

**DRAFT**



## **Third Quarter Financial Review**

**Fiscal Quarter Ending September 30, 2004**

**Presented in Draft October 28, 2004 to Audit Committee Members:**

**Board Chairman John Mitola  
Finance Committee Chairman James Banks  
Director Carl Kramp**

## INTRODUCTION

In December 2003, the Board of Directors adopted an annual budget for 2004. Each quarter the Finance Department reviews the actual revenues and expenditures against the budget, and presents analysis in this report to the Board's Audit Committee.

The budget for 2004 includes estimated revenues totaling \$407.5 million. Revenue sources include Tolls, Violation Fines, Concessions, and Investment Income. Toll revenues are collected from users of the Tollway via cash payment at the time of use, or via electronic toll collection for users of I-PASS. A small percentage of Tollway users do not pay their fair share; therefore, the Tollway implemented an aggressive Toll Violation Enforcement System (VES) in which toll-cheats are billed \$20 per skipped-toll once they reach a threshold of 5 violations. Concessions consist of revenues generated from the Tollway's Oases that provide fuel, food, and other conveniences to Tollway users. In addition to the revenues collected during the year, funding from prior years is budgeted at \$86.5 million in order to complete past year capital projects.

Tollway expenditures are broken down into three main categories: Maintenance & Operations (M&O), Capital, and Debt Service. M&O expenditures are comprised of operational expenses incurred during normal course of Tollway business including toll collection, maintenance, engineering, traffic control, safety, administration, and insurance. In December 2003, M&O expenditures were budgeted at \$193.7 million for 2004. At that time, funds were held in reserve to accommodate a potential administrative charge billed by the State for services provided to the Tollway.

In May 2004, the Board of Directors approved an \$8 million reduction in the Tollway's Operating Reserve Sub-Account to pay an \$11,653,100 administrative payment to the State of Illinois, which was an expense to the M&O account. The difference will be accommodated through a reallocation of the existing budget. The revised M&O budget totals \$201.7 million.

Capital expenditures are identified as *Renewal & Replacement* for those expenditures related to maintenance of the existing system, and *Improvement* for expenditures related to expansion. Capital expenditures include infrastructure preservation, service improvement initiatives, congestion relief, system enhancements, and regional improvements. The 2004 budget funds a total of \$251.5 million in capital expenditures, \$170.8 million in current year projects and \$80.7 million in prior year projects. Debt Service expenditures for the repayment of the principal and interest due on the Tollway's outstanding bonds total \$48.7 million for 2004.

This quarterly report compares the Tollway's third quarter budget projections to actual expenditures and year-to-date activity to the annual budget. The purpose of this report is to assess the actual financial performance of the Tollway relative to the budgeted plan. The report indicates variances from budgeted amounts. A favorable variance contributes to higher fund balance, whereas an unfavorable variance would reduce fund balance. For example, if toll revenues were higher during the quarter than anticipated in the budget; it would be a favorable variance. All figures contained in this report are unaudited, and should be used for informational purposes only. Additionally, some variances may exist between budget and actual line items due to accounting treatment.

**OVERVIEW**

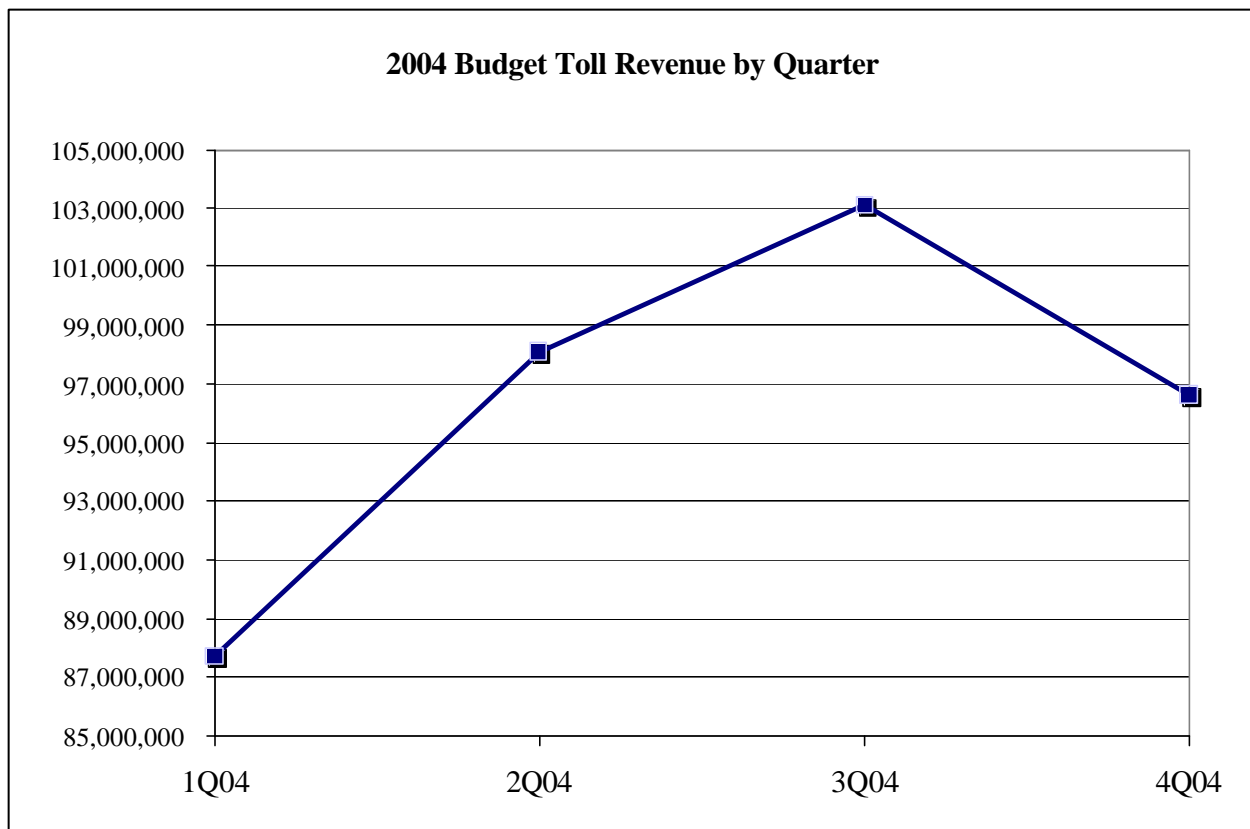
At the end of the third quarter, the Tollway has generated nearly 78% of the budgeted revenues, and expended about 68% of the M&O budget and 34% of the capital budget. Because of billing delays, expenditures may not reflect all services provided by Tollway vendors during the first three quarters of the year.

Third quarter total revenues were 4.4% greater than budgeted. Revenues are tracking about 4% greater than amounts expected for the first three quarters of the fiscal year. M&O expenditures show a 6.5% favorable variance year to date including the payment of the State Administrative Charge. Third quarter M&O expenditures were about 1.2% below estimated expenditures. Billing delays for contracted services and health insurance costs are contributing to an understatement of expenditures. Capital expenditures for the third quarter reflect a 53.8% favorable variance and a 43.5% favorable year to date variance. As expected, debt service transfers are on track within budgeted amounts.

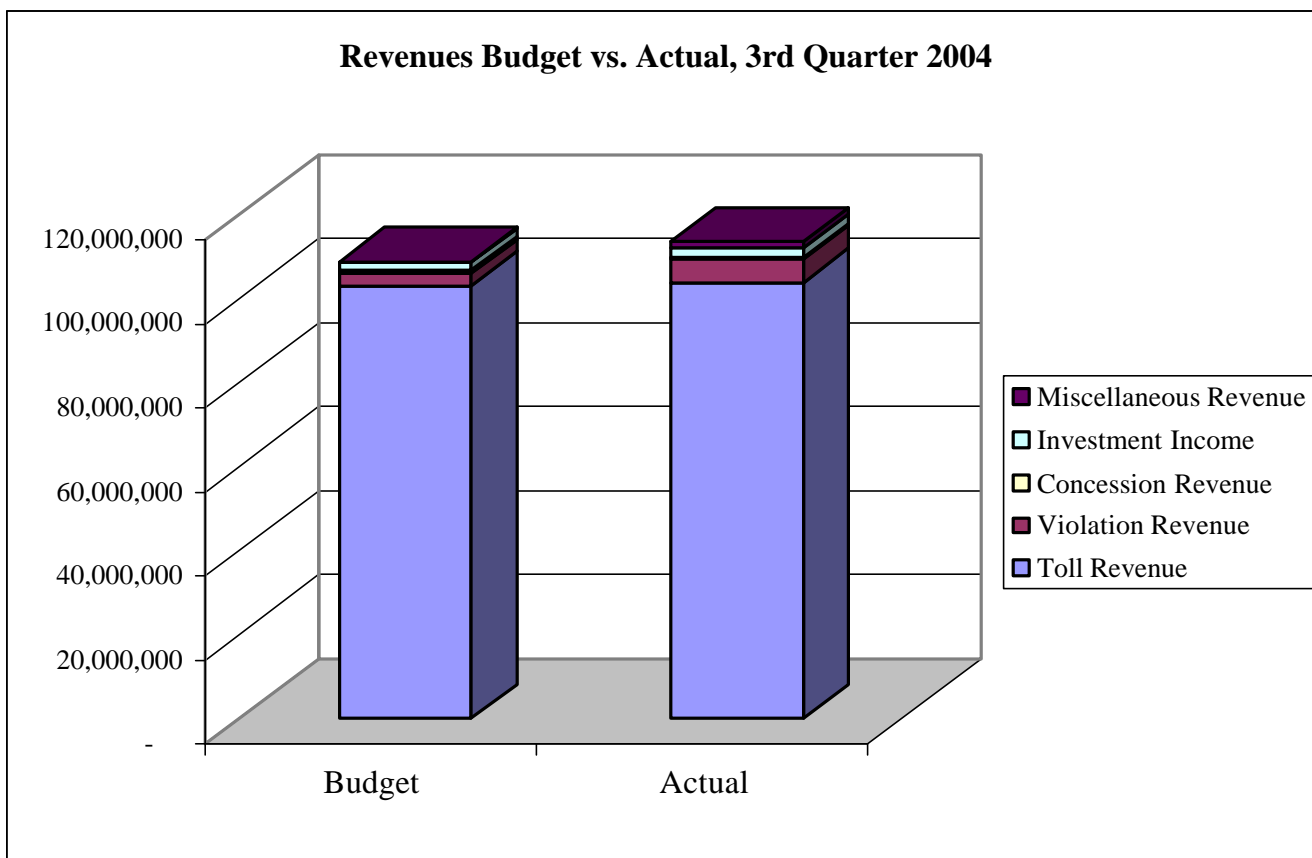
**FINANCIAL DISCUSSION**

***Revenues***

The majority of the Tollway’s revenues are generated through the collection of tolls. In the first nine months of 2004, the Tollway has collected \$294.7 million in tolls, or 76.5% of the toll revenues projected for the year. This amount is actually slightly ahead of the projected \$288.8 million for this period as provided by our Traffic Engineers during the 2004 budget process. As illustrated in the chart below, the Tollway expects to collect less toll revenues during the fourth quarter of the calendar year when compared to the third due to decrease in vacation and non-work related travel.



Violation revenue recognized year-to-date totals \$13.1 million, or 119% of the annual budget, due to the continued aggressive pursuit of toll cheats. During the third quarter the Tollway escalated fines on outstanding violation notices from \$20 per violation occurrence to \$70 per occurrence causing an increase in the quarterly revenue numbers. Year to date, the Tollway has collected approximately \$7.9 million in cash from the violations program. Concession revenue was slightly less than budgeted during the third quarter, and slightly less than expected year-to-date. Investment income and miscellaneous income, such as over weight truck fines, permitting, and sale of land, collectively have a positive variance of approximately \$.6 million and \$1.7 million respectively when compared to expectations for the first three quarters. Investment income has increased higher rates of return on investments. The increase in miscellaneous income for the third quarter can be attributed to the sale of the Tollway helicopter, which contributed \$952,000 of revenue.



***Expenditures***

Through the third quarter of 2004, the year-to-date operating expenditures totaled 68.1% of the annual budget approved in December 2003 and amended. Capital expenditures during the first three quarters totaled \$85.3 million, about 34% of the 2004 capital budget. Spending on construction projects accelerated during the second and third quarters as the weather improved and projects began. Debt Service expenses are right on budget, as 1/12<sup>th</sup> of debt service payments are transferred to the Bond Trustee every month.

***M&O Expenditures***

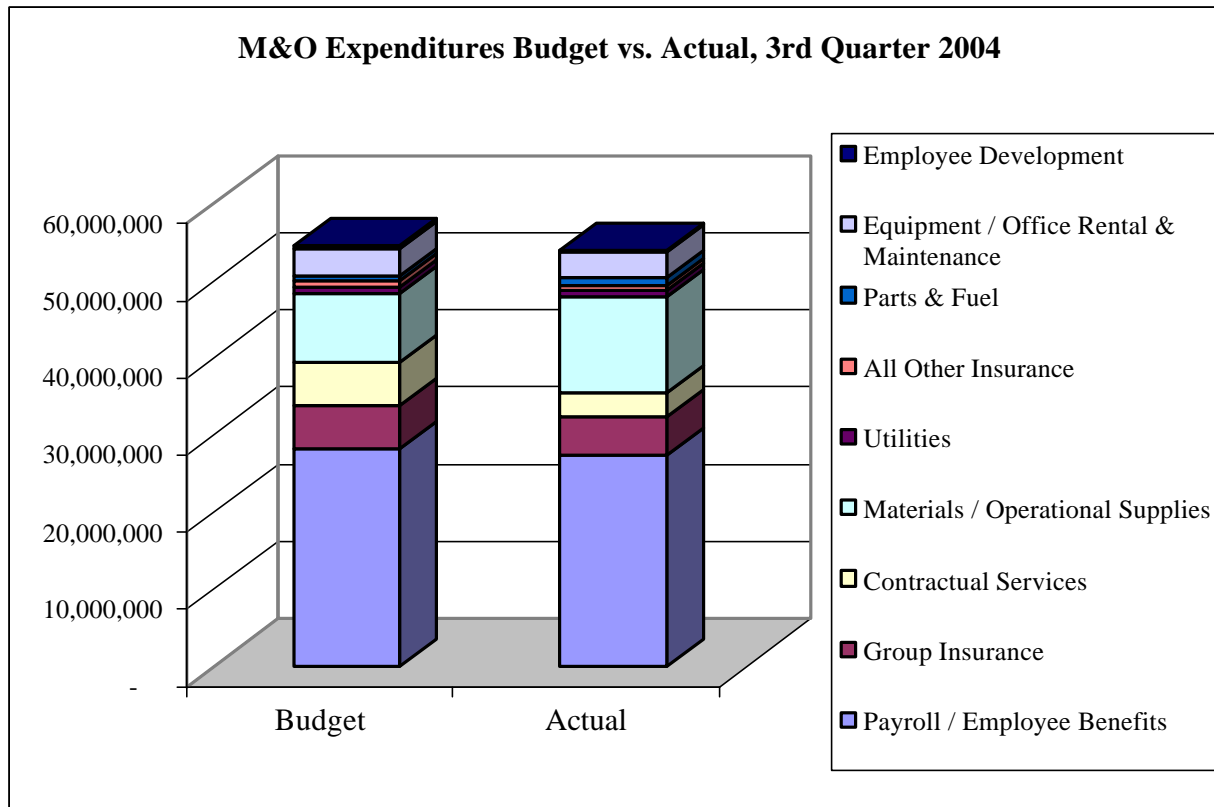
Payroll and Employee Benefits is by far the largest M&O expenditure, and has a favorable variance of 4.4% when compared to the year-to-date quarterly budget. The three areas in which the Tollway has an unfavorable variance are Parts and Fuel, Equipment/Office Rental and Maintenance, and Other Expenses (State Administrative Charge). During the first quarter the Tollway had increased purchases of salt and other ice melting chemicals. In addition, items such as light poles, axle-counting treadles, attenuator parts, and guardrails were ordered to replace equipment on the road that was damaged due to accidents. Expenditure categories with favorable variance higher than 5% include Group Insurance, Contractual Services, Utilities, All Other Insurance, Employee Development and Recovery of Expenses.

The Tollway may lapse as much as \$2 million in payroll and benefits due to the elimination of positions and savings from unfilled vacancies, since \$1.6 million is still to be transferred from Payroll to Other Expenses for the State Administrative Charge.

Since the Tollway budgets for services when rendered, rather than when invoice payments are expected, the high favorable variances in the areas of insurance and contractual services can be attributed to the time lag in receiving services and processing payment.

The Employee Development (Dues/Uniforms) budget has increased over the year by reallocating funds from payroll to pay dues for the Inter-Agency Group a national Tollway organization, and to provide new uniforms, including updated winter wear. Expenditures are still expected to ramp up during the fall months as uniforms are purchased. However, the account may lapse as much as \$150 thousand in this category for employee training since travel has been restrained and some training classes could not be scheduled for IT systems and other services, that are unable to be implemented in this fiscal year.

Recovery of expenses are monies reimbursed for expenses previously incurred by the Tollway.



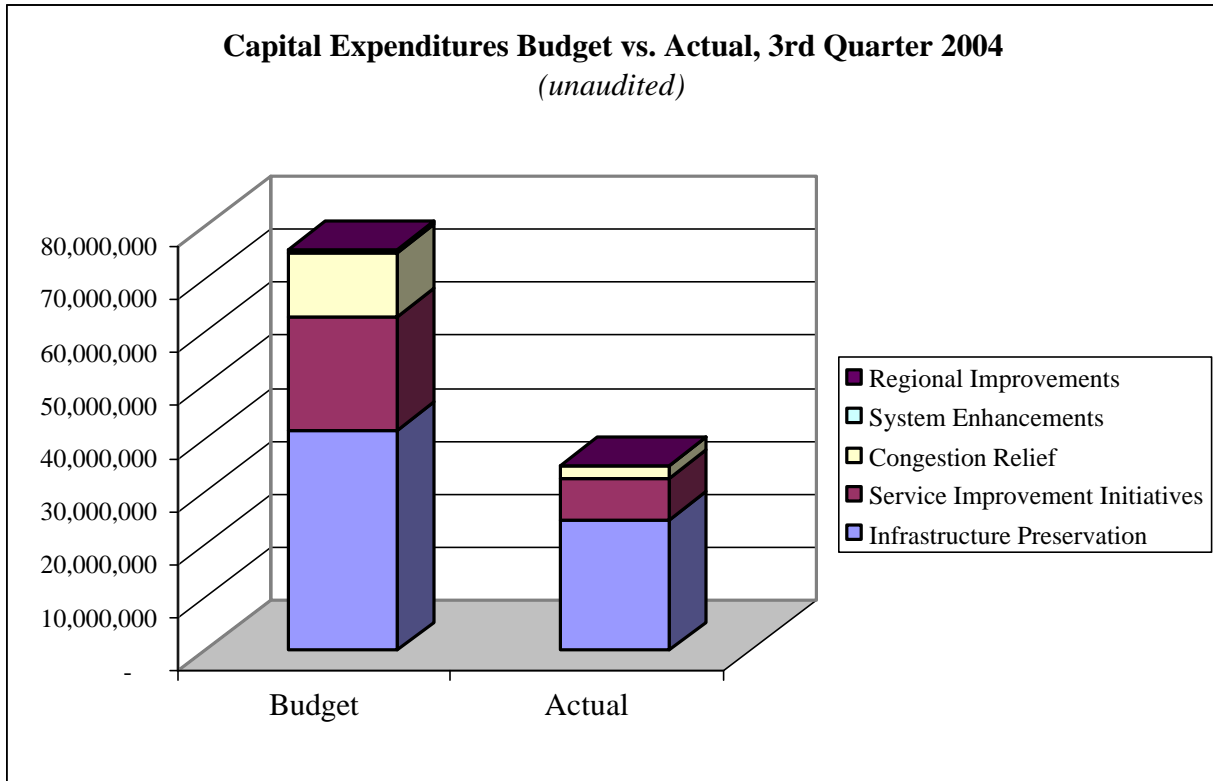
***Capital Expenditures***

The third quarter of the year saw the construction season in full swing. However, the number and scope of several projects were re-evaluated as the Long-Range Capital Plan was developed. In addition, the Tollway deferred several Tri-State projects in order to coordinate with the Illinois Department of Transportation and shorten the overall construction cycle for Tollway customers. Capital expenditures for the first three quarters totaled 33.9% of the amount budgeted for 2004.

The largest capital expenditures planned for 2004 are for Infrastructure Preservation, which includes roadway, bridge and facility rehabilitation/replacement. Service Improvement Initiatives, the second largest category in the capital budget, support system wide operations. Such projects included within this category include traffic management, communications equipment, maintenance and roadway equipment, and ERP Financial System. Service Improvement Initiatives show a favorable 62.1% budget variance because many IT initiatives were held up while CMS reviewed IT needs statewide.

Congestion Relief expenditures continue to exceed dollars budgeted due to the acceleration of the I-PASS program. The two smallest categories, System Enhancements and Regional Improvements account for expenditures related to studies on new interchanges, interchange improvements, landscaping, and noise reduction.

Regional Improvements and System Enhancements are well within the budget limits with only 13% and 19% of their respective budgets expended to year-to-date.



**SUMMARY**

After three quarters of the fiscal year, the Tollway revenues are \$5.8 million higher than budgeted, while expenditures are below budgeted amounts. As the construction season moves towards winter, the Engineering and Finance Departments have determined that expenditures will come in significantly lower than budgeted.

The 2005 Tentative Budget has taken all of these factors into account as 2004 estimated toll revenues have increased from \$385 million to \$391 million, and estimated capital expenditures have decreased from \$251 million to \$166 million. This \$85 million reduction in capital expenditures, that is primarily due to the re-evaluation of the scope on several projects which are included in the Long-Term Capital plan, has been carried over to the 2005 budget.

**Illinois Tollway  
Budget-To-Actual Report  
For the Quarter Ended September 30, 2004**

<i>Unaudited</i>	3rd Qtr Revised Budget	3rd Qtr Actual	Variance \$	%
<b>Resources</b>				
Toll Revenue	103,065,000	103,775,942	710,942	0.7%
Violation *	2,750,000	5,441,866	2,691,866	97.9%
Concession	750,000	472,603	(277,397)	-37.0%
Investment Income	1,875,000	2,350,785	475,785	25.4%
Miscellaneous	250,000	1,469,693	1,219,693	487.9%
Sub-Total Revenues	108,690,000	113,510,889	4,820,889	4.4%
Fund Balance Contribution	-	-	-	N/A
Operating Sub Reserve Contribution	8,000,000	8,000,000	-	N/A
<b>Total Resources</b>	\$ 116,690,000	\$ 121,510,889	\$ 4,820,889	4.1%
<b>Uses</b>				
<b>Maintenance &amp; Operations</b>				
Payroll / Employee Benefits	28,219,162	27,320,468	898,694	3.2%
Group Insurance	5,586,713	4,965,069	621,644	11.1%
Contractual Services	5,500,908	3,165,496	2,335,412	42.5%
Materials / Operational Supplies/Other Expense	8,909,420	12,412,012	(3,502,592)	-39.3%
Utilities	983,912	859,644	124,268	12.6%
All Other Insurance	686,496	732,641	(46,145)	-6.7%
Parts & Fuel	632,154	893,126	(260,972)	-41.3%
Equipment / Office Rental & Maintenance	3,484,909	3,394,194	90,715	2.6%
Employee Development	499,744	148,677	351,067	70.2%
Recovery of Expenses	(312,299)	(337,564)	25,265	8.1%
Total M&O Expenses	\$ 54,191,119	\$ 53,553,763	\$ 637,356	1.2%
<b>Capital (Renewal, Replacement &amp; Improvement) **</b>				
Infrastructure Preservation	41,390,729	24,447,376	16,943,353	40.9%
Service Improvement Initiatives	21,320,257	7,903,997	13,416,260	62.9%
Congestion Relief	12,140,864	2,360,993	9,779,871	80.6%
System Enhancements	381,405	104,862	276,543	72.5%
Regional Improvements	214,043	21,800	192,243	89.8%
Total RR&I Expenses	\$ 75,447,298	\$ 34,839,028	\$ 40,608,270	53.8%
<b>Debt Service</b>				
Principal	3,365,000	3,365,000	-	0.0%
Interest	8,815,000	8,815,000	-	0.0%
Total Debt Service	\$ 12,180,000	\$ 12,180,000	\$ -	0.0%
<b>Total Uses</b>	\$ 141,818,417	\$ 100,572,791	\$ 41,245,626	29.1%
<b>Net Resources/(Uses)</b>	\$ (25,128,417)	\$ 20,938,097	\$ 46,066,514	N/A

\* Cash collected during the third quarter on violation notices issued is approximately \$3.3 million.

\*\* Capital is based on actual payments made to vendors and may not reflect all work completed.

**Illinois Tollway**  
**Budget-To-Actual Report**  
**As of September 30, 2004**

<i>Unaudited</i>	3rd Qtr YTD Revised Budget	3rd Qtr YTD Actual	Variance	
			\$	%
<b>Resources</b>				
Toll Revenue	288,885,000	294,716,779	5,831,779	2.0%
Violation *	8,250,000	13,128,314	4,878,314	59.1%
Concession	1,750,000	1,545,497	(204,503)	-11.7%
Investment Income	5,625,000	6,202,227	577,227	10.3%
Miscellaneous	750,000	2,447,961	1,697,961	226.4%
Sub-Total Revenues	305,260,000	318,040,778	12,780,778	4.2%
Fund Balance Contribution	-	-	-	N/A
Operating Sub Reserve Contribution	8,000,000	8,000,000	-	N/A
<b>Total Resources</b>	<b>\$ 313,260,000</b>	<b>\$ 326,040,778</b>	<b>\$ 12,780,778</b>	<b>4.1%</b>
<b>Uses</b>				
<b>Maintenance &amp; Operations</b>				
Payroll / Employee Benefits	85,348,567	81,595,059	3,753,508	4.4%
Group Insurance	15,705,620	14,217,950	1,487,670	9.5%
Contractual Services	16,057,970	10,957,256	5,100,714	31.8%
Materials / Operational Supplies/Other Expense	11,489,081	13,323,986	(1,834,905)	-16.0%
Utilities	3,041,592	2,883,607	157,985	5.2%
All Other Insurance	2,567,209	2,242,183	325,026	12.7%
Parts & Fuel	2,039,303	2,379,357	(340,054)	-16.7%
Equipment / Office Rental & Maintenance	10,054,333	10,538,274	(483,941)	-4.8%
Employee Development	1,314,141	492,446	821,695	62.5%
Recovery of Expenses	(767,887)	(1,304,939)	537,052	69.9%
Total M&O Expenses	\$ 146,849,929	\$ 137,325,179	\$ 9,524,750	6.5%
<b>Capital (Renewal, Replacement &amp; Improvement) **</b>				
Infrastructure Preservation	82,781,458	51,668,783	31,112,675	37.6%
Service Improvement Initiatives	42,640,514	16,159,937	26,480,577	62.1%
Congestion Relief	24,281,728	17,126,062	7,155,666	29.5%
System Enhancements	762,810	166,145	596,665	78.2%
Regional Improvements	428,086	138,539	289,547	67.6%
Total RR&I Expenses	\$ 150,894,596	\$ 85,259,466	\$ 65,635,130	43.5%
<b>Debt Service</b>				
Principal	10,095,000	10,095,000	-	0.0%
Interest	26,445,000	26,445,000	-	0.0%
Total Debt Service	\$ 36,540,000	\$ 36,540,000	-	0.0%
<b>Total Uses</b>	<b>\$ 334,284,525</b>	<b>\$ 259,124,645</b>	<b>\$ 75,159,880</b>	<b>22.5%</b>
Net Resources/(Uses)	\$ (21,024,525)	\$ 66,916,133	\$ 87,940,658	N/A

\* Cash collected YTD on violation notices issued is approximately \$7.9 million.

\*\* Capital is based on actual payments made to vendors and may not reflect all work completed.

**Illinois Tollway  
Year To Date Budget-To-Actual Report  
As of September 30, 2004**

<i>Unaudited</i>	<b>2004 Budget</b>	<b>2004 Revised Budget</b>	<b>YTD Actual</b>	<b>% of Revised Budget</b>
<b>Resources</b>				
Toll Revenue	385,502,000	385,502,000	294,716,779	76.5%
Violation *	11,000,000	11,000,000	13,128,314	119.3%
Concession	2,500,000	2,500,000	1,545,497	61.8%
Investment Income	7,500,000	7,500,000	6,202,227	82.7%
Miscellaneous	1,000,000	1,000,000	2,447,961	244.8%
Sub-Total Revenues	407,502,000	407,502,000	318,040,778	78.0%
Fund Balance Contribution	86,446,990	86,446,990	-	0.0%
Operating Sub Reserve Contribution	-	8,000,000	8,000,000	100.0%
<b>Total Resources</b>	<b>\$ 493,948,990</b>	<b>\$ 501,948,990</b>	<b>\$ 326,040,778</b>	<b>65.0%</b>
<b>Uses</b>				
<b>Maintenance &amp; Operations</b>				
Payroll / Employee Benefits	115,868,600	115,180,252	81,595,059	70.8%
Group Insurance	22,436,600	22,436,600	14,217,950	63.4%
Contractual Services	23,476,600	23,408,120	10,957,256	46.8%
Materials / Operational Supplies/Other Expense	4,799,400	13,943,920	13,323,986	95.6%
Utilities	4,522,600	4,492,750	2,883,607	64.2%
All Other Insurance	3,575,500	3,575,500	2,242,183	62.7%
Parts & Fuel	3,028,100	3,039,200	2,379,357	78.3%
Equipment / Office Rental & Maintenance	15,953,000	14,829,400	10,538,274	71.1%
Employee Development	1,302,300	2,056,558	492,446	23.9%
Recovery of Expenses	(1,224,700)	(1,224,700)	(1,304,939)	106.6%
<b>Total M&amp;O Expenses</b>	<b>\$ 193,738,000</b>	<b>\$ 201,737,600</b>	<b>\$ 137,325,179</b>	<b>68.1%</b>
<b>Capital (Renewal, Replacement &amp; Improvement) **</b>				
Infrastructure Preservation	137,969,096	137,969,096	51,668,783	37.4%
Service Improvement Initiatives	71,067,522	71,067,522	16,159,937	22.7%
Congestion Relief	40,469,545	40,469,545	17,126,062	42.3%
System Enhancements	1,271,349	1,271,349	166,145	13.1%
Regional Improvements	713,478	713,878	138,539	19.4%
<b>Total RR&amp;I Expenses</b>	<b>\$ 251,490,990</b>	<b>\$ 251,491,390</b>	<b>\$ 85,259,466</b>	<b>33.9%</b>
<b>Debt Service</b>				
Principal	13,460,000	13,460,000	10,095,000	75.0%
Interest	35,260,000	35,260,000	26,445,000	75.0%
<b>Total Debt Service</b>	<b>\$ 48,720,000</b>	<b>\$ 48,720,000</b>	<b>\$ 36,540,000</b>	<b>75.0%</b>
<b>Total Uses</b>	<b>\$ 493,948,990</b>	<b>\$ 501,948,990</b>	<b>\$ 259,124,645</b>	<b>51.6%</b>
Net Resources/(Uses)	\$ -	\$ -	\$ 66,916,133	N/A

\* Cash collected YTD on violation notices issued is approximately \$7.9 million.

\*\* Capital is based on actual payments made to vendors and may not reflect all work completed.