the State's policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1%.

Expenditures for repairs and renovation are the primary means for maintaining and improving condition ratings. The current condition ratings of the Toll Road's highways and bridges are as follows:

Percentage in Good or Better Condition:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interstate Roads	91.0%	96.0%	92.0%
Interstate Bridges	100.0%	100.0%	100.0%

Percentage in Substandard Condition:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interstate Roads	0.6%	0.0%	0.0%
Interstate Bridges	0.0%	0.0%	0.0%

Repairs and Renovation Expenditures Assumptions:

Due to a change in accounting standards on capital assets and infrastructure (expense versus capitalization) during the test period from 1998 through 2005, it was concluded that consistent growth rates could not be readily determined. Therefore, the expenditure assumption is a 2.5% growth rate per year during the financial analysis period. The rate approximates the Consumer Pricing Index ten year historical average growth rate and approximates the Bureau of Economic Analysis - State Transportation Price Index for Government Consumption Expenditures. The Year 2005 expenditures were \$34.5 million.

C. OPERATING EXPENDITURE ASSUMPTIONS (Continued)

Estimated costs provided by the State of Indiana associated with repairs and renovations expense for 1998 through 2005 are as follows:

Repairs and Renovations Expenditures for Years 1998 through 2005 (in millions)

<u>---Range---</u>		<u>Average</u>	<u>Median</u>				
\$29.5	\$34.5	\$33.8	\$34.3				
<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
\$29.5	\$32.5	\$35.0	\$37.5	\$37.5	\$34.0	\$30.2	\$34.5

III. Debt Service Expenditures Assumptions

At June 30, 2005, the Toll Road had \$204.6 million in outstanding bond principal consisting of the following bond issues (in millions):

<u>Bond Series</u>	<u>Outstanding Balance</u>
Series 1985	\$26.2
Series 1987	\$44.3
Series 1993	\$10.5
Series 1996	\$123.5
	<u>\$204.6</u>

Debt Service Expenditure Assumptions:

The financial analysis assumes that no new debt obligations will be incurred after the final payment of current outstanding bonds payable. Any new capital asset acquisitions would be financed from Toll Road cash flows. Debt service expenditures in the financial analysis include both principal and interest cash disbursements.

C. OPERATING EXPENDITURE ASSUMPTIONS (Continued)

The financial analysis reflects the following debt service requirements on the four bond series from July 1, 2005 through June 30, 2016 in millions:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 13.7	\$ 11.3	\$ 25.1
2007	14.5	10.5	25.0
2008	15.4	9.5	24.9
2009	16.3	8.5	24.9
2010	17.1	7.6	24.8
2011	18.0	6.7	24.7
2012	19.0	5.7	24.7
2013	20.0	4.6	24.6
2014	21.6	3.4	24.9
2015	22.8	2.1	24.9
2016	26.2	0.8	27.0
	<u>\$ 204.6</u>	<u>\$ 70.8</u>	<u>\$ 275.3</u>

D. CAPITAL AND INFRASTRUCTURE COSTS

As of June 30, 2005, the Toll Road has invested \$279.6 million, net of accumulated depreciation, in a broad range of capital assets and infrastructure, including roads, bridges, land, buildings and equipment. For the financial analysis, capital and infrastructure are defined as costs that extend beyond the normal annual maintenance and repairs anticipated in operational expenditures. Capital and infrastructure costs are improvements that add new functionality (additional lanes), or reconstruction of roadway that increase the normal useful life of the existing capital assets.

Capital Cost Assumptions:

The financial analysis includes an assumption that the State of Indiana will complete a \$226 million capital project for a third lane addition on an identified ten mile stretch on the Toll Road. For financial analysis purposes, the \$226 million of capital projects is spread evenly over the period 2007 through 2016. From 2017 through 2081, additional capital projects will be needed periodically. For the financial analysis, the State of Indiana estimates spending an average of \$22.6 million per year on capital and infrastructure improvements, which may include lane additions and reconstruction over the remaining period of the analysis.

E. NET PRESENT VALUE OF FUTURE CASH FLOWS

Net Present Value (NPV) is defined as the sum of the present values of the annual cash flows minus the initial investment. The annual cash flows are the net benefits (revenues – expenditures) generated from the investment during its lifetime, or defined period. These cash flows are discounted or adjusted by incorporating the uncertainty and time value of money. In summary, NPV is a common financial evaluation tool to estimate the value of an investment. The calculation of NPV involves three steps:

- The first step is to identify the size and timing of the expected future cash flows generated by the project or investment.
- The second step is to determine the discount rate or the estimated rate of return for the project or investment.
- The third step is to calculate the NPV using a standard mathematical equation.

Net Present Value Assumptions:

The financial analysis assumes a discount rate of 6.0%, which the State of Indiana estimates as its market cost of capital for State of Indiana debt. The 6% rate was derived from the 20 year historical average weekly rate of the 30 year Municipal Market Data of approximately 5.8% plus 20 basis points based on the current market, which reflects an adjustment for current Indiana credit ratings and the risk of lease revenue backed debt.

MMD Weekly Rates for the Period January 1987 through December 2005

MMD Rates	----Range----		Average	Median
	4.2%	8.4%	5.8%	5.6%
Average	20 Year	15 Year	10 Year	5 Year
	5.8%	5.3%	5.0%	4.7%

The NPV of future cash flows assuming a 6.0% discount rate results in a value of \$1.92 billion.

<u>Cash flows (in billions)</u>	<u>Gross Cash Flows</u>	<u>NPV</u>
Revenues	\$ 58.50	\$ 5.30
Expenditures:		
General operating	31.16	1.97
Repairs and renovations	9.09	1.23
Current debt service payments	0.25	0.18
Total expenditures	40.50	3.38
Revenues over Expenditures	<u>\$ 18.01</u>	<u>\$ 1.92</u>

F. CAUTIONS TO THE READER OF THE FINANCIAL ANALYSIS

Crowe Chizek and Company LLC makes no representation or warranty as to the accuracy or completeness of the information contained within this report, including all estimates or extrapolations, and shall have no liability for any representations, expressed or implied, contained herein, or for any omissions from this report.

Crowe has not read the entire proposed lease bid document and makes no representations regarding the information therein.

We understand that this report is to be used to assist in evaluating the future operations of the Toll Road continuing under public operation and ownership and should not be used for any other purpose. Unless otherwise permitted by us in writing, the information provided in this report is intended solely for your use and should not be relied upon by others. Neither this report nor any portion thereof may be used by in any marketing materials, offering circular or registration statement, prospectus, sales brochure, appraisal, loan or other agreement, or document of such kind.

The analysis contained in this report is based on estimates, assumptions, and market information obtained from various industry and regulatory sources and from our knowledge of the industry and other factors. Some of those assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary from those anticipated in our analysis and these differences may be material.

Changes in the transportation industry can and do occur in a rapid manner. These and other changes can alter the assumptions and conclusions drawn from historical data. Based upon the terms of our engagement, we are not responsible for updating this report for circumstances that occur after this report has been released.

Crowe's fees are not dependent upon the outcome of this report and the Crowe is independent to with respect to any interest to the State of Indiana and the Toll Road.