COMMONWEALTH OF PENNSYLVANIA
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TRANSPORTATION COMMITTEE HEARING

IN RE: HOUSE BILL 2593

MAJORITY CAUCUS ROOM 140
MAIN CAPITOL BUILDING
HARRISBURG, PENNSYLVANIA

FRIDAY, JUNE 27, 2008, 9:07 A.M.

BEFORE:

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HONORABLE RICHARD GEIST, CHAIRMAN
HONORABLE MIKE CARROLL
HONORABLE PAUL COSTA
HONORABLE MARK LONGIETTI
HONORABLE TONY PAYTON
HONORABLE JOHN SABATINA
HONORABLE JOHN SIPTROTH
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TAMMY L. BOCK,
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CHAIRMAN MARKOSEK: Good morning, everybody. I'm Representative Joseph Markosek, Chairman of the House Transportation Committee. And of course, I'm with Chairman Richard Geist, who is the Minority Chairman. And I'd like to start the meeting off by honoring our great staff, our Executive Directors, Stacia Ritter and Eric Bugaile and have them with us to pledge the flag

(Pledge of Allegiance.)

CHAIRMAN MARKOSEK: Okay. Thank you very much. A couple of housekeeping notes here, we do have a public testimony portion of this hearing later today. And we would ask that anybody here right now from the public that wishes to speak later, there is a sign up sheet over on the desk to my right. And if you would please sign up, I believe we're going to have two minutes for folks to just get up and give their opinions about this particular issue.

Of course, we're meeting today relative to House Bill 2593. The Bill spells out the parameters for leasing the Pennsylvania Turnpike to the selected bidder. And one piece of business that is left over from yesterday, Chairman Geist had requested from Morgan Stanley some additional numbers, which they have provided. And I believe we have them over on the table, as well, for anybody who is interested in that.

And later on, I think Morgan Stanley will be here throughout. And we would, they would be, perhaps, available for a questioning by the Committee as well.

With that, I want to recognize Representative Geist for remarks.

CHAIRMAN GEIST: Thank you very much, Joe. I thought yesterday was very enlightening. I especially liked the presentation of the democratic experts and Morgan Stanley's response to the expert's experts. And I agree with Joe, I would really hope that in the next couple of weeks we can have an informal meeting with the Committee to have those folks once again.

I know that in the nomenclature of their profession, they have a lot of words that don't mean anything to us. And if we could bring them all back together, I think it would be a great education process for us and the Committee.

We're talking about a true shift in the future of funding of infrastructure in the State of Pennsylvania. I agree with Joe, I think that would be a very enlightening session for all of us.

I don't think it would be, I don't think this stuff is the great sexy stuff of politics. But I think it's the great foundation of the future. So I want to thank you for this and anything else that we can get to the Committee.

Today I think we're going to hear some interesting conversation. The idea of all of this is to bring as much education as we possibly can on what's going on. And I hope that once again today that we can get to real facts, less spin and move on to try to make some kind of a good decision in both the House and the Senate, along with the Governor and see what we can do to move these processes forward. Thank you.

CHAIRMAN MARKOSEK: Okay. Thank you, Rick. We will get started then with our first folks to testify, an analysis of proposed lease proceeds reinvestment program. Mr. Rich C. Dreyfuss, an actuary and pension expert, senior fellow for the Commonwealth Foundation, as well as our good friend Matt Brouillette from the Commonwealth Foundation.

Gentleman, welcome. And you may proceed when you're ready.

MR. DREYFUSS: Good morning, and thank you very much. My name is Rick Dreyfuss. I'm a self-employed business consultant and actuary and also a senior fellow of the Commonwealth Foundation. My emphasis is on health care and pension public policy.

And I'm joined here, as mentioned, with Matt Brouillette, who will assist in answering any questions following my presentation.

Given my background in pensions, it may be a little bit unusual to be testifying before a Transportation Committee. Yet when I read the proposal in terms of the proposal dealing with funding and the leased proceeds and the reference to the State Employee Retirement System, my interest peeked, particularly with regard to the assumptions that are being used in terms of the lease proceeds.

So that and along with some other involvement in health care and retiree medical prompted me to write an opinion in the Pittsburgh Post Gazette, which appeared on June 18th, which I think you have a copy in front of you. And from that, Stacia asked that I appear here today just to elaborate on some of my comments.

My testimony today is really in the form of a Power Point presentation. And I believe all of you have that in front of you. What I'd like to do is just sort of narrate the slides, if you will. It will probably take 15 minutes or so. And then following that, I would be happy to answer any questions that might arise. The title of my presentation is called a Pension Financing Perspective on the Lease Proceeds.

CHAIRMAN MARKOSEK: Excuse us. I want to make sure folks have this. It should be --

MR. BROUILLETTE: It's on the back of the agenda, I believe. I believe it's in the packets.

MR. DREYFUSS: Let me first begin, I know in this room there is probably different levels of knowledge and expertise dealing with pension plans. So I'd like to just start on slide two with some similarities between the lease proposal and pension plans.

And what I'm speaking about here in terms of pension plans is what's called the defined benefit plan, where a benefit is committed up front and the underlying financing is really the unknown.

There's a lot of similarities. One is, it is a long-term economic perspective; second is, we're talking about a stream of annual payouts, commonly referred to as an a annuity; third, and probably most important is the net cash flow manager is critical.

In a traditional pension plan when you're paying out people and when you're also making contributions into the plan, you can leave the principal of the assets effectively unchanged. And you can make that in terms of a long-term investment, and there's no need to draw it out in capital given the additional cash flow, which is coming into the pension plan.

I'd also say that any time you have long-term assumptions, be it a lease arrangement or pension plan, this will require ongoing financial analysis in terms of the viability of the assumptions going forward. Because 75 years is a very long time.

On slide three, I highlight a few differences. One is that there's no exclusive use provision of assets. In a pension plan, you have dedicated assets that are to be used for the exclusive use of members. And what we're talking about here is under that scenario that SERS would invest the money, it would effectively be investing in a pool of money, but it would not be in a dedicated trust unless there was some additional legislation enacted.

One other difference is that there's no ongoing contributions to be contemplated into the lease. So this is an effectively paid up pension plan. So it's a pension plan where people are in payment status. And that's a very unusual dynamic compared to a pension plan where you have new entrants coming in and new contributions coming in as well.

And then finally, experience, gains and losses may impact current payout. Experience, gains and losses is when reality varies from what is assumed. So if you look at the SERS pension plan, they assume 8 and a half percent interest. If they earn something higher or lower than that in a given year, they have to make adjustments in terms of either putting more money in or less money in. And the same dynamic would have to take place under a lease proposal as well.

On the next slide is slide four, financial modeling facts. The reality is, in this lease arrangement, the first ten years are most critical in determining the long-term financial viability. And that's simply because of the power of compound interest and the needs to preserve capital up front.

If you end up invading principal early, that will put enormous financial fiscal pressures on the system in the long-term.

Equally important is, when do the payouts occur? This matter is principally because, again, at the time, value of money, if you're looking at the beginning of the year payouts versus end of year, that may not seem like a terribly big difference. But if you look at that over a 75-year period, it has an enormous implication, so that the model would need to be fine-tuned. And that is not necessarily a minor assumption in the context of the financial model.

And just to illustrate this, $1 earning 7 and a half percent per year is worth $226 in the year 75. So there is a tremendous amount of leverage due to the compounding and just the long-term nature of the proposal.

On slide five, I've identified five of the variables that have been identified as far as the proposal. And this lends itself very nicely to an Excel spread sheet, which I've tried to put together. And effectively, you can solve for any of the variables if you know what four of the variables are.

So if you want to know, for example, the first four are given in terms of the amount deposited, the drawdowns and the annual increase in payment and the term of the lease, you can solve for an interest rate that makes this whole equation float, if you will.

And likewise, if the interest rates are given and you decide to solve for any of the other variables, that can be done just as easily. It's an interactive process, if you will, in terms of determining which variables are fixed and which are not.

Now, to look at the investment assumption, which is basically the main point of emphasis of my testimony today, I think it's helpful to look at slide six in terms of how does a pension plan actually work? And if you look at -- this happens to be a live example from Vanguard, which manages a tremendous amount of assets. They have investment funds for 401-K participants that are predicated on your age.

So if you look at the first line, retirement in 2045, that would be a fund which has -- which is targeted to individuals in their 20s, which has a stock, bond mix of 90/10, about 40 years to retirement, and over the past four or five years has earned 10.56 percent.

And likewise, if you look at each of the other tiers within a particular program, you can see a different time arising, but you also see a different asset allocation in a corresponding different return.

And as you go -- as you get closer and closer to retirement, you see that the proportion of assets from stocks to bonds changes fairly dramatically. Because once you get into retirement mode, you need to drawdown on your accumulations over the first phase and then begin to pay down the liabilities that are due.

And not surprisingly, when you change the asset mix when someone gets close to retirement, the rates of return go down because you're trying to take volatility out of the funds.

So if I looked at SERS or PSERS investment composite, knowing that their average age is about 48, and if you just look at the investment rate of returns for someone between 40 and 50, that to me would support an investment return that PSERS and SERS use of about 8 and a half percent. It's certainly not unreasonable given this investment horizon.

But if you were to tell me that we were dealing with all 20 year olds or likewise all retirees, I would have to have a different set of assumptions in place, and correspondingly a different rate of return.

Now, on slide seven, it gets at this -- it's the same question. But it's a little different. This is directly out of a recent Wall Street Journal article. And this tries to get the question, okay, now I've retired, now I got a pool of money, in a sense similar to a lease arrangement, and I need this to last a certain period of years. That's the difference. So the question is, how should this money be invested and what are reasonable drawdown assumptions on the principal or the fund balance in any given year?

So if I'm looking at, for example, a 20-year investment horizon, what it suggests is a 30/70 stock to bond mix and a drawdown rate of about 5.1 percent. Again, these numbers should be looked at in terms of a range. So someone said it's 4.8, not 5.1. But this is an order of magnitude of what is reasonable for the fund to use to drawdown.

And you see that now I've extrapolated this, what would happen if we had someone who retired and knew that the funds had to last 75 years, very similar to your lease proposition. Well, to me this would suggest a 70/30 mix of assets, principally because of the long-term investment horizon; but it would also require a drawdown rate probably in the neighborhood of 3 percent if you wanted to have 90 percent assurance that your moneys would last 75 years.

So going further in terms of three specific issues I'd like to comment on relative to the lease, No. 1, is the assets are assumed to earn 12 percent, and to me, obviously this is based on SERS historical returns. But the practical realities are SERS uses an 8 and a half percent investment horizon. And they use a stock/bond mix roughly of 70/30, not very appropriate given the demographics and given the payout requirements of that fund.

But they can also make new contributions into the fund going forward to stabilize and to make any required contributions. And I think many people are aware of the 2012 issue that we're all facing on pensions that will require additional funding.

Issue No. 2 on slide nine is that the initial payout rate of 9.4 percent is just too high to sustain the fund. And doing some modeling, even with the 12 percent return, the fund is depleted in year 36. And using a 7 and a half percent return, the funds is depleted in year 15.

And issue No. 3 is, how does volatility impact the payouts? What are the consequences of superior versus poor investment years? And this will happen, because you will probably be looking at the 70/30 investment mix and all the volatility that will go along with that. So it raises a lot of public policy questions in terms of, well, if you have a great year, it may be easy just to drawdown a little more in the sense of declare an extra dividend.

But the question is, if you have a poor year, will that same type of mind set or same discipline exist? My sense is that there may be temptation to pull down what was scheduled to be pulled down in the hope that the fund will recover.

You may want to consider on this approach averaging the assets. And that's what pension plans do in terms of moderating the amount of payouts. Because you have to deal with predictability in payouts in terms of funding the various requirements of the transportation and highway system.

You could also establish floors and ceilings and will certainly need to revise the financial assumptions going forward. You've got floors would be a minimum threshold and a maximum. But the point is, with a 70/30 mix, which I think is what you will need, you will have significant volatility. And that works both ways.

So if I were, as an actuary, if I were looking at this plan from an investment assumption standpoint, I would probably suggest that consideration be given to an investment assumption of 6 to 7 and a half percent, given the demands and the cash flow requirements from the fund. I just don't think 12 percent is reasonable, and I don't even think 8 and a half percent is sustainable given the requirements and the dynamics that are in place.

If I start with an initial balance of 10 and a half billion dollars using my 7 and a half percent interest at 2 and a half percent annual payout rate, this yields about 515 million, which is about a 4.9 percent payout rate.

And I think if you recall, a few slides ago, I was talking about a 3 percent payout. Again, I would look at that from a range somewhere between 3 to 5 percent per year, under which you should be operating in terms of if you want the funds to be reasonably assured of lasting 75 years.

If I don't put that 2 and a half percent inflator in, then obviously take out a lot more up front. And that will be a constant amount. And I've done some math, and that comes to about 762 million per year.

So my conclusion is that the lease assumptions need to be revised to facilitate a proper analysis and really improve the viability of this model. Because you've got to do this based on sound financial and reasonable assumptions, all factors considered. And I'm fully aware that there are non-economic considerations that go into this as well. So I'm not trying to suggest that it's only a decision based on the numbers.

And then finally, I would just -- I know this is not directed for this Committee, but there are very, very significant legacy costs in the transportation system. Any one that I've looked at in terms of pension and retiree health care, and to the extent you come up with a funding model to fund transportation, a prerequisite to me is the need to look at the substantive reform on both of those issues. Otherwise, the dollars you think that are going to mass transit will basically be going to paying off liabilities of former employees.

So I'd like to stop there and answer any questions that you have.

CHAIRMAN MARKOSEK: Okay. Thank you very much. And I just have a quick question, I guess, for either one, perhaps even Matt. The Commonwealth Foundation, if my memory serves, Matt has been in favor of this lease. And here we just had testimony by one of your folks basically saying under the terms of, the current terms of the lease or some of the assumptions, that it won't work.

Does that make you perhaps change your basic -- I know you like privatization. But relative to specifically this lease, does that in any way change your, the Commonwealth Foundation's feelings about this particular lease?

MR. BROUILLETTE: No, not at all. In fact, we believe that this is part of the good public policy process that should be, that should proceed going forward and saying, what are more realistic assumptions? And this is where we would disagree with utilizing a 12 percent payout.

Nevertheless, that is a distinctive and separate issue to the 12.8 billion that would be provided to the Commonwealth, and in particular comparing that to the amount of money generated for Act 44 with the tolling of I-80 and without the tolling of I-80.

So we looked at these things as distinctive and separate issues in terms of the investment aspect of that 12.8 billion and the public policy of going the lease route and the amount of revenue that would be generated.

And then when you get to an apples to apples comparison, even in the most conservative assumptions, going down to a 5 percent return, you are looking at a policy that would generate more revenue than Act 44 without the tolling of I-80.

And so with that question really being open about the tolling of I-80, this is a very viable and real option. Now, if I-80 is to be tolled, we would recommend further that we have another concession opportunity on Interstate 80 in order to generate the kinds of numbers that we have on the Turnpike, so that you can really get an apples to apples comparison between the leasing of roads and Act 44, whereby we would toll two highways instead of just one under the current contract.

CHAIRMAN MARKOSEK: Just so I understand, when you mentioned I-80, concession potential for I-80, are you suggesting that that would be something that should be privatized as well?

MR. BROUILLETTE: No. We would say that that road currently that is built and operated with tax dollars should not be tolled. However, if it is, the General Assembly's decision that we are going to toll Interstate 80, and we would say, should have been put out for competitive bid instead of handed over to the Turnpike Commission. And we ought to have a competition to see what type of funds we could generate for tolling of I-80, just as we now have before us for the tolling of the Turnpike.

CHAIRMAN MARKOSEK: You're not particularly opposed to tolling I-80, you just don't like the current Act 44 tolling of I-80. But if there was a private concession that would take over I-80, which of course would be tolling I-80, you would be for that?

MR. BROUILLETTE: Well, we would suggest -- we are very much in favor of tolling as a means to generate revenues for the roads on which you are traveling, essentially a user fee. That is not what we would be looking at with Act 44, of course, is not a strictly user fee. Because we have moneys from there going to mass transit and elsewhere.

So if we are looking at a tolling operation that would be for I-80, we would also expect a concomitant reduction in gas taxes, other things that were going into that road.

So I think that this is a separate discussion. But our position would be, we should not be tolling I-80. However, if you are going to toll it, it ought to be put up for concession and allow the Turnpike Commission to bid just as well as Abertis, you name it.

CHAIRMAN MARKOSEK: Just in summary, relative to this particular lease, you're for the lease, but you understand that the current assumptions and lease agreements within that lease basically will not work and should be --

MR. BROUILLETTE: Well, again, I don't think that they are in the lease per se in the sense that you cannot determine future revenues.

It is a historical fact of SERS performance with its investments. However, given Rick's testimony, I think it's pretty clear that we ought to be ratchetting down the expectations. Nonetheless, I don't think that takes away one bit with regard to the value that is brought to the table through a lease of the Turnpike.

CHAIRMAN MARKOSEK: And I appreciate that. Thank you. Just so that the Members know, we had SERS come to visit us in our office and asked them about their average of over 20 percent. And they indicated that while that was true, that was based on a lot of investments that they made in some real estate, things like that, that have come to fruition over the years. But a new fund with brand new money such as this particular fund that would be formed with this concession lease, to try to spin off that kind of revenue that early in the fund's history would be very, very difficult.

So some of those perimeters that we see with SERS is because of their long history and their investment over time have created that kind of perfect storm where they are now reaping those kinds of unusually high interest rates, as opposed to this lease that would expect to get that from a brand new fund would be something that would be unreasonable.

Representative Geist?

CHAIRMAN GEIST: Thank you very much, Joe. I'm going to ask you this question, and if you need to get some comment from Morgan, I think that would be wonderful. Under Act 44, we have requirements that we must meet for mass transit highways and bridges.

Using your model of 762 million a year, is 2 million and 87 thousand dollars a day, it would generate back to the State. And if you wait for the first quarter before you started generating, the return would be greater.

The question I have for the Commonwealth Foundation and for Morgan is the difference between what the requirements are in Act 44 and these moneys gives the State a very nice cushion to meet that match, is there any way at all with the tolling that we have now on just the Turnpike that they can generate the kind of moneys that we need to meet Act 44 and cannot run out for how many years, X number of years? And what does it take to match this number? And I think that's a legitimate question. Because what we're looking for in the end here is how we fund SEPTA, how we fund PAT and Amtrac in Altoona, which is the most important mass transit system in the State, as well as fix broken bridges and highways.

So it becomes critical to what this Committee does and what we'll be voting on and how we affect any one of the LDDs an everybody else out there throughout the next couple of years especially.

So I think that that question should be answered. And I would like to hear your answer. And if Morgan wants to jump in, they can jump in any time.

Because I think this is a critical, critical tipping point for everything that we're talking about. It's about the dollars generated, how you generate them and who can do it and how they can do it best.

And we're looking at a proposal right now that will generate, as you say 762 million dollars a year on the low side.

MR. BROUILLETTE: I think Rick may want to point this out and answer that question specifically. The 762, just for clarification, what you're pointing to is what you would see if you were taking the corpus of 10.5 billion and the payout similar to what you have under Act 44, without the tolling of I-80, whereby you would only generate 450 million.

So you see, there's significant difference in an apples to apples comparison between the lease payout amount and Act 44 without tolling of I-80. So that's what that number is. Whereas, if you have not a constant, but a growing, the number would be 515 to begin with, year one growing at 2 and a half percent every year thereafter with the assumption rate of 7 and a half percent. So I wanted to clarify that. And I don't know if Rick wants to address the other.

MR. DREYFUSS: No. I can't speak to the other analysis that you were referring to. But again, I would underscore the volatility that is in the investment mix that this is -- we can't predict the future with certainty. And there will need to be provisions that adjust to the varying economic conditions. The 762 is certainly, it's a pure amortization of that amount.

But it doesn't -- if you wanted to look at the volatility, you may want to be a little light on that number just to have a hedge in the event that you have the ups and downs in the market.

CHAIRMAN GEIST: The other part of the question was using the present Turnpike system the way it is, what would the Turnpike have to do to generate that kind of money, precluding tolling 80? This is about satisfying the requirements of legislation enacted by this General Assembly and signed into law by the government.

What I want to know is, how do you do it? How does the Turnpike get to there?

MR. BROUILLETTE: That's a good question. I don't think Rick has looked at that. I don't know if Morgan Stanley has. However, I think we have heard from Fitch, which downgraded the Turnpike Commission's bond rating for that very reason. Because I think that they see this would be very difficult for them to generate to spin off 450 million dollars in new moneys that they are currently not paying to the Commonwealth without dramatically increasing toll rates, even above what they have stated to be the 25 percent and 3 percent every year thereafter.

CHAIRMAN GEIST: The question is, what does the current Turnpike have to do to get to your number, and can they do it? That's what we're talking about here. What can we really generate with the asset that we have and Morgan has proposed?

MR. BROUILLETTE: I don't know --

CHAIRMAN GEIST: Morgan was --

CHAIRMAN MARKOSEK: Wait a minute, if you don't mind. These are the folks that are testifying. Some of these questions on the Turnpike is going to be next. And we can ask them, certainly, if we let Morgan and the Turnpike, we just have to give them time.

MR. BROUILLETTE: I'm sorry. We don't have the --

CHAIRMAN MARKOSEK: Some confusion here in a formal setting. I think afterwards, we would be happy -- we're going to be here awhile today. We'd be happy to entertain this. If you don't mind, we, perhaps, have them answer. And if we have other Members that have questions, we could wait until the Turnpike.

MR. BROUILLETTE: Yeah. I'm sorry. We can't answer that for you right now.

CHAIRMAN MARKOSEK: Representative Harper.

REPRESENTATIVE HARPER: Thank you, Mr. Chairman. My questions are for Mr. Dreyfuss. I understood your testimony to say if you start at 10.5 billion as an investment, you felt that the advertised rate for what we could do on that was a bit risky and you come down to a lower number, 7 percent, 7 and a half?

MR. DREYFUSS: I'd use a range between 6 to 7 and a half percent.

REPRESENTATIVE HARPER: And the 6 to 7 and a half accounts for the volatility in the market that we have to be in to make that amount?

MR. DREYFUSS: Yeah. That would be a long-term average investment return that I would expect given the investment composition that is described.

REPRESENTATIVE HARPER: I don't know whether you looked at it or not, but the lease allows decisions to be made about how much money comes in and goes out by the Governor and two cabinet members. I was wondering whether you had factored into your assumptions what happens if a Governor decides not to put in 10.5 or if we don't get 10.5 at the end of the day, when we pay for everything we have to pay for, or if he decides for whatever good reason to take more out than the earnings in a year, what happens then?

MR. DREYFUSS: Well, that eventually finds it's -- you run out of money.

REPRESENTATIVE HARPER: We run out of money a lot faster that way?

MR. DREYFUSS: Yeah. If you don't have financial discipline to the terms of the model, something has to give. And typically what will give is that down the road, years down the road, it won't last 75 years.

MR. BROUILLETTE: If I could interject, I think that's the important part. It's not so much that you run out of money. But if you want it to last 75 years, you're not going to reach that. Indiana, for example, they had a 75 year lease. They decided to spend all of their money over a ten-year period. So it depends on what kind of investment you want to make and the needs of the infrastructure. There may be very good reason to expend a significant amount of money up front given the Commonwealth's needs and not spend so much down the road. It is a mix of how you want to spend that money and what your priorities are.

REPRESENTATIVE HARPER: But from an actuarial point of view, that would certainly reduce the corpus a lot faster?

MR. DREYFUSS: Correct.

REPRESENTATIVE HARPER: We run out of Money faster, we have less money in the ensuing years, because your analysis is based on leaving that money in there.

MR. DREYFUSS: My assumption, right, is at the end of year 75, you're at a zero balance and not before that.

REPRESENTATIVE HARPER: I could ask your colleague, what are the political actuarial chances that some governor some day would take out more than the earnings? But I won't ask him, because we all know the answer to that question.

But I have another question along the same lines. Suppose the Commonwealth of Pennsylvania decided not to invest in certain things? We've been debating whether it's ethical to invest in the Sudan or whether it's ethical to invest in countries that sponsor terrorism. Suppose we made some decision like that, would that also affect the assumptions in your report?

MR. DREYFUSS: Not materially. But it is one more set of constraints that would go on record as to the manager that could potentially impact the rate of return. So the answer to the question is, it could.

REPRESENTATIVE HARPER: So the conclusion of your testimony is that the numbers that are out there as to what we can make on this lease are too optimistic for a number of reasons. Is that fair?

MR. DREYFUSS: That's correct.

REPRESENTATIVE HARPER: Thank you very much.

CHAIRMAN MARKOSEK: Okay. Thank you. Representative Carroll.

REPRESENTATIVE CARROLL: Thank you, Mr. Chairman. I was drawn with slide nine in your presentation. And in slide nine is a bullet that says based on 7 and half percent return, funds depleted in year 15. When you say depleted, you mean the principle is completely depleted?

MR. DREYFUSS: That's correct.

REPRESENTATIVE CARROLL: So after 15 years, we're down to nothing based on the 7 and a half percent return?

MR. DREYFUSS: And that's based on the original payout schedule, I think was 1.1 billion on the average. If you adhere to that as a given, you only earn 7 and a half, numbers I get is about 15 years.

REPRESENTATIVE CARROLL: Maybe this question is more for Matt. Matt, if the 1 and a half -- 1.7 billion dollars a year needed for transportation needs as decided by the commission, do you think that's close to an accurate number?

MR. BROUILLETTE: I don't have the expertise to say they pegged it right. I think it was sort of a middle of the road number. I think the investment needs are great in the Commonwealth, in our infrastructure. So we're probably talking about pretty close to that. So we tend to agree that the investment needs for our infrastructure are great. And we're probably talking about a billion in roads, highways and bridges.

REPRESENTATIVE CARROLL: So then maybe my final question for either of you would be that, in page two, on page two you say that it would require ongoing management and periodic recalibration. I have to believe that based on your previous answer, there's going to be some additional needs to find and raise more transportation related dollars. But a second ago you said that you weren't eager to toll I-80, because it's a non-toll road now. Do you have any recommendation for us on how in the world we're going to be able to raise those transportation dollars cited by the commission, given that our funds may be depleted in 50 years, even at the conservative number when we have such an unbelievable need?

MR. BROUILLETTE: Well, again, I want to reiterate that the depletion at 15 years, of course, is at a rate of an average of 1.1 billion dollars. So it's kind of the reverse of looking at what do you want out, how long with that fund last? Whereas we have said, if you want it to last 75 years and you have an assumption rate of 7 and half, we're looking at 514 growing from there on out.

How do we address that which is still a significant gap? This is where we have been very supportive of expanding Pennsylvania's ability to work with the private sector, bring in more private sector capital to help fulfill our transportation needs. Public/private partnerships on brown fields like the Turnpike itself and on green fields, opportunities whereby we can have the private sector coming and bringing in toll roads for new highways and whatnot.

So we think that it's going to be a mix of all of these things. Leasing the Turnpike is certainly just a part or one piece of that puzzle that's going to be necessary to help fill our transportation funding needs.

REPRESENTATIVE CARROLL: It just seems inconsistent that we can rely on the Turnpike lease and have an expectation that we're going to get to the 1.7 billion or somewhere near that without a discussion about roads like I-80.

MR. BROUILLETTE: I guess in response, I would say we've never said that the leasing of the Turnpike would fully fill that gap. However, it possibly could have if we would have reduced some of the restrictions on the bidder, that there are a number of dials that could have turned up or down that would have generated the kind of revenue that could have filled that gap. However, the decision being that they wanted to maintain protection of unionized employees, to certain caps on toll rates, to compelling certain investments, all of these things, I think is what added to a reduction in the final value at the end of the day.

REPRESENTATIVE CARROLL: What would concern me is that 15 years down the road from today we would be back in this same room trying to figure out how we're going to replace the money from the fund from the lease of the Turnpike that's no longer there.

MR. BROUILLETTE: I know that this will be an ongoing discussion. Unfortunately, our roads, highways and bridges don't last forever. And I think that we are on that 40, 50 year cycle, whereby we're going to have to do some serious rebuilding in the Commonwealth. So you're right. It's not going to go away, and there is no silver bullet that's going to take care of it today, that you won't have to deal with this years down the road. I'm sure.

CHAIRMAN MARKOSEK: Thank you, Representative. Representative John Siptroth.

REPRESENTATIVE SIPTROTH: Mr. Dreyfuss, do you have an average per year inflation for the last 75 years off the top of your head?

MR. DREYFUSS: No, I don't. I'd have to follow up and get you that information.

REPRESENTATIVE SIPTROTH: Because on slide four, the dollar earning 7.5 percent is worth 226, is that -- that's not adjusted for inflation?

MR. DREYFUSS: No. That's just pure investment.

REPRESENTATIVE SIPTROTH: So if you could do that, I would appreciate it.

CHAIRMAN MARKOSEK: Thank you. Representative Mark Longietti.

REPRESENTATIVE LONGIETTI: Thank you for your testimony this morning. I had an opportunity yesterday to hear some testimony from Dr. Gray and Dr. Cusatis from Penn State University. And as I listened to your analysis, it seems to me that there were some general areas of agreement between the two analysis. And I want to go through those and make sure I'm right.

First off, it seems as though both of you agree that the 12.8 billion dollar bid would actually produce something significantly less in terms of what would be available for investment. If I read your analysis, you're at 10.5 billion. And I think they were at about 10.2 billion. What is available is about 10 and half billion?

MR. DREYFUSS: That's correct.

REPRESENTATIVE LONGIETTI: Are you able to explain how 10 and half billion dollars, and why it's less than 12.8?

MR. BROUILLETTE: Well, we have taken, essentially, the numbers whereby you have the balancing of the sheets with the Turnpike Commission's bond to debt, as well as the other assumptions that I think are pretty well accepted. So it's not -- we have not gone through the allocation of debt, the balancing of all of the assets. We haven't seen those in dispute in terms of what kind of numbers you are looking at in terms of the final investment amount.

REPRESENTATIVE LONGIETTI: And I also notice it seems as though both of you agree that a 12 percent investment return is really an unrealistic investment return. Is that correct?

MR. DREYFUSS: Yes, given the cash flow requirements of the lease. If you're talking about investing money that would be paid out 40, 50 years from now, that's a different proposition. But that's not the assumption that was given. And given the cash flow requirements, which is the crux of any analysis, you have to look at a different investment mix, which then gives you a different investment expectation.

REPRESENTATIVE LONGIETTI: And then if I saw correctly, both of you agree also that the funds, given whatever, I think in your case about a 7 and a half percent return, you felt was more realistic. In their case, they were actually a little bit higher than that, closer to 9 percent. But both of you seem to agree that based on what you think is a realistic rate of return, that the fund would run out of money somewhere around 15 or 16 years given the payouts that are being expected.

MR. DREYFUSS: That's right. And my investment range would be 6 to 7 and a half percent. So I did my modeling in the sense of the high end of my range. And other people can come up with their rational. I tried to show you how I supported the basis of my expectation going forward. And again, in the years to come, four or five, ten years from now, you will have to revisit that question in terms of a long-term investment horizon at that point, just like pension plans do.

REPRESENTATIVE LONGIETTI: And the reason I asked this question is because, some of the Members have commented we're trying to get as much as possible, gather the facts and ferret out what are the facts that we can use going forward. And when you have two different folks, group of folks coming and doing an analysis and both of them agreeing generally on certain principals or certain results, then on this end of the table, I certainly take that as having more credence because now we have two sets of experts that seem to have some agreement.

MR. BROUILLETTE: In their original analysis, they did not believe that a 7 to 9 percent range assumption was accurate. They were highly critical of that approach. So I don't know if maybe they have changed that or if that's what their testimony said yesterday. But I know that that was Morgan Stanley's original assumption as well. And it mirrors what Rick has found in terms of what would be a realistic. Now, of course, you may very well have high returns. But you're also going to have low. But we think it's good to be conservative in your future projections.

REPRESENTATIVE LONGIETTI: And talking about trying to be a little bit conservative, because we're all stewards here, looking at your slide ten, if I read that correctly, trying figure it out, how much money would this investment at a realistic rate actually produce to be able to be drawn down? And there's two numbers on that page, 515 million and 762 million. And I'm assuming, tell me if I'm wrong, the conservative approach would actually be somewhere between those numbers, that we might not necessarily draw down 762 million a year?

MR. BROUILLETTE: Correct. The 762 million is really a direct comparison to the amount of -- the way in which Act 44 is constructed without the toll of I-80, whereby the Turnpike Commission's constant 450 million dollars for the life of that term.

What we've done here is said, okay, with the 10.5 billion investment, what would a constant rate be? And that would be 762 million. So you don't have a built in escalator like you do with the first number of 515 that would grow by 2 and a half percent over that time.

So what we wanted to do is really give the apples to apples comparison of Act 44, 450 million to the 10.5 billion of 762.

REPRESENTATIVE LONGIETTI: And Act -- when you said Act 44, 450 million, you're talking about without tolling the Turnpike?

MR. BROUILLETTE: Correct, the I-80.

REPRESENTATIVE LONGIETTI: Without tolling I-80? Tolling I-80 it's closer to 950 million to a billion dollars?

MR. BROUILLETTE: Correct.

REPRESENTATIVE LONGIETTI: And if you're looking at -- if I hear you correctly, you're not necessarily looking at it the way some people are looking at it as Act 44 is one option and leasing the Turnpike is another option that could replace Act 44, because it sounds to me as though you're saying, you're acknowledging, well, the needs are at least a billion dollars a year and leasing the

Turnpike is not going to produce that; so if you lease the Turnpike, you really need to do something in addition to that to produce the money that you're looking for?

MR. BROUILLETTE: Correct. And that's why we fully support the bringing in of public/private partnerships to bring in a lot of that private sector capital, like we would be doing with the leasing of the Turnpike.

So we think that that is part of that mix that we have to bring into Pennsylvania for the purposes of our infrastructure, as well as the Reform Commission's ideas on savings within both, roads, highways and bridges and certainly mass transit. There needs to be significant reform in those areas to make sure that we're putting that money into potholes, as well as the needs of infrastructure.

REPRESENTATIVE LONGIETTI: And my final question on that last point, if we're looking at needing at least a billion dollars a year, I'm assuming, tell me if I'm wrong, that part of that need is for mass transit and not just roads and bridges?

MR. BROUILLETTE: Well, obviously there has been an identified need for mass transit. And our position has been from the very beginning and talked long about this, that we need to have more competitive contracting in our mass transit system similar to the systems of Denver and really all across the country, whereby the private sector can bring greater efficiencies, cost reductions to taxpayers and the need for the ever increasing subsidies to mass transit systems.

So that's another area where we say that the private sector can bring a lot to the public sector in terms of helping us make sure that we are expending taxpayer dollars in the best way possible.

REPRESENTATIVE LONGIETTI: And I understand that you're talking about greater efficiencies of mass transit and trying to help them fill the gap. But aren't we also talking that some of that money, a significant part of that money needs to go to mass transit?

MR. BROUILLETTE: Well, I think that that's a policy decision, obviously, that you would have to make. We would say that is probably not where the State ought to be weighing in, that this is more of a local decision as to what level of taxpayer funding should go to these local mass transit systems.

So we would say that that would be more of a local decision or a regional decision as to how much subsidy should be going into those mass transit systems, rather than the State taxpayers contributing to that.

REPRESENTATIVE LONGIETTI: When I use the word need, that was an improper way to characterize it, but the one billion dollars that is, I guess, of need, is a portion of that in your mind mass transit money, or is that just strictly roads and bridge money?

MR. BROUILLETTE: I know that that is the intended purpose by Governor Rendell, and ultimately you all will have to decide how to divvy up that money. And I understand that the breakdown, is assumed that it would be similar under the lease agreement as it is under Act 44. So despite our desire that that money be used for roads, highways and bridges, it seems that the policy decision from the General Assembly and Governor would be that that would be divvied up between roads, highways and bridges and mass transit.

REPRESENTATIVE LONGIETTI: I appreciate that. I guess my final comments would be, I guess, in my mind, I think there are mass transit needs out there. I think we ought to do roads and bridges first and then mass transit. The State already gives a considerable amount of money to mass transit. And we need to look to those local systems to perhaps generate further support.

MR. BROUILLETTE: We would agree with you on that from a policy standpoint.

REPRESENTATIVE LONGIETTI: Thank you very much.

CHAIRMAN MARKOSEK: Thank you. Representative

Tim Solobay from Washington County.

REPRESENTATIVE SOLOBAY: Thank you, Mr. Chairman. Given the constance of the conservative rate of return that you quoted to us and the fact that if we want to continue to drawdown the 1 point whatever billion dollars each year, 12 billion obviously isn't enough of the buckets of money as they represented yesterday. Based on all of those factors, what is the number that gets us out 75 years with the rate of return and with the expenditures at the level we want to use?

MR. DREYFUSS: Using the 7 and a half percent?

REPRESENTATIVE SOLOBAY: Yes, sir.

MR. DREYFUSS: And 2 and a half percent increase, I come up with about 19.6 billion.

REPRESENTATIVE SOLOBAY: 19.6 billion will get us out 75 years with the expenditure rates? I thought that would have been higher than that. Thank you.

CHAIRMAN MARKOSEK: Thank you. Representative Kathy Watson.

REPRESENTATIVE WATSON: Good morning and thank you for your testimony and your patience in answering all these questions. If I might go to your last slide that you have, page 11, in your conclusions. I certainly understand your conclusion and you spent a lot of time really analysing it on the assumptions to come up with this proper analysis of how much money do we need, how much do we use right up front and how long could it possibly last? I understand that, and then we haggled a bit over what percentage rate, the rate of return is. That's hopefully a matter for the General Assembly to decide, not just three people.

But in any event, the last conclusion, your impact of legacy cost, and perhaps I didn't listen carefully enough, I remember you making some comment about paying off the liabilities of employees. I would like a little more understanding of your legacy cost. What do you define as legacy costs? What are you referring to, and what real impact then do you see?

MR. DREYFUSS: Well, I would be happy to elaborate, basically in two different areas, one is the pension system. As you know, we have a number of pension plans throughout the State. And when I look at the pension plans of transportation systems, at one end of the State to the other, they're significantly underfunded.

And this basically is a deferred cost that will be on future generations of taxpayers. And it's also a factor of retiree medical liability, which now has to be computed differently under a term called Gasby 45. You may be familiar with that term. But it is the compounding of those two costs that are creating huge unfunded liabilities. We're not current with our liabilities now. And these costs are going to have to be paid off at some point in the future. And they will basically consume future cash flows that go into transportation systems.

So you think your dollar is going to a a new bus or a new trolley or whatever, and a good portion of that will be going to pay off a pension plan that has not been properly funded for a period of years.

REPRESENTATIVE WATSON: It may be a tad off the subject in your expertise, but I didn't have an opportunity then. And I know we were looking at this Act 44 and also with this lease, to look at the Turnpike employees and their pension.

MR. DREYFUSS: Well, I believe they are in the State Employee Retirement System, which is pretty well funded actually.

REPRESENTATIVE WATSON: You said they were underfunded, but they aren't part of that. What other ones are you referring to?

MR. DREYFUSS: The Port Authority, Pittsburgh, if you look at just a number of local pension plans, these are in terrible financial shape and --

MR. BROUILLETTE: If I could interject, I think what Rick is saying is that as we are generating, say under Act 44, without the tolling of I-80, 250 million of the 450 million goes to mass transit. And Rick's point is that we are going to be spending more and more on non-transportation expenditures within these systems because we haven't addressed some of these problems dealing with pensions and health care.

And this goes to the other conversation of the need for reform in mass transit through competitive contracting so that we can start to move some of these liabilities off of the public sector onto the private sector. And then we can make sure we're maximizing every single dollar we're spending to mass transit and to our roads.

So I think his point is, and correct me if I'm wrong, is effectively, that we will not be spending all of our money on roads, highways, bridges, buses, trolleys because of some of these legacy costs that we are incurring constantly and are increasing. So it's another side of the same issue.

REPRESENTATIVE WATSON: It is an issue that we've been dealing with all along and regardless of whatever the business is, the private sector, quite frankly, deals with the same thing. And you've seen them do some very smart things with their retirees, and I would suggest that with even some companies in Pennsylvania, some really terrible things to their retirees to further their bottom line. Thank you.

CHAIRMAN MARKOSEK: Thank you, Representative. And Representative Ron Miller, York County.

REPRESENTATIVE MILLER: Thank you, Mr. Chairman. Matt, if Act 44 continues and we're not allowed to toll Route 80, how long can the Turnpike maintain the promise of paying off these bonds with only a 3 percent escalator on the tolls?

MR. BROUILLETTE: I think that is the big question and I think was what Representative Geist was getting to and maybe you'll be able to ask them that question. I think that the fact that Fitch had downgraded their rating is indication that they don't think that that will be the toll rate that they will be able to keep to. The fact of the matter is, is that the toll rates will have to rise in order to meet that obligation no matter what.

So we will see toll rate increases as a result of the payout that is required. Whereas with the leasing option, of course, it doesn't matter what kinds of returns the private company gets, the State already has its amount up front and the toll payers are protected with a cap on those toll rates.

REPRESENTATIVE MILLER: If I understand correctly, you're saying the increases will be more than 3 percent per year?

MR. BROUILLETTE: I can't predict.

REPRESENTATIVE MILLER: But that's what your gut feeling is?

MR. BROUILLETTE: Yes, yes. Given the aggressiveness of 450 million dollar annual payout, given only inflationary increases effectively over time, I think is going to be very difficult. Now, because it is a flat rate, it's not an escalating rate, it will be very easy in the outgoing years, because that 450 million in year 30 is going to be significantly less than the 450 million today.

REPRESENTATIVE MILLER: Thank you. Thank you, Mr. Chairman.

CHAIRMAN MARKOSEK: Thank you. I have no other questioners? Sorry. Representative Siptroth.

REPRESENTATIVE SIPTROTH: That's okay. I was looking at the list and noticed that there were still some individuals that had questions. And I apologize. Matt, for you, has there ever been a model done to phase out the subsidy of mass transit and see where that benchmark may be regarding the full compliment, the full funding of the Turnpike lease to subsidize our needs here in the transportation sector?

MR. BROUILLETTE: A model that phases out the mass transit subsidy? I don't think that's a viable option. In fact, you can look at every mass transit system around the world, even the most highly utilized, There is still a subsidy. So the question really becomes is how can we reduce the amount that the taxpayers have to spend? And that's where what we have seen is public/private partnerships through competitive contracting and so forth within mass transit is a way to drive that down.

I don't have a model per se. But we do have a lot of experience that shows that you can reduce that subsidy significantly by bringing in the private sector expertise.

REPRESENTATIVE SCAVELLO: Mr. Chairman, I have some questions of Matt. Thank you, Mr. Chairman. And thank you, gentleman.

Just to throw out a hypothetical, we looked here, we talk here about investing the 10 billion. Suppose we invested the 5 billion dollars and took the 5 billion and repaired the infrastructure in the State at today's dollars and used, you know, your number probably would be, I'd say, about 275 million would be the, and that would be maintenance. Have you guys ever thought of something like that as a possibility?

MR. BROUILLETTE: It would be easy to run the model for something like that, which I have not plugged that into it. But those, again, are policy decisions that are appropriate. As I said, Indiana decided we need to invest now instead of making this last all 75 years. That might be a very prudent policy decision.

But it seems that the decision here is, let's make sure it lasts the entire length of the lease. And that's where we have made those assumptions based upon making it last for 75 years.

REPRESENTATIVE SCAVELLO: Thank you.

MR. BROUILLETTE: And we would be happy to share that with you. It's kind of fun to plug in the numbers and see how you can generate things changing the assumptions.

REPRESENTATIVE SCAVELLO: By today's dollars, you do your repairs and build your infrastructures, today's dollars is a lot better than waiting 10 years to do something, get it down now. It is a lot cheaper. Thank you.

CHAIRMAN MARKOSEK: Okay. Thank you. Any other questions by the Members? Seeing, hearing none. Gentleman, thank you very much again. Thank you for your testimony. We appreciate it very much.

And our next folks to testify is the Pennsylvania Turnpike Commission, represented by Tim Carson, who is vice chairman of the Pennsylvania Turnpike Commission itself; Mr. David Seltzer is the principal and co-founder of Mercator Advisors and Barry Schoch is here from McCormick Taylor.

I believe we have had some maps handed out to the Members. The testimony is in the packet.

Mr. Carson?

MR. CARSON: Thank you, Mr. Chairman. I'm pleased to come before this Committee today and to bring with me colleagues who have assisted the Pennsylvania Turnpike in this ongoing public policy debate.

I find it necessary to note that being vice chairman of the Pennsylvania Turnpike is not my day job. In my real line of work for 30 some years now, I have been a partner and a public finance lawyer for a large firm in Philadelphia. As such, I have dealt with the investment banking community, some of the firms that were here earlier representing them in public finance transactions. And in so doing, I have also drafted statutes in Pennsylvania for public/private partnerships and so forth.

I want to start off by just, if I could, going back over a little bit of history here. I think we would all say it's been a very, very interesting 19 months.

As we go back to November of '06 with the release of the Governor's Transportation Funding and Reform Commission report, followed in the next month in December with the issuance by the Governor and PennDOT of the request for expressions of interest with respect to a privatization, possible privatization of the Turnpike, proceeding through an ongoing public policy debate, certainly Members of this Committee were very prominent in '07 culminating in Act 44, really landmark legislation putting in place a very innovative public partnership.

In good faith, and I mean this very sincerely, in good faith, the Governor determined that he would like to, in his own words, proceed down a parallel track with respect to further inquiry into a possible public/private partnership that perhaps might bring enhanced value to Pennsylvania transportation funding.

And over the last year, we have traveled those parallel tracks. Act 44 has had a very auspicious first year. It has produced, as it was supposed to do, and mandated to do, the Turnpike has turned over 750 million dollars to PennDOT. We are prepared in the coming year, pursuant to the schedule of Act 44, to produce 850 million dollars for PennDOT and for transportation funding in Pennsylvania.

The Governor's process culminated in a proposal recently received and presented here, of course, by Abertis and Citi. So after 19 months, we've been riding these parallel tracks and the train has arrived at the station.

We can now compare the proposed concession agreement with Act 44. And having gone through that comparative exercise, I respectfully submit, as you've heard yesterday and as you will be hearing and have heard and will be hearing today, I submit that Act 44 is a far superior, is far superior to the proposed Abertis Citi lease and will produce more transportation funding with less risk and lower tolls.

Now, as I said today, I am joined with -- on my right David Seltzer from Mercator Advisors. David is a very modest sort of person. But among the many things he has done during a distinguished professional career is at one point he was for a number of years head of innovative finance at the Federal Highway Administration.

And I am going to turn at this point, as the Chairman mentioned, a very -- Barry Schoch is here as well from McCormick Taylor. And he is going to take you through the end of the presentation and give you a status report with David on the I-80 project and the Federal Highway Administration application.

But at this point, I'd like to turn it over to David Seltzer.

MR. SELTZER: Thank you, Tim. Good morning, everybody. We're going to walk briskly through these slides and try and leave as much time as possible for questions, particularly since I think the previous speakers have covered much of the territory.

If you look on page two, you'll see an outline, yes, of the points we'd like to touch upon.

One thing that I think has gotten lost in all of the numbers that have been flying back and forth is that there is -- our end objective here, I think everybody in the room would agree, is we want a stable and reliable stream of annual funding for surface transportation throughout the Commonwealth.

But there's two different ways of achieving that. One is the approach that the General Assembly enacted and the Governor signed about a year ago, Act 44, that is what I would call a fund as you go strategy, a more conservative strategy, more reflective of Pennsylvania's past public finance practices of not over-leveraging or over-borrowing resources.

The other approach is to do some sort of a what might be called a big bang, some way of transaction that will result in a large up front sum of money such as the proposed lease transaction.

And to my way of thinking, there is an innate inefficiency in taking what is a desired stream of annual payments to be funded from annual net toll revenues, doing a complicated transaction, to get to an up front sum and then turning around and trying to come up with a reinvestment program to turn them back into an annual stream of payments.

There's inefficiency getting to the lump sum or lump sum initial dollars and additional inefficiency or risk, as we've heard from the Commonwealth Foundation, in trying to predictably pattern them to come up with the superior result to the funding envelope that has already been approved under Act 44.

The other thing I'd like to say is that, unlike I think Mr. Brouillette, we don't bring a ideological perspective to this issue. We're trying to determine what approach would be in the Commonwealth's best interest. Whether it's public sector or private sector, I don't believe a one size fits all. And I would note that whether it's Abertis or the Turnpike Commission that provides the capital for this, in both cases, they're coming from the same source, Pennsylvania motorists. So that's really the ultimate source of resources that are being generated.

On page 3, we simply cite the discussion of the 12.8 billion needing to be netted out by various factors. We are showing the actual free resources to the Commonwealth would be less than the 10 billion or so that you've heard previously, because there are some other costs, such as state police and capital expenditures that under Act 44 would be paid by the Turnpike Commission. But under the lease plan would be picked up by the motor license fund that need to be deducted.

The other element that we call attention to in the fourth bullet point is this feature that I think the Penn State professors referenced. The LIBOR interest rate formula is a sort of one-sided adjustment to the bid, which I think of as a fiscal note from a week or so ago, would have resulted in not even by the Citi Abertis numbers 10 billion, but 10 billion minus 400 some million dollars left to be invested. And we can compare that to the financial worth of the present value of the Turnpike, both with and without the I-80 tolls.

On page 4, we cite, reiterate really some of the same comments that Mr. Dreyfuss made. And again, it's not just the up front investable amount or the investment rate. I disagree. They cannot be detached. They're linked at the hip, if the objective of looking at the lease is to see whether its payment stream can outperform what has already been committed to under Act 44.

So I won't repeat what's already been said in the bullet points on page 4. Just to note that I think everybody acknowledges that it's unrealistic to think that the schedule that the Governor's Financial Adviser presented showing 990 million a year growing at 2 and a half percent a year for 75 years can be reasonably attained. I think there's unanimity on that being an unrealistic assumption.

Page five cites another financial risk. And that is that if a transaction is done, a big bang if you will, to come up with a large lump sum of funds, there's no strict assurance that that can't somehow be diverted in future years. The legislative intent of what the General Assembly adopts today could be changed by a future governor or a future legislature.

For example, the funding mix that I know was a very hotly debated topic about a year ago with 55 percent, roughly or 56 percent for highways and 44 percent for public transportation, that would have to be renegotiated all over again.

It is even conceivable the proceeds would be diverted to non-transportation purposes by some future legislature, prisons or property tax relief or schools or some other non-transportation purpose. And the only way to ensure that the moneys would remain dedicated to what your intent is would be to have a constitutional amendment adopted. Which as you're aware, is a laborious process. It would take several years to attain.

Page six of the handout also indicates that while the State Employee Retirement System investment performance over the last 20 years has been cited, the legislation as presented does not necessarily involve SERS management. There's no assurance that the expertise that was cited in relying upon that 12 percent investment rate would be available to this fund. It would be under the, as noted here, the Governor, PennDOT's secretary and the budget secretary.

And the fifth financial concern I think is what we've labeled corporate welfare. But effectively what we have here in many respects is a 500 mile long, 200 foot wide Keystone opportunity zone that exempts the lease from various taxes while it's being construed as a sale from the Turnpike Commission to the investment group.

For Federal tax purposes, it's not being viewed as a sale for state and local tax purposes, and this leads to foregone realty transfer tax revenues of over a quarter of a million dollars, foregone sales and use tax collection to the Commonwealth. And also, I believe, under the terms of the concession agreement giving an exemption from local zoning and land use to the concession team.

So that highlights some of the key financial risks that we see associated with proceeding with a lease transaction.

MR. CARSON: I think David is now handing it back to me to handle some of the policy concerns. And of course, the financial and policy concerns are intertwined. But you will see, as far as the first concern that we note there with respect to legislative authority, that some of this is similar to what was mentioned in point three and point four of the financial concerns and financial risks.

But with respect to this, I think we all consider a very iconic asset and very valuable enterprise that it represents. H.B. 2593 is what I believe will destroy a current balance that we have, a power between the executive and legislative branches now. With respect to the Turnpike commission itself, we have members who are nominated there and confirmed by the Senate.

Now as we go to expand the mission of the Turnpike and give it primary responsibility for funding all kinds of transportation infrastructure in Pennsylvania, H.B. 2593 would grant to each governor and the executive branch exclusive control, as we've noted of this public/private transportation fund into which the concession proceeds would be deposited.

The investment, the budgeting, the expenditure of these proceeds, including the allocation that we had heard mentioned, that perhaps things would be brought back to you and so forth. But I can only comment on what we have right now, which is the allocation between highways, bridges and mass transit will be left solely to the hands of each individual governor at this point. And I note over a 75-year term, we would have at a minimum, nine of those governors would be exercising whatever control and policy objectives they would have.

The second, this is going to page nine, the second policy concern deals with the procurement process for what, of course, would be the biggest transaction in Pennsylvania history.

2593 contains, sets forth a process for soliciting proposals from private parties with respect to the Turnpike, and of course, does it after the fact.

These provisions did not exist nor was the input of the legislature sought when PennDOT went through the solicitation process. Our concern here with 2593 is that it asks the legislature now to ratify a procurement process conducted behind closed doors, a process in which it had no input or role.

The next policy concern is really two slides, if you will, and deals with the tolls under the concession agreement and the authorizing legislation of 2593. Some would have you believe that the toll escalation formula, caps that are described are etched in stone. And I submit to you that that's not the case.

Of course, the general formula that is talked about is an annual toll increase that would be a floor of 2 and a half percent or CPI, whichever is greater.

2593 takes the Legislature completely out of this process. The toll limitation is not contained in the statute and in the proposed legislation itself. But it's in the concession agreements. Theoretically, the contracting parties being, in essence, the Governor and concessionaire are permitted to increased tolls on the occurrence of certain events, called modifications in the agreement itself. So that the caps that are there really aren't the same caps that you, or as I said, etched in stone.

The next slide on page 11 tries to take the concession formula, the proposed concession formula for toll increases and put it in a historic context. The myth that there is no real difference between the proposed toll increase under the Turnpike's financial model, that being 3 -- the initial 25 percent, or the 3 percent increase per year afterwards. It's suggested that there's no real difference between that toll increase or toll escalation formula and the one in the concession agreement. Again, the 2.5 or CPI.

The chart that is there in front of you compares the toll rates today, what they would be if we went back from the opening of the Turnpike and took the concessionaire's toll increase formula from 1941 on. And you will see that the rates today under that formula would be literally three times higher if you compare the red line with the back line and take it out to 2007 or 2008. The last line there you will see that.

The concession formula over those 67 years produces an average annual increase of almost 4 and a half percent. Now, historically, the Turnpike has only increased rates 2.7 percent. But certainly as we go off into the future, we're looking at something that, as you look back, has produced 4 and a half percent. And we are comparing that to the financial model for the Turnpike at 3 percent. So there's a 50 percent increase in what that, again, in a historical context role of looking back and then trying to look forward.

The next slide we have is page 12. No. 4 has to do with the capital plan database, makes some reference to some of this. The concession plan, the concession agreement we've made mention of the fact that it does take 600 million in Turnpike improvements that are in our capital plan and part of our financial model and basically turns responsibility for those to the -- returns it to the Commonwealth itself and for payment out of the motor license fund, not toll revenues.

It becomes, as I say, an obligation of the Commonwealth. We have adopted a 4.6 billion dollar capital plan. And there is an additional 1.6 billion dollars which has been dropped from the concessionaires capital program, as well as some of the amounts that are part and parcel to that billion six are listed there.

Lastly, what I wanted to do, there was mention yesterday, as is appropriate, in the context of P3s and these types of agreements, about the transfer of risk. And I just wanted to address that for some, for many of us, the essence of a real P3 is the transfer of risk. And the concessionaire would have us believe that the major benefit of the concession is the risk that it would assume regarding traffic and revenue regarding construction cost increases, etc.

I note in this context now, about three years ago, we recognized the need to reconstruct, take the highway down to the dirt and reconstruct it. We put in place a 43 percent toll increase. We lost virtually no traffic as a result of that. So we have what is viewed as something that would make certain firms and salary. And of course, we have almost lasting demand, at least at these toll rates right now.

And I suggest to you that the risk that they would have you say is being assumed here in this brown field asset with historic or predictable cash flows is not that much. It's a minimal risk.

Some of the other risks that are maintained or even exacerbated, if you will, with the concession models, some of these have been mentioned before, and I'll just tick them off again.

The reininvestment of proceeds, the default situation, it's been cited that our credit rating was reduced slightly and it was. We are still, however, with a credit rating higher than the debt that would be incurred by the concessionaire that way.

The allocation proceeds, again, is a risk factor until that gets nailed down. Higher tolls, again, I mentioned; the rate, LIBOR rate option that Abertis has secured here. And last by not least, over a 75-year period, I think we can all agree that there's the risk of the unknown unknowns.

And that even in 600 pages as you, again, look back and say, if we had done this 75 years ago, what would we have put in the concession agreement? I think we could all agree we wouldn't have gotten it all right. And we won't expect to do it now.

With that, I'd like to turn it over to Barry and to David to take you through and bring you up to date with the Federal Highway Administration application process that we are going through with respect to I-80, because I know that is of interest to most people.

Barry, David.

MR. SCHOCH: Thank you. Good morning. What I'd like to do is give you a brief update of the Interstate 80 plans and our progress on the Act 44 work related to Interstate 80.

We were directed by the Federal Highway Administration in our initial expression of interest to toll Interstate 80 to apply for the Interstate Rehabilitation and Reconstruction Program.

We did so last fall, and as we made that submission to the Federal Highway Administration, they came back with comments on our initial application.

Primarily, those comments were directed at identifying the capital needs for re-investment. Again the Interstate Rehabilitation and Reconstruction Program is intended to provide toll funding to rebuild interstates.

So their questions were primarily directed towards, to identify fully the needs of Interstate 80 and then the projects that we built to rebuild. And what I'd like to do is give you a brief overview of that.

In your handout are some slides of the maps that show Interstate 80 from border to border. What we have done is done a condition inspection of 311 miles of roadway. That's the length of Interstate 80. Contained within that 311 miles are 431 bridges and 59 interchanges.

We've gone back and worked with PennDOT to identify the year of the original construction, then the latest treatment that they have applied, and then based on that treatment, what they expect the life would be, and then what would have to be done for the next rehabilitation method or the next reconstruction method.

What you see in your plans are a series of maps that show the treatments that we would expect to do in the first ten years. And we've identified this, that the investment level is necessary to rebuild.

It was mentioned earlier today, I think, we're in that 40 to 60 year age of the interstate system. And that's about the expected life of pavement. So what I'm going to discuss about Interstate 80 is pretty indicative and pretty typical of the interstate system here in Pennsylvania and elsewhere, not just Interstate 80 but elsewhere in the country also. Because of the age of the interstate is about 50 years.

So what you're looking at is a series of pavement treatments, depending upon the age of the facility, either with a rehabilitation, where you take a couple of inches off of the surface and replace with new pavement, or a stronger structural overlay to add strength and get some more years out of the pavement, or if necessary based upon the age of the facility -- actually Tim just mentioned taking it down to dirt and rebuilding it totally.

What this range of capital investment is is 200 to 250 million dollars a year. And by investing that over the first ten years, we would invest 2.5 billion dollars in that first ten years. What we would do in the first ten years would be hit 80 percent of the pavement in one shape or another, either rebuilding it or rehabilitating it.

We would address all of the currently structurally deficient bridges, all of the fractured critical bridges, which are bridges that if one structural member fails, the bridge collapses. There's 13 of those. We'd replace all of those. We would replace all of the bridges that have under-clearance, less than 15 feet. Particularly in the Pocono region, there are places where vehicles have to get off of Interstate 80, get on Route 611.

They actually have to get a bucket truck out to lift the traffic signals because they can't get underneath these overhead bridges. So we would replace those bridges. We would complete the I-99 interchanges in the center region of the State, which is about 175 million dollars of projects that are currently not funded, based upon available funding from PennDOT and address 25 of the 59 interchanges with safety improvements.

So that would be accomplished in the first ten years. Then as we continue that level of investment, by the end of the third decade, we would completely rebuild from the ground up all of Interstate 80 that has not been rebuilt by PennDOT.

Then in the last two decades, we would be cycling back through. At that point, the places that PennDOT had rebuilt would be approaching that 50 year age. And we'd be rebuilding the work that PennDOT has recently done. So that's the capital plan that we are outlining for our resubmission to the Federal Highway Administration.

From there and in your slides, you have a list of remaining steps in order to complete the application process and make our resubmission to the Federal Highway Administration. And on page 14, we indicate the steps that remain to address the comments that they have provided to us.

In their comments to us, they indicated that there is a requirement in the original statute as passed at the Federal Government level that we must discuss the location and placement of tolls with the effected metropolitan organizations or MPOs and the RPOs, rural planning organizations. There are nine of those across the State. We will be meeting with those organizations through the months of July and early August. We will be briefing legislative leaders across the corridor as we complete these steps and then expect to submit the application in August.

We believe this will fulfill the requirements that Federal Highways has provided in their comments, fulfill the statutory requirements. And we will be showing what we believe will be a prototype of tolling as Representative Geist mentioned earlier, the shift in a new method of finance for transportation from the user-based fees, which has been the gas tax, to something different, which is really a user-based vehicle mile traveled, which in today's technology is tolls.

This facility would be state of the art, open road tolling, no cash, have the ability to use time of day pricing. And this would be a long-term solution to ensuring that I-80 has dedicated funding so that its needs for rehabilitation and reconstruction can be met with those direct user fees.

So again, we expect to submit that in August and that's the status of the Interstate 80 application data.

MR. SELTZER: The only foot note I would add is that some people who are critical of Act 44 have already written off the application that we submitted and are about to complete amending and resubmit in August as being turned down. And that's simply not the case.

U.S. DOT Secretary Mary Peters was quoted just yesterday in the paper. She was asked the question specifically about I-80. And she replied, if that's a decision that state leaders make, then I think we, the U.S. DOT, should be in a position to support that or allow them to make that decision. I do not think the Federal Government should make that decision.

So I think it's very much a live application. Barry and his firm have done a tremendous amount of work to demonstrate the complete rebuild from Ohio to New Jersey of all 311 miles of I-80 over the term of the lease. And we are confident that we will meet the requirements for threshold approval.

MR. CARSON: There's a tremendous amount of interest in what we are doing nationally. I've always talked about the pink elephant in living room of the Federal Highway Administration. And that is the multi-trillion dollar obligation out there to reconstruct what, as Barry said, was now having celebrated its 50th anniversary, 50 year old roads. And we know what the useful life is. We know what has to be done and these roads have to be reconstructed.

So there's a tremendous amount of history in what Pennsylvania is doing right now, demonstrating that whether you're a fan of private operation or public operation, we must start to create the revenue streams that will provide the opportunity for public institutions and for private institutions to get involved and be able to do the very critical transportation infrastructure work that is absolutely necessary for the economic and quality of life of the citizenry of this country.

CHAIRMAN MARKOSEK: Okay. Gentleman. Thank you very much. I'd like to recognize Chairman Rick Geist.

CHAIRMAN GEIST: Thank you very much, Joe. I have probably two hours worth. But I'm going to cut them down. Tim, you talked about governments and working with the State House and in working with the Turnpike, I have one political question. Why did you send your lobbyist out to work so hard against us amending the law that Joe and I wanted to put in so we added two more Turnpike commissioners to represent the House?

MR. CARSON: I was not directly, personally that effort whatsoever, that was a decision as I observed it happening last year during Act 44, it was made in the other chamber.

CHAIRMAN GEIST: This is the House of Representatives. And the question is specific to the House. This is not, and this is a very serious question of governments. And Joe and I tried to do that. We were really opposed, and it was your lobbyists who worked against us. And I just want to know why, if you want --

MR. CARSON: Our lobbyist was not directed. I personally, Mr. Chairman, have -- really could care less who is involved that way. I think we all share the interest in advancing Pennsylvania infrastructure. And from my own standpoint, and really I believe as far as other commissioners, we deal with the cards that are dealt to us.

And if we have folks from the House that are appointed by the House, I have no problem with that.

CHAIRMAN GEIST: And neither do we. We really want it.

MR. CARSON: I've gone out of my way, Mr. Chairman, to work with you and Representative Markosek, I think, all of the way here and value your input greatly.

CHAIRMAN GEIST: The next question has to do with hiring lobbyists and what people say and how they say it and what responsibility do the commissioners take for the things that are said?

MR. CARSON: We would certainly hope that anything that is being said by anyone, ourselves or our representatives is accurate. And to the extent that that's not the case, I hope you will let us know and we will correct that.

CHAIRMAN GEIST: One of the things that I've been trying to get at through this whole process --

MR. CARSON: We have dealt with a whole lot of misinformation on both sides.

CHAIRMAN GEIST: All of us have.

MR. CARSON: And I haven't been happy with any of the misinformation.

CHAIRMAN GEIST: Right. None of us have. And what I want to get at is to get this debate to some conclusion is a set of bullet proof numbers. This is an immense and huge task. The amount of dollars that we're talking about, the future of what we're trying to rebuild, our responsibility as House Members for the whole State, just not the Turnpike or just not Interstate 80.

There is a huge backlog of rural bridges and legislative districts all of over the State. And local roads vote. They vote much greater than interstates vote. And I believe we really need to get that kind of accuracy. And I also believe that we need to do some more of this stuff that's more real and not so much political stuff.

If we want to talk about the sins of the past, that's one thing. But what we want to make sure is that we're going to have, if you folks are able to witness, is a Turnpike Commission that can stand up to transparency. Your leaders will stand up to that transparency. And I have so many questions that I could ask today on so many different items, but I just want to ask one.

Your statement about the Federal Highway Administration is so different from the statement that was made to me by Jim Ray, that it's 180 degrees apart. His statement, quote, have them submit it today, we'll have an answer in ten days.

Now, can't we get this thing resolved somewhere where it's the truth?

MR. SELTZER: I don't think they're inconsistent, Mr. Chairman. I wasn't addressing the timing so much as the articulated position of the Secretary through the Federal Highway Administrator reports that she has said that she has an open mind and the application should be judged on its merits.

There were, I believe, 14 points that the Federal Highway Administration raised in a letter to us at the end of last year that they said must be completed as a prerequisite to consider our application.

I think we've hit 13 of the check boxes or 12 and a half of them. And with the scheduling of meetings in July with the metropolitan planning and rural planning organizations along the corridor, next month we should complete the 14th box. And that's why I say, and as indicated here in this handout, that we anticipate submitting the application in August.

CHAIRMAN GEIST: And I have one more question and then I'm going to let everybody else talk. In your slides 7, and once again, this is the kind of information that drives me nuts. Would you explain the corporate structure of the people that were successful in getting this bid?

MR. SELTZER: Would I explain it?

CHAIRMAN GEIST: Yes. Because you have stuff here that is not, I don't think, true. This is a company that's going the pay taxes in the State of PA. Is that correct?

MR. SELTZER: Certain taxes, correct.

CHAIRMAN GEIST: And this is not here any where. And I just, I just had a question. How much State Tax do you anticipate the vendor would be paying to the State? Their quote was that they would become probably the highest paying private company in the State of Pennsylvania. That's a lot awful lot of tax money when you consider some of the big taxpayers of Pennsylvania.

And if you're going to take shots, why don't you put the other stuff down? I just want -- all I want to get to is the root of real information. I'm just so tired of spin. And I read this paper and this page as being nothing but spin. Let's put all of these things on one paper. Okay? Because we have to trust the Turnpike, because you guys have been around forever, to give us those kind of accurate numbers.

When I ask you the numbers on tolling, how long it would last, I thought you were very honest with me. And those conversations were in my office. But we really, as legislators, we need to get facts. And I did this yesterday with Morgan Stanley. And I will do it with you. We need bullet proof numbers. We don't need this. And if this company is going to be a private company and they are going to pay a lot of taxes to the State of Pennsylvania, the Turnpike currently doesn't.

MR. SELTZER: Mr. Chairman, I share your interest in transparency, because I think that will reflect favorably on the actions taken by the General Assembly last year in enacting Act 44. We have shared the financial model, the 50 year projections that have been used to build the financial plan for implementation of Act 44. I think everybody in this room would be interested in seeing the 75-year financial model for the concessions, so we can make those calculations.

CHAIRMAN GEIST: Amen.

MR. CARSON: And the one point I will make, Mr. Chairman, with respect to bullet proof numbers, we'd all love to have bullet proof numbers. Part of the problem is that any financial plan, be it our plan or especially the plan that relies on, as we call the big bang, collect all the money up front, you have your desire for bullet proof numbers and we have the exact debate which has gone on for two days now about 12 percent and we can take 5 percent and it's very safe and so forth.

Well, we all know that things don't last for 75 years if you don't get the 12 percent. So we're just cutting back and cutting back and cutting back. It's very difficult as we do these forecasts.

And quite honestly, even yesterday, the forecast we saw, I think, confirms, kind of running away from that 12 percent, for good sufficient reason. Because it isn't a bullet proof number, nor is the 5 percent that is on the other end.

CHAIRMAN GEIST: As Amos -- and I love Amos, who was Chairman of this Committee for many, many years. He had a quote. He used to say, there's a little bit of incest in all of us. And what we need to do is we really got to see the real stuff. The quotes that were made along Interstate 80, a lot of those were different. And that's why I say the commissioners themselves have to take responsibility for whatever your people are putting out.

It all comes back, as far as I'm concerned, it's the same as anything you would say yourself. And that's the kind of responsibility that has to be taken in a deal as big as this.

MR. CARSON: I will promise to you that I will try to be a little more vigilant with respect to folks that may be out representing us, if in fact, they're not giving you the straight shoot.

The one other thing I would say to you with respect to you, and we've debated for many hours, the two of us, transportation policy in Pennsylvania. And I appreciate the hours that you have spent with me. And I've learned a good bit listening to you.

But as Willy Sutton said, you have to go where the money is. And as we look and certainly this is the backbone of Act 44, we must go where the traffic is if we were to create these revenue flows. The Urban Land Institute study that just came out and many others are saying that it's inevitable that the Federal Interstate System will begin to be tolled.

There's only -- we all know the weaknesses of the gas tax and everything else. So we have to create these revenues. And in Pennsylvania, and I will say, one of the biggest problems, if in fact, for some reason we are not able to toll through 80 is, in fact, as we go to toll others, it may be used as a precedent for folks to rise up in rebellion there, and again, deny the inevitability of the tolls of interstates that we must do.

CHAIRMAN GEIST: I would go on with all the things that the I-95 number that you have in here is really about a 3 billion dollar project. We have all kind of other numbers that are huge, that are so huge, the magnitude of the stuff we're talking about is almost inconceivable to reason out in the billions.

MR. CARSON: And escalating all the time.

CHAIRMAN GEIST: Right.

MR. CARSON: And we all know the reasons for that.

CHAIRMAN GEIST: And the 1.7 behind in bridges' maintenance escalated. Now, it's well over 2 million. And that's what you need per year. I just want to get to the bottom of all of this. And I guess I'm a little frustrated. Sorry I just bit at you a little bit. I really don't like that kind of spin. Thank you.

MR. CARSON: I share your frustration, and I insist myself, as I think you do as well, when I see a transportation project, talk to me in terms of dollars spent in the year of expenditure, not what the estimate is right now.

CHAIRMAN MARKOSEK: Thank you very much. Representative Jeff Pyle from Armstrong County.

REPRESENTATIVE PYLE: I can probably fill the room with my voice, Mr. Chairman. But having never spoken from the microphone, I have a couple of questions. First of all, my understanding of Federal Legislation concerning the tolling of Federal Interstates might be a little spotty. So maybe you can help me out with a few things.

In deference to Secretary Peters, but it was my understanding that legislation at the Fed specifically identified the number of currently non-tolled roads in the United States that could be tolled. And that number has already been occupied by the Chicago Skyway, the Indiana Throughway, and there were very few other slots left.

It was also my understanding that legislation of moneys generated from the freshly tolled roads could only be used for construction purposes and no others.

Am I close to correct on that?

MR. SCHOCH: A couple of things and then I will let David. First of all, the private tolling program was established in many categories, one of which is the Interstate Rehabilitation and Reconstruction Program. There were three spots identified for that program. Two are currently being used, one in Virginia with the project on Interstate 81 -- it's Interstate 81. That project is actually stalled because they cannot finance it, and it's likely that project will not be moving forward.

The other is Interstate 70 in Missouri. They have no legislative authority to toll Interstate 70 in Missouri. And so they have applied to Federal Highways and gotten stage one approval. However, they don't have the state legislation necessary to approve the tolling on

Interstate 70. There are also other programs that David mentioned that enable tolling of existing interstates as part of the legislation.

Actually, I don't believe the Skyway or the Indiana Throughway are actually a part of that pilot toll road. Those are already tolled facilities.

REPRESENTATIVE PYLE: Perhaps at some point you could have the lobbyists that Mr. Geist identified earlier approach us with the part of the legislation. You are going in with your application in an attempt to toll 80. I would be very interested in that.

The application, I have a few questions. And most of these are chronological, just so I can get a better understanding of this. I understand you're going to be refiling your application in August?

MR. SCHOCH: Correct.

REPRESENTATIVE PYLE: As part of that application, code of conduct as required by Act 44 or is that, that's a state --

MR. SCHOCH: State.

REPRESENTATIVE PYLE: Have you all completed that yet? You have? I believe it was a requirement within 90 days?

MR. SELTZER: Code of conduct, yes.

REPRESENTATIVE PYLE: I would like a copy of that as well. I'm interested in pecuniary interests. Now, a statement was made that we don't bring an ideological perspective, as was identified with Mr. Brouillette. There are some amongst us here that tend to like our politics a little more on the conservative side. I understand the benefits and the massive, massive numbers needed for repairing our bridges.

I would happen to have one of them in my district that was rated the worst in the State, Freeport Bridge, which rated a 2 out of 100. It's a 100-ton heavy commercial bridge that really isn't having much love shown at it.

You brought up another thing, State Police funding. I'm not sure if you're aware right now, there's currently a proposal by the Majority Whip And the minority Whip Misters Argall and Eachus to remove that State Police funding from the transportation fund and move it into the general fund. And it has quite a bit of support right now.

Mr. Chairman, we're going to be meeting on this later today, I understand, correct?

CHAIRMAN MARKOSEK: No. That meeting will be postponed.

REPRESENTATIVE PYLE: Will this be the place to share my comments or should I wait for a posting meeting?

CHAIRMAN MARKOSEK: This is for comments

regarding the lease. We're, well, we have the Turnpike folks in front of us here.

REPRESENTATIVE PYLE: And I do appreciate it.

CHAIRMAN MARKOSEK: Any comments relative to -- questions of them relative to the lease agreement.

REPRESENTATIVE PYLE: I have a question. I happened to drive about 270 of those miles of I-80 last Saturday afternoon with my father. The need for reconstruction on 80, and I drove this in a very small compact car with a man that was 6'7", 350 pounds. And I'm no shrinking daisy myself. I didn't notice that the road repairs were that needed or obvious. It seemed to be a very smooth transit across most of the length of the State.

MR. SCHOCH: And PennDOT has done a lot of work on the surface. The issue is what's underneath the surface. The ride quality is good on Interstate 80. The age of what's underneath is in -- over half of the pavement underneath is the original pavement, over 50 years old. And when you get into that 40- to 60-year window, you have to totally rebuild it. You can extend the life with overlays, but at some point, you have rebuild the thing entirely.

Similarly with the bridges, as we looked at the 431 bridges, the surface may look okay. It may ride okay. Underneath, the structural supports are deteriorating. And they need to be replaced. So what we've identified is a cycle of rehabilitation and replacement that's consistent with what PennDOT identified as their needs throughout that corridor and throughout the other interstates.

As a matter of fact, they produced a report called the state of the interstate system, which identified a need of about a billion dollars a year of investment in the interstates, just to rehabilitate and maintain the system, not add lanes, not add interchanges, just to rehabilitate them.

And if you just look at the, just to give you the relative comparison, our assessment was 200 to 250 million dollars a year needed on Interstate 80 to rehabilitate and rebuild it. Interstate 80 is about 25 percent of the lane miles of Pennsylvania's interstate without the Turnpike. So 25 percent is 250 million. So it's pretty consistent with what PennDOT has independently done with the whole system.

And that's why I said, it's pretty reflective of what's needed on the entire interstate system. It's just 50 years old. The surface on interstate 80 and the surface on many of the interstates is being maintained. However, there is a real need to go in and rebuild what's underneath that surface. You can only extend the life so many times with overlays.

REPRESENTATIVE PYLE: Can you identify by age the projected revenues you think you will generate if we turn over administration of 80 to you? How much will we realize annually for the State's bridges and roads? Please note, I did intentionally omit mass transit. I did not vote for Act 44. I have no public transit buses. But as mentioned previously, I have some really, really bad bridges.

I'm interested in after you affect these repairs to 80 as you are saying, will you be able to meet the tenant's of Act 44?

MR. SCHOCH: Yes.

REPRESENTATIVE PYLE: And how much will the toll increases be on the Turnpike?

MR. SCHOCH: They will go up 25 percent, and then be 3 percent per year. And that's the same on Interstate 80, same tolls.

REPRESENTATIVE PYLE: What do you propose as an initial transit for Route 80, say it did go from Delaware to Youngstown?

MR. SCHOCH: In a car, 25 dollars across the entire State.

REPRESENTATIVE PYLE: Okay. And that's going to increase how much?

MR. SCHOCH: 3 percent per year.

REPRESENTATIVE PYLE: Per year?

MR. SCHOCH: Per year.

REPRESENTATIVE PYLE: Thank you, Mr. Chairman.

CHAIRMAN MARKOSEK: Thank you. Representative Mario Scavello.

REPRESENTATIVE SCAVELLO: Is it still morning? Good morning, gentleman. Barry, David, Tim, we did some shows together. I didn't want to bring up I-80. But I'm going to have to because you guys did.

Let's first go to page 7 of your handout. You mentioned the sales tax exemption. Could you explain that?

MR. SELTZER: I believe that's based on the provision in the concession agreement that would exempt the LLC from paying that tax. There's maybe half a dozen different taxes and fees that I recall are expressly exempted in that document.

REPRESENTATIVE SCAVELLO: Presently you guys are paying -- are you paying -- is the Turnpike paying that sales tax?

MR. SELTZER: No. This is with respect to the tax incentives given to the private concession biders.

REPRESENTATIVE SCAVELLO: So right now, the Commonwealth doesn't see that 10 million regardless? We're not seeing that. So it's really not a loss or a profit. We're not seeing it at all?

MR. SELTZER: The Turnpike is not paying that at present.

REPRESENTATIVE SCAVELLO: The last point, and this is something that bothers me, because I'm really for local zoning and land use regulations. Are you guys subject to it right now? Do you have -- do you have to go into a municipality and get permission on any zoning issue or land use issue?

MR. CARSON: I think it's safe to say, Representative, that that is somewhat unclear from a legal standpoint. We try to be good neighbors and work with the local municipality in whatever we do. Because the law is unclear at this point, we don't like to admit that we are subject to everything. Although, we try to follow and adhere to all of those requirements.

REPRESENTATIVE SCAVELLO: Okay.

MR. CARSON: It's very difficult for us, as you can tell, with 537 miles going through hundreds of municipalities to run a road and say that you're going to be subject to everybody's, perhaps, craziness. Some people are not that way.

REPRESENTATIVE SCAVELLO: Why bring it up if you don't want to open up the can of worms. I'm looking at two sheets here. And the first one it has 2.5 billion in improvements on I-80, and 4.6 on the Turnpike. Is the

Turnpike in that bad of shape that you've got to spend that kind of money over the next ten years on capital projects, where I-80 is only 2 and a half?

MR. SCHOCH: It's basically prorated. It's the same rate expenditure. There's 500 miles on the Turnpike, 311 miles on Interstate 80. So they're not the same age. And actually, the Turnpike is older. So it's a reconstruction program.

REPRESENTATIVE SCAVELLO: The reason I bring that up is because we're told that 80 is really in bad shape where you highlighted the Monroe County piece with the three bridges.

MR. SCHOCH: The local mayor told me he's still out there.

REPRESENTATIVE SCAVELLO: We haven't lifted the bridges. They need to be done. But they've come up with some ingenious things to not to have them go through. So I'm happy to say that that's --

MR. SCHOCH: That's good.

REPRESENTATIVE SCAVELLO: All right. Let me get into my questions. I've asked this question before from you gentleman. Where is the first toll westbound, and where is the first toll westbound, and where is the last toll eastbound.

MR. SCHOCH: We are in the process of finishing that up. And as a matter of fact, that's what we're scheduled to do in July, to go over that. I don't have the answer today. We're very close to identifying those locations.

REPRESENTATIVE SCAVELLO: As soon as you find out, I need to know. Because I might start growing hair then. Now, you said earlier that the nation is looking at what we do here. And I know that the nation is looking. I've overheard comments from New Jersey. I've got -- I have to tell you, I have a concern.

Act 44 was not a friend. I don't want to see I-80 tolled. I don't want to see it. It's in front of us here. I just want to talk about the issues. I've got 22 thousand commuters. New Jersey is looking to see what happens with us.

And they're looking to us. I've got 22 thousand folks using that roadway, and their governor is already talking about it. They're watching us very closely. So that's a huge concern to me. Because with the cost of fuel and everything else, there's an added expense. If I had the jobs in Monroe, they wouldn't -- but we're a bedroom community.

But this is one of the questions. I've heard some of the comments earlier, and I have to bring it up. Will the Turnpike be able to continue to pay the 450 million, that payment, should I-80 get a no from the Federal Government? And I'm praying for that.

Should you guys be able to continue that payment and stay in line with the tolls at that 3 percent a year? By the way, you didn't follow up on the question in 20 years, it's a 60 dollar plus, 120 dollars for a vehicle both ways, to go one end to other on I-80 at 3 percent a year. It's 120 bucks back and forth. Can we do that?

MR. CARSON: Going back to your 450, to answer that, the answer to that is yes, that we're very comfortable with that 450 number, if in fact, we were not able to get the I-80 application approved.

REPRESENTATIVE SCAVELLO: And the 3 percent a year on the Turnpike --

MR. CARSON: Yes.

REPRESENTATIVE SCAVELLO: -- would be able to take care of it?

MR. CARSON: That would mean that the money going for transportation infrastructure all over Pennsylvania would be generated only from those motorists that are on that 537 miles that we have right now.

REPRESENTATIVE SCAVELLO: Presently, it's approximately 125 million for I-80 now?

MR. SCHOCH: They give you about 780 million dollars total available for interstates and 65 million in capital, about 65 million a year.

REPRESENTATIVE SCAVELLO: I heard it was over 100 million.

MR. SCHOCH: They give you money in interstate funding in general, the state allocates it to individual links. So the interstate funding comes into Pennsylvania for the entire interstate system. And then it gets allocated, up and down. It goes up and down every year. There's recisions asked for, and they give it to you by mileage. And the state allocates that individually. So there's no specific Federal allocation to Interstate 80.

REPRESENTATIVE SCAVELLO: But the average has been over 100 million for the last 18 years.

MR. SELTZER: O and M, operating and maintenance plus capital have been in the 80 to 100 million dollar range. But a good portion of that is motor license fund dollars, not federal dollars.

REPRESENTATIVE SCAVELLO: Thank you very much.

CHAIRMAN MARKOSEK: Thank you. Representative Tina Picket.

REPRESENTATIVE PICKETT: Thank you, Mr. Chairman. When you made the comment that Ms. Peters from the Federal Government said that she felt that states should be allowed to make their own decision if this is something that they're interested in doing, do you think she was including the fact that they could use the dollars for things other than just that highway, if they were to toll it?

MR. SELTZER: There are provisions in the program we're applying for that stipulate how the funds may be used. And we believe we are consistent with those terms.

REPRESENTATIVE PICKETT: But do you think she was including all of those thoughts when she said that?

MR. SELTZER: I wouldn't want to speculate.

REPRESENTATIVE PICKETT: And we are consistently told that a lot of economic expansion, development, placement in Pennsylvania is on hold or very, very concerned about the economic factors that tolling I-80 will create. On the grounds of that, with so many things being affected, really, why is it taking eight months to resubmit that application?

MR. SCHOCH: A great deal of that time has been in this detailed condition assessment of Interstate 80. The other applicants, Missouri and Virginia, which are the only things we have to go by, previous application, did not and were not asked to do the level of detail on the capital program.

Now, certainly, we knew we would eventually have to do that. And we also expected to have it completed at this time. However, we simply cannot do a 311 mile condition of bridges and roadways in a short period of time. It's taken us that amount of time to go through and identify the actual needs to respond to their requirement. So it's a very in depth engineering assessment. And actually, it's been done very rapidly. To do a 311 mile assessment in six months is not a short challenge.

REPRESENTATIVE PICKETT: So we are where we are. We can't go back. Today, would you be able to tell us when you could expect I-80 to be approved or disapproved?

MR. SCHOCH: We're going to submit the application, which will be in August. That's when we believe we will complete our work. How long Federal Highways actually holds it before they give us an initial phrase one decision, it's a two-step process. Phase one simply identifies that you've been approved and you're in the program and have the reserved slot, the third slot for Pennsylvania.

There's still a phase two approval in which we must identify the economic, social and environmental impact from the proposed undertaking and the details on the locations of the tolling facilities and tolling rates. That will follow, if we get phase one approval, sometime, let's say, this fall, we will then submit the phase two application later this fall.

It's always been our expectation that we would be able to get through that process should Federal Highways agree with us some time early next year.

But that totally depends upon their length of review time. And they have not committed to any specific review time.

REPRESENTATIVE PICKETT: Okay. So we are where we are. Is the tolling, would the tolling in the year 2010 be at all realistic?

MR. SCHOCH: We are still on that schedule. We are still on schedule to meet the Act 44 requirement in the fall of 2010.

REPRESENTATIVE PICKETT: And you do not -- we do not need to create a new timetable based on where we are?

MR. SCHOCH: Not at this point.

REPRESENTATIVE PICKETT: One of the quick questions, on page 12 in the handout that you gave us, when you talk about the 600 million dollars of Turnpike improvements that would now be paid, just for my own understanding, are those ongoing projects that are currently happening and Abertis would not be responsible?

MR. SCHOCH: That's correct. There's a portion of the funding they would not be responsible for. That would go back to the Commonwealth.

REPRESENTATIVE PICKETT: How did you overlap those time periods, since we don't know when and if all of this will take place? Is there a chance that they will already be paid and done and out of the way by the time this deal could possibly be made?

MR. SCHOCH: I think they spoke to this yesterday, that they made an assessment based on when they thought this deal might be consummated and actually go into place. And that's how they identified some of these projects would not be completed. And it's a question then of if that date shifts, then obviously the money will change, the number will change.

But he also spoke to us and saying that there is an estimate of what the Commonwealth would have to pay to complete these. So it could change if the deal were to be consummated at a later date. It certainly could change.

REPRESENTATIVE PICKETT: And in light of the possibility and decisions kind of being unmade here, would you start new projects and allow them to fall into this type of an area where we will end up being responsible from a basic, where they did the contract, they might do what their capital expenditures --

MR. SCHOCH: We're following current law. So right now there is no -- if this were to be -- if this deal were to be approved in the time line to complete it, I think you want to make that assessment. As of today, there is no reason to stop any capital projects and reinvesting in the Turnpike or stop the work on Interstate 80.

MR. CARSON: One of the other things that -- and obviously, there is uncertainty in all of this. We still have to run a road. We still have to run an enterprise. We still have to look to do capital improvements at the appropriate times to do them.

There's a concept that the engineers talk to me about in terms of asset management. If you wait too long to do a repair, certainly Chairman Geist and Chairman Markosek are very familiar with this. If you wait too long, it costs, as the Governor's Funding Reform Commission example noted. You're spending two or three X if you wait too long to do the repair. But if you do it at the appropriate time, it could be done for one X.

So we try to do that. With all of this uncertainty, we still have try to make the capital at the appropriate times.

REPRESENTATIVE PICKETT: Thank you.

CHAIRMAN MARKOSEK: Thank you. Representative Ron Miller from York County.

REPRESENTATIVE MILLER: Thank you, Mr. Chairman. If I understand correctly, the Turnpike has an annual debt service payment of 350 million dollars and revenue of just a little bit over 500 million dollars. Is that about correct?

MR. SELTZER: The debt service figure seems high to me. We could check that.

MR. CARSON: I think it is high, and I think our revenues now are probably certainly north of 600. I don't know whether we've hit 700 yet. But that's not how you divide it. It's a rolling 12 or the last completed fiscal year.

REPRESENTATIVE MILLER: I see.

MR. SELTZER: 114 million dollars in debt service in fiscal 2008, which ended May 31st.

REPRESENTATIVE MILLER: 114 million in 2008. With your contractual employee costs and general operations, are we going to be able to manage and complete the capital bridge and highway construction program? Because it's going to require more borrowing. And I believe the last round of borrowing has added another layer of debt that needs to be repaid.

So does that 114 million includes all of the bonds that have just been issued?

MR. SELTZER: No. Because that was, those bonds we've just issued in April and May. And I think the first payments are typically six months after the closing date.

REPRESENTATIVE MILLER: But that's been the current. So what is the level of debt?

MR. SELTZER: This schedule goes up to 127 million for the current Turnpike Commission fiscal year which began June 1st. And this is a financial model prepared for the Commission that takes into account, not only it's own capital program, but also other borrowing requirements necessitated by Act 44.

REPRESENTATIVE MILLER: Okay. So has that impacted the bond rating from Fitch, is that additional borrowing?

MR. SELTZER: And the prospect of additional borrowing. Because when you think about it, there's been a real mission shift in the Turnpike Commission that this General Assembly has directed from just running a road on a break even basis, to taking on statewide responsibilities for transportation funding. And over time, there should be excess toll revenues that should be able to fund a good measure of those transfer payments to PennDOT for highways and public transportation.

But particularly in the near term, there will be reliance on borrowing in order to meet the targeted payment levels, 850 million this year that is contained in that.

MR. CARSON: And I think it's safe to say also the uncertainty of all of what we have done and debated over the last 18 months out there as well, rating agencies don't like uncertainty. And they look and say, what is going to happen and so forth. So I think that's also a factor. But I think the greater factor is, of course, the initial debt.

REPRESENTATIVE MILLER: Just one follow up question. Page 12 of the handout shows a 4.6 billion dollar ten-year capital plan. I assume most of that will be borrowing to pay back bond issues?

MR. SELTZER: I believe it's about two thirds debt financing, one third pay as you go, 70/30, something in that nature.

REPRESENTATIVE MILLER: Just round figures, that's fine. The Act 44, and I was a no vote on that for clarification. But the 3 percent yearly increase that that allows, is it your understanding that that includes everything, including any debt borrowing that has to be repaid, that is a cap?

MR. SELTZER: That's a financial projection as of today. It's not a legislative cap in the statute itself, but based on modeling that has been done, and the assumptions which we believe are reasonable that should be sufficient. And it's not that dissimilar, as I think was brought out earlier. If you went back to 1941, the first year the Turnpike operated, the compound average toll rate, although, it's been in large steps, has averaged 2.7 percent. So it's not that dissimilar from historical experience.

REPRESENTATIVE MILLER: Thank you.

CHAIRMAN MARKOSEK: Thank you, Representative. Representative Kate Harper.

REPRESENTATIVE HARPER: Thank you, Mr. Chairman. First let me state, I think public/private partnerships can work under some circumstances and are a good idea. But I voted for Act 44 last time, because I was intrigued with the creativity of a public/public partnership. And in so doing, we in the Legislature placed great trust in the Turnpike's ability to pull this off and not coincidentally get I-80 tolled, which is an important part of the fiscal analysis.

The reason I backed that and the reason I mention it now is that my district straddles the northeast extension of the Turnpike. There are three State Representatives and two Senators and five municipal governments involved in the current northeast extension expansion project.

And to my colleague from Monroe County, I wanted to say that the Turnpike has been very responsive to all of us. And we have made a lot of noise and we have requested noise walls, not for ourselves, but for the Turnpike. And we have requested changes in the design, and we have questioned the sanity of some of your engineers from time to time. And the Turnpike has been very, very responsive to us. And for that I'm grateful. And that renews my trust that a public/public partnership might be the way to go here.

But having said all of that, I have to also tell you that I read the same things all of my colleagues do. And the Turnpike has been a target of criticism because it is bloated or it has patronage or has other things that are obviously inefficiencies.

I would like your assurance that you'll take a good hard look at those things. You're now completeing, not with other public highways, you're competing with these guys, Abertis and Citi. And they're good at what they do. And I tell you, you should probably look at PHEA, which was roundly and correctly criticized just a couple of years ago and now under the stewardship of our colleague Bill Egolf who is present on the board and a Member of the House of Representatives and a certified public accountant.

They're getting their act together. And have really taken steps to clean up, slim down and be a much better pubic agency. So I just want to know whether you're doing anything internally to make sure that you are not bloated, that you are not a repository of patronage jobs and that you can operate efficiently. Because you know what? You have to turn out the kind of numbers that we challenged you to in Act 44.

MR. CARSON: Absolutely. I'm entirely in sync with what you're talking about, Representative. We welcome that competition. The rating agencies who do this for, obviously, for a living and live and die on their analysis has put the Pennsylvania Turnpike Commission into the first pew in terms of cost efficiency, that's S & P and Fitch.

That's not good enough. We have to do better than that for exactly the reason that you have quoted. The competition we have out there is the private sector. And I will tell you as a manager, I have been on the Turnpike now for seven years, and it's like any other public agency, it's existed for a long period of time.

We have other departments in State Government and so forth. And is it as efficient as I would like it to be? Not yet. But we can work toward that, and we can use as managers in negotiations, whether it's with unions or whether it's with respect to managerial personnel, we can use the private sector and its existence and the competitive factor out there to help better manage this agency. So we welcome that. We welcome that.

REPRESENTATIVE HARPER: Thank you very much.

CHAIRMAN MARKOSEK: Representative Mark Longietti.

REPRESENTATIVE LONGIETTI: Thank you, Mr.

Chairman. I will be brief. Somewhere towards the beginning of this process, the Turnpike Commission was good enough to form an advisory committee of those of us that live along the I-80 corridor. And I can't stress enough how much, when I walk around my community, invariably, people ask me, what's going on with the tolling of I-80? I get that question almost every day. But we only had one meeting. I guess I'm a little bit disappointed that we haven't had more meetings. So I want to throw that out to you. I think we need to be kept abreast of what's going on and have some degree of input. And so I would advocate for more meetings more often.

Secondly, the tolling locations, I think I heard you all indicate that those locations are going to be finalized relatively soon. And I just want to make sure, I know there are other meetings that are set up for mid July that we're not going to finalize those before we get input.

MR. SCHOCH: Absolutely not. As a matter of fact, these first meetings what we will be showing is options. They will not be -- we're not going to go in and say, here's the location. We're going to say within this area, we've studied a couple of options. And as I'm sure you're well aware, one of the major concerns along the corridor was traffic diversions. And depending upon where you locate these, you have different diversion issues.

So our intent is to share the options we've looked at, the diversions that we believe would occur and get feedback and UPOs and the RPOs and legislators before we make any type of decision or recommendation as to the final location. So this is just the first step in the process.

REPRESENTATIVE LONGIETTI: That's very much appreciated. I know someone that lives on the Ohio border. Mile marker four, that's the first exit. That's in my district. And so I'm concerned you put a toll entry at mile marker two, we've got large trucking firms that would be very interested running their trucks down my local roads to get past that entry and enter it at four. And I'm concerned about that.

CHAIRMAN MARKOSEK: Thank you. Representative John Maher.

MR. CARSON: Let me just finish that. We long ago, many month months ago now, we retained Wilber Smith, which is, I think generally acknowledged, to be the gold standard in traffic and revenue studies and so forth, and working with Barry and his folks to do all of this diversion analysis and so forth. So that's what's going to be ruled out is the options that we have.

REPRESENTATIVE MAHER: I've been studying these maps that you distributed, and take it these are the same as the ones posted behind you. And I'm going to ask you a very narrow question about our project that's near and dear to southwestern Pennsylvania, the expressway. And I notice on one of these maps there's a indicator that the project is going to go forward. And on the other map, it's not there. Two questions, what are your plans for the expressway? And second, as you understand the concession and lease agreement proposal, what would be the concessionaire's responsibility for the expressway?

MR. SCHOCH: In terms of the concessionaire, they are not included. The concessionaire will not be responsible.

REPRESENTATIVE MAHER: Are there any other roads that's not included as part of the Turnpike now?

MR. SCHOCH: Well, the Mon-Fayette Subway project and the I-95 interchange is greatly scaled back in Philadelphia, greatly scaled back in terms of responsibilities for the concessionaire.

REPRESENTATIVE MAHER: So if this concession lease agreement were to move forward, should I have any reasonable expectation that the Mon-Fayette Expressway will actually be completed?

MR. SCHOCH: It would have to be through some different finance option. It would no longer, certainly not be part of the system.

REPRESENTATIVE MAHER: We were told I-90 would pay for it. I'm just kidding.

MR. CARSON: Excuse me. I want to be fair about this though. We have funding gaps at the Pennsylvania Turnpike. And we act, as you know, as almost a construction manager for this project. And we have been asked to do by the legislature. We are doing it as much as we can with the resources we have. But I don't -- it wouldn't be fair to leave anybody in this room with the idea that because it's not part of the concession agreement, that it will be left with the Turnpike and the Turnpike will very easily then complete it. We're all struggle for resources. I want to be fair to everybody.

REPRESENTATIVE MAHER: I'm imagining if that -- to be fair about it, that road is being constructed with proceeds from other miles on the Turnpike, not from -- it's not a several sustained project at this point. And therefore, I would imagine that if there's not a funding identified, that's committed towards completing that project, that the lease agreement would go forward, there's just no funding source for it.

MR. CARSON: I know as a CPA, if I talk to you about this, it is almost an off balance sheet financing that we do for the Mon-Fayette Beltway, really apart from, until we bring it onto the system and start tolling it and then it becomes part of the system.

But until then, we basically, as I said, act as a construction manager. And funds that are diverted, whether it's from the motor license fund or oil franchise taxes, whatever, we take those revenue streams, we bond them, and we construct what we can construct. And that's where we are right now. And as we all know, there's a very sizable funding gap between here and completion.

REPRESENTATIVE MAHER: There's been a variety of numbers of representatives in this Committee over the last 24 hours. And as Chairman Geist requested yesterday of another supplier, there's a desire shared by all in this Committee for what we call bullet proof numbers.

And I see you are present -- the Act 44 payments required without tolling I-80 of 9.7 billion. And that seems to be within spitting distance of what the professors from Penn State offered up yesterday. But I'm going to ask you what I asked them and Morgan Stanley.

Can you actually provide the spreadsheets on the calculation where you're talking about your present values of 7.9 billion so that we can actually see which assumptions you were using as the discount rates, as to -- you obviously used different cost assumption on the State Police that we've seen from others. And I just want to be able the see what's under the skin of these numbers and so

I that can judge them side by side, and really wind up with apples to apples analysis?

MR. CARSON: Absolutely. I'm sure those who have done the analysis may have used different discount rates.

REPRESENTATIVE MAHER: And I don't know what rates you used. But what I do want to see is Morgan Stanley's version, I want to see the Penn State version, I want to see your version and I want to look at them and compare them and make a judgment as to what makes sense.

MR. CARSON: Absolutely.

CHAIRMAN MARKOSEK: Thank you. For the interest of the Members, there is a democratic caucus in this room at noon. We do have time, however, for two quick questions, one from Representative Scavello and one from Representative Watson. And then we have two folks who are signed up for the public sector portion of this. So hopefully, we can be out of here by noon. Representative Scavello.

REPRESENTATIVE SCAVELLO: Thank you, Mr. Chairman. Gentlemen, the last time you had a meeting in Monroe, the commission, the legislators were here in session. Especially in the district that I represent, tolling I-80 would create one of the biggest burdens of any other district in the Commonwealth, of the stretch of roads that we have, the road that we have, the infrastructure that we have.

The 611, for example, will definitely be a way for folks to get away from the toll. We need to be part of that process. So if you do schedule something in Monroe, I will hope that you would make sure that the legislators would be available for those meetings.

MR. CARSON: You have my word. I promise you that.

REPRESENTATIVE SCAVELLO: Thank you.

CHAIRMAN MARKOSEK: Thank you. Representative Watson.

REPRESENTATIVE WATSON: Thank you, Mr. Chairman. I will talk as fast as I can. And I will eliminate -- I wanted to have something of a beginning of a philosophical discussion with Act 44, and what I understand my colleagues to the north being concerned about tolling a road that hadn't been tolled. But at some point, we need to get back to the discussion, which is philosophical, of moving to really user tax versus -- I use the one with the gas tax, that the little old lady, and could be me soon, but the little old lady really drives just to the store and back and forth to church and locally within her Bucks County and never uses an interstate. She's subject to gas tax which gets to be unfair. But if we move to interstate tolling and things like that, it is my choice to be on the interstate. And as a user certainly of your Turnpike, weekly, some times daily, twice a day, I have a whole lot I can talk to you about. But we don't have time.

In any event, but I do want to get to the tolling that you have discussed and under 80 and you've talked about the 25 percent increase and then nothing more than up to 3 percent, though you admit it's not in stone.

Are there also plans for the -- another philosophical concept, which has some merit, it certainly has direct bearing on the people I represent, myself included. And that would be the congestion tolling that would be done, in other words, where in certain areas and boundaries within any interstate because of a higher volume use and certainly to get to it and times of day, you then price differently, you do all of that. And those of us trying to get to Harrisburg will pay top dollar to get here.

MR. CARSON: I'm going to turn this over the Barry. But just from my own standpoint as a commissioner, it is from my standpoint, my perspective, vitally important for us, as with one of the great benefits of tolling is the ability to, as we say, value price. We must make the roads that we have more efficient. They are open 24 hours a day to the extent that we can spread that traffic out. We could perhaps postpone or even avoid the necessity to go from two lanes to four lanes to six lanes to eight lanes. We can't get into that thing.

We have to get to the point where we can, by pricing incentives, move traffic off of the peak hours and so forth and get our entire road system to become more efficient. But I'm going to turn it over to Barry.

REPRESENTATIVE WATSON: I don't disagree. There's a whole philosophical thing behind it. But the average person doesn't get -- and we've having this televised -- doesn't get to some of that. And we'll probably run out of time. But they just get to, how much more is it going to cost me and why and how? But if you can speak to it, obviously quickly.

MR. SCHOCH: Quickly, because the stenographer told me to slow down earlier. So I'm pretty good at speaking quickly. I think that Tim hit it. But 24 hour capacity is what we're after. And Tim mentioned that using pricing is one of the strategies. The Turnpike system is set up that way now with their Easy Pass system. We're using an over the road tolling system, meaning no cash and you can adjust rates. We're looking at those incentive programs now to see how we can best manage the traffic on the facility to get the best 24 hours of use.

And related to your earlier comments about philosophical change, you know, gasoline consumption is down today. It is going down because people are switching to mass transit. That's not a bad thing. But as we look forward, we have cafe standards and clear energy bills in this country to reduce our consumption of gasoline and reduce our reliance on foreign oil.

If we achieve those, it means we consume less gasoline. And that means we have to get away from the big tool that's been in your tool box, which has been using the gas tax to finance transportation.

An energy independent way is a vehicle miles traveled. If your car is electric, mine's hybrid, Tim's is fuel cell and David's is gasoline, he's not the only one paying. It's based mileage charge and the classification of your vehicle and the mileage you use.

Now, we can't get there overnight. But we have clear energy bills driving us away from gasoline consumption as a user-based fee. Tolls are today's technology that are direct user charges based, that are based on the mileage and use of the facility.

So I think that's the incremental step, to move to a different finance tool.

MR. CARSON: Very quickly, we have, especially at the federal level, public policy schizophrenia with respect to the gas tax. On the one hand, people want it to be the bulwark of our transportation funding. On the other hand, we need more efficiency, we want independence from foreign energy sources. So it's working at cross purposes and makes no sense.

REPRESENTATIVE WATSON: Right. And we also haven't had the opportunities for the things we can do now with technology. So we always relied on the gas tax. But we can do different things and things better.

MR. SCHOCH: And that's why we think the 80 is a model. And Tim mentioned other states are watching this. It's prototypical of the way you charge a user, not every mile, but ever 30 to 40 miles for regional use. We think it's a fairly prototypical example, and it's being followed very closely by other states. I've been asked to go to many states to speak to them about what we're proposing. Because they see it as the future also.

REPRESENTATIVE WATSON: Thank you, gentleman, for your time.

CHAIRMAN MARKOSEK: Okay. Thank you, Representative. Gentlemen, thank you. Very good testimony. The Members had great questions and did a fine job, and we appreciate all the testifiers here today and yesterday, too, for that matter. And we really appreciate your time and effort in coming here today.

And perhaps if you stick around, some of the

Members may have some sidebar questions as well as some of the other folks that have testified.

The last phase of our hearing today, this is somewhat uncharted waters for us a little bit, is public input. We have some folks signed up for two minutes each. And the first, we have Jim Runk with the Pennsylvania Motor Truck Association. Jim, welcome. Come forward.

MR. RUNK: Thank you for letting me stand up here for a minute. Chairman Markosek and Chairman Geist, who is not in the room at the moment, you will be glad to hear that I have no statistics. I think I'm statisticked out.

CHAIRMAN MARKOSEK: I think the stenographer is even happier.

MR. RUNK: And I'm going to look at it a little more philosophical, too. And I'm only going to take about a minute. But for the past 24 hours, we have heard a lot of statistics. We've heard billion and billion of dollars and billions and millions going here and there. And just think how much money that's going be around at the end of 75 years for our children and our grandchildren to pay.

I mean, we're talking about a big debt that we're letting them by any actions that we make over the decisions of privatizing the Turnpike.

The Pennsylvania Turnpike is the Commonwealth's most valuable assets. It connects the State's largest population centers of the nations busiest groups. Here is my statistic. Each day about 70 thousand commercial motor vehicles utilize the Turnpike and depend on it for its safe, efficient means of transportation.

However, these aggressive numbers do not begin to explain the value of the Turnpike in Pennsylvania without the Turnpike's efficiency and relatively low cost, at least compared with potential tolls by the lease agreement, Pennsylvania's businesses would be less competitive and the residents would pay more for retail goods and services due to higher transportation costs.

There is absolutely no doubt the Turnpike customers will pay higher tolls under the lease agreement. Leasees must recover the cost of the concession payment and draw substantial profits for the investors.

The lease agreement does not require the Turnpike -- does not require the Turnpike's private operators to make any improvements that the Turnpike itself could not do on its own at a lower cost to its customers.

The bottom line is the Turnpike customers pay more to receive a greater benefit under -- receive a better benefit under -- the bottom line is that the Turnpike customers pay more and receive no greater benefit under the lease agreement.

The short-term financial benefit will soon be eclipsed by the businesses, opportunities and jobs lost due to the competitive business environment created by higher freight transportation costs. Also, instead of having three individuals control, control the lease, it would be our contention that it's certainly better to have the legislature have oversight of that.

As you can see from my testimony, there's four our five other pages. But I will let it go at that.

CHAIRMAN MARKOSEK: Thank you. You did a great job. And we appreciate your testimony.

Next we have Sergent Michael Horchar who is a Pennsylvania Turnpike Commission employee.

MR. HORCHAR: I'm here today on behalf of the Turnpike. I'm a mechanic at the maintenance shed and been employed there for almost eight years. They have helped my family tremendously through a year and a half that I was mobilized and deployed. They supported me as far as my health benefits. They kept my family benefits going with a stipend each month and keeping in contact with my family to make sure everything was going well.

As far as my job, I'm just grateful to have it. I do not really want to see anything happen to my job. Other than that, that's all I have to say.

CHAIRMAN MARKOSEK: Thank you very much, very compelling and sincere testimony. We appreciate it. Again, thank you for your service.

Last, Mr. Rob Collins, no stranger to the Committee, from Morgan Stanley.

MR. COLLINS: Thank you, Mr. Chairman. I'd just like to thank the gentleman for coming to speak on behalf of the nation, reminds me as a private citizen, I formerly served in Pittsburgh as a naval officer and was really raised in Philadelphia. And I spent a better part of my life driving the Pennsylvania Turnpike.

But really from the standpoint of just the numbers, Pennsylvania Transportation Partners put together just a two pager to try to get as close to bullet proof numbers as we can. I think it's in everyone's interest to reach a consensus on the numbers, so the Committee can make an informed decision. And I think that the one area that we'd just like to leave an impression upon is just that, however the legislature decides to spend the money, the funds are about 10 billion dollars.

And I think that as you go through the table of contents here, there's a number of concerns, financial concerns, policy concerns, all of those concerns can be alleviated with legislation. The legislation needs to be amended in certain ways to incorporate. It needs to be amended to ensure that the caps are only imposed by the legislature.

All of those things are possible. I think that the only facts today that won't move is that there's 12.8 billion dollars, and away from that, there's certain adjustments which are really two-fold, just the costs and this hedge. Everything else, police costs, capital are things that are fundable. And so I would just ask that the Committee consider that.

CHAIRMAN MARKOSEK: Thank you very much. That ends the formal portion of our meeting today.

Just a couple of comments, we did everything we could to make sure that every Member and the public had plenty of time to point out their views.

And we certainly heard plenty of views relative to this, from all angles and all areas. So I congratulate the Members for their wonderful, wonderful comments.

I have one formal announcement. I mentioned it before. The meeting scheduled at the Call of the Chair today on House Bill 2593 has been postponed. It is, it may -- we should have it sunshined properly. So it will be at the Call -- the discretion of the Call of the Chair. But no meeting will be today.

With that, I think we made -- we're even actually five minutes early. Meeting adjourned. Thank you.

(The hearing concluded at 11:47 a.m.)

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings to the best of my ability, and that this copy is a correct transcript of the same.

Tammy L. Bock,
Reporter-Notary Public

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