

Briefing Paper

Economic and Fiscal Impacts Associated with the North Texas Tollway Authority Operating Concession Bid For the State Highway 121 Toll Facility

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Introduction

In March of this year, the North Texas Regional Transportation Council (RTC) invited the North Texas Tollway Authority (NTTA) to submit a bid for construction and operation of the SH 121 toll road project in Denton and Collin Counties. NTTA's bid will be evaluated along with the awarded bid by private firms. To date, three private bids were submitted and one awarded by the Texas Department of Transportation (TxDOT).

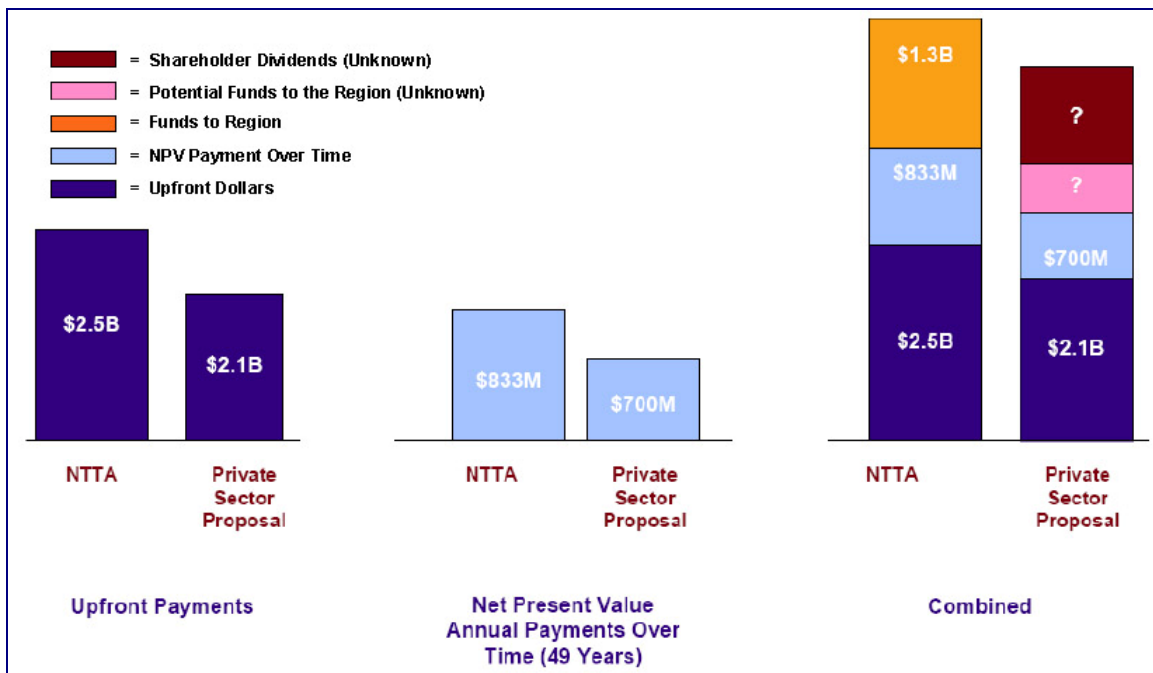
Comparison of the NTTA and Private Sector Proposals

Figure 1 highlights the differences between the NTTA and the private sector proposal. NTTA will make a \$2.5 billion up-front payment to the Texas Department of Transportation (TxDOT) compared to the private up-front payment of \$2.1 billion. Annual payments to TxDOT over 49 years, expressed in 2007 dollars, are estimated at \$833 million in the NTTA proposal vs. \$700 million in the private proposal. NTTA further estimates that the excess of toll revenues over operating expenses, interest costs,

and payments to TxDOT will amount to \$1.3 billion over a 49-year horizon, again expressed in constant 2007 dollars. The estimated SH 121 toll revenues over costs for the private proposal have not been made public, but presumably most of these funds would be paid out as dividends to shareholders or invested in other non-local projects.¹

Figure 1

Financial Comparison: NTTA and Private Sector Bids for SH 121



Source: NTTA

How and why the NTTA proposal provides greater economic and fiscal benefits to the region

The NTTA proposal to build and operate the SH 121 toll road is superior to the private sector proposal for a number of reasons. Because the NTTA is a public entity, it can borrow at a lower cost than a private sector firm. That partly explains why NTTA's

¹ We assume that in both cases the up-front payments and annual payments will be dedicated by TxDOT for projects in the north Texas region.

proposed up-front payment to TxDOT is \$400 million greater than the private payment, netting an additional \$400 million for TxDOT funded highway improvements in the region. Similarly, over the ensuing 49 years NTTA payments to TxDOT would be \$133 million greater than the private firm's payments, also providing more revenues for local, non-tolled highway improvements.

Because the NTTA doesn't have to pay dividends to shareholders, all of the net proceeds after expenses associated with building and operating the SH 121—estimated at \$1.3 billion over 50 years—can be invested in new tolled and non-tolled highway projects in the four-county north Texas region.

These “incremental” local expenditures—i.e., the differences between the NTTA cash flow and the private sector cash flow—will also have significant economic and fiscal impacts across the Metroplex. In order to estimate these differential impacts, we have utilized the IMPLAN Input-Output Model developed by the Minnesota IMPLAN Group. In modeling the impacts of the increased transportation infrastructure spending made possible by NTTA's higher bid, we have assumed that all the additional spending will be for roadway construction.

The IMPLAN model provides estimates of direct, indirect, and induced economic effects. Direct impacts, in this case, would be the result of roadway construction activities such as hiring construction contractors. These contractors, in turn, purchase goods and services to support their operations, thereby creating indirect effects. The induced impacts track the economic and fiscal effects of employees of the construction firms and their vendors spending a portion of their earnings in the local economy for goods and services. Each of these impacts is adjusted to account only for local

purchases. For example, the diesel fuel used in heavy equipment is not produced in the North Texas region, therefore those expenditures “leak out” of the local economy. When added together, the sum of all of the activity from direct, indirect, and induced impacts is greater than the local proportion of direct activity, which is the “multiplier effect.”

As noted above, the difference in NTTA’s initial payment and the present value of the stream of guaranteed annual payments over the next 49 years totals \$533 million. In addition to initial and guaranteed payments, it is projected that NTTA will realize \$1.3 billion in operating profits over the 49-year period that will be used for other regional roadway development.² In sum, over \$1.8 billion, expressed as present value, would be available for local reinvestment. If this source of revenue were used to build new roadway infrastructure in the North Texas region, total economic activity would rise by \$2.5 billion, supporting over 13,000 person years of employment and paying about \$600 million in salaries, wages, and benefits (see Table 1). In addition, property income from rents, royalties, dividends, and corporate profits would rise by \$190 million. State and local governments would also see substantial gains in revenue from sales and use taxes, property taxes, and permit and license fees totaling about \$42 million over the 49-year period. It is important to note that these impacts are *additional economic and fiscal benefits* of the NTTA proposal versus the private sector proposal to build and operate the 121 toll road.

Overall, the NTTA bid to operate the State Highway 121 toll road has the potential to bring more than \$4.6 billion in funding for other roadway projects in the

² It is possible that the private bidder could use some of their operating profits, after paying dividends to shareholders and supporting corporate operations outside the US, to support a bid for control of additional North Texas highway infrastructure. However, there have been no publicly-stated promises that any of the private profits would stay in the North Texas region.

North Texas region. This level of infrastructure investment would boost regional economic activity by more than \$6.3 billion, increasing local labor income by \$1.5 billion and supporting more than 33,000 person years of employment. In addition, property income would increase by \$480 million and state and local tax revenues would rise by over \$106 million during the modeled time period (see Table 1).

Table 1

**Economic and Fiscal Impacts of the North Texas Tollway Authority
Bid for the State Highway 121 Concession**

Description	Impacts of Difference in NTTA vs Private Bid	Impacts of Total NTTA Bid
Total Financial Resources Available for other Construction Projects (2007 present value)	\$ 1,833,000,000	\$ 4,633,000,000
Economic Activity	\$ 2,516,435,000	\$ 6,361,091,000
Labor Income	\$ 602,629,600	\$ 1,523,338,000
Employment*	13,174	33,304
Other Property Income**	\$ 189,787,400	\$ 479,760,000
Indirect Business Taxes***	\$ 42,231,905	\$ 106,757,000

All figures in (\$2007) * Person years of employment. Actual employment levels will vary from year to year. ** Includes royalties, rents, dividends, and corporate profits. *** Includes state and local sales and use taxes, property taxes, license and permit fees. Source: NTTA, IMPLAN, authors' estimates

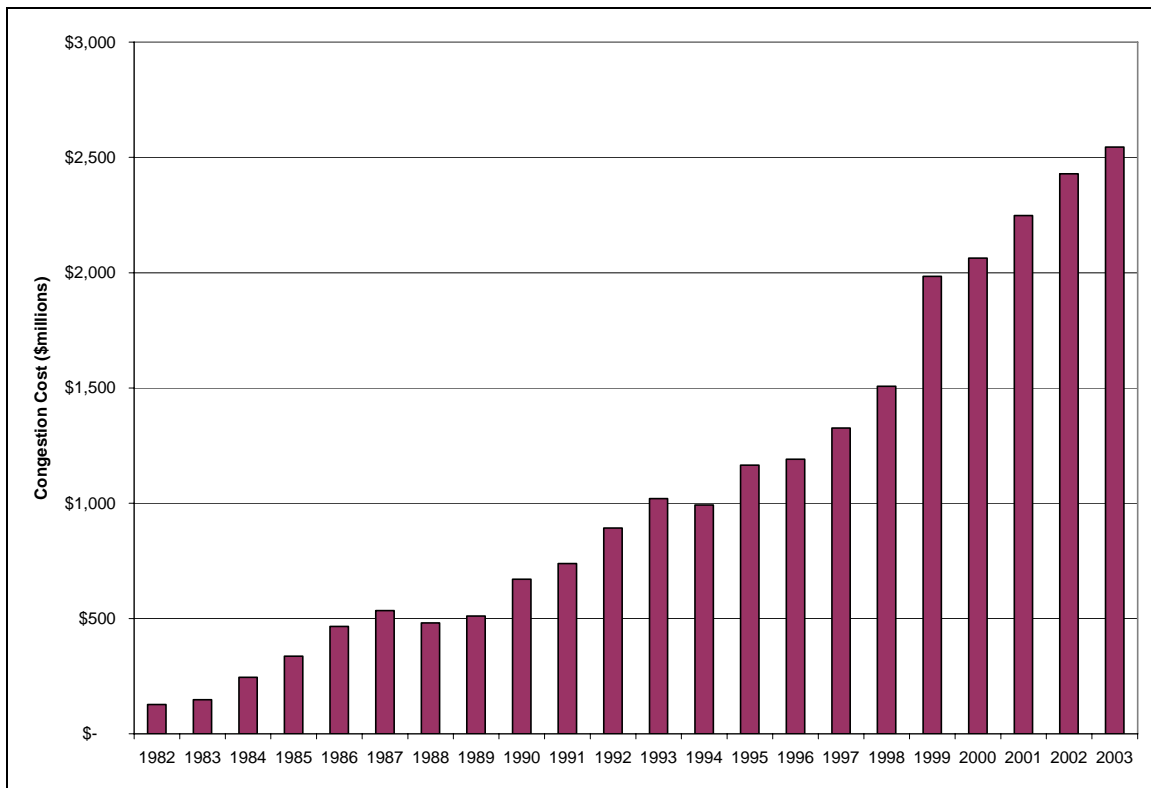
A note on the mobility and environmental benefits from the NTTA proposal

Congestion

The rapid growth of the Dallas/Fort Worth region has placed unprecedented strains on local highways and major arterial roads. Even with billions of dollars of transportation investment over the past 20 years, congestion is increasing. This congestion has direct and indirect economic costs. Delays in traffic lower operating efficiencies for companies, while individuals lose the value of their personal time sitting in a rush-hour traffic jam. According to the Texas Transportation Institute, congestion

related delays cost motorists \$127 million in 1982. By the early 1990s, this figure had risen to more than \$1 billion each year with the most recent estimates placing the cost of congestion in excess of \$2.5 billion in 2003 (see Figure1). Moreover, the North Central Texas Council of Government estimates that the annual cost of congestion could rise to more than \$8.2 billion annually by 2025.³

Figure 1
Cost of Congestion-Related Delays
Dallas-Fort Worth



Source: Texas Transportation Institute

The development of the State Highway 121 toll road will help alleviate existing congestion, especially in Collin and southern Denton counties. In addition, should the NTTA be awarded the concession, substantial additional dollars will be available to

³ As reported by the American Society of Civil Engineers' Report Card for America's Infrastructure.

accelerate other highway improvement across the north Texas region, thereby reducing future congestion problems.

Clean Air

Nine north Texas counties—including Dallas, Denton, Tarrant and Collin—are currently in an Environmental Protection Agency (EPA) “non-attainment” area for ozone. It is estimated that about 75 percent of ozone comes from motor vehicles, especially those stuck in stop-and-go traffic. A study for the Province of Ontario found that long traffic delays can double the volume of particulate matter in the air around a roadway from trucks. State and local officials are committed to bringing the region into compliance with the EPA ozone standard and have prepared an acceptable plan to that end.

Part of the solution to cleaning up the region’s air and complying with the EPA ozone standard is to reduce gridlock and facilitate mobility by building additional thoroughfares in north Texas—both tolled and non-tolled. The incremental funds generated by the NTTA proposal over the next several decades can help provide the financing for these new thoroughfares.

Conclusion

Two bid proposals are being evaluated by the North Texas Regional Transportation Council for construction and operation of the SH 121 toll road project in Denton and Collin Counties: one from the North Texas Tollway Authority and another from a private sector firm. The NTTA proposal is superior to the private proposal for

several reasons. First, the upfront payment to TxDOT is \$400 million greater than the proposed private payment. Second, over the ensuing 49 years, the net present value of NTTA's annual payment to TxDOT will be \$133 million larger than the private firm's payments. And, because NTTA doesn't have to pay dividends, net proceeds estimated at \$1.3 billion over 50 years will be available for investment in other north Texas transportation projects. This incremental spending will generate about \$2.5 billion of new economic activity across the Dallas area over a 50-year period.

Finally, the NTTA proposal, because of the additional resources that would be dedicated to local mobility improvements, will do more to alleviate congestion and enhance air quality than the private sector proposal.