

Problems with Leasing the Turnpike under H.B. 2593

Presentation before the
House Transportation Committee
June 27, 2008





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Financial Concern #1— Deductions Reduce Value of Bid

Abertis Bid Worth only **\$7.9 billion net, not **\$12.8 billion**:**

- **\$2.6 billion** required to retire the Turnpike's existing debt.
- **\$1.7 billion** present value cost to Motor License Fund from absorbing the cost of State Police over 75-year lease term.
- **\$600 million** in Turnpike capital improvements to be funded by Motor License Fund, not tolls.
- *Plus:* The bid amount is reduced further based on changes in the LIBOR swap rate (**\$465 million** as per House Fiscal Note).

*Under Act 44, the Turnpike payments have a present value of **\$26.5 billion**; even without I-80, the present value is **\$9.7 billion**.*





Financial Concern #2— Risky Investment Assumption

The Abertis plan assumes that the upfront payment under the Lease Agreement will earn **12% annually:**

- This is contradicted by:
 - Morgan Stanley's rate assumptions of **7%-9%** in their May 2007 report;
 - State Employees Retirement System actuarial rate of **8.5%**;
 - Commonwealth Foundation research release of June, 2008.
- SERS **lost 4.1%** for the first quarter of 2008, showing the uncertainty of investment results.
- If the upfront payment is invested at 8.5%, the fund will be **exhausted in 17 years** if annual withdrawals are made to meet Morgan Stanley's proposed subsidy schedule.





Financial Concern #3— No Lock Box on Lease Proceeds

- **Legislative Intent of Act 44 could be lost under future Governor or Legislature.**
 - No assurance that proceeds won't be redirected in future years to other purposes.
 - Funding formula could be altered.
 - Would require constitutional amendment to protect.





Financial Concern #4 – Uncertain Investment Management



Investment of Upfront Payment Controlled by Governor with No Provision for SERS:

- A P3 Investment Board is established consisting of the Governor, the PennDOT Secretary and the Budget Secretary, or their designees.
- The P3 Investment Board “shall consult with SERS from time to time as to the board’s investments”.
- There are no provisions providing for the Public-Private Transportation Fund to be given to SERS to invest.





Financial Concern #5— Corporate Welfare

- **Abertis is exempt from most state and local taxes, as well as zoning and land use regulations**
 - Exempting Lease from Realty Transfer Tax costs local municipalities over **\$250 million**.
 - Sales and use tax exemption could cost the Commonwealth over **\$10 million** annually.
 - Abertis not subject to local zoning and land use regulations.





Policy Concern #1– Loss of Legislative Authority

- The PennDOT Secretary has discretion to replace each member of the Turnpike Commission and to assume the duties of Chairman.
- No Legislative input or approval is required for Executive Branch take over.
- There will be at least 9 future governors in office over the 75-year lease term, with unknown policy agendas.





Policy Concern #2— Ad Lib Process for PA’s biggest deal ever.

□ Retroactive Approval of P3 Procurement Process

- H.B 2593 sets forth a process for soliciting proposals from private parties to lease the Turnpike—*after the fact*.
- These provisions did not exist when PennDOT went through its solicitation process.
- No opportunity for further input from the Legislature.





Policy Concern #3— Toll Caps can be Lifted

□ Changes in Toll Limits Permitted under P3 Agreement

- The Lease Agreement limits annual toll increases to the greater of CPI or 2.5% annually.
- The proposed legislation takes the Legislature out of the process if further toll increases beyond the agreed-upon formula are required.
- The Governor and the Concessionaire are permitted to increase tolls further by simply amending the Lease Agreement.

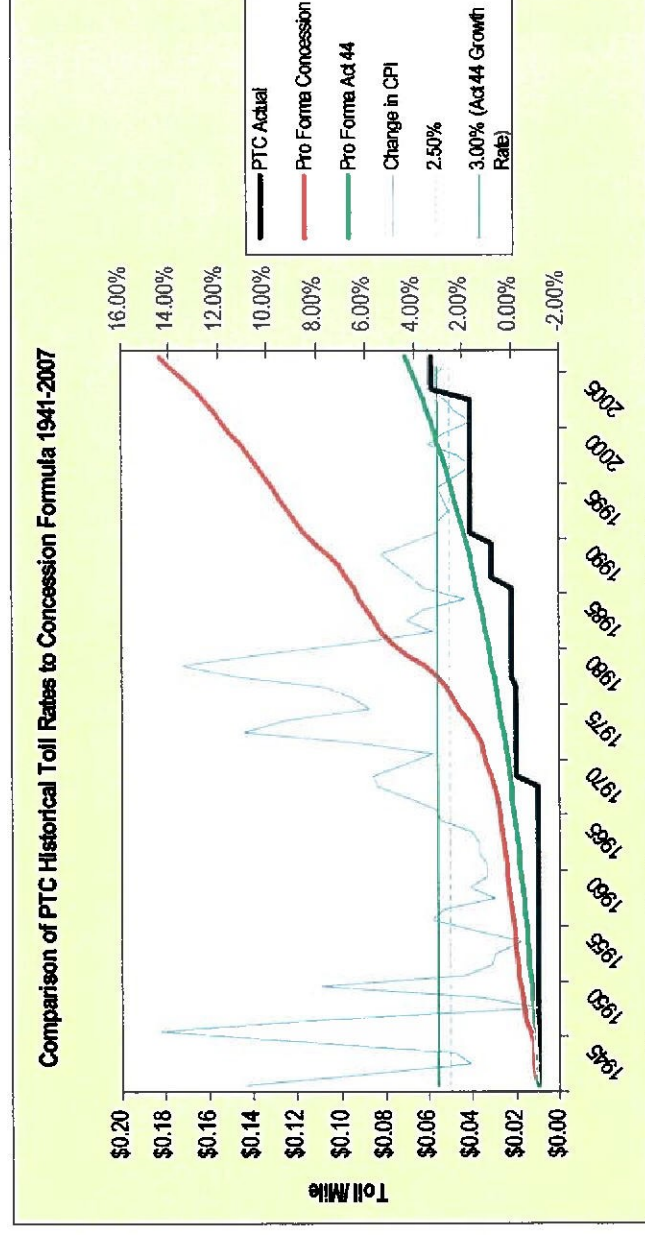




Trend in Tolls Under Concession Agreement vs. Act 44 Model

The chart below compares what the toll rates today would be if the P3 formula had been adopted in 1940 when the Turnpike opened.

- Rates today under a P3 legally could be **3x** higher.
- The P3 formula over 67 years has produced an average annual increase in **4.49%**.
- Historically, PTC has raised rates at an average annualized rate of **~2.7%**.



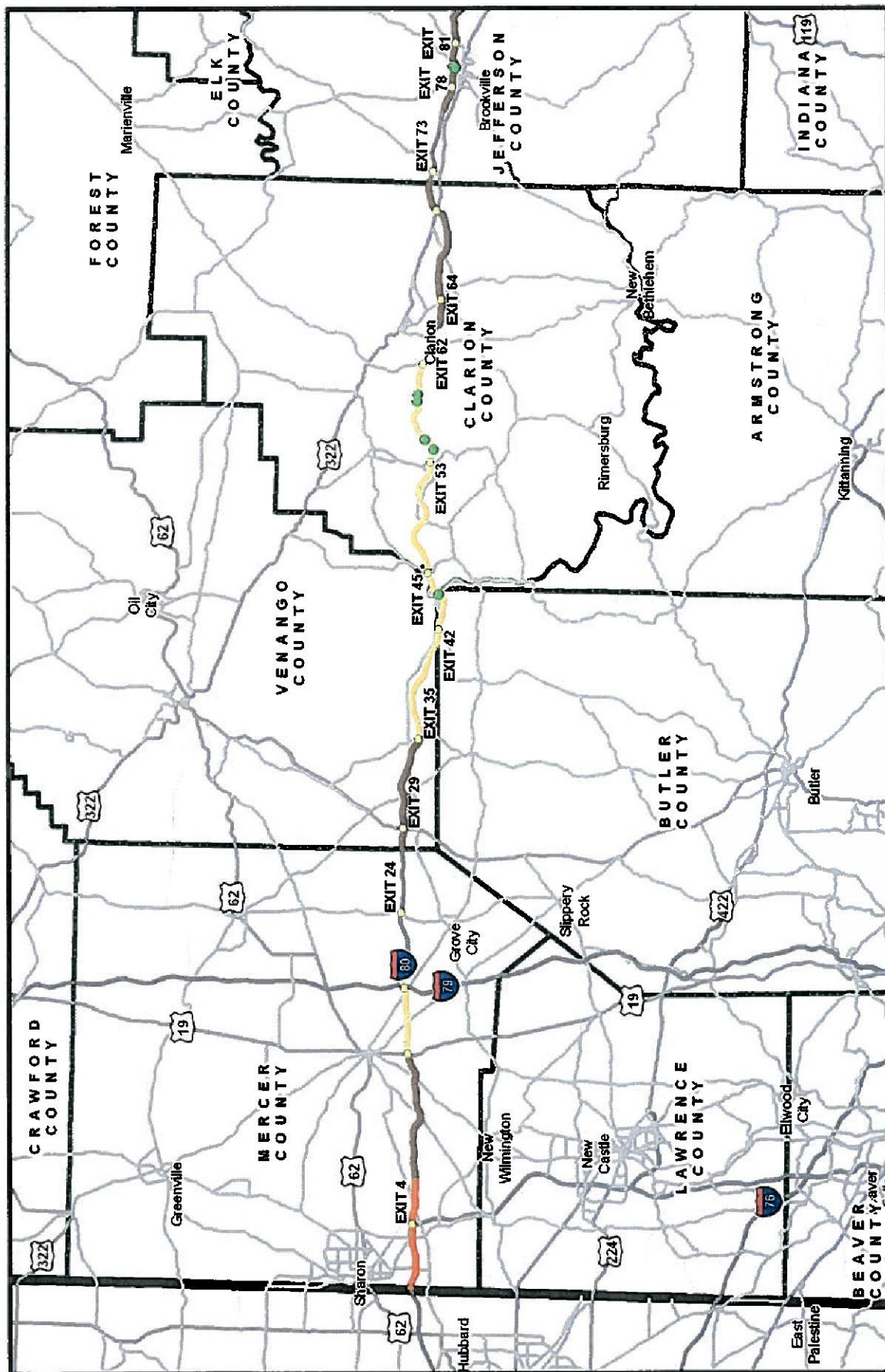


Policy Concern #4: Reduced Mainline Capital Program

Turnpike Capital Improvements Reduced by \$1.6 Billion.

- PTC has adopted a **\$4.6 billion** 10-year capital plan.
- Under the Abertis proposal, **\$600 million** of turnpike improvements will be paid for by the Motor License Fund, *not toll revenues*.
- **\$1.6 billion** of scheduled Turnpike improvements are eliminated from 10-year plan, including:
 - \$190 million in Bucks Co. (including Turnpike I-95 interchange project)
 - \$110 million in Somerset Co.
 - \$77 million in Allegheny Co.





Legend

- Exit
- County Boundary
- Structure Project
- PennDOT/PTC Joint Project
- Interchange Improvement
- Pavement-14R
- Pavement-Preservation
- Pavement-Reconstruction

APPENDIX E

I-80 CAPITAL PLAN

FIRST DECADE

MILE POST 0 TO 78

SHEET 1 OF 4

JUNE 24, 2008 - DRAFT

North Arrow

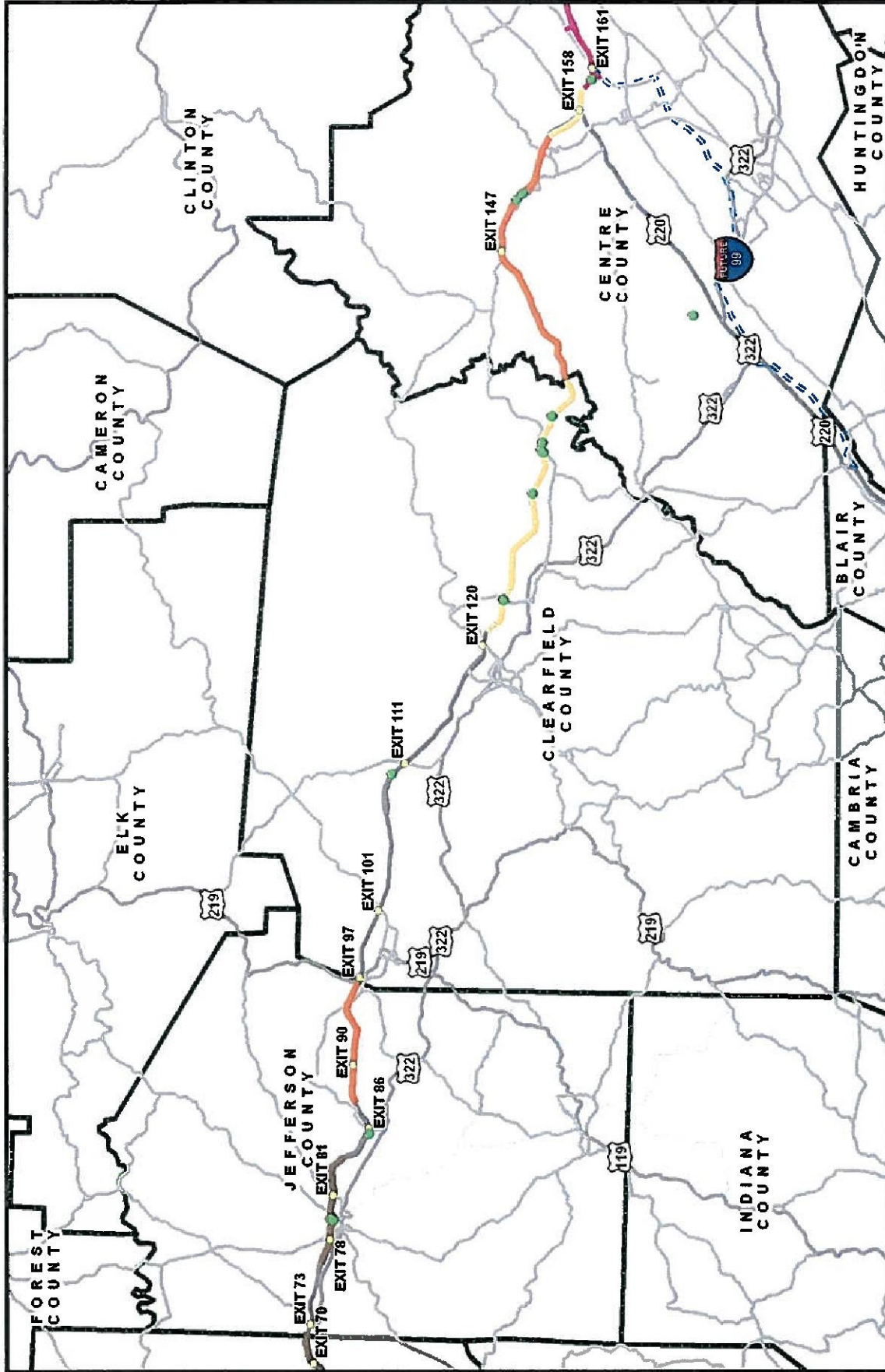
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Scale

1 inch equals 8 miles

0 4 8 Miles

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Legend

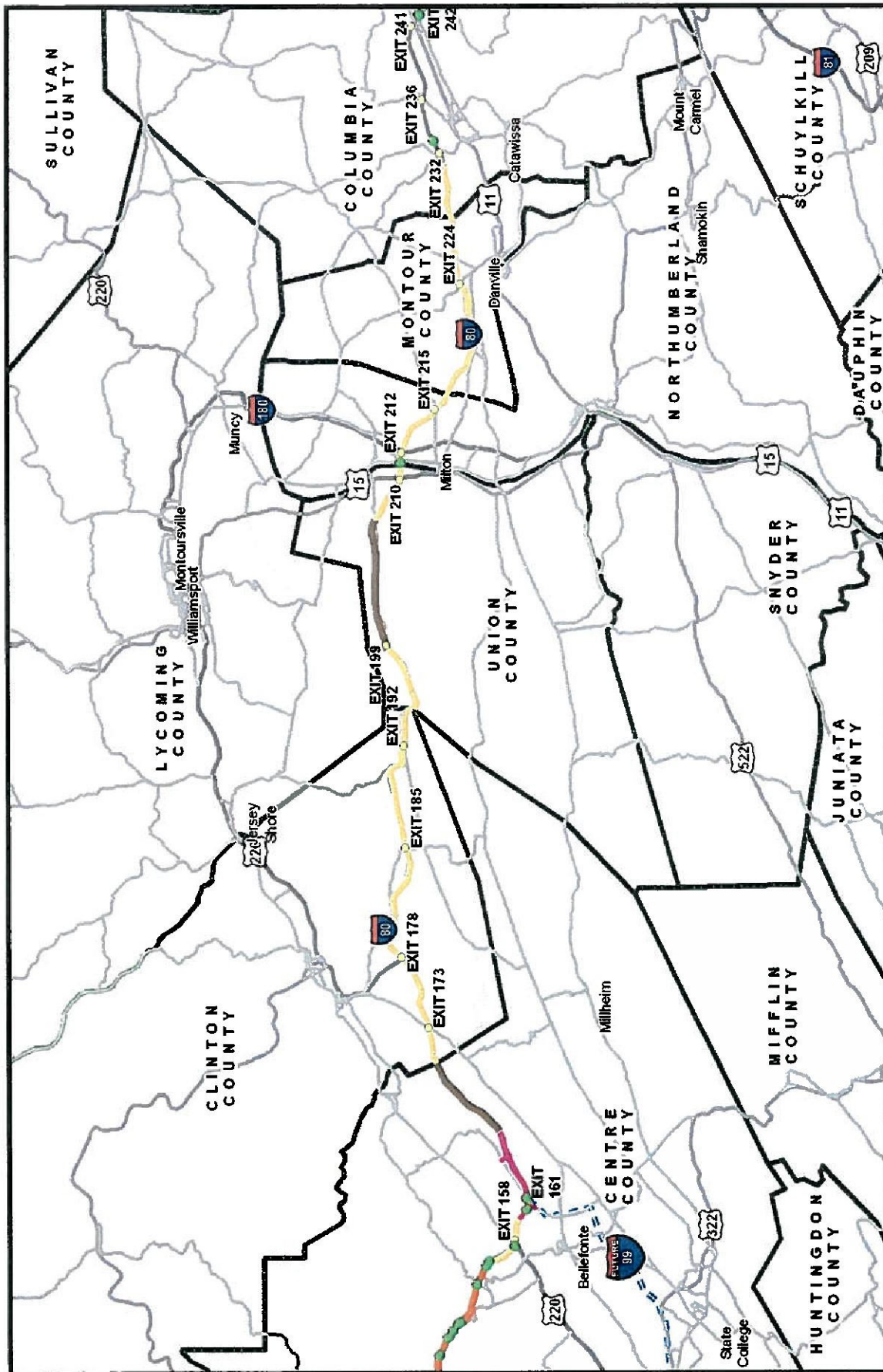
- Exit
- County Boundary
- Structure Project
- PennDOT/PTC Joint Project
- Interchange Improvement
- Pavement-Reconstruction
- Pavement- IAR
- Pavement-Preservation

1 inch equals 8 miles



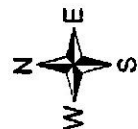
APPENDIX E **I-80 CAPITAL PLAN** **FIRST DECADE** **MILE POST 78 TO 156** **SHEET 2 OF 4**

JUNE 24, 2008 - DRAFT



Legend

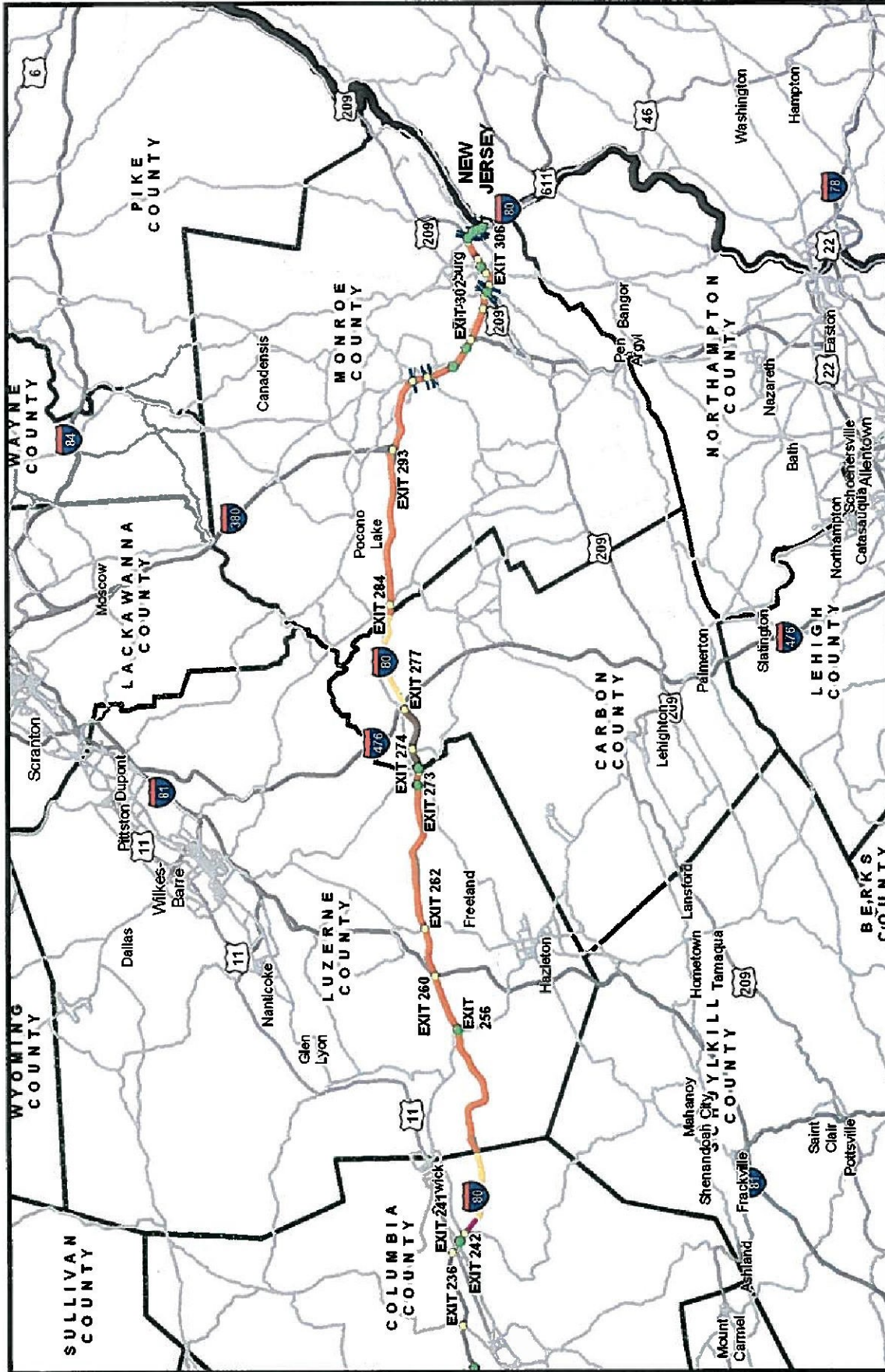
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1 inch equals 8 miles



APPENDIX E **I-80 CAPITAL PLAN** **FIRST DECADE** **MILE POST 156 TO 234** **SHEET 3 OF 4** **JUNE 24, 2008 - DRAFT**





Status of FHWA Application to Toll I-80

- The Turnpike Commission and its professional team have worked closely with PennDot to prepare responses to FHWA's questions.
- Amended application reflects the complete reconstruction of I-80 with nearly **\$2.5 billion of improvements** over the next decade.





Next Steps on FHWA Application

- Meetings scheduled in mid-July with affected Metropolitan Planning Organizations and Rural Planning Organizations as required by FHWA.
- Briefing of legislative leaders as the revised application is finalized.
- Submission expected in August.
- Following pages show 10-year capital plan for I-80.



Legend

I-80 Projects

Current Turnpike Projects

0 40 Miles

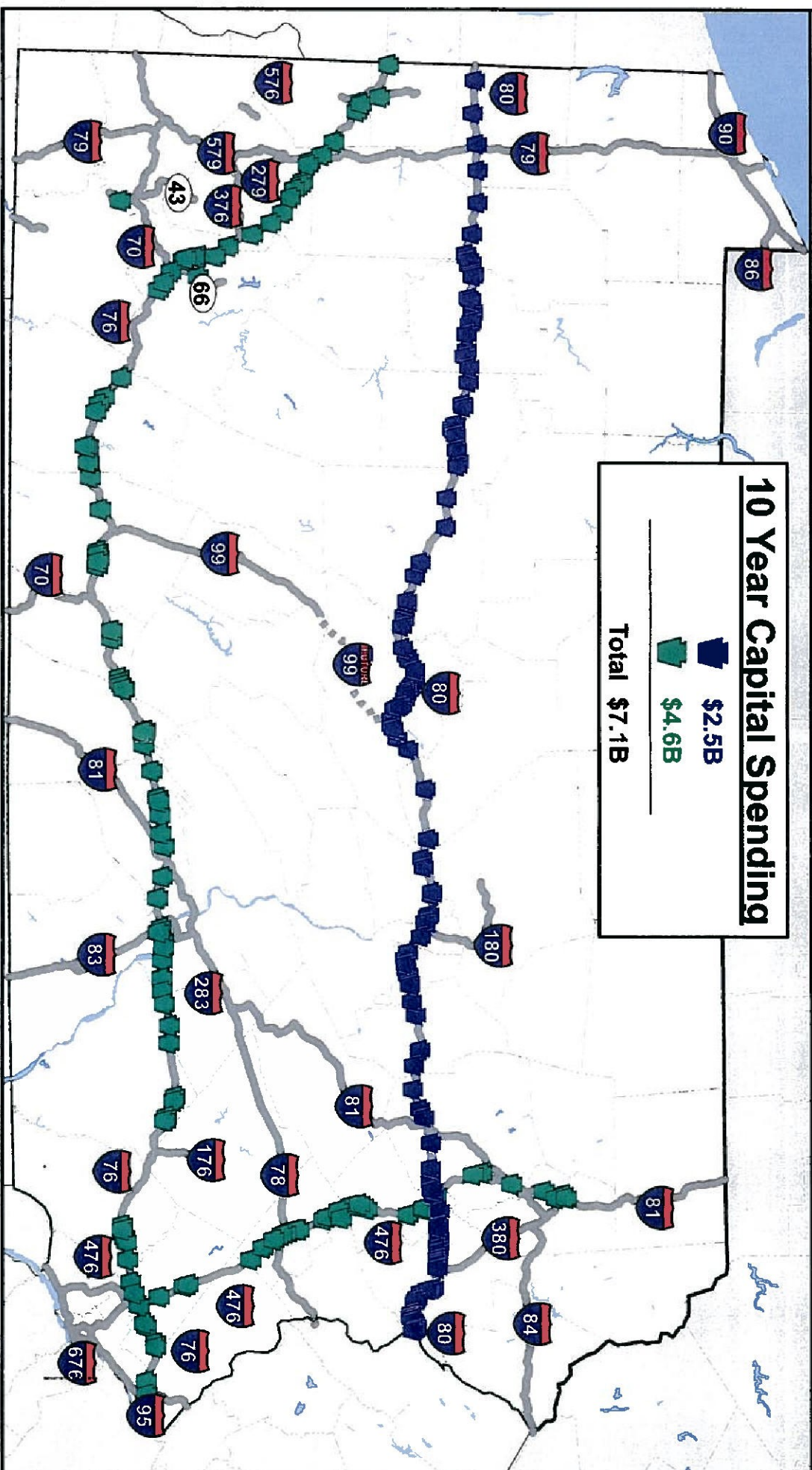
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**Sources: PTC Capital Plan
PTC/PennDOT Draft I-80 Capital Plan**

Current Turnpike Projects



PTC\PennDOT Draft I-80 Capital Plan



Concessionaire Agreement Projects

- Legend**
- Commonwealth Funded Projects
 - Concessionaire Agreement Projects



Sources: PTC Capital Plan



Concession Agreement Schedules 7 & 8

10 Year Concessionaire Capital Spending

Commonwealth Spending \$600M

Concessionaire Spending \$2.3B

Total \$2.9B

Projects Not Funded \$1.7B

