

Another toll road bites the dust, this time in South Carolina

Contributed by Terri Hall
Friday, 16 October 2009

[Link to article here.](#)

Greenville Southern Connector headed for bankruptcy - default likely Jan 1 2010

Posted on Mon, 2009-10-05

Toll Road News

bankruptcydefaultgreenvilleSouth Carolinasouthern connector

US

Bank, trustees for the bondholders of Connector 2000 Association, the owner of the Southern Connector tollroad in Greenville South Carolina have issued an official notice that they expect a default Jan 1, 2010 with insufficient funds being available from the pike to make debt service that's due. They say the Association concluded that converting the not-for-profit into a for-profit toll concession to avoid default - as occurred with the Pocahontas Parkway in Richmond VA - is not feasible.

In or outside bankruptcy there will be a forced "restructuring" of the bond capital, the US Bank trustees say. Investors will take a hit. (NOTE: US Bank would like us to note that they did not use the word "forced" of the capital restructuring, though that's what we think it is! Also we have corrected the second sentence to reflect that the Association concluded sale to a for-profit concession was infeasible ahead of bankruptcy restructuring, not US Bank - editor 2009-10-07)

South Carolina DOT has already declared "an insolvency Event of Default" in a letter of June 12 which called on the not-for-profit owners to seek a "plan of adjustment." SCDOT says it reserves the right to terminate the Association's License Agreement under which the Connector Association operates the tollroad. Macquarie Capital is working for the trustee.

Accountants blast Association

Things may be worse than the official reports. Association accountants Bradshaw Gordon & Clinkscales in a statement accompanying an Update on the association's financial condition say that accounting standards board (GASB) requirements have not been met, and warn that the effect of the pike's departure from accounting standards has not been determined.

They say in one passage: "Management has elected to omit substantially all of the disclosures and statements of cash flows required by accounting principles generally accepted in the US...."

Deficiency of \$163m

The statement reports as of June 30 liabilities of \$322m against assets of \$160m for a net deficiency of \$163m - comically they report cents as well as individual dollars. The largest liabilities are bonds of \$304m but the Association also owes the state DOT some \$8m in unpaid license fees and interest.

Interest ten times operating profit

Toll revenues in the first half of the year were running at barely \$5m/yr against operating expenses of \$3.2m for an annual operating surplus of just \$1.8m. Interest expense was ten times that and net loss was running at \$22.8m after interest, depreciation and amortization.

Accumulated deficits are \$163m, and they are being added to at about 14%/year.

Toll revenues for the first half of 2009 were running at 4% below year-ago levels, pretty much within the normal range for tollroads around the country. Since then they have been flat or slightly above year ago monthly levels.

Trouble from the get-go, traffic below half forecast

The Connector looked to be in trouble from virtually the day it opened in March 2001.

Traffic had been forecast after 'ramp-up' at the end of the first year to be around 28k/day so traffic of 20k was expected in the beginning.

Traffic has always been below half forecast levels, starting at 10k and rising at about expected annual percentage rates, but from the disappointing base.

Eight years after opening traffic is 15k to 16k/day versus 33k forecast when the original financing was done in 1998.

The original traffic studies seem to have been fundamentally flawed.

Law suits on forecasts

Robert Bain - UK-based author of the recent book on toll road forecasting - tells TOLLROADSnews that he has been engaged as an expert witness twice in the last 18 months by lawyers contemplating taking legal action against traffic forecasters for over-optimistic predictions. Neither engagement resulted in lawsuit to date. "It's only a matter of time", says Bain.

Why forecasts failed

Our analysis is that the Connector (I-185) simply does not serve major commuter flows within the 540k pop metro area. These flows are on a southeast-northwest axis Simpsonville, Mauldin, Greenville and along US276 and I-385. This is mostly to the north and east of the Connector.

The Connector including the toll-free portion of I-185 swings too far south, southwest and west to compete for major internal metro area traffic.

Located to serve development, not to relieve congestion

The pike was located to serve new industrial and residential development on the southern and southwest fringe of the area, development which has occurred, but more slowly than the tollroad promoters predicted.

Higher paying truck traffic is tiny. 96% of vehicles are 2 axle.

Slower employment growth than predicted in the area has meant that for the most part the free roads have adequate capacity even for peaktime work trips. The exception is I-385 northbound through Mauldin in the mornings weekdays.

But trips on the Connector are too much longer in distance to be an attractive alternative for most motorists.

Studies show the Connector corridor generally has good developmental potential still, although portions are handicapped by lack of utilities like sewer.

New Stantec T&R study

A traffic and revenue study by Stantec published in May this year found toll rates were too low to maximize revenues. Toll rates should be increased 50 to 75%, it recommended.

The Association has since gotten SCDOT permission for three 25c toll increases, the first immediately, a second Jan 1 2012 and a third Jan 2016. 25c toll increases could be implemented every four years thereafter. Ramp tolls would be increased proportionately.

Stantec now project toll revenue of \$10.2m by 2016 based on 16.3k daily traffic and \$20.3m in 2026 based on traffic of 25k/day.

The Stantec report contains no analysis or suggestion as to why the 1990s study was so wrong.

Indeed they don't even mention the existence of that report.

Maybe the bankruptcy court can exhume it?

Southern Connector website:

<http://www.southernconnector.com>

BACKGROUND:

Greenville Southern Connector is a 2x2 lane expressway with interstate designation I-185. The not-for-profit called Connector 2000 Association was the idea of Bob Farris, a former Federal Highway Administration chief who formed Interwest to develop the project. It entered into a design-build contract with a large local builder Thrift Bros.

26km or 16 miles long the Connector connects the end of an existing free I-185, a southward spur from central Greenville to I-85 the big east-west interstate through the area, to I-385 in the southeast completing a loop or belt route around the southern portion of the metro area. The project has end interchanges with I-85 and I-385 and four intermediate interchanges of a simple diamond design.

The Connector has two mainline toll plazas and two pairs of ramp toll plazas.

The mainline toll plazas have 4 toll lanes each direction. In one direction of traffic the left two lanes are unattended. The far left is highway speed electronic tolling signed for 45mph (72km/hr) while the next lane is coin machine. There are toll collectors in the third and fourth lanes.

On the ramps there is a single unattended lane for transponder or exact change in a coin machine.

Electronic toll collection was introduced as an option when the pike

opened in Mar 2001. Brandnamed PalPass (Palmetto Pass) it is an IAG standard Mark IV system, but the Connector has not joined IAG so there are no provisions for interoperability. It has TransCore readers with IAG read capability.

Electronic tolling has not achieved high usage and 75% of transactions are cash, suggesting a lot of occasional use.

34 toll collectors are employed on the pike.

COMMENT: Not-for-profit (NFP) tollroads, a unique manifestation of the 1990s now have a perfect score: two failures out of two.

First Pocahontas Parkway in Richmond VA, now the Southern Connector in Greenville SC.

Although well-intentioned it's a bad, bad model, which skews all the incentives the wrong way - toward road developers and builders and financial and legal brokers who make their money before the pike opens and leave all the obligations and risks to bondholders.

When all the profit is upfront and there is no skin in the game longterm, it's only natural that you get too much road built, at too much expense, where it's not really needed.

A product of the great financial bubble period, NFP tollroads have their analog in the no-money-down mortgage, where people get more house they can afford and walk away from it when the debt burden proves too great for their income. Hopefully we've seen the last of this irresponsible financial structure.

TOLLROADSnews 2009-10-05 BACKGROUND, COMMENT added 2009-10-06 12:00