

# New Jersey toll road authorities: HMSHost and its billionaire owners didn't need up to \$40 million in relief

## *Amidst declining revenues and toll hikes, State should reassess contracts with HMSHost on Garden State Parkway, New Jersey Turnpike and Atlantic City Expressway*

In 2017, then Governor Chris Christie called the New Jersey Turnpike Authority's new 27-year agreement with HMSHost a "once-in-a-generation" opportunity.<sup>1</sup> The agreement promised over \$150 million in capital investment on the part of HMSHost to replace, refurbish and maintain 16 service areas on the New Jersey Turnpike and Garden State Parkway, most within the first 7 years,<sup>2</sup> without using any tax or toll dollars.<sup>3</sup> In exchange, HMSHost retained the rights to operate food concessions – worth an estimated \$6 billion in total revenue.<sup>4</sup>

Less than 3 years into the contract, HMSHost, which is owned by billionaires, have successfully pled current inability to pay to the New Jersey Turnpike Authority (NJTA). On March 24, 2020, while the Authority's own revenue from tolls was decreasing due to the COVID-19 pandemic,<sup>5</sup> the Authority agreed to fund up to \$40 million in construction costs that were HMSHost's responsibility, allowing over 2 years for HMSHost to repay the Authority.<sup>6</sup>

### Key findings:

- HMSHost is owned by the Italian billionaire family Benetton, whose net assets were valued at over \$13.8 billion at the end of 2019.<sup>7</sup>
- On March 24, the New Jersey Turnpike Authority (NJTA) reported that HMSHost had told them it was "not currently in a position to continue paying" its contractors and NJTA committed to temporarily pay up to \$40 million in HMSHost's New Jersey construction bills.<sup>8</sup>
- Meanwhile, HMSHost laid off thousands of workers across the United States, and its parent company started share buybacks of up to \$35.8 million.<sup>9</sup> As late as June, HMSHost's parent company's cash balance had **increased** since the beginning of 2020.<sup>10</sup>
- In May, NJTA approved toll increases on the Parkway and Turnpike that go into effect in September.<sup>11 12</sup>

## Up to \$40 million relief for HMSHost and its billionaire owners

Prior to NJTA's Board meeting on March 24, HMSHost told the Authority it was currently unable to continue paying its contractor, Vericon, to continue work on service area construction projects to which HMSHost had previously committed. The Board approved HMSHost's request for NJTA to cover up to \$40 million of HMSHost's costs.

The Board resolution outlined the next seven outlets to be built at the Vince Lombardi, Richard Stockton and Forked River Service Areas using the funding from NJTA, and stated that the remaining restaurant construction would wait until "the crisis has passed and the Service Areas are fully operational," allowing HMSHost to use revenue from the service areas to fund the remaining construction.

NJTA's Executive Director was authorized to enter into a Memorandum of Understanding (MOU) with HMSHost regarding the new agreement, and HMSHost was required to provide reports to the Authority regarding its finances. According to the Board Resolution, "HMS Host will work in good faith with the Authority to reimburse the Authority as reasonably possible after the immediate crisis has abated."<sup>13</sup>

The value of long-term concessions lease agreements for public agencies is that they provide upfront private capital instead of requiring investment of public money.<sup>14</sup> NJTA's assumption of HMSHost's responsibility for up to \$40 million in immediate construction costs erases this benefit.

The MOU between NJTA and HMSHost states that HMSHost "represents and warrants that its March 23, 2020 correspondence to NJTA truthfully and accurately describes its temporary inability to perform its obligation under the 2017 Agreement with respect to the Phase 2 Improvements. The Operator [HMSHost] agrees that, upon becoming aware of any information that remedies or mitigates its temporary inability to perform its obligations under the 2017 Agreement with respect to the Phase 2 Improvements, Operator shall immediately provide written notice to the NJTA of same and advise in writing to what extent and in what manner it will immediately resume its obligations under the 2017 Agreement and this MOU."<sup>15</sup>

The referenced March 23 letter from HMSHost to NJTA, however, included no details or a single number regarding HMSHost's finances.

HMSHost does not need to begin repaying NJTA until 2021 or if there is a three month continuous period sooner where sales meet or exceed 85 percent of the same three month continuous period in 2019. When HMSHost does begin repaying NJTA, it will have 18 months to do so.

Meanwhile, while the NJTA was also holding hearings to raise tolls along both highways and experiencing a drop in toll revenue, HMSHost's parent company, Autogrill, completed a multi-million dollar share buyback.

*"This agreement will provide drivers with the safest, cleanest, modern highway rest stops up and down the Turnpike and Parkway, without spending any of their tax and toll dollars."*

—Former Governor Chris Christie,  
August 30, 2017<sup>41</sup>

## HMSHost and its billionaire owners can afford HMSHost's New Jersey obligations

HMSHost is the largest operator of food and beverage concessions for travelers in the world, including 80 highway service area rest stops in the United States,<sup>16</sup> 17 of which are in New Jersey. HMSHost also operates several concessions outlets at Newark Liberty International Airport.

**\$13.8 billion**

HMSHost's parent company assets, December 31, 2019

HMSHost is wholly-owned by Autogrill, which in turn is controlled by the billionaire Benetton family and its global holding firm Edizione.<sup>17</sup> Edizione's assets were valued at over \$13.8 billion at the end of 2019, with an empire sprawling well beyond HMSHost.<sup>18</sup> Its other holdings include major infrastructure such as roads and airports, plus telecommunications, banking and agriculture firms, and even a rugby team.<sup>19</sup>

Twelve days before the NJTA Board authorized covering up to \$40 million in HMSHost's construction obligations along the New Jersey Turnpike and Garden State Parkway, HMSHost's parent company Autogrill started a share buyback program of up to 3 million shares for a maximum cost of \$35.8 million to facilitate incentive plans for management, directors and other employees.<sup>20</sup> The share buyback program continued into April,<sup>21</sup> even after HMSHost had told NJTA it was "not currently in a position to continue paying" its construction contractors in New Jersey.<sup>22</sup>

**\$35.8 million**

share buyback program starts March 12, 2020

**\$657 million**

liquidity end of March<sup>42</sup>

While the pandemic dramatically impacted HMSHost's revenue, Autogrill stated in April that "as of the end of March the Group has adequate liquidity - amounting to approximately €600m - to deal with a protracted period of emergency." The company has also been able to improve its finances without government intervention. Autogrill reported to its investors in July that it had obtained a 15-month covenant holiday on all of its financial debt.<sup>23</sup> **The company actually increased its cash balance from the beginning of the year to June 2020 by 67 percent.**<sup>24</sup>

Meanwhile, Autogrill has received or is negotiating terms for \$475 million in government relief since the onset of COVID-19, some of it from airport authorities at the city and state level, and even more from a support program of the Italian government. On its July 30 earnings call with investors, the company reported it has had good progress in negotiations to receive a \$356 million long-term financing aid package backed by the Italian government's export credit agency, SACE.<sup>25</sup> On the same call, Autogrill also reported to investors that it had already received over \$82 million in lease abatements in the first half of 2020, not including deferments on either rent or capital expenditure commitments.

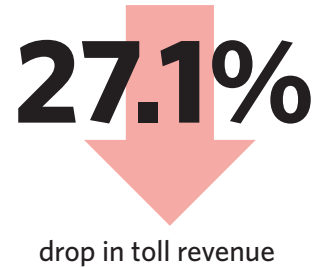
*"Autogrill is set to recover more quickly, given its exposure to motorways," UBS Global Research, June 18, 2020*

*"motorway traffic may continue to prove more resilient" and "motorways performed better than airports." Camillo Rossotto - CFO & Corporate GM, Autogrill, July 30, 2020<sup>26</sup>*

*“the motorway channel, now it is the top because as you can imagine, almost everywhere in the world, people try to, they prefer to travel by car rather than take a plane or a train,” Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director, Autogrill, July 30, 2020<sup>27</sup>*

## **COVID-19 has caused a dramatic drop in NJTA's own revenue**

NJTA itself has seen dramatic drops in revenue due to COVID-19, and should not be spending millions of dollars to give a helping hand to a company owned by billionaires. Toll revenue for the first half of 2020 was 27.1 percent, \$212 million, less than the 2020 budget.<sup>28</sup>



After being approved this spring, tolls are set to increase on the Turnpike, Parkway and Atlantic City Expressway in September. Tolls will increase 36 percent on the Turnpike and 27 percent on the Parkway,<sup>29</sup> while tolls will rise an average of 57 cents on the Expressway.<sup>30</sup> There is already public distrust about how revenue from toll increases will be used.

New Jersey gas taxes may also increase this year if there is a shortfall in the state's Transportation Trust Fund.<sup>31</sup> NJTA is an important part of the broader state transportation system's finances. The state's stopgap budget delayed over \$936 million in transportation spending for NJ Transit,<sup>32</sup> and millions of dollars in other state transportation costs were frozen in March due to the financial impact on the State of New Jersey from COVID-19.<sup>33</sup>

Since 1984, NJTA and SJTA have been required by law to contribute towards state transportation needs.<sup>34</sup> In FY2018, NJTA contributed \$231 million towards the broader state's transportation budget, and \$155 million in FY2019.<sup>35</sup>

Rather than covering up to \$40 million in HMSHost's obligations, NJTA could be using that money to offset increases in tolls and gas taxes, and provide urgently needed support to the rest of New Jersey's transportation budget.

## **A chance to do better for New Jersey: ongoing negotiations with HMSHost for the Atlantic City Expressway**

In addition to the 16 service areas on the Garden State Parkway and New Jersey Turnpike that HMSHost manages through its agreement with NJTA, HMSHost also operates the Farley Service Plaza along the Atlantic City Expressway through a separate contract with the South Jersey Transportation Authority (SJTA). HMSHost has had a month-to-month contract with SJTA since the expiration of its last long-term contract on December 31, 2018.<sup>36</sup>

SJTA bond documents from October 2019 state the "new concession contract with HMS is being negotiated,"<sup>37</sup> and the SJTA Board has taken no further action regarding the HMSHost contract since November 2018.

The SJTA Board should reassess its long-term relationship with HMSHost and make sure not to give the company unnecessary financial relief.

## HMSHost: a company that lawmakers should not support

Despite its billions in global assets, the Edizione empire has faced controversy both in the United States and abroad. HMSHost has relied on devastating lay-offs to mitigate costs in the United States, fought unionization among its employees during the pandemic. In Italy, Edizione has had a protracted battle with the government over the 2018 collapse of a bridge on a highway it managed that killed 43 people.

### **Devastating layoffs**

In July, HMSHost's parent Autogrill told investors of its U.S. operation: "The renegotiations have been done with the landlords and the work that the team has done on the labor cost front have been tremendous."

That "tremendous" work on the "labor cost front" has been nothing short of devastating to communities, leaving thousands of long-time HMSHost employees out of work even while those working in the operations the company has re-opened report short-staffing.

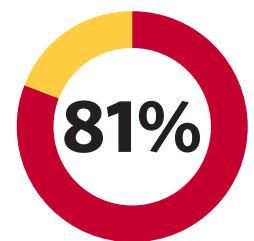
**8,000**

workers laid off  
by HMSHost

In April, Autogrill stated that part of the way it mitigated the financial impact of COVID-19 was to cut workers' hours to decrease labor costs 90 percent in North America by the end of March.<sup>38</sup> In New Jersey, HMSHost laid off 265 out of 281 workers at Newark Liberty International Airport. The impact, if any, on workers along the Turnpike, Parkway and A.C. Expressway has not been disclosed publicly, but HMSHost has laid off hundreds of workers at the highway service areas it operates in other states. HMSHost issued WARN notices for lay off or furlough of over 8,000 of its workforce in the United States since March, a number that does not capture the full extent of job losses.<sup>39</sup>

### **Equity and Inclusion**

In 2019, HMSHost provided data for 9,926 unionized employees at 27 airports in the United States. 7,998 of those employees, approximately 81 percent, were people of color. A February 2020 UNITE HERE report based on that data showed that at HMSHost Starbucks across 27 U.S. airports, the median wage for Black baristas was \$1.85 less than for white baristas. When Starbucks closed stores for bias training in 2018, HMSHost Starbucks stores remained open.<sup>40</sup>



people of color

### **Union Busting**

HMSHost has also fought union organizing among its employees in Orlando during the pandemic. UNITE HERE filed federal labor charges against HMSHost in July alleging that HMSHost fired one worker activist and threatened others in retaliation for speaking out in favor of the union.

## Endnotes

- 1 <https://www.njta.com/newsroom/2017/august/governor-announces-service-area-contracts>
- 2 <https://emma.msrb.org/ER1331130.pdf> page 43 in the PDF "Service Areas and Concessions"
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- 7 <https://www.edizione.com/en/net-asset-value/> (converted Euro to Dollar)
- 8 <https://www.njta.com/media/5255/minutes-bm-3-24-2020.pdf>
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- 10 Autogrill earnings call, July 30 2020. Transcript: <https://finance.yahoo.com/news/edited-transcript-agl-mi-earnings-042444271.html>. As a result, our cash balance grew from \$300 million at the beginning of the year to about \$500 million at the end of June
- 11 <https://www.nbcnewyork.com/news/local/covid-19-takes-big-toll-on-new-jersey-highway-revenues/2551408/>
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- 23 Autogrill earnings call, July 30 2020. Transcript: <https://finance.yahoo.com/news/edited-transcript-agl-mi-earnings-042444271.html>. "We also obtained a 15-month covenant holiday on all our financial debt."
- 24 Autogrill earnings call, July 30 2020. Transcript: <https://finance.yahoo.com/news/edited-transcript-agl-mi-earnings-042444271.html>. As a result, our cash balance grew from \$300 million at the beginning of the year to about \$500 million at the end of June
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- 39 Analysis of publicly available WARN notices, March 2020 to present. The total does not include a number of major airports where layoffs or furloughs have also occurred including Houston
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