

Traffic and Revenue: A Tale of Two Questions

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A Couple of Common Questions

- 1. Are Traffic and Revenue studies done differently for public versus private sector financings?*
- 2. How are Traffic and Revenue studies changing in the face of emerging changes in travel behavior?*

Question 1: Public vs. Private Forecasting

- Question arises from a common assumption that public forecasts are more “conservative” and private forecasts are more “optimistic”.
 - Not a good assumption
- Would the same forecaster come up with different estimates for the same project for a private client vs. a public sector issuer?
 - Would the actual traffic on the road, at the same toll rates and all other things being equal, be different if the road had been financed by public vs private entities?

Important Basic Imperatives in T&R Forecasting

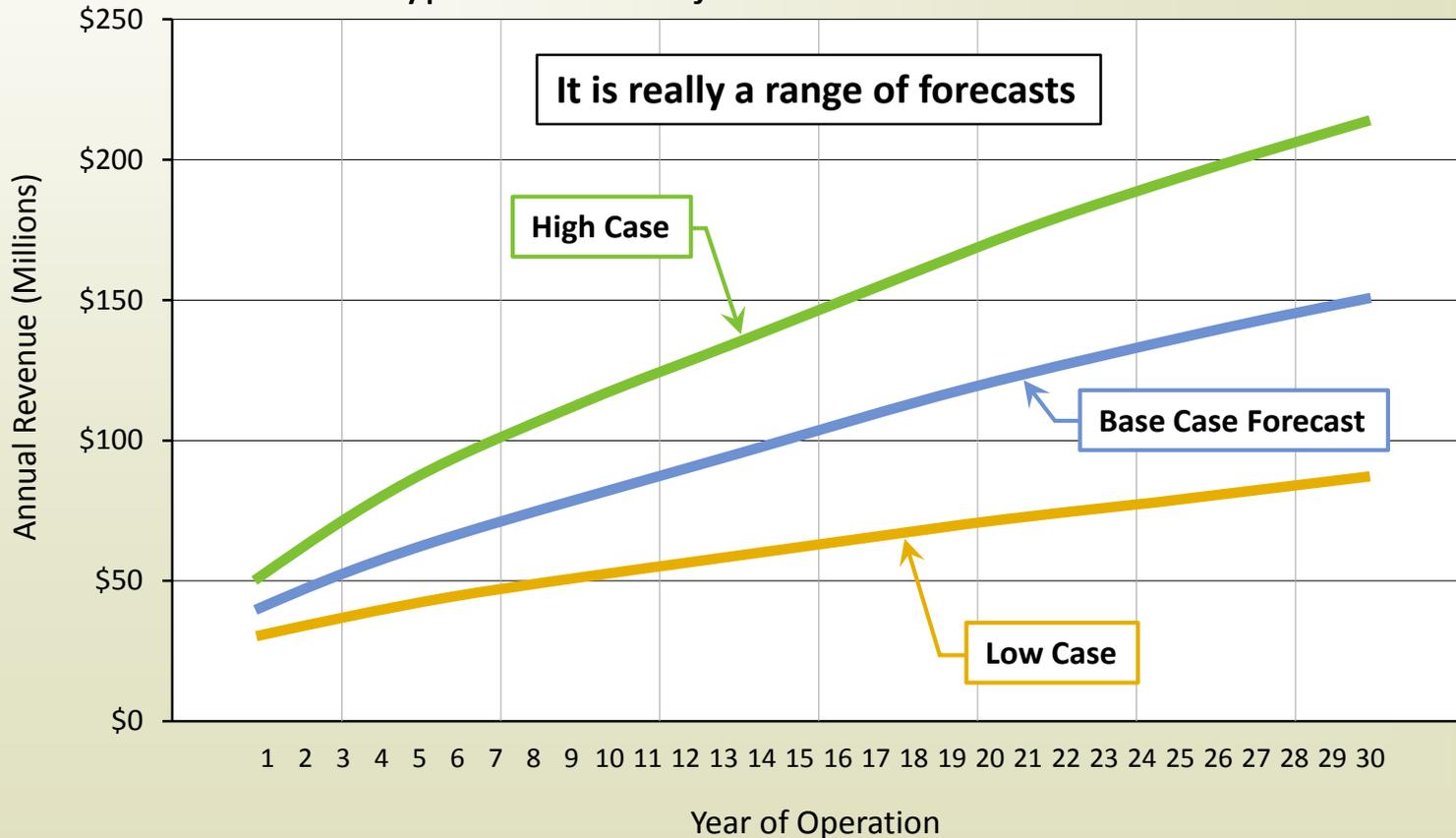
- Speaking for CDM Smith (and presumably most other firms).
- Traffic and Revenue studies and forecasts must be independent.
 - Client is the agency or P3 entity; but...
 - The consultant must operate independently of the issuer;
 - The ultimate end user is the financial community;
 - The base case forecast must be based on assumptions and inputs which the forecaster believes are reasonable
- The goal is always to produce the most reasonable independent estimate possible, regardless of the type of client.

Perceived “Differences” May Really be A Question of “Perspectives”

- A investment grade study will typically culminate in a single “base case” forecast
 - But due to inherent forecasting uncertainties there is always a range of revenue outcomes.
- The differences in public vs. private studies are typically not in the base forecast – rather in...
 - How the forecasts are used and interpreted;
 - The financing structures used; and
 - The different “perspectives” of debt and equity components

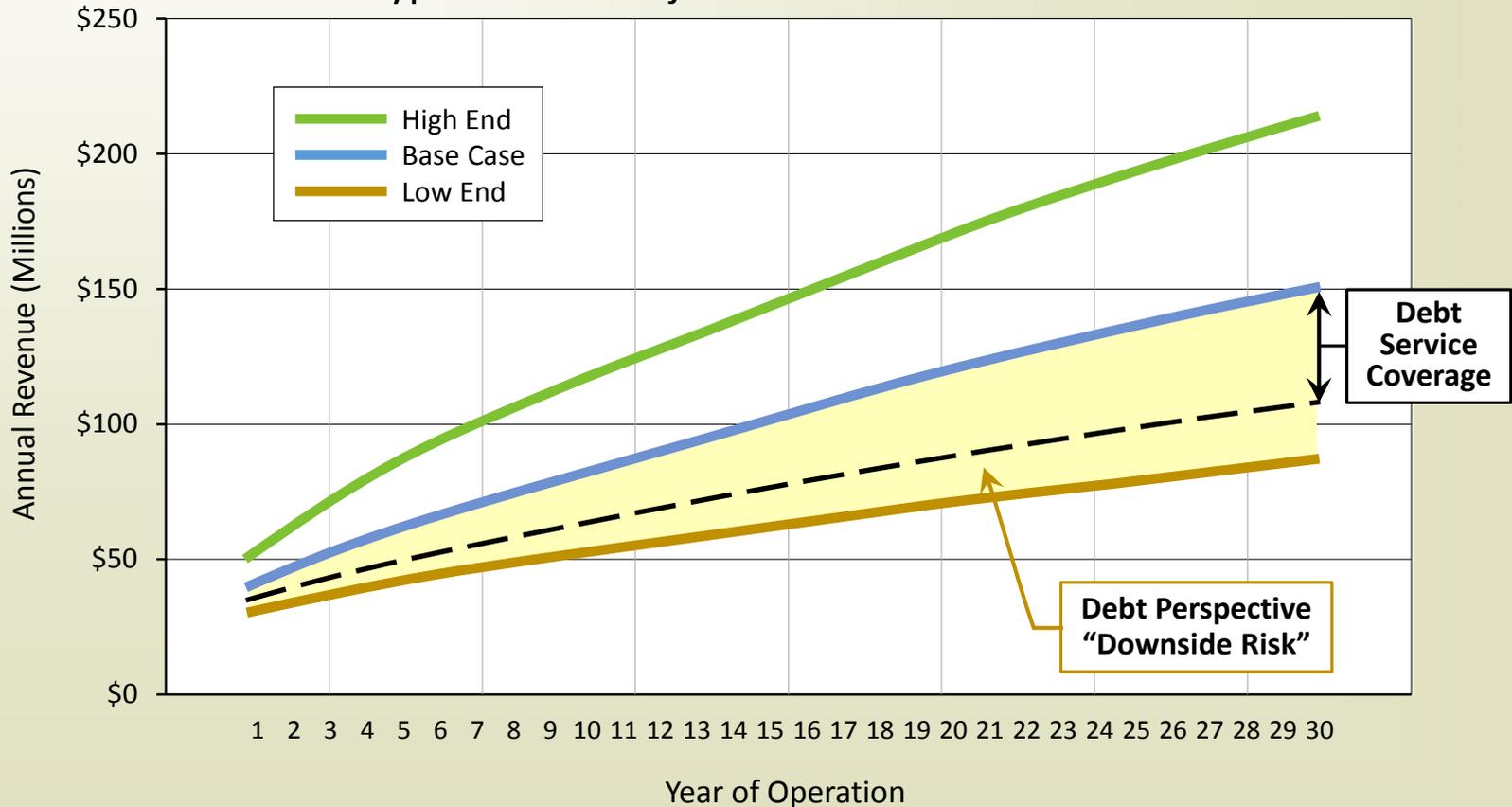
Illustrative Revenue Forecasts

Hypothetical Project and Illustrative Estimates



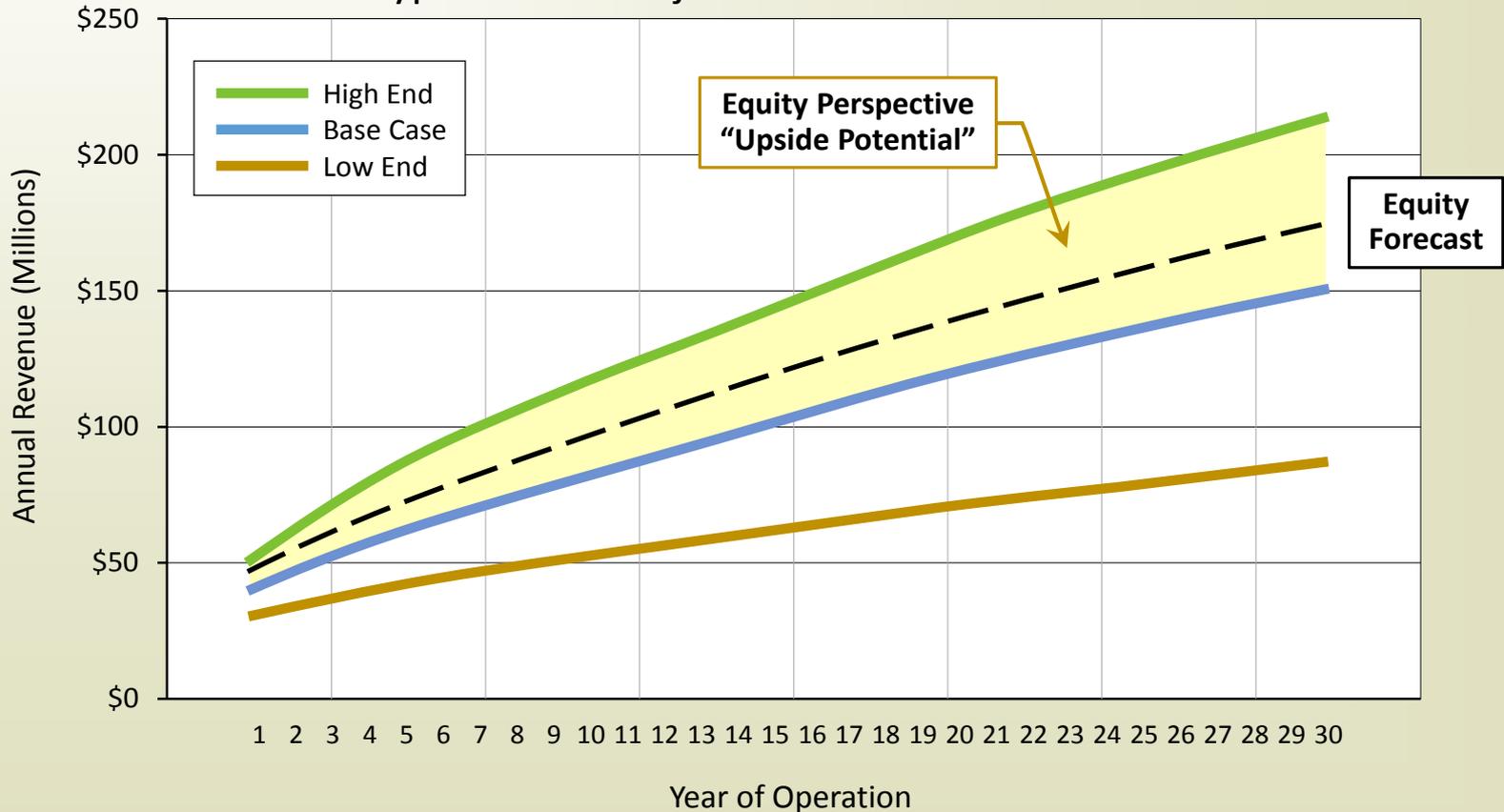
Debt Perspective

Hypothetical Project and Illustrative Estimates

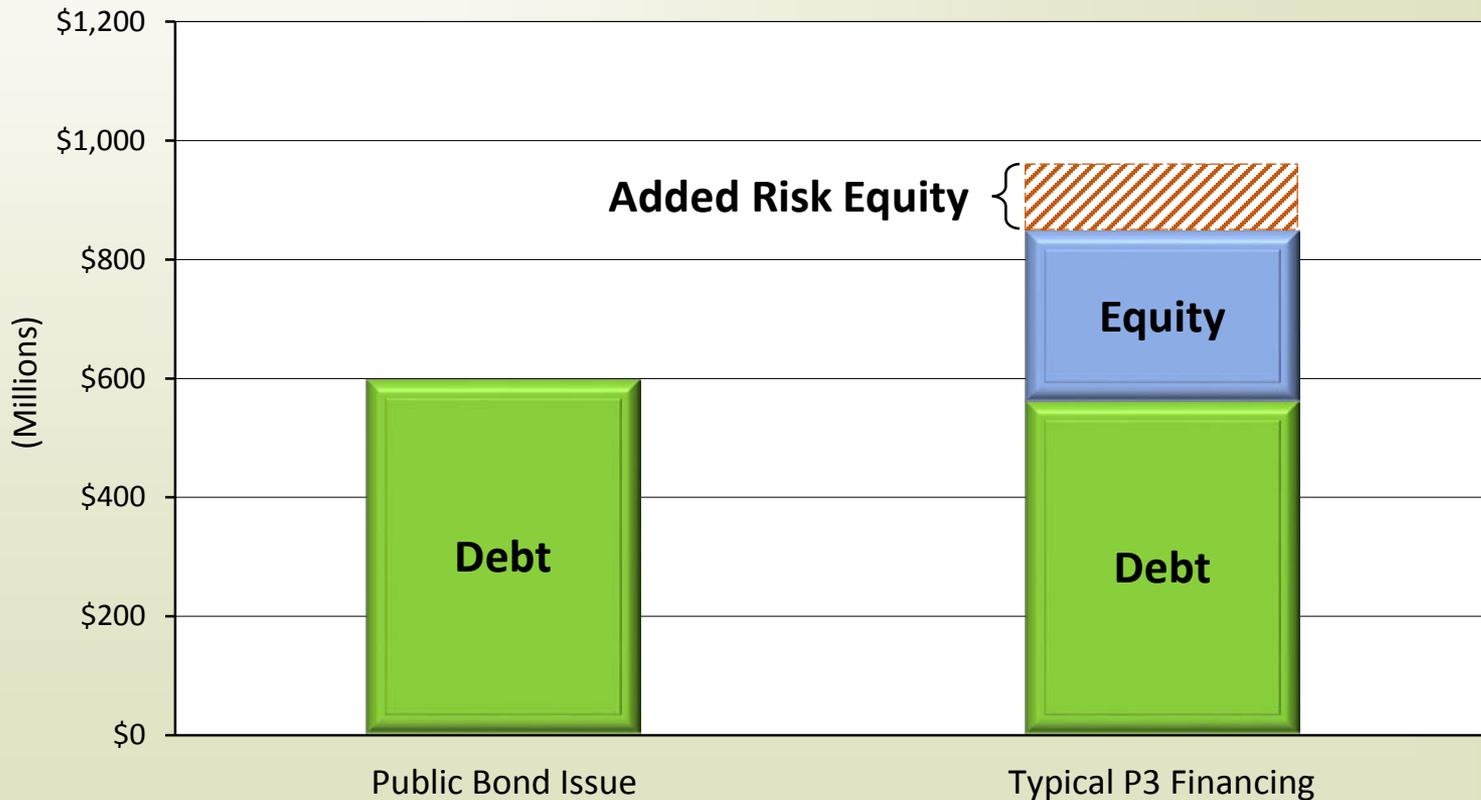


Equity Perspective

Hypothetical Project and Illustrative Estimates



Financing Capacity



There Can be Some Important Differences in the Study Process

- Private clients can be more aggressive in those factors which they can control such as...
 - Toll rate selection and toll rate policies
 - Pricing and discounting strategies
 - Certain operational assumptions
- **Example: With express lanes project:**
 - Public sector may assume variable prices will be set to “optimize the distribution” of traffic between toll and free lanes
 - Private sector may assume variable rates which will “maximize revenue”
- **But clients can not define base case forecast assumptions, such as...**
 - Such as economic growth
 - Competing highway improvements
 - Analytical factors such as value of time
- **Development of a reasonable base case forecast is the responsibility of the consultant, operating independently of the client**
 - While still recognizing there is a range of potential outcomes

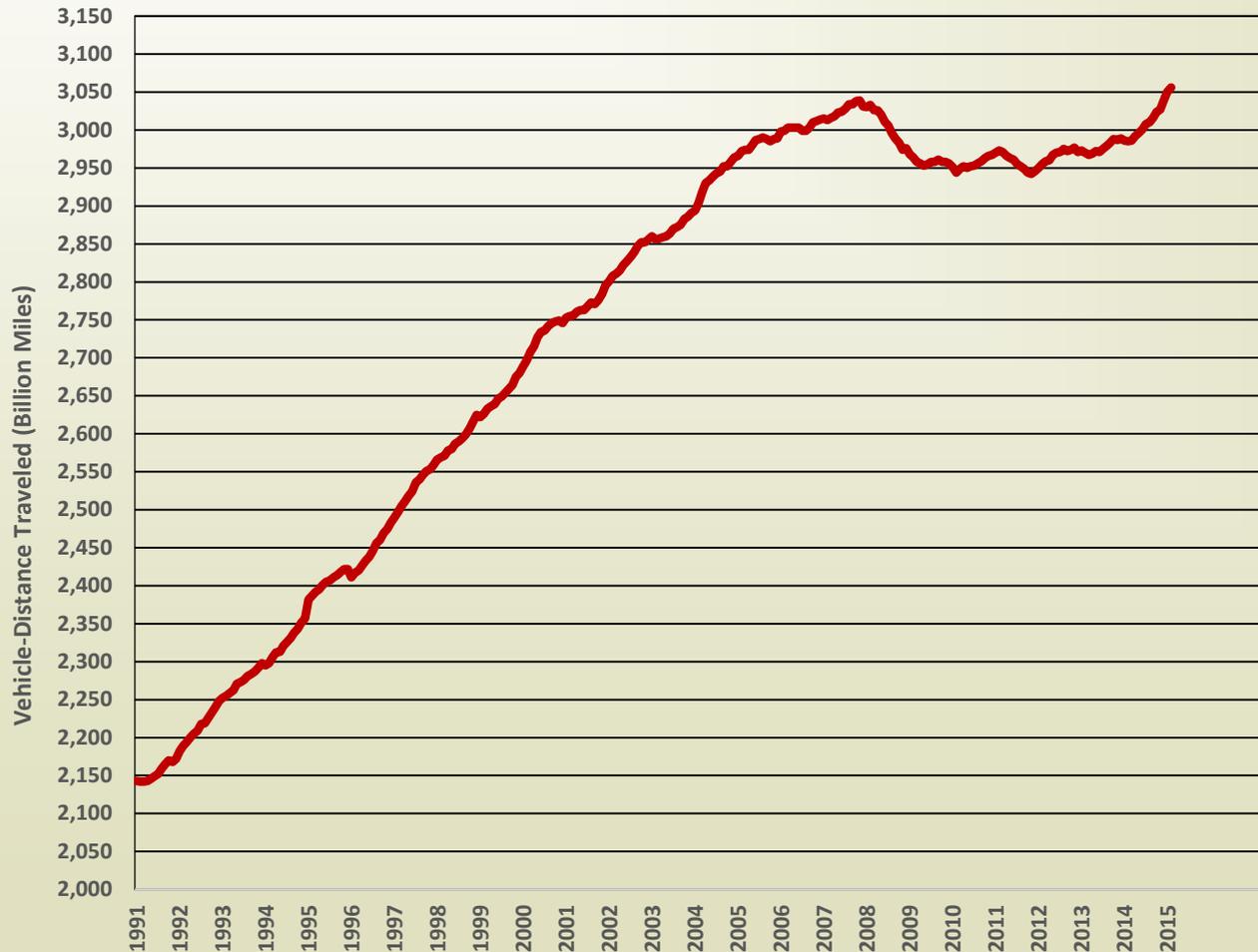
Refining the “Range”

- There is always a range of outcomes, but there may be differences in how they are developed
 - Both types of studies will test “typical” sensitivities on critical assumptions
- Private clients may request additional tests based on differing assumptions to aid in their own internal equity perspectives and appetite for risk
 - This sometimes referred to as an equity upside case
 - May also influence proposal “options” or caveats
- Public sponsors of P3 projects may also request strategic upside scenarios to aid in structuring concession elements, such as revenue sharing
- In public sponsored financings, specific downside risk sensitivities may be requested by rating agencies in the credit review process

Question 2: Adapting to Changing Travel Behavior

- Retirement of Baby Boomers
 - They're still around but driving a little less
- The new millennials.
 - Living “downtown”
 - Fewer cars and drivers licenses
 - Increased choice transit users
- Telecommuting.
 - Changing company policies and flexibility
 - Not only complete shifts; but reduced trips by people who work from home a day or two a week
- The internet
 - Increased online purchasing reducing shopping trips
- Key Question: Is it temporary or the “new normal”?
 - Probably a little of both – but recent trends encouraging

Most Recent FHWA Data Shows Recovery



**(So do a lot of
Toll agencies)**

Source: FHWA -
Through February 2015

Dealing with the New Challenges

- Research offers few clear answers... so far.
 - Are Millennials not owning cars by choice or because they can't yet get good paying jobs in their chosen profession? Really still too early to tell.... but early signs of recovery emerging
- The underlying tools, such as most MPO travel demand models, have not yet been substantially modified to reflect changing behavior.

We Can't Put Our Heads in the Sand

- T&R forecasts often extend 30-40 years or more.
 - Can't simply assume nothing will change in that timeframe
 - But it is also not yet reasonable to simply assume we have a "new normal", because at least part of this change is likely to reverse itself as economy becomes stronger
- Increased use of sensitivity testing, including behavioral factors such as:
 - Reduced trip generation rates
 - Alternative land use and growth patterns
 - Increased levels of telecommuting
- Clear disclosure of critical assumptions

In Conclusion

- (Q 1): While there are some analytical differences related to risk assessment, there is no significant difference in a base case revenue estimate for a public vs. private sector client.
 - Differences come from how the forecast is used, financial structuring and proposer appetite for risk
- (Q 2): While there is clear evidence of change in travel behavior in recent years, it is not yet certain whether this is temporary or the “new normal”.
 - Sensitivity testing with alternative assumptions and full disclosure on future travel behavior.

Thank you!

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