



POLICYPOINTS

Quick facts from the Commonwealth Foundation

Act 44 & Transportation Funding

In July 2007, the Pennsylvania General Assembly passed and Governor Ed Rendell signed Act 44. This legislation authorized the Pennsylvania Turnpike Commission (PTC) to increase tolls on the Turnpike; to take control of Interstate 80 by entering into a lease agreement with the Pennsylvania Department of Transportation (PennDOT); to begin tolling Interstate 80; and to issue billions of dollars in bonded debt. Following are some answers to frequently asked questions about Act 44 of 2007 and transportation funding.

Act 44 of 2007: Transportation Funding

The November 2006 report issue by the Pennsylvania Transportation Funding and Reform Commission (PTFRC) recommended:

*“**no additional funding** should be provided for highways, bridges and transit unless a series of parallel actions are taken to reform funding structure and a number of transportation business practices.”*

- ◆ **Act 44 provided additional funding without any reforms being enacted or mandated.**

Act 44 provides **less than half the funding needed for roads, highways, and bridges**, according to the PTFRC report.

- ◆ The PTFRC report recommended an increase of **\$1.7 billion in annual funding** for transportation infrastructure needs—\$965 million for roads, highways, and bridges, and \$760 million for mass transit.
- ◆ Act 44 provides **only \$750 million**—\$450 million for roads, highways, and bridges, and \$300 million for mass transit—in FY 2007-08, and an average of only \$946 million over the next 10 years.
- ◆ Additionally, these funding projections are predicated on federal approval for tolling I-80.

Act 44 will generate **only \$450 million annually—less than one-fourth the identified need of \$1.7 billion**, if the Federal Highway Administration does not approve the tolling of I-80 (see below).

- ◆ **Roads, highways, and bridges will receive only \$200 million** in additional funding—*only one-fifth the identified need of \$965 million.*
- ◆ **Mass transit will receive only \$250 million** in additional funding—*less than one-third the identified need of \$760 million.*

I-80 Tolling Contingent on Federal Approval

The tolling of I-80 requires approval from the Federal Highway Administration (FHWA) for the Interstate System Reconstruction and Rehabilitation Pilot Program (ISRPP). The PTC and PennDOT **resubmitted their original plan** in July 2008 after FHWA expressed **serious concerns** over

inadequate descriptions of the reconstruction and rehabilitation on I-80.

- ▶ There are *only three slots available* under the ISRRPP; two have already been approved and other states have already applied for the third.
- ▶ Under the ISRRPP, toll revenue can only be used “for the project’s debt service, providing a reasonable rate of return on investment to any private person financing the project, and costs for the improvement, operation and maintenance of the facility.” This restriction would **not allow the use of I-80 tolls to subsidize other roads and mass transit agencies, as required under Act 44.**
- ▶ Even the federal government questions the accountability of the state officials. FHWA’s December letter states, “We are aware that in recent years PennDOT has transferred Interstate Maintenance funds to other Federal-aid programs, rescinded funds, and currently maintains a large balance of unobligated funds.”
- ▶ Inconsistencies in the original proposal concerning the use of I-80’s toll revenue to pay PennDot were clarified in the latest proposal. The **new plan still requires 30% of toll revenues over 50 years to subsidize other roads,** which is not consistent with ISRRPP.

Are I-80 Tolls Going to Mass Transit?

The Turnpike Commission’s claim that I-80 tolls will not fund mass transit systems in Philadelphia and Pittsburgh is misleading.

If the federal government does not approve tolling I-80, the Act 44-created “Public Transportation Trust Fund” will receive less funding each year without tolling I-80.

Over the next ten years, mass transit would receive an average of \$414 million annually if I-80 tolls are approved, but only \$250 million if tolling does not occur. Thus, **mass transit agencies get \$160 million more annually if tolls are permitted on I-80.**

Act 44 Funding for Mass Transit				
Fiscal Year	With I-80 Tolling	Without I-80 Tolling	Difference	
2008	\$300,000,000	\$250,000,000	\$50,000,000	
2009	\$350,000,000	\$250,000,000	\$100,000,000	
2010	\$400,000,000	\$250,000,000	\$150,000,000	
2011	\$410,000,000	\$250,000,000	\$160,000,000	
2012	\$420,250,000	\$250,000,000	\$170,250,000	
2013	\$430,756,250	\$250,000,000	\$180,756,250	
2014	\$441,525,156	\$250,000,000	\$191,525,156	
2015	\$452,563,285	\$250,000,000	\$202,563,285	
2016	\$463,877,367	\$250,000,000	\$213,877,367	
2017	\$475,474,301	\$250,000,000	\$225,474,301	

Source: Pennsylvania Turnpike Commission, Summary of Lease and Funding Agreement, www.paturnpike.com/i80

Broken Legislative Process

Act 44 of 2007 passed with **inadequate vetting of the proposal.**

- ▶ A 2005 PennDOT study recommended *against tolling I-80*
- ▶ There were no committee hearings, no public discussions with lawmakers, and no opportunity for the public to weigh in on Act 44.
- ▶ There were **no studies conducted on the impact of tolling I-80**, including diversion of traffic onto secondary roads or the economic impact on businesses along the I-80 corridor.
- ▶ The House Democratic Caucus **wasted \$75,000 of taxpayer funds** on a useless study filled

with vast assumptions. The study ignored the value of Act 44 without the tolling of I-80 and assumed **traffic would grow 1% annually under a lease but 2.5% under Act 44.**

Act 44 Debt

Recent **revisions to the PTC's proposal** to toll I-80 have **dramatically increased the amount of debt** to be paid off by toll payers.

- ▶ The new plan raises **borrowing from \$14 billion to almost \$44 billion**— an increase of more than 300% in new bonded debt.
- ▶ The Commonwealth Foundation estimates the amount of **unpaid debt after 2057** to be **between \$38 and \$73 billion**—even after paying \$74 billion in principle and interest over the first 50 years.

Benefits of Leasing the Turnpike

In contrast to the many pitfalls of Act 44, leasing the operation and maintenance of the Pennsylvania Turnpike to a private contractor can provide many advantages.

Lower Tolls on Turnpike

- ▶ Act 44 allows the Pennsylvania Turnpike Commission to raise tolls on the Turnpike **by 25% in 2009 and 3% every year thereafter**. However, this under Act 44 the Turnpike Commission was given authority to set tolls *without limits*.
- ▶ Fitch Ratings downgraded the Turnpike Commission's bond rating after stating Act 44 promises are likely to require higher toll increases than the Commission is promising.
- ▶ **Tolls will be restricted under the pending Turnpike lease agreement to 25% in 2009, with annual rates capped at or below 2.5% or inflation, whichever is greater.**

More Money for Transportation Needs

- ▶ The proposed Turnpike lease would provide the state with an upfront **cash payment of \$12.8 billion and an estimated \$37 billion more over 50 years than Act 44** without tolling I-80.
- ▶ **Act 44 will only generate \$22.5 billion over 50 years** if the federal government rejects tolling I-80.
- ▶ Leasing the Turnpike would make **\$87 million dollars** in taxpayers subsidies for the Turnpike Commission available **for transportation improvements annually**.

Earning Interest Rather than Paying Interest

- ▶ Upfront cash from the turnpike lease will **generate approximately \$50.151 billion over the next 50 years**, assuming a 7.5% rate of return.
- ▶ Under Act 44, taxpayers and motorists will **pay \$70-80 billion in interest alone**.

Reduced Taxpayer Risk, Lower Taxes

- ▶ **A lease shifts the financial risk from taxpayers to the private-sector partner.**
 - ▶ If the Turnpike Commission fails to generate the expected toll revenues from the Turnpike and I-80, *taxpayers will be forced to make up the difference.*
 - ▶ The Turnpike Commission began borrowing *before* all revenue streams were assured,

placing the taxpayers at even greater risk.

- ▶ **A gas tax increase may be necessary** to pay back Turnpike bonds that are leveraged against the Motor License Fund.

“In-Sourcing” of Jobs and Foreign Capital

- ▶ A consortium of companies (Abertis Infraestructuras SA, Citi Infrastructure Investors, and Criteria Caixa Corp) submitted the winning bid of **\$12.8 billion in exchange for a 75 year lease**. The investors are a conglomerate of American and foreign capital.
- ▶ **Concerns about foreign-based companies leasing the Turnpike are overblown.**
 - ▶ Instead of “out-sourcing” capital and jobs to foreign countries, a lease of the Turnpike would “in-source” capital and jobs to Pennsylvania.
 - ▶ In fact, the private operator is **required to honor existing labor contracts** and provide equivalent compensation to employees under those agreements.
 - ▶ Citi/Abertis, unlike the PTC, is contractually **obligated to abide by high maintenance standards** or suffer financial penalty. This accountability ensures better service for travelers.
 - ▶ In our global economy the difference between foreign and domestic companies is blurred—Abertis is headquartered in Spain but it is a **publicly traded company with investors from all over the world**.
- ▶ In addition to the lease bid paid to the state, a private operator would **hire Pennsylvania workers, contract with Pennsylvania contractors, and pay Pennsylvania taxes**.
 - ▶ The private operator would pay **\$3.3 to \$4.2 in Corporate Net Income Tax over the 75-year lease and invest \$5.5 billion for Turnpike improvements.**

Eliminating the Patronage-Ridden Turnpike Commission

- ▶ The Pennsylvania Turnpike Commission has a well-documented record of being a **patronage playground for politicians**, which has resulted in significant waste, fraud, and abuse. A lease of the Turnpike would eliminate many of these problems.
 - ▶ In 2005, approximately 2,300 people were employed by the Commission, including **about 500 middle managers (nearly one per mile of the Turnpike)**, many of whom were hired as political favors.
- ▶ According to published reports, Turnpike CEO Joseph Brimmeier hired *his son, a cousin, two sisters, the son of his godmother, the son of a county party chairman, and the son of a Congressman*.
- ▶ According to a 139-count federal indictment of Senator Vince Fumo, Turnpike consultant Mike Palermo—who earned \$220,000 over two years—apparently completed no work for the PTC, but did find time to **manage the senator’s 100-acre Harrisburg farm**.
 - ▶ The indictment also alleges that when he was no longer able to put his no-work contracts on the state senate payroll, Fumo ***used the Turnpike payroll*** instead.
- ▶ The Turnpike Commission used toll revenue to spend **\$26,000 per month lobbying state legislators** to pass Act 44, and spent **\$280,000 lobbying the federal government**.
- ▶ The Turnpike Commission has been **using toll revenues to buy radio and newspaper ads across the state to deflect criticism of I-80 tolling**.