TESTIMONY OF MICHAEL FROMAN
CITI INFRASTRUCTURE INVESTORS
PENNSYLVANIA TRANSPORTATION PARTNERS
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Good morning, Mr. Chairman and members of the Committee. My name is Michael Froman and I am Managing Director and Head of Infrastructure and Sustainable Development Investments at Citi Alternative Investments, which includes Citi Infrastructure Investors. I would like to thank the Committee for taking the time today to better understand the facts around the Turnpike lease and why we think, in this case, a model of Public Ownership and Private Management provides superior value to the users of the Turnpike, Pennsylvanians as a whole and the Commonwealth itself.

Citi is a leading global financial services firm, with operations in over 100 countries. Citi also has a longstanding and consistent presence in Pennsylvania with more than 8,000 Pennsylvanians working for Citi businesses and over $1 million in grants provided to support local Pennsylvania organizations by the Citigroup Foundation. On May 19, Governor Rendell announced that our team in partnership with Abertis, Pennsylvania Transportation Partners, was selected as the preferred bidder with an upfront payment of $12.8 billion, which was $700 million more than the next highest bidder.

Team members from Citi Infrastructure Investors have had extensive experience in overseeing and managing toll roads successfully in the interests of all drivers and employees, including in the US, Europe, Australia, and Latin America. We have broad and deep backgrounds in toll roads, airports, ports and utilities. Recent investments include the acquisition of Kelda, a Yorkshire (United Kingdom) water company and a joint venture with Vancouver Airport Services. We are excited about the opportunity to bring our expertise and experience to the Commonwealth of Pennsylvania.

In my remarks today, I will address three major topics that, in our view, should be central to your consideration of the Pennsylvania Transportation Partners lease proposal:

1. Pennsylvania Transportation Partners will provide a better roadway for the Commonwealth, using best practices and new technologies to improve the soundness of the road, the safety of its users and the overall customer experience.

2. The turnpike lease is the only transportation funding solution that provides $12.8 billion dollars upfront to the Commonwealth, plus a contractual commitment to invest at least $11B in addition to expand and improve the road, allowing the Commonwealth to address its urgent infrastructure needs.

3. The lease allows the Commonwealth to avoid a number of important risks while capping tolls, assuring the highest maintenance and operations standards and maintaining important elements of control and ownership.

Providing a Better Roadway

Pennsylvania Transportation Partners is committed to providing the highest standards for the roadway. The turnpike will be managed according to best practices internationally and we will work closely with PennDOT focusing on implementing the most up-to-date technology in order to lessen congestion and make the ride easier and safer for users. Pennsylvania Transportation Partners is contractually mandated through the Concession Agreement and Operating Standard Manual to meet the highest levels of service – or run the risk of losing the concession altogether.

Over the life of the public ownership and collaborative private management of the turnpike, Pennsylvania Transportation Partners will reconstruct virtually the whole turnpike adding a third lane in all areas of significant traffic and will also reconstruct and/or rehabilitate most of the turnpike's bridges and tunnels while spending hundreds of millions of dollars on improving information technology, tolling systems and infrastructure. We are required to abide by specific timing restrictions for the completion of key capital improvement projects on the Turnpike, meaning that these needed improvements are guaranteed to be completed in a timely manner.

Addressing Pennsylvania's Infrastructure Needs

In 2006, the Pennsylvania Transportation Funding and Reform Commission, a bi-partisan transportation review committee, identified the need for $1.725 billion in annual funding. Nearly 9,000 miles of Pennsylvania's roads are in poor condition and Pennsylvania ranks #1 in the U.S. for the number of structurally deficient bridges at nearly 6,000 – more than twice the percentage of structurally deficient bridges than the national average. Furthermore, Pennsylvania ranks #1 in the U.S. for the number of state-owned bridges that are over 75 years of age.

With the first anniversary of the collapse of the bride in Minnesota approaching, we are reminded that getting these repairs done quickly should be of utmost priority.

The lease of the turnpike is the only plan that brings into Pennsylvania $12.8 billion dollars up front, plus at least $11B in future capital expenditures, to fund investment in roads, bridges and mass transit, resulting in the acceleration of critical repair and maintenance projects all over the Commonwealth even without banking on the application to toll I-80.

Issues of driver safety are too important for politics as usual. Other states that have proceeded with leases of this sort, such as Indiana, have been able to fast-track their infrastructure programs and deliver more investment earlier for the benefit of their residents Pennsylvania's needs are substantial greater than most other states.

Furthermore, this investment will not only further the safety of Pennsylvania's drivers, but also stimulate Pennsylvania's economy. According to the Federal Highway Administration, for every $1 billion invested in surface transportation, 47,500 well-paying jobs are created.

Reducing the risks faced by the Commonwealth

Very importantly, the lease shifts important risks to Pennsylvania Transportation Partners from the Commonwealth, the users of the Turnpike and Pennsylvania's taxpayers. While the Commonwealth retains ownership of the Turnpike and retains important elements of control over it, we – the private managers – assume the risk of lower traffic, higher costs and market instability.

Under the terms of the lease, toll increases after the first year are capped at the higher of inflation and 2.5%. If traffic decreases, we cannot increase tolls beyond that to make up for the volume. If the costs of maintenance or construction increase, we cannot increase tolls beyond that to compensate. If markets go through the sort of recent instability we've seen, we cannot raise tolls or reduce payments to the Commonwealth.

None of those protections apply if the lease is rejected. Instead, the risk of lower traffic, higher costs and unstable debt markets would remain those of the Commonwealth and its taxpayers.

From a purely financial perspective, the choice is stark: $12.8B up front, at least $11B in further investments, capped tolls, reduced risk vs. no upfront payment, with the Commonwealth assuming the full risk of increased debt, lower traffic and higher costs.

We look forward to working with you and the citizens of the Commonwealth to have a full dialogue about the facts of this importance issue so that the best and most informed decision can be made. Thank you for your time. I welcome any questions.