# CONCERNS ABOUT TURNPIKE LEASE MISGUIDED

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Good morning. I am Nathan Benefield, Director of Policy Research for the Commonwealth Foundation. We are a nonprofit, nonpartisan public policy research and educational institution based in Harrisburg. I would like to thank the committee for inviting me to speak on this crucial issue.

Ever since the idea of a lease of the Pennsylvania Turnpike was first proposed, there have been a number of concerns raised. While much of this criticism was raised by those who benefit from the status quo—including the Pennsylvania Turnpike Commission—there are several legitimate concerns for the taxpayers and motorists of this state. However, these concerns can be, and should be, addressed in a lease or concession agreement.

Parameters of a lease agreement can be set forth by the General Assembly in authorizing legislation. This is required before a lease agreement can even be signed. So, many of the concerns that have been raised can easily be mitigated by the terms outlined by the authorizing legislation that would go through this very committee.

Examples of lease agreements exist for recent leases of Chicago Skyway and the Indiana Toll Road—I have a brought a copy of the Chicago Skyway lease agreement and the executive summary of the Indiana Toll Road lease. I apologize for not making copies for everyone, but as you can see, these are enormous documents which cover everything from toll increases to road maintenance to time requirements for cleaning road kill. If anyone would like to look at these contracts, I will post a link to an online version of the Indiana contract on our website, and I will gladly lend out the Chicago agreement if anyone is suffering from insomnia.

Through these lease agreements, many of the concerns about a Turnpike lease can be alleviated. In fact, in the lease agreement is a powerful tool for protecting the people of Pennsylvania—especially when contrasted with the current plan for transportation funding, Act 44 of 2007.

## Tolls

One of the primary concerns of Pennsylvania residents is the increases of tolls under a Turnpike lease deal. But tolls could, and most likely would, be capped in a lease agreement.

Under current law, there is no limit on the Turnpike Commission's ability to raise tolls either on the Turnpike or on Interstate 80, if they receive federal approval to convert that to a toll road. The Turnpike Commission has stated their intention to increase tolls by 25% in 2009 and 3% each year thereafter, and implement similar tolls on I-80.

This proposed increase should give an idea of what parameters legislators should look for in lease deal. A cap on tolls equal to or less than the Turnpike Commission's plan—perhaps without the immediate 25% increase but larger annual increases—would protect motorists (keeping in mind that toll caps would be the maximum toll allowed under the contract, a private operator could keep tolls under that cap to maximize traffic, and, most importantly, a Turnpike lease would not include tolling of I-80).

### Maintenance

A second major concern raised is whether a private operator would maintain the Turnpike as well as a government agency. Again, this can be addressed in the lease agreement. This contract can set minimum requirements for road conditions (with financial penalties for the private operator if these are not met) and can require minimum levels of capital expenditures on the Turnpike itself (in addition to the lease payment).

In the examples of the Indiana Toll Road and Chicago Skyway leases, private operators are already pouring millions into repairing and upgrading the facilities.

### Misspending Money

Another concern that has been raised is that legislators (present company excepted, of course) and the Governor may be tempted to spend an upfront lease payment immediately and on non-transportation related programs—to the detriment of Pennsylvania's long-term infrastructure. Yet this same concern is possible under Act 44, as neither the new funding for highway maintenance nor the mass transit fund is constitutionally protected—a simple majority can vote to use this money elsewhere in the next budget.

In order to protect the revenue from an upfront lease payment, legislators should create a new fund and pass a Constitutional amendment to define how this revenue may be used, much as the motor license fund is now.

Another option for legislators worried about misspending funding is to eschew a large, upfront lease payment and use **revenue sharing** instead. This has been an option used for toll roads in Virginia (the Pocahontas Parkway) and California (SR 125), where the state will receive a share of the revenue over the life of the lease, rather than an upfront lease payment. A combination of an upfront payment and revenue sharing can be another option.

### Financing Cheaper

Another claim that has been made is that financing by a public entity will be less expensive than a private entity. This is not necessarily accurate. Private firms use equity funding, which can be less expensive than debt, given that there is no guaranteed rate of return. Private firms can also deduct interest paid and depreciation from their tax liability, essentially reducing the cost of their financing.

Even if the claim that the financing by a public entity is less costly, this offers no benefit to taxpayers and motorists. Debt incurred by the Turnpike Commission is owed by taxpayers and toll-payers. The debt of a private operator is not. If I suggested that, since the Turnpike Commission can get lower interest rates on bonds than my credit card, they should buy me a new suit, I would expect some laughs, but that it is exactly what this argument entails—that taxpayers should incur more debt because they can get lower interest rates than a private firm (or individual).

This premise also ignores the operating efficiency of a private operator, as it assumes the Commission's costs of operation, maintenance, and capital expenditures will be equal. As the Pennsylvania Turnpike Commission could tell you, this is not the case—which is why the Commission is currently seeking bids from private firms to complete construction, and operate, the Mon-Fayette Expressway, bringing in private sector capital and efficiency.

In reality, a Turnpike lease is much better for the taxpayers of this state. Instead of paying interest on Turnpike Commission debt, they would earn interest on a lease payment. Instead of facing the risk of higher gas taxes to pay off debt already being issued—a particular risk if I-80 tolling does not receive approval—taxpayers would transfer that risk to the private operator and their investors.

**Traffic Diversion**

One concern that has been raised recently was the potential effect and cost of diversion to other roads from higher tolls. But in this regard, a Turnpike lease provides a better option than Act 44. While toll increases would result in more motorists choosing to use free roads, which may increase the cost of maintaining these roads, there would be far ***greater*** diversion under Act 44 than a Turnpike lease. As previously mentioned, a Turnpike lease could keep Turnpike tolls at or below what is expected under Act 44. But far more traffic diversion will occur under the tolling of I-80, which is currently free.

The effect of Act 44 on residents and businesses in the I-80 corridor was never assessed during the debate over that legislation. A 2005 study by the Pennsylvania Department of Transportation (PennDOT) recommended against tolling I-80, in part because of the expected diversion to other roads.

But I-80 traffic diversion may be worse under Act 44 than under the I-80 study, because the tolls required under Act 44 are primarily to be used for payments to PennDOT, not for reinvestment into the road itself. In fact, under Act 44, about 47% of the estimated I-80 toll revenue would be used for payments to PennDOT, vs. only 36% on I-80 improvements and maintenance (another 17% is considered "surplus revenue"). And claims that no I-80 tolls would be used for mass transit is misleading, as Act 44 provides between $300 and $500 million annual for mass transit if I-80 tolling is approved, but only $250 million annually for mass transit if I-80 tolling is rejected.

In essence, the tolls on I-80 constitute not only a "user fee"—i.e. payment for use of the road—but also a tax, as I-80 motorists will pay more for mass transit grants and funding for other roads and bridges than they will for improvements on I-80 itself.

**Foreign Company**

Another concern that has been raised is the possibility of having a "foreign" company managing the Turnpike. But this fear is misplaced. First, many potential bidders of the Turnpike are better described as "international"—they are not owned by foreign *governments*, are often publicly traded companies whose shareholders include Americans (and are often traded on American stock exchanges), and partner with American investors, frequently including pension funds, to provide financing for infrastructure projects.

These international companies frequently dominate toll road lease discussion because private financing of toll roads has been occurring around the world for decades, but is relatively new in the United States. Thus, international firms have the most experience in this field. Even so, many US-based firms are getting involved in infrastructure deals, and are potential bidders on the Pennsylvania Turnpike.

A private operator cannot ship the Turnpike overseas, nor would they be allowed to shut down the Turnpike on a whim. An international operator would not jeopardize national security, and would have strong financial interest in ensuring security and safety on the Turnpike. And the lease agreement can require a high level of policing on the road, surveillance systems, and vetting of employees—and even require the operator to pay the state for police patrols (as the Indiana deal does).

Finally, with all the talk about US firms "outsourcing" jobs, Pennsylvania should welcome companies interested in creating job opportunities and investing billions of dollars in the state—essentially the "insourcing" of private capital from across the globe. In addition to the lease fee paid to the state, a private operator would hire Pennsylvania workers, contract with Pennsylvania contractors, and pay Pennsylvania taxes.

**Employees**

A further concern that has been raised is the status of current Turnpike employees under a lease deal. Again, this concern is largely misplaced.

Most employees of the Turnpike would be retained the private contractor. In the Indiana toll road deal, the private operator set up a subsidiary within the state and retained 85% of the public workforce (in addition to hiring many new local employees), the rest received jobs with the state. In Chicago, all employees were offered jobs with the private contractor, though most accepted jobs with the city. Rank-and-file Pennsylvania Turnpike workers—those who earned and kept their job due to merit—have little to fear from a lease. Those who might be at risk are employees whose employment is linked to political connections or relationships to Turnpike Commissioners.

Additionally, Governor Rendell has already stated that any lease deal would require a private operator to honor existing labor contract for the duration of those agreements. And as previously discussed, a lease deal would prove a boon to construction employment, both with capital expenditures on the Turnpike and through new state infrastructure investment funded by the lease payment.

**Price/Revenue**

The final issue raised is whether a Turnpike lease would generate enough revenue to fund our transportation needs. In an analysis prepared for the Governor's office, Morgan Stanley estimated that a 50-year Turnpike lease would generate $12-16 billion in an up-front payment. In presenting that report, they also acknowledged that their methods dramatically underestimated actual bids in Indiana and Chicago. (The highest bid for the Indiana Toll

Road came in a $3.85 billion, more than double its valuation of $1.8 billion; the winning Skyway bid was $1.8 billion, 80% above the expectation.) Some have speculated that the Pennsylvania Turnpike could fetch up to $30 billion up front. The only way to know for sure is to allow for competitive bidding under set parameters.

A related concern was raised in the report authored by Dr. Gray and Dr. Foote, who are also testifying today, that the Morgan Stanley report overestimated the rate of return Pennsylvania would receive on a lease payment. The Morgan Stanley report suggested 7-9% annual return on this $12-$16 billion investment, and using only the interest to fund the state transportation budget. Drs. Gray and Foote think this rate of return requires investments that are "inappropriate" for public funds—including stocks and hedge funds. They fail to point out that our state pension funds for state workers and school employees, SERS and PSERS, expect 8.5% annual return on their investments, and often exceed that rate of return (particularly in recent years). I doubt anyone here today would suggest a less risky investment strategy, as doing so would require a dramatic cut in workers' pensions or a dramatic increase in taxpayers' cost. An upfront lease payment should be invested in a manner similar to our state pension funds.

The revenue generated from a Turnpike lease, using the Morgan Stanley estimate, is expected to generate upwards of $1.6 billion annually for transportation needs. This fits closely with the identified need in the Transportation Funding and Reform Commission's report of $1.7 billion for both roads and bridges and mass transit.

In contrast, Act 44 generates an average of $900 million annually over the next ten years, and Act 44 payments will not reach $1.7 billion ***until 2036***, by which time inflation will have eroded the value of that amount. Furthermore, more than half the Act 44 revenue depends on tolling I-80. If the federal government rejects tolling of I-80, Act 44 payments will be **only $450 million annually** (and never increasing).

In other words, the revenue generated by the Turnpike itself under Act 44 is about one-fourth the estimated revenue of a Turnpike lease. Even if the federal government does approve tolling of I-80, and lawmakers feel that new tolls are prudent and necessary, then I-80 should also be competitively bid in order to maximize revenue to the state and minimize toll increases for motorists.

To sum up—competitive bidding is the only way to determine the best deal for taxpayers and motorists. If the Pennsylvania Turnpike Commission feels they can do the best job of keeping tolls down, providing the most revenue to the state, and providing the highest quality of service, then let them compete with private operators. Only when all the bids are on the table will we finally know who can offer the best deal to taxpayers and motorists—but legislators should take the lead now to set the parameters of what would be acceptable under a potential lease deal.

I thank you for the opportunity to testify, and look forward to answering any questions.

## Where will projected I-80 revenue go?

In light of the FHWA questions to the Turnpike Commission - specifically about whether I-80 revenue will be used for debt services for non-I-80 expenses, and how payments to PennDOT can be considered "operating costs" - I have put added up the numbers (see spreadsheet below or link here).

Toll Roads News has a related analysis, and has posted the Turnpike Commission's presentation that contains the numbers.

As this shows, less than 40% of the I-80 toll revenue would go back into I-80 for maintenance, capital construction, and debt repayment related to I-80. In contrast, the thirty-six year plan calls for almost **half the revenue** to go to payments to PennDOT. (There is also $8 billion in "surplus" which primarily accrues after 2040). It is curious how they will justify this as simply an "operating cost" of I-80.

**I-80 Revenue 2011-2047**

| | **Total** | **Percent of Total Available** |
|---|---|---|
| Total Revenue | $45,635,581,912 | |
| Bonds for Monetization (to PennDoT) | $1,000,000,000 | |
| Total Money Available for PennDot | $46,635,581,912 | |
| Bonds for I-80 Projects | $1,100,000,000 | |
| | | |
| **Payments** | | |
| I-80 Operation and Maintenance | $9,558,007,233 | 20.50% |
| I-80 Capital (Pay-Go) | $3,919,933,901 | 8.41% |
| Debt Service - I-80 Projects | $3,156,285,908 | 6.77% |
| **Total Into I-80** | **$16,634,227,042** | **35.67%** |
| | | |
| Debt Service - Monetization | $1,941,350,663 | **4.16%** |
| I-80 Contribution to PennDoT | $19,886,854,634 | **42.64%** |
| **Total to PennDoT** | **$21,828,205,297** | **46.81%** |
| | | |
| I-80 Surplus | $8,173,149,573 | **17.53%** |

Source: Pennsylvania Turnpike Commission, Funding Pennsylvania's Transportation System, June 19, 2007

Prepared by the Commonwealth Foundation

## Free analysis of costly Turnpike study

Toll Roads News offers some comments on the $75,000 taxpayer-funded "study" on a Turnpike lease.

> The Caucus report is in its nature ***hypothetical***. It is based on a set of assumptions about the Administration's concession contract terms not yet announced, and about private sector bids that can only be tested in a real procurement. ...
>
> The report summarily dismisses the notion that a private operator could run the Turnpike more efficiently and at lower cost than the Turnpike Commission or that it could offer better value to motorists through improved customer service. It follows from the dismissal of private sector efficiency that "cost of capital becomes the most significant value driver."
>
> The report asserts that private sector capital costs are higher and that it therefore cannot offer as much to the state as the Turnpike Commission - the very issue the Governor is proposing to test.

Why do we need a study guessing what a Turnpike lease would fetch, when all we need to do is have a competitive bidding process? Of course, the study was authorized by defenders of Act 44 to ***prevent*** competitive bidding on a Turnpike lease. Here are more flaws in this study:

### Investment Return

The report questions the 7-9% return on investing a lease payment:

> Given historic investment returns, to obtain the 7% to 9% level of return forever would require investing in risky securities such as common stock, lower quality corporate bonds, hedge funds or sub-prime housing loans—***investments that are inappropriate for the Commonwealth and its entities.***

If that is the case, then our state pension funds, SERS and PSERS - which project annual returns of 8.5% - should get out of "risky" and "inappropriate" investments, right? Of course, we would have to cut back dramatically on pensions for state employees and legislators by accepting far lower return on investment.

### Present Value

The report asserts a "present value" of $14.8 billion for a Turnpike lease - which of course, involves them guessing on the price of a bid - but a present value of $26.5 billion under Act 44 - but this includes tolling of I-80. If I-80 is not tolled, then Act 44 requires $22.5 billion in payments over 50 years - which has a "present value" (i.e. taking inflation/interest rates into account) of only ***$9 billion***.

Of course, if lawmakers insist on getting more money by tolling I-80, then that too should be competitively bid and leased to a private operator - thus the state can get the most revenue, and tolls can be kept at the lowest level bid.

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## Misspent Revenues

The report also worries that a lease payment will be misspent by lawmakers on non-transportation funding. While I am glad House Democrats are admitting our elected officials are poor stewards of public monies, the proper remedy is a constitutionally protected fund.

In addition there exists the option to use "**revenue sharing**" in a lease deal, rather than an upfront payment. In this arrangement, the state would receive funding from a private operator on an annual basis, based on their actual revenue (and limiting their "profit"). For some reason, the report commissioned by House Democrats forgot to mention this option. Our report on Public Private Partnerships *does* detail this option - and that didn't cost taxpayers $75,000 to produce.

## Traffic Growth

To show that a Turnpike lease could not generate enough revenue, the authors assume that traffic growth would be 1% annually (pg. 17). But they assume that under Act 44, Turnpike traffic would grow 2.5% per year (pg. 18). This difference means that at the end of 50 years, the Turnpike would have *80% more traffic* under the PTC than under a lease. Why did the authors' assume greater traffic growth under Act 44? I can only think of one reason--to ensure that Act 44 looks better on paper.

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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 enter into a lease agreement with the Pennsylvania Department of Transportation (PennDOT) to take control of Interstate 80; to begin tolling Interstate 80; and to issue billions of dollars in bonded debt. Following are some answers to frequently ask 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.
- Act 44 funding increases are unlikely to keep pace with inflation.
- 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). The PTC and PennDOT applied for approval in October 2007 under the Interstate System Reconstruction and Rehabilitation Pilot Program (IRRPP). However, **there are several reasons to doubt the plan will receive approval.**

- There are *only three slots available* under the IRRPP; two have already been approved and other states have already applied for the third.
- Under the IRRPP, 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**.
- An October 17, 2007 letter from the FHWA to PennDOT Secretary Biehler and PTC Executive Director Brimmeier notes that six other interstate facilities have been selected for "national prioritization" under the "Corridors of the Future" program.

## 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.** Act 44 funding comes from three sources of revenue from the Turnpike Commission: 1) Tolls on I-80, 2) Higher tolls on the Turnpike, and 3) bonds.

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.

**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

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**.

## Broken Legislative Process

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

- A 2005 PennDOT study recommended ***against tolling I-80 because there would be negative cash flow for the first 20 years.***
- 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.
- A potential lawsuit alleging violations of the Pennsylvania Constitution may overturn Act 44, forcing the General Assembly and Governor to revisit the issue.

## Controversy over Signing of I-80 Lease

According to Section 7, Paragraph 8915.3 of Act 44 of 2007, "The department and the commission shall enter into a lease agreement relating to Interstate 80 ***prior to*** October 15, 2007."

- Media reports indicated that the lease agreement was finalized either on October 16 or late into the night on October 15, ***neither of which complies with the statutory deadline.***
- In the rush to finish the contract, PennDOT and Turnpike officials failed to properly review the deal and protect the public interest. According to the *Philadelphia Inquirer*, "The agencies said their lawyers had **continued to work on details** of the contract **after** Transportation Secretary Allen Biehler and Turnpike Commission chairman Mitchell Rubin **signed it Saturday** [October 13]." [emphasis added]

## Alternative to Tolling I-80: 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. Unfortunately, the idea of leasing the Pennsylvania Turnpike was never considered in either the House or Senate. The following are just some of the benefits of a Turnpike lease.

### Lower Tolls on Turnpike

- Act 44 empowers the Pennsylvania Turnpike Commission to raise tolls on the Turnpike <u>by 25% in 2009 and 3% every year thereafter</u>, as well erect toll plazas on the currently untolled Interstate-80.
- Tolls <u>can be restricted</u> under a Turnpike lease agreement. Lawmakers could insist on toll increases equal to—or even less than—those allowed under Act 44.

### More Money for Transportation Needs

- A Morgan Stanley report indicated that a Turnpike lease would generate $1.2 to $1.6 billion, up to <u>twice the amount of funding provided under Act 44</u>, without tolling I-80 or increasing bonded debt.
- Reports indicate than potential bidders could value a Turnpike lease at over $30 billion dollars—about 67% higher than the Morgan Stanley estimate—potentially generating **$2.1 to $2.7 billion** annually for the state, which is more than <u>three times the amount provided under Act 44</u>, without tolling I-80 or increasing bonded debt.

### Earning Interest Rather than Paying Interest

- Upfront cash from a turnpike lease could generate <u>billions in interest</u> each year.
- Under Act 44, taxpayers and motorists will pay <u>$11 billion in interest alone</u>.

### 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 if the federal government denies permission to toll I-80 tolling.
  - ***Even with the tolling of I-80, a gas tax increase may be necessary*** because Act 44 fails to fully fund Pennsylvania transportation infrastructure needs.

### "In-Sourcing" of Jobs 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.
- Pension funds of lawmakers, state workers, and school teachers are among the financial interests looking to invest in public-private partnerships.
  - In our global economy the difference between foreign and domestic companies is blurred—many shareholders of "foreign companies" live in the U.S. and Pennsylvania.
- In addition to the lease fee paid to the state, a private operator would **hire Pennsylvania workers, contract with Pennsylvania contractors, and pay Pennsylvania taxes**.
  - A foreign operator would have strong financial interest in ensuring security and safety on the Turnpike.
  - The lease agreement can require a high level of policing on the road, surveillance systems, and vetting of employees.

### 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.**