

A Real Look at Turnpike Bonds

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In evaluating turnpike revenue issues throughout the country, Mr. McKelvey sees no reason to condemn all toll road bonds because, in a few instances, traffic and toll collection figures are not measuring up to engineers estimates. Describes Ohio and Indiana prospects, among others, and calls attention to Pennsylvania Turnpikes contemplated truck toll reduction and steady pre-maturity-date debt reduction. Finds worrisome roads possess sizable safety margins in reserve funds, and that early traffic and toll income figures can be easily misunderstood

When the year 1956 began it brought with it what amounted almost to a revolution of feeling about turnpike revenue bonds. Eagerly sought after by investors and institutions alike during the previous few years, they suddenly appeared to become the "Pecks Bad Boy" of the securities markets. Column after column of newspaper and magazine space played up the lack of revenue on one road or a scarcity of truck traffic on another with



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the result that the whole turnpike program of the nation was put in jeopardy. This all developed because, in a few instances, traffic and toll collection figures were not measuring up to previous estimates made by the engineers. It might be that what was written was justified. It also might be that a lot of it was unnecessary. One thing is certain—it frightened many investors to the point where they sold their turnpike bond holdings regardless of quality. Having discovered a wormy apple in the barrel, they assumed that the entire content of the barrel was also worthless. In the words of one prominent man in the turnpike field, "so much pessimism is unwarranted."

This is not intended to be a Pollyanish refutation of previous criticisms of turnpike financing. If some toll facility has a tight

financial squeeze ahead of it, that fact should be properly appraised and acted upon. But no good is accomplished by depressing markets through the dissemination of only the unfavorable aspects of the picture. Isn't it time someone said something good about the turnpikes? Has anyone seen commendatory articles about how the Pennsylvania Turnpike is steadily reducing its debt before maturity date, so that by June 1 of this year, they will have retired, by serial maturity and by call \$43,040,000 of their original debt? Has anyone headlined the fact that the Southern State Parkway on Long Island, partially opened less than two years ago, has already retired some of its debt from surplus earnings? Is there any big hue and cry about the little Denver-Boulder Turnpike in Colorado having called in almost 10% of its original debt in so few years of operation? Would it be news that the Turner Turnpike in Oklahoma is now collecting tolls at the rate the engineers thought would be achieved in 1989? Those, and others, are facts to be borne in mind as 1956 rolls along, for it will be a big year of commencement for toll projects. The balance of the year will give investors a chance to analyze their holdings more critically for more and more turnpike facilities will become available for public use. In order to so analyze, however, they must realize some of the basic facts with which they will be confronted and not jump to a hasty conclusion based on the earnings of the first few months.

One new project has already partially opened. On April 4 the first part of the Hudson County Extension of the New Jersey Turnpike—the long bridge across Newark Bay—was put into use. It was financed with junior lien bonds but investors will have little opportunity to judge the project on its merits because it is only a partial opening and the

least important part of the total. Furthermore, its revenues are being included with the other receipts of the Authority for all revenues from all projects flow into one fund to service both the first and second lien bonds. Since the revenues of the New Jersey mainline are so large, such an analysis might be pointless anyway. Net revenues for 1955 on the main line were enough to pay operating costs on the whole Hudson County Extension and pay interest on all first and second lien debt with a couple of million dollars to spare — if no traffic whatsoever uses the extension.

On May 25 the bridge across the Delaware River linking the New Jersey and the Pennsylvania Turnpike systems became a reality. It too was financed with second lien bonds and again, the tolls will probably be lumped with other toll receipts by both Authorities. So again new material for study and analysis by the students of tollistics will therefore not be available.

Virgin Territory Being Explored

On July 4, however, there is scheduled a new facility opening which should contribute to the store of turnpike statistics. It is the 40 mile Kentucky Turnpike, running from the outskirts of Louisville southward to Elizabethtown. Originally planned for a Jan. 1 inaugural its construction problems were magnified by bad weather conditions, but now the July 4 date looks reasonably sure. This toll road will be in a section of the country where no toll road previously existed so its traffic figures will present an interesting study.

A traffic engineer has three great unknowns to deal with when trying to appraise the traffic for a new tollway. They are (1) the normal growth of traffic in the area during the construction of the road, (2) how much of

the traffic on the free roads before the turnpike was built will be "diverted" to the toll road and (3) how much "induced" traffic will use the road—traffic not on the highways at the time of the survey, but which will traverse the area because of the better facilities afforded.

From a study of the original prospectus concerning the Kentucky issue it would seem that the normal growth estimate for the area was about 9%. According to traffic counts made by the State this growth has been just about realized although whether the traffic in the immediate vicinity of the turnpike is greater or less than the statewide average we have no way of knowing.

Not Much Cause for Anxiety However

At any rate, it would seem that one engineering hurdle has been jumped. The other two still lie ahead. What would happen in the case of Kentucky if traffic should not be diverted according to estimates or traffic should not be induced as per schedule? Actually it need not be too worrisome to the holders of the bonds for there is a sizable margin of safety existent — actually about 67% of the traffic estimated by the engineers would support the road until 1962—that is, pay interest on the bonds and retire the principal according to schedule—for the cost of maintenance and operation is paid by the State Highway Department.

This is because a cushion has been provided by funding interest on the debt until Jan. 1, 1957 out of the bond proceeds. This means that almost six months of gross earnings could be accumulated before anything has to be paid out. By 1962 the 67% ratio of estimates would put the road "in the black" henceforth. More than that, we understand the State hopes to have enough

money left because of savings in construction costs to set aside more than one additional full year's interest in reserve as required by the bond indenture. If that additional cushion materializes the Kentucky project could have a good long period of time in which to prove itself without any anxiety on the part of the bondholders.

Indiana Misleading Early Figures

Also scheduled for opening early in July is a 50 mile section of the 156 mile east-west Indiana Turnpike. No specific date has yet been set but the section to be opened is that nearest the eastern, or Ohio border. It should catch a month or two of heavy summer traffic. Nevertheless, investors and students alike might be led afield if they draw too hasty conclusions from the early toll records. In reading them—if they appear wide of the engineers' mark — one must bear in mind that the east-west traffic in Indiana—on Route #20 for instance, which roughly parallels the turnpike—is only about one-fifth as heavy at the eastern end of the state as it is at the more heavily industrialized western border, near Chicago. This fact could cause quite a distortion in the figures.

But here again the investor will have a long waiting period before he has to finally appraise the worth of the road, for Indiana, too, has funded the debt interest out of bond proceeds. All they must do is pay operating costs until Nov. 15, 1957. In addition they have been most provident in husbanding the funds saved on their construction contracts. Figures recently given by the Authority officials indicate the possibility of their having enough such surplus in their reserve funds to provide an additional two years of interest charges. If this should develop into a fact it would provide such

a wonderful cushion against less-than-anticipated traffic there would be no real financial concern for quite a few years.

At present, some say truckers are avoiding the use of the Ohio Turnpike. Pennsylvania, in the recent contemplated reduction of some of their truck tolls may accentuate Ohio's problems which might possibly carry westward into Indiana. But the reserves mentioned would amply take care of any problems arising from that source. If passenger car traffic lives up to estimates, (and it has on just about every road to date) the reserves mentioned would carry the Indiana Turnpike successfully forever even if truck traffic was reduced to one-quarter of the engineer's estimates.

Next in order of opening—really scheduled for June but delayed until sometime in September because of delay in steel deliveries—is the balance of the previously mentioned Hudson County Extension of the New Jersey project. This is the important stretch of this road—the part that will create a bypass of the congested Essex and Hudson County roads leading to the mouth of the Holland Tunnel in Jersey City. Again, however, tolls will probably not be segregated from other receipts of the Authority so analysis—previously indicated to be superfluous—will be difficult.

Also scheduled for the early fall, from present appearances of the project somewhat doubtful of accomplishment, is the three-mile section of the New York Thruway from Yonkers to the New York City line. This is a vital part of the roadway to the Nyack Bridge which feeds traffic into the controlled section of the Thruway. Its completion should raise toll revenue for the entire project and any such increase will be plainly visible in the record of receipts at the Yonkers barrier.

Scheduled for an Oct. 10 debut

—we have heard no word to the contrary—is the entire 236 mile Kansas Turnpike from Kansas City to Topeka to Wichita and points south. Although new to Kansas, turnpike facilities are not entirely new to the area for Oklahoma's Turner Turnpike has been operating successfully, right "next door" as it were, for more than two years. Studying the engineer's estimates for normal growth in the area during the construction period of the road and comparing it with figures at hand for state wide traffic growth in Kansas, it would appear that the latter has fallen a little short of requirements. This might, or might not be important for it is possible the growth around the metropolitan areas of the three cities mentioned will have been greater than for the state as a whole.

A Cushion for Kansas

But again, it could prove to be of no immediate import, for Kansas, like some other roads, has funded interest on its debt until Oct. 1, 1957. To illustrate the value of this funding operation, one can forget the need for the normal traffic growth of the area completely and one can cut the estimated induced traffic for the first year right in half—in other words, reduce the toll estimates by 30%—then, if passenger car traffic figures hold up, Kansas could operate without financial problems until 1965 by which time the natural growth anticipated by the engineers would put them back into profitable operation. On top of that, they hope to augment that cushion with construction fund savings to the point where their mandatory two year interest reserve fund would be close to full. That would take care of any traffic deficiencies for a very long time.

Early in November, if all goes on schedule, the remaining and major portion of the Indiana road

is scheduled to go into operation. Here, however, one ought to make allowances for an opening in the beginning of the winter season since toll receipts for the cold weather period will only be commensurate with the reduced rations on which all turnpike projects feed during that time. Then too, the western end of this vast road will be tapping entirely new turnpike country—people may have to learn to use it.

The Massachusetts turnpike builders have every hope of cutting the ribbons at each end of their 123 mile east-west highway on Nov. 15. They were seriously delayed by hurricanes encountered during early construction and it will require good working weather to accomplish their objective. Running from Route No. 128 just west of Boston to the New York State line, the road should attract heavy traffic in specialized areas across the state. Traffic in Massachusetts has been growing steadily since the bonds were floated in 1954, the results for 1955 showing an increase of 4.6% over the previous year. The first two months of 1956, on a statewide basis, show an 8% increase over the same period for 1955. It would appear therefore that the normal traffic growth anticipated may be realized.

No Trucks on Massachusetts?

As in the case of Indiana, however, caution must be exercised insofar as early traffic returns are concerned. Winter is the lean period for such facilities. Even if seasonal traffic should be so light that it seems to be falling short of expectations, it need be nothing to concern the investor for quite a period. According to the last report of the engineers on construction progress, the Authority has a very large unspent balance in its construction fund, in addition to which interest on the debt is funded until Nov. 1, 1957. If

only half the balances now unspent find their way into the reserve accounts, and if passenger car traffic lives up to estimates, the Massachusetts pike could survive indefinitely without one single truck operating on its roadbed. Such an eventuality is too ludicrous to consider. All one has to do is drive Route No. 20, Route No. 9 or some of the other heavily trucked Massachusetts roads to realize that the new highway will offer a wonderful opportunity to escape the congested conditions now existent.

Finally, the last remaining section of the Pennsylvania turnpike which has been financed is due to open late in the year although at this writing we have no definite time schedule. This is the 73 mile northern end of the north-south Northeast Extension—the part between Allentown and the Scranton area. The 37 miles from Allentown south to the mainline was opened in November 1954.

Earnings on the newer sections of Pennsylvania's vast toll road network have not yet built up to the engineer's estimates but this deficit can be overlooked for several different reasons. In the first instance they, too, have funded interest on the debt until sometime in 1957. Secondly, they have very large unspent construction fund balances, a goodly portion of which should surely find its way into the reserve account of the project and finally a relatively small percentage of the original earnings estimates will carry the project comfortably until the huge earnings from the first sections of Pennsylvania's network becomes available to service the new debt.

Pennsylvania has taken cognizance of slower traffic conditions in the area by the planned revision of their toll schedules as mentioned earlier. The revision is based on the principle of charging the user in proportion to the value of

travel over a particular section as contrasted to the previous uniform per mile basis. The engineers feel that revenues will be materially increased thereby. Although presently bogged down by a political maneuver—politics is the bane of successful turnpike construction and operation—one can feel sure the structure of the

bond indenture will prevail.

All told therefore, 1956 will be an eventful year in turnpike history. While there are probably many turnpike snarls still to be unraveled in the days ahead it behooves investors to study their investments carefully before making any unwise decisions.