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RE: HB 554 Proposed Ohio Turnpike Legislation Opinion

5-16-2008

Sir:

I would like to express concern regarding the provision in H.B. 554 whereby the Ohio Turnpike Commission would share a portion of its after debt service revenues with the State highway operating fund until 12-31-2030. My three contentions are as follows.

1) Numerous public and private efforts are attempting to shift more truck-based traffic back to railways. Gov. Ted Strickland in the Columbus Dispatch article [Attachment #1](#) proposes State assistance to CSX for its Washington DC-Youngstown-New Baltimore, OH National Gateway initiative to improve its intermodal throughput capacity. This main line route is adjacent to the Ohio Turnpike between Youngstown-Toledo, and while a shift of trucks from highways to rail is overall more efficient in numerous respects, these subsidy policies represent a potential loss of traffic and subsequent revenues for OTC.

2) In his 3-14-2007 testimony to the Ohio Senate Highways & Transportation Committee, ODOT Director James G. Beasley stated "ODOT has seen a 40% increase in construction prices in just the past four years." Although the proposed legislation seeks OTC revenues after revenue bond debt service, those cost increases are still applicable to non-bonded regular maintenance of way service and emergency repairs, and OTC will likely require future toll increases to adequately cover these costs.

3) OTC's non-profit toll rates are apparently determined in part by credit rating agencies examining their ability to offset expenses with adequate revenues. The last paragraph of the 2-5-2008 Reuters article [Attachment #2](#) "States could unite in subprime lending probe" notes the Ohio Attorney General may consider investigating credit agencies involved in the subprime mortgage problem. The 2-7-2008 Reuters article [Attachment #3](#) "S&P draws criticism as sets ratings reform" notes Standard & Poor's, Moody's, and Fitch are currently reforming their ratings policies due to pressure from various state attorneys general and the SEC.

I attended a 7-19-2004 OTC monthly commission meeting where its staff reported their debt ratings were reliant upon increasing its debt coverage ratio to 2, or 200%. According to its 2004-2006 CAFRs I surveyed, OTC had debt ratings from Standard & Poors of "AA", Moody's of "Aa3", and Fitch of "AA" making it as OTC claims "one of the best-rated turnpikes worldwide". For comparisons the rating scales for S&P, Moody's, and Fitch are-

S&P's: AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-

Moody's: Aaa, Aaa1, Aaa2, Aaa3, Aa, Aa1, Aa2, Aa3, A, A1, A2, A3, Baa, Baa1, Baa2, Baa3, Ba, Ba1, Ba2, Ba3, B, B1, B2, B3

Fitch: AAA, AA, A, BBB, BB, B; CCC, CC, C, DDD, DD, D, and + & - may be added to each rating other than AAA or below CCC

The website <http://www.invest-2win.com/debtcoverage.html> has the following definition of Debt Coverage Ratio-

Also known as Debt Service Coverage Ratio (DSCR). The debt coverage ratio (DCR) is a widely used benchmark which measures an income producing property's ability to cover the monthly mortgage payments. The DCR is calculated by dividing the net operating income (NOI) by a property's annual debt service. Annual debt service equals the annual total of all interest and principal paid for all loans on a property. A debt coverage ratio of less than 1 indicates that the income generated by a property is insufficient to cover the mortgage payments and operating expenses. For example, a DCR of .9 indicates a negative income. There is only enough income available after paying operating expenses to pay 90% of the annual mortgage payments or debt service. A property with a DCR of 1.25 generates 1.25 times as much annual income as the annual debt service on the property. In this example, the property creates 25% more income (NOI) than is required to cover the annual debt service.

Many lending institutions require a minimum debt coverage ratio value to procure a loan for income producing properties. DCR requirements for lending institutions may vary from as low as 1.1 to as high as 1.35. From a lending institutions perspective, the higher the debt coverage ratio value, the more income there is available to cover the debt service and thus the less the risk.

**Attachments #4 and #5** are pages 24 and 35 of OTC's 2004 CAFR that detail Resolution No. 30-2004 and its policy to achieve a Net Debt Service Coverage Ratio of up to 200% and at least 150%. Referring back to my 7-19-2004 meeting note it seems OTC may have yielded to debt rating agencies' demands to significantly increase its DSCR ratios and change their policies to maintain high ratios for the long term in exchange for its current debt ratings. Yet OTC has and does not appear to be a credit risk compared to other highway-providing

government agencies and tollways using various business and governance models, some requiring outside revenue and debt rating subsidization.

These increases seemingly to help reduce risk and useful for potential marketing purposes must nonetheless be contributing to the high fees and tolls OTC must assess at the expense of the traveling public, commercial carriers, and other users. Drivers are therefore more than tempted to use toll-free roadways and are resisting further rate increases and tollway projects, which does not assist in addressing the increasing Midwest transportation capacity and congestion crises. Are the debt rating agencies profiting more by requiring high ratios, and are some fringe investors advocating high toll rate "pricing power" to artificially restrict throughput capacity thus increasing profits in certain market segments? Such high costs also provide fodder for calls to privatize OTC and other State agencies.

The 3-3-2008 Reuters article [Attachment #6](#) "Calif calls for reform of 'unfair' muni ratings" reports California is leading an effort to reform unfair ratings. The referenced CA state treasurer press release is [Attachment #7](#) and CA State Treasurer Bill Lockyer's letter to Standard & Poor's, Moody's, and Fitch also signed by other states' and municipalities' officials is [Attachment #8](#).

Therefore in light of these issues I wish to ask the OTC provision in H.B. 554 be reconsidered, and if you would additionally consider requesting the Attorney General and/or the State Treasurer to join with the other efforts in investigating those debt rating agencies' requirements for OTC (if not for other state and local government agencies that have also issued revenue bonds) to increase its DSCR arbitrarily to maintain high level debt ratings. More responsible DSCRs should reduce most bond costs and might reduce other infrastructure programs' cross-subsidization needs.

For disclosure purposes I am a doctoral candidate in Technology Education/Systems Analysis at West Virginia University and have no affiliation or investments with any of the aforementioned agencies, firms, or sources.

Sincerely,

A handwritten signature in black ink that reads "Daniel L. Van Epps". The signature is written in a cursive, flowing style.

Daniel L. Van Epps