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2 COMMONWEALTH OF PENNSYLVANIA  
3 HOUSE OF REPRESENTATIVES  
4 HOUSE TRANSPORTATION COMMITTEE  
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7  
8 RYAN OFFICE BUILDING  
9 ROOM 205  
10 HARRISBURG, PENNSYLVANIA  
11  
12

13 MONDAY, AUGUST 18, 2008  
14 1:00 P.M.  
15  
16

17 PUBLIC HEARING ON  
18 HOUSE BILL 555 AND SENATE BILL 1158  
19  
20

21 BEFORE:  
22  
23

24 HONORABLE JOSEPH F. MARKOSEK, CHAIRMAN  
25 HONORABLE RICHARD GEIST  
16 HONORABLE PAUL COSTA  
17 HONORABLE DICK L. HESS  
18 HONORABLE DAVID HICKERNELL  
19 HONORABLE MARK K. KELLER  
HONORABLE MARK LONGIETTI  
HONORABLE RON MARSICO  
20  
21  
22  
23

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1 (CONT'D)  
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3 HONORABLE TINA PICKETT  
4 HONORABLE JEFFREY PYLE  
5 HONORABLE MARIO M. SCAVELLO  
6 HONORABLE THOMAS J. SOLOBAY  
7 HONORABLE KATHARINE M. WATSON  
8 HONORABLE JAKE WHEATLEY  
9

10 ALSO PRESENT:  
11

12 STACIA RITTER, EXECUTIVE DIRECTOR (D)  
13 ERIC BUGAILE, EXECUTIVE DIRECTOR (R)  
14 MARK BUTERBAUGH, RESEARCH ANALYST  
15 AMANDA WOLFE, LEGISLATIVE ASSISTANT  
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14 BRENDA S. HAMILTON, RPR  
15 REPORTER - NOTARY PUBLIC  
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1 P R O C E E D I N G S  
23 - - -  
45 CHAIRMAN MARKOSEK: Good afternoon.  
6 Welcome everybody to the House Transportation  
7 Committee on House Bill 555 and Senate Bill  
8 1158, public-private partnership legislation.9  
10 I'm going to forgo any major remarks  
11 that I have other than to say that these are  
12 very important bills. We need to find  
13 financing for infrastructure and our transit  
14 entities, no matter how we can do it. We need  
15 to look at innovative ways, and certainly  
16 public-private partnerships are a thing that a  
17 lot of other states are doing and I think  
18 Pennsylvania really needs to seriously look  
19 at.20 With that, would Chairman Geist make  
21 any remarks that he might have.22  
23 REPRESENTATIVE GEIST: Thank you very  
24 much, gentlemen. We're looking forward to  
25 bringing a P-3 bill to the floor of the House,  
26 and we're looking forward to having it  
27 probably be in the best shape that any state  
28 has a piece of legislation now.

29 We have a lot of stuff to look at and

1           a lot of history. So I'm interested in moving  
2           forward and hearing a lot from transit,  
3           especially on the privatization side. So  
4           let's get rolling.

5                             CHAIRMAN MARKOSEK: Thank you very  
6           much. Before we start, I'd like to honor the  
7           media that is here today, and we have several  
8           media outlets here.

9                             And with that in mind, I'd like my  
10          own home town newspaper, Tom Barnes, a  
11          reporter with the Post Gazette, to stand up  
12          and lead us in the pledge of allegiance to the  
13          flag.

14                             (The pledge of allegiance).

15                             CHAIRMAN MARKOSEK: Thank you, Tom.  
16          I used to deliver the Post Gazette.

17                             Okay. Thank you, everybody, for  
18          attending, and I'd like to get started.

19                             The first person to testify is  
20          Mr. Robert Ardolino, the president and CEO of  
21          Urban Innovations, Incorporated.

22                             Mr. Ardolino, welcome.

23                             MR. ARDOLINO: Good afternoon.

24                             CHAIRMAN MARKOSEK: Thank you for  
25          attending. I believe there are -- the members

1 will have your testimony in their packets.

2 MR. ARDOLINO: I think they do, yes.

3 CHAIRMAN MARKOSEK: And we appreciate  
4 that very much. And you may proceed when  
5 ready.

6 MR. ARDOLINO: Well, I'd like to  
7 thank you and, good afternoon, Chairman  
8 Markosek, and distinguished members of the  
9 Transportation Committee.

10 My name is Robert A. Ardolino, and I  
11 am the president and CEO of Urban  
12 Innovations. We are based in Pittsburgh,  
13 Pennsylvania. Urban Innovations is a  
14 nationally recognized firm that has developed  
15 transit-oriented development projects and  
16 public-private partnership projects, also  
17 known as P-3s, throughout the country.

18 Today, I would like to speak not only  
19 to supporting the pending legislation but --  
20 contained in House Bill 555 and Senate Bill  
21 1158 but also give the committee action items  
22 needed to be addressed prior to passing of  
23 such legislation.

24 Such action items are the ability for  
25 local jurisdictions to approve P-3 projects.

1                   Early engagement of the Federal  
2                   Transit Administration and the Federal Highway  
3                   Administration, support and assistance through  
4                   the regional offices.

5                   Identification of potential projects  
6                   that meet the criteria of P-3.

7                   Establish the necessary funding  
8                   mechanisms, both public and private, that are  
9                   good fits for P-3s.

10                  Involvement of the metropolitan  
11                  planning organizations and the regional  
12                  planning organizations in the planning  
13                  process.

14                  As well as placement of P-3 projects  
15                  on transportation improvement plans and state  
16                  transportation improvement plans.

17                  For decades the automobile has been  
18                  the force behind real estate development  
19                  decisions in this country. As a result, open  
20                  spaces and green fields have been consumed by  
21                  ever-expanding suburbia of large yards, wide  
22                  roads, massive parking lots.

23                  During the same period mass transit  
24                  has been de-emphasized, and unlike many parts  
25                  of the world passenger train service has all

1           but disappeared. Now, the nation has been  
2           forced to re-evaluate its development policies  
3           as a result of rising energy costs.

4                         State are developing programs to  
5           rectify these problems. One such approach  
6           that many states already have approved is  
7           enabling legislation for public-private  
8           partnerships.

9                         Who needs this legislation? Private  
10          developers, municipalities, and transit  
11          agencies are all cash-strapped. We have  
12          experienced this first-hand with budget  
13          deficit gaps in Pittsburgh, the Port  
14          Authority, and the Philadelphia system.

15                         As the growth in traditional  
16          transportation revenue sources continues to  
17          decline and operating deficits continue to  
18          increase, transportation agencies are more  
19          often looking for new sources of revenue to  
20          leverage funding and to improve project  
21          feasibility and cost effectiveness.

22                         One of the most successful methods  
23          employed by other infrastructure sectors is  
24          the use of P-3. The success has led  
25          transportation agencies to pursue

1 opportunities for applying various types of  
2 P-3s to deliver major capital projects.

3 There is ample evidence across the  
4 United States that the private sector is  
5 interested in increasing its participation in  
6 transportation infrastructure projects,  
7 including a number of recent capital transit  
8 projects structured as P-3.

9 What are the benefits? There are  
10 significant benefits for all participants  
11 through P-3 projects.

12 Time savings.

13 Cost savings.

14 New revenue streams.

15 Risk reduction.

16 More innovative and better quality  
17 projects.

18 In addition to cutting costs and  
19 raising new revenue, P-3s can significantly  
20 reduce the time it takes to complete a capital  
21 project; can help the public sector allocate  
22 risks to the private sector, and the private  
23 sector is better able to manage; and can  
24 improve the quality of the public's  
25 infrastructure.

1           When to implement? The time is now.

2     Business as usual no longer works.

3           Albert Einstein summarized it best

4     when he said the problems we have created

5     cannot be solved with the same thinking that

6     created them.

7           Why Pennsylvania? We as

8     Pennsylvanians need this legislation. House

9     Bill 555 and Senate Bill 1158 are not about

10    political gain. It's about the common good.

11           This issue affects both parties

12    equally. We are a nation facing critical

13    infrastructure, congestion, fuel

14    dependencies.

15           P-3 legislation engages the private

16    sector and assists the public sector with much

17    needed funding. Traveling throughout this

18    country we encountered many different

19    scenarios that involve transit opportunities

20    and highway congestion.

21           There's no one-size-fits-all for

22    P-3s. If we pool our resources and we

23    implement innovative financing that is

24    available, we as a state and a nation can

25    solve this process (sic).

1                   The Commonwealth of Pennsylvania  
2     stands to benefit from the advantages that  
3     P-3s can bring to their communities and  
4     represents an important means to sustain  
5     quality of life and foster economic growth.

6                   The potential exists to reduce costs,  
7     accelerate delivery, and improve the quality  
8     of projects and services with P-3  
9     legislation.

10                  Numerous U.S. states and one U.S.  
11     territory have already enacted statutes that  
12     enable use of various P-3 approaches for the  
13     development of transportation and  
14     infrastructure, and their experience has  
15     indicated that specific state legislation can  
16     minimize the risks of litigation and delay and  
17     promises a bright future for business growth  
18     and improved quality of life for residents.

19                  Your consideration of this matter is  
20     appreciated, and I thank you for the  
21     opportunity to testify before this committee.

22                  I would welcome the opportunity to  
23     assist you in this important work, and look  
24     forward to any questions you may have.

25                  CHAIRMAN MARKOSEK: Okay. Thank you

1 very much.

2 CHAIRMAN GEIST: Excellent  
3 presentation.

4 MR. ARDOLINO: Pardon me.

5 CHAIRMAN MARKOSEK: Do you have a  
6 comment?

7 REPRESENTATIVE GEIST: No.

8 CHAIRMAN MARKOSEK: Any questions?  
9 Comments?

10 REPRESENTATIVE PYLE: I have a  
11 comment.

12 CHAIRMAN MARKOSEK: Representative  
13 Pyle.

14 REPRESENTATIVE PYLE: No, I  
15 appreciate your quote of Einstein. He also  
16 said imagination is more important than  
17 knowledge because true imagination and  
18 motivation is needed to make it move forward,  
19 if it would be possible. I agree with you.

20 But I do have a question about  
21 allowing local municipalities to establish  
22 independent P-3s. Could you flesh that out a  
23 little bit more?

24 MR. ARDOLINO: Our experience in the  
25 one we just recently completed in Long Beach,

1       California, you need the local jurisdiction  
2       buying in. Meaning the city council, mayor.

3                 If they have an infrastructure  
4       committee, you start at that ground level,  
5       especially -- especially if it's an  
6       unsolicited proposal by a developer.

7                 If it's a solicited proposal by a  
8       redevelopment authority or a transit authority  
9       or a municipality, then you -- you start to  
10      work within that -- that jurisdiction.

11                But you need to let the local people  
12      get the buy-in first, to let them take it up,  
13      up the ladder to the transportation.

14                The way that we structured Long Beach  
15      is we got in the buy-in from Long Beach  
16      transit first. We went to Long Beach transit,  
17      and we asked them to participate, because they  
18      were the grantee for the federal money.

19                They chose to participate from the  
20      support standpoint only because of the massive  
21      size of the project.

22                What you're going to run into is  
23      jurisdictions don't have the staff. Transit  
24      authorities don't have the staff to run a P-3  
25      effectively, unless they're a very large

1 agency. And it takes a heck of a skill set to  
2 pull a P-3 together.

3 So you're going to run into that  
4 process. So you're going to educate at the  
5 local level.

6 REPRESENTATIVE PYLE: Thank you.

7 Thank you, Mr. Chairman.

8 CHAIRMAN MARKOSEK: Okay. Any other  
9 comments?

10 Representative Longietti.

11 REPRESENTATIVE LONGIETTI: Thank you,  
12 Mr. Chairman.

13 I wanted to focus on the beginning  
14 part of your testimony and pick up where  
15 Representative Pyle left off.

16 If I hear you correctly, you're  
17 saying that these bullet points that are in  
18 your written testimony -- I think there's six  
19 of them -- you believe that those items ought  
20 to be dealt with prior to passing of the bills  
21 that we have in front of us. Is that  
22 correct?

23 MR. ARDOLINO: They should be  
24 incorporated somehow into the bills.

25 REPRESENTATIVE LONGIETTI: Okay. So

1       you're -- you're suggesting that some of  
2       the -- some of those items need to be put into  
3       the bill itself?

4                    MR. ARDOLINO: Correct.

5                    REPRESENTATIVE LONGIETTI: Okay.

6       In -- and if I hear you correctly on item  
7       number one that Representative Pyle asked  
8       about, the ability of local jurisdictions to  
9       approve P-3 projects, you're saying that you  
10      believe the local municipality, or whatever  
11      the political subdivision is, in essence,  
12      should have to say that we agree that this  
13      should be a P-3 project. Is that what you're  
14      saying?

15                  MR. ARDOLINO: It has to get past the  
16      local level approval before it goes to the  
17      Transportation Committee for approval.

18                  You should have the buy-in first.  
19      Not go directly to the transportation  
20      commission. You should get the local buy-in  
21      first and then take it to the transportation  
22      commission.

23                  There's no sense in taking it to the  
24      transportation commission if you don't have  
25      the local buy-in.

1                   REPRESENTATIVE LONGIETTI: So in --

2                   MR. ARDOLINO: It can be very tough  
3 to effectuate approval.

4                   REPRESENTATIVE LONGIETTI: So in  
5 essence the local -- the local political  
6 subdivision would almost have like a veto over  
7 the idea. If they don't buy in to that  
8 project or P-3 project, then they would --  
9 they would either take no action, which means  
10 that nothing would happen, or they would vote  
11 no and say we don't want to do this.

12                  MR. ARDOLINO: Correct.

13                  REPRESENTATIVE LONGIETTI: I don't  
14 have any other questions.

15                  Thank you, Mr. Chairman.

16                  CHAIRMAN MARKOSEK: Okay.

17                  REPRESENTATIVE WHEATLEY:  
18 Mr. Chairman?

19                  CHAIRMAN MARKOSEK: Representative  
20 Jake Wheatley, Pittsburgh.

21                  REPRESENTATIVE WHEATLEY: Thank you,  
22 Mr. Chairman. I don't have a mike, but I'll  
23 speak loudly.

24                  Clarify something for me. If you  
25 have the regional planning organizations

1           already in the loop, why do you need the local  
2           jurisdictions?

3           Just so I'm clear. I mean because  
4           aren't they part of the planning commission  
5           process as well?

6           MR. ARDOLINO: And -- and -- and you  
7           being from Pittsburgh, you understand we have  
8           a hundred-and-thirty-some municipalities  
9           within our region.

10           But, okay. The metropolitan planning  
11           organization is the conduit for the funding  
12           and our transportation planning work. If you  
13           take a particular project and you go into a  
14           particular area, let's -- I only gave you the  
15           project we're doing -- looking at right now.  
16           It's the Allegheny Valley rail corridor.

17           Now, that stretches from Westmoreland  
18           County through Allegheny County into the city  
19           of Pittsburgh. That's a 22-mile potential  
20           commuter rail project that we're working on as  
21           a P-3.

22           Westmoreland County is taking the  
23           lead on the initial study that's being  
24           conducted now. But you're also going to need  
25           the buy-in of Allegheny and the city of

1 Pittsburgh.

2 You're looking at the city council  
3 and the mayor, the jurisdiction -- the Allegheny  
4 County which is going to affect the chief  
5 executive officer and Allegheny County  
6 Economic Development, and then Westmoreland  
7 County and that political structure there.

8 So you need to get the buy-in of all  
9 three of those before you would even attempt  
10 to contact the FTA regional office to run this  
11 as a P-3. And that's what I mean by going to  
12 the municipalities.

13 The MPOs will assist in facilitation  
14 of a P-3. But you still get the -- you still  
15 need the local jurisdictions to agree to build  
16 that within their communities. They're going  
17 to have major economic impacts if they're  
18 large, substantial infrastructure projects.

19 And how you interface them with  
20 redevelopment and economic development is  
21 going to be critical.

22 And each -- as you know, each of our  
23 local municipalities have councils and  
24 government and so forth.

25 CHAIRMAN MARKOSEK: Just to follow-up

1       on that with the Allegheny County rail  
2       corridor, do we -- do we actually need  
3       legislation to do a P-3 with that or is that  
4       something that the state is not involved? For  
5       example, the -- the local entities could go  
6       out and reach out and try to get private?

7                    MR. ARDOLINO: Let me -- let me tell  
8       how I -- I've structured it this way.

9                    We -- we just executed a contract  
10      with the Allegheny Valley Rail Company to  
11      assist them in putting together this process.

12                  The current legislation that this  
13      could work under is through the FTA joint  
14      development program. It's joint development  
15      and under the FTA guidelines.

16                  Now, with that being said, that  
17      program is only really effective if transit  
18      has real estate or some asset or some fixed  
19      guideway in that project.

20                  You can set it up under joint  
21      development, but it won't ultimately deliver  
22      under joint development. So you can start the  
23      process and -- you know, start the  
24      environmental and start the studies, and I  
25      wait for the studies to be completed in

1       January so we can incorporate them into this  
2       type of legislation. Hopefully we'll be  
3       passed by March, April of '09.

4                   So you can start it under one  
5       program, to get FTA programmed, and that's the  
6       key, to get the regional offices on board, as  
7       early as you can, so they know what you're  
8       doing and what -- what your potential project  
9       is and how it's going to affect them. And  
10      then you can move it into a P-3.

11                  And that's how Allegheny Valley will  
12      work, as a P-3.

13                  CHAIRMAN MARKOSEK: Is that any  
14      different than the ones you mentioned here,  
15      the Snowmass or Long Beach?

16                  MR. ARDOLINO: The project we're  
17      doing in Snowmass, Colorado was joint  
18      development. That's where the transit  
19      authority and the town, which was the grantee,  
20      owned the land. The developer bought the mall  
21      adjacent to the land.

22                  We needed to build a new transit  
23      center, \$26 million transit center. So we  
24      partnered the developer with the town, who was  
25      the grantee. We applied for federal funding

1 and state funding. We received Colorado DOT  
2 money in planning for environmental,  
3 architectural, and engineering; and we got the  
4 private developer to put up 50 percent of the  
5 cost to do the architectural and engineering.

6 Now, that was joint development  
7 because the town owned the land and they were  
8 the grantee.

9 That could have been a P-3, but  
10 Colorado didn't have legislation. Now they  
11 do. And we worked also with Colorado  
12 in putting Colo -- that legislation in place.

13 The RTD, who is doing a major light  
14 rail out there in Denver, had a financial plan  
15 that was stretched out to 2015. The director  
16 of RTD recognized that construction cost by  
17 2015 would make those corridors almost  
18 virtually impossible to build out, if they  
19 waited for reauthorization money from FTA.

20 So we suggested P-3 and that's the  
21 part -- there's two corridors that are going  
22 to go P-3, the Gold line and East line,  
23 running from downtown Denver, Union Station,  
24 to DIA International. And those will be  
25 P-3s.

1                   So Snowmass Village was set up as a  
2 joint development. Because the transit  
3 authority owned the land, we were able to  
4 leverage the land into the private sector.

5                   CHAIRMAN MARKOSEK: Okay. Any other  
6 questions?

7                   Thank you, sir.

8                   MR. ARDOLINO: Thank you.

9                   CHAIRMAN MARKOSEK: Very good.  
10 Appreciate you coming.

11                  MR. ARDOLINO: Thank you.

12                  CHAIRMAN MARKOSEK: And that was very  
13 compelling.

14                  Is Mr. Michael Setzer from -- is he  
15 here?

16                  MR. SETZER: Yes. Yes, I'm here.

17                  CHAIRMAN MARKOSEK: Do you want a  
18 break or are you ready to go then?

19                  MR. SETZER: I'm ready.

20                  CHAIRMAN MARKOSEK: Okay.

21 Mr. Setzer, welcome. Come on forward.

22                  Mr. Setzer is the regional vice  
23 president of Veolia Transportation.

24                  Presentation is in the packet, the  
25 very colorful packet.

1                   Sorry. Yes. You may proceed when  
2 you're ready.

3                   MR. SETZER: Okay. Thank you,  
4 Mr. Chairman and members of the committee. I  
5 appreciate the opportunity to visit with you  
6 this afternoon.

7                   My name is Mike Setzer. I'm the vice  
8 president in business development for Veolia  
9 Transportation of North America, which is  
10 based in Chicago; and I'm here today to talk  
11 about public-private partnerships.

12                  Just by way of introducing myself --  
13 I think you have a bio on me -- but the  
14 important point is that I have had the  
15 opportunity in my career to serve a good deal  
16 of time as an executive of some large U.S.  
17 transit systems, Cincinnati, St. Louis, and  
18 Minneapolis-St. Paul, as well as the  
19 opportunity to work on the private side.

20                  So I have had an unusual mix of  
21 experience in both the public and private  
22 sector.

23                  I'm going to talk a little bit about  
24 public-private partnerships and particularly  
25 how they apply to public transit in general,

1 talk a little bit about some models that are  
2 used overseas, and then to talk about some of  
3 the features of public-private partnerships,  
4 and also to talk about -- briefly introduce  
5 you to our company, which is the -- I think  
6 the third page in our slide.

7                 This is not a sales presentation, but  
8 this is the basis of our experience and some  
9 of the viewpoints that I'm going to offer.

10                You see Veolia Transportation is a  
11 very large U.S. operator of transit systems.  
12 We have 20,000 employees in the United States  
13 in various different transportation  
14 enterprises, and these run the range from  
15 commuter rail to light rail to fixed route bus  
16 to paratransit bus to taxi and airport  
17 shuttle.

18                The point is that we have had the  
19 opportunity to do a number of these kinds of  
20 things all over the world but also in the  
21 United States.

22                There's a map on about the fourth  
23 page that shows a dot on each of the cities  
24 where we have transportation operations, and  
25 these also run the range from simply providing

1       a manager to full public-private partnerships  
2       where the -- the facilities and the assets are  
3       privately owned and all of the employees work  
4       for a private company.

5                 There are a variety of different  
6       things, and I'd be happy to go back and talk  
7       about any of those individually, if you wish,  
8       but I think it's more important to move on to  
9       conceptual things.

10               A couple starting points I'd like to  
11       establish at the beginning. Public-private  
12       partnerships sometimes get confused with  
13       outsourcing.

14               Outsourcing, or privatization, when I  
15       use that term, means essentially a cost  
16       reduction strategy. It's a way to put some --  
17       some pressure on costs by putting a private  
18       company in place. And that's -- that's --  
19       that's a choice. That's a legitimate strategy  
20       in many situations.

21               But that's not what we're talking  
22       about when we use the terminology  
23       public-private partnerships.

24               We're really talking about combining  
25       the public sector -- the best of the public

1       sector and the best of the private sector in  
2       ways that produce results that are desirable  
3       to -- to the public sector in particular.

4       Which might include cost control but not  
5       necessarily. That's not the primary feature.

6               There are strengths that the -- the  
7       public sector brings and there are strengths  
8       that the private sector brings.

9               And as one who's served in both of  
10      those capacities, I believe there's great  
11      opportunity in bringing them together.

12               There are some issues that we have to  
13      face any time we talk about a private company  
14      functioning to fulfill a public need.

15               First of all, there's sometimes a  
16      perceived loss of control by the public  
17      agency. You will hear the complaint  
18      occasionally, you can't take our bridge or our  
19      highway, or whatever, and turn it over to a  
20      private company.

21               And, in fact, that is a concern.  
22      However, there are certainly ways to make --  
23      to protect against the -- the legitimate  
24      issues there, to make sure that the public  
25      interest continues to be served by the

1 application of that publicly owned asset.

2 You provide latitude to the operator,  
3 to the private operator, to accomplish the  
4 things you want, without necessarily yielding  
5 ultimate control of that facility.

6 We also run into the concern  
7 occasionally that a profit-making entity in  
8 the public sector is -- is a bad combination,  
9 a misplaced -- a misplaced set of priorities.

10 I'd remind you, though, that up until  
11 recently, up until World War II, public  
12 transportation was provided all over this  
13 country, all over the world, for -- for the  
14 most part by private, for-profit operators,  
15 and especially in this part of the country,  
16 the cities themselves that exist today, like  
17 many cities in Pennsylvania, grew up around  
18 privately for-profit-provided public  
19 transportation facilities.

20 Again, we can create the  
21 accountability in the relationship so that  
22 profit does not become contrary to the  
23 public's best interests.

24 That sometimes takes the form of the  
25 third point here, that the bottom line will

1 trump quality, that a private operator will  
2 always opt for profit whenever there's a  
3 conflict between that and the public's best  
4 interests.

5 There are plenty of examples,  
6 however, where we can fashion the incentives  
7 and fashion the goals so that that is not the  
8 case. Again, it's a matter of creating the  
9 correct relationship.

10 And, lastly, sometimes there's a  
11 perception that this is a anti-labor strategy,  
12 and certainly there have been cases where  
13 outsourcing was designed primarily as a way  
14 to -- to create a counterbalance to organized  
15 labor.

16 That is not necessarily a feature of  
17 a public-private partnership, and that -- that  
18 is entirely up to the public partner to  
19 structure that relationship.

20 Our company, in fact, prides itself  
21 on having very, very effective, very creative,  
22 very strong relationships with organized  
23 labor. Most of our operations use employees  
24 who are represented by a bargaining unit, and  
25 we believe that, in fact, one of our strengths

1       is our ability to work positively and  
2       affirmatively with -- with represented  
3       employees.

4                   So, again, we can always structure  
5       the relationship the way we want. It's a  
6       matter of -- of getting to the right kind of  
7       relationship.

8                   What the private sector can bring are  
9       some things that are harder to come by in the  
10      public sector.

11                  One is flexibility. Private  
12      companies can maneuver and -- and make changes  
13      more readily than public agencies. Not  
14      because they're better managers, but just  
15      because the environment in which they do  
16      things is different.

17                  And so in a very dynamic kind of  
18      project, for instance, in a construction  
19      project, the ability to shift gears and take  
20      advantage of opportunities as they arise can  
21      have significant effects on cost and on -- on  
22      the amount of time it takes to -- to finish  
23      the project.

24                  Private companies also have, because  
25      of that more unfettered nature, have the

1       ability to innovate, the ability to take  
2       advantage of opportunities as they become  
3       available, the ability to incorporate new  
4       technology that came along after the  
5       specifications were written several years  
6       ago.

7                 Private companies also, especially in  
8       a public-private partnership, can provide  
9       one-stop accountability. The correct  
10      relationship with a private consortium can  
11      leave the public partner with only one point  
12      of contact, one place to demand performance  
13      and demand accountability, and eliminate the  
14      potential for various contractors to point  
15      fingers at each other.

16                 Public-private partnerships, as  
17       you'll see in a minute, create that one --  
18       that one point of accountability and of  
19       contact.

20                 There are some cost savings available  
21       sometimes with private companies because of  
22       leaner overheads and more creative management  
23       structures.

24                 Private companies can also bring  
25       additional access to capital, and this perhaps

1       is the single most important issue to raise  
2       with you.

3                 Private companies -- public-private  
4       partners, the private partner will typically  
5       bring financing that has been developed in  
6       private capital markets, and that is sometimes  
7       a distinct advantage, especially to public  
8       partners who have already used up a good deal  
9       of their ability to borrow.

10               The private financing can be faster,  
11       it can be cheaper, depends on the market  
12       conditions, and it can be more flexible and  
13       effective in pulling off large capital  
14       projects particularly.

15               The -- I think the last point I'd  
16       like to make is the private partner in a  
17       public-private partnership can be a little --  
18       a step or two removed from the pushes and  
19       pulls of politics, and that can be an  
20       advantage in getting a project done more  
21       quickly and less expensively.

22               Today, those of us in the field of  
23       public-private partnerships in transportation  
24       have a great desire to create some really  
25       effective examples in the United States, in an

1 American environment, to create effective  
2 examples, because we think there's great  
3 potential for both the public and the private  
4 side of these partnerships.

5           But as -- as you know, each time  
6 we -- we think about doing something that  
7 hasn't been done before, we have to worry a  
8 little about -- about being the pioneer. You  
9 all heard the saying you can tell the pioneers  
10 by the arrows in their backs.

11           So creating the -- creating the --  
12 the model that works in the U.S. in public  
13 transportation environments is a very  
14 important objective for -- for all of us.

15           There are a lot of different ways.  
16 Public-private partnerships are not a single  
17 tool. Public-private partnerships describes a  
18 whole range of tools in the toolbox, and they  
19 can range from -- from contracting just for  
20 the operation of the facility, as is done  
21 fairly commonly in the U.S., all the way down  
22 to designing it, building it, operating it,  
23 maintaining it, and financing it in the first  
24 place.

25           And so there's -- there are any

1           number of -- of combinations of those  
2           functions that can be created in a  
3           public-private partnership, and to date I  
4           don't think anybody believes that the -- the  
5           right recipe has been written. It's a very  
6           dynamic kind of thing, and the best  
7           combination of those may be very taste  
8           specific.

9                 I'd like to talk about how our  
10          private partnerships work in other parts of  
11          the world. This is a -- still a fairly exotic  
12          approach in the United States, but in much of  
13          the rest of the world, particularly Europe, in  
14          fact, it's a fairly well-developed idea.

15                 Typically, if I can just describe a  
16          typical con -- contract in the transportation  
17          sector, the contractor would have a  
18          comprehensive role in operations which we  
19          commonly do in the U.S. also, but also in  
20          marketing, planning, scheduling, product  
21          design, customer relations, customer  
22          satisfaction.

23                 And the combination of all those  
24          things into one is not common in the United  
25          States, but it is, in fact, common in other

1 parts of world. It can involve integrating  
2 modes; bus, rail, taxi, any number of whatever  
3 modes might be applied here. Bicycle.

4 We have a brand new company called  
5 Veloway which provides subscript --  
6 subscription bicycles, which, if you've  
7 visited Europe, you may have experienced.  
8 This is where subscribers can go up to any  
9 bike rack and flash their card, unlock the  
10 rack, take a bike, and pedal it to wherever  
11 they're going, and then leave it in another  
12 bike rack there.

13 This provides a tremendous amount of  
14 flexibility and a great adjunct to public  
15 transportation use when the -- the nearest  
16 train station isn't quite where you want to  
17 go. Quite popular in a number of U.S.  
18 cities -- we have a -- I mean in a number of  
19 European cities. We now have -- just about to  
20 roll out the first American business in  
21 this -- American company in this business.

22 In our typical contract overseas we  
23 also take fare risk. That is, we participate  
24 in the fare box revenues which means that, if  
25 we please people and attract more customers,

1       we benefit and if we displease people and  
2       drive them away, our bottom line takes the hit  
3       for that as opposed to most U.S. engagements  
4       where the -- the public part of the  
5       relationship receives all the fare revenue.

6               We think that the -- participating in  
7       fare revenue risk is an important incentive to  
8       the contractor, to the private provider, in  
9       the partnership in a future that we'd like to  
10      see created in a U.S. environment.

11              This is -- this is really all about  
12       incentives. Fare revenue is one of the  
13       incentives.

14              The whole idea of public-private  
15       partnerships is all about creating the right  
16       incentives so the public partner, having  
17       determined what the goal is, creates a  
18       relationship where the private partner has  
19       incentives, both rewards and penalties, to  
20       achieve those very goals that are -- are  
21       sought after.

22              And typically overseas these are  
23       long-term engagements because capital is  
24       usually involved, and the amount of time it  
25       takes to recover the capital investment means

1 not three- to five-year contracts but ten-,  
2 twenty-, thirty-year contract.

3 I think the reason from the public  
4 side that these partnerships are of much  
5 interest today is that agencies are being  
6 asked to do more with less. How many times  
7 have we all heard that?

8 There's a tremendous desire to  
9 deliver projects more efficiently. We all  
10 know of a number of examples where projects  
11 take too long and incur significant cost  
12 overruns and that -- that model begs for an  
13 alternative that's -- that's quicker and more  
14 efficient. And sometimes these partnerships  
15 can do that.

16 It also allows the public agencies to  
17 avoid staffing up with all the specialized  
18 kinds of skills and skill sets that are  
19 required to deliver a complicated project,  
20 something like the -- the designing, the  
21 building, and the operating of, say, a rail  
22 line. A tremendous number of very specific  
23 skills are required there. If the public  
24 sector has to add all those skills to its  
25 payroll, there are considerable costs that can

1           be avoided.

2                 And the public sector needs to share  
3           some of this risk. Again, thinking of all the  
4           examples you know of cost overruns and -- and  
5           schedule overruns in some major projects, the  
6           public sector, I think, has found the need to  
7           shift some of that risk or to share some of it  
8           with a -- with a partner who can help mitigate  
9           that risk and has a distinct incentive to help  
10          mitigate that risk. And it is a cost control  
11          strategy also in most cases.

12               There's a page here called -- the top  
13          says your public-private partner. This is  
14          simply a list of some examples where Veolia  
15          has participated in -- in full public-private  
16          partnerships with financing, operations,  
17          maintenance, the whole works.

18               For example, the first one, Rouen in  
19          France, it's a -- it's a light rail built from  
20          scratch by the partnership. The partnership  
21          brought the cash, brought the construction  
22          design and engineering capabilities, and  
23          operates the system today, all through a  
24          single contract.

25               A number of other ones are listed

1 there. I won't take -- take our time to go  
2 through those unless during the Q and A you'd  
3 like to go back to those.

4 There's a term here I -- that may be  
5 helpful also. You see the second one we  
6 talked about, Barcelona where we talked about  
7 BOT contracts. That means build, operate, and  
8 transfer.

9 And typically in these contracts one  
10 of the features is that at the end of the  
11 period of time, say 30 years, the entire asset  
12 that has been built by the partnership is  
13 transferred to the public partner.

14 So the -- the public agency ends up  
15 owning the right-of-way, the track, the -- the  
16 equipment, whatever -- whatever is involved in  
17 the project at the end of the -- at the end of  
18 the project.

19 There's an organizational chart in  
20 here, too, and if I can use this as sort of  
21 a -- a basic model. Every one is unique.

22 But here is a model of the way the  
23 public-private partnership structure usually  
24 works in -- in Europe and some other parts of  
25 the world. Right in the center is the

1 concession. That's the European term. The  
2 special purpose company.

3 This is a company that's made up of  
4 several constituent companies beginning over  
5 on the left with the financing partner. This  
6 might be a Merrill Lynch, for instance, or  
7 company like that. A company that has access  
8 to the capital markets.

9 Some engineering procurement and  
10 construction partners. This might be any --  
11 any one of the many engineering firms and  
12 construction firms that work in the -- in the  
13 public sector that you know of.

14 An operations and maintenance  
15 company. This would be a company like ours.  
16 We would hope to be that member of the -- of  
17 the concession.

18 As well as sometimes an independent  
19 systems integrator, particularly if it's a  
20 highly technical project with a lot of  
21 technology involved, there may be a need for  
22 another company that -- that does the  
23 technology integration skill.

24 So what the builders are building is  
25 something that the operators can operate, to

1 put it simply.

2 You see over on the right side  
3 passenger fares? That's what I was talking  
4 about before, a flow to the special purpose  
5 company, not to the local authority.

6 Special purpose company then suffers  
7 or enjoys the revenue results of the project  
8 depending on -- on how they turned out.

9 And then as a single contract -- and  
10 this is the single point of accountability  
11 that -- that I wanted to bring to your  
12 attention, that blue arrow between the local  
13 authority and the special purpose company.

14 The -- the local government can go  
15 only to that single company and -- and hold  
16 them accountable for on time, on budget, for  
17 operational characteristics or quality, all of  
18 those things. And whatever pushes and pulls  
19 there are among the constituents are entirely  
20 in the family, not the -- not the local  
21 government's problem.

22 So, lastly, there -- making it work  
23 means a real commitment on the part of both  
24 partners to making it work.

25 Design -- understanding clearly what

1 it is we wish to accomplish and then designing  
2 a relationship around those goals is the key.  
3 Making the incentives for the private partner  
4 line up with the goals of the public partner  
5 is the key.

6 For instance, in Stockholm, we run --  
7 we built and run the subway system for the  
8 city of Stockholm. We -- we receive the  
9 fares. We also receive payments from the city  
10 that vary based on customer satisfaction.

11 A third party surveys customers and  
12 the operating subsidy payment from the city  
13 varies depending on the level of customer  
14 satisfaction.

15 That's one where the incentives were  
16 made to line up with the city's primary  
17 interest in pleasing customers and -- and  
18 providing a desirable mode of commuting  
19 without using an automobile inside Stockholm.

20 So those are some very general  
21 principles. I purposely kept this very  
22 general. I'd be happy to ask  
23 customers (sic).

24 And the last page is a -- is a  
25 photograph we just particularly like to use.

1 Think big but not too big.

2                   Public-private partnerships now  
3 are -- are a way -- offer great opportunity  
4 but must be done thoughtfully and carefully to  
5 meet the goals of both partners in the  
6 partnership.

7                   So thank you very much for your  
8 attention. I'd be happy to respond to  
9 questions.

10                  CHAIRMAN MARKOSEK: Okay. Thank you  
11 very much. And the first person to ask  
12 questions is the guy that has his picture in  
13 the paper there, Representative Pyle. Kind of  
14 reminds me of you. You're first up.

15                  REPRESENTATIVE PYLE: Although it's  
16 true I have the strength of 10,000 ordinary  
17 men, I've never actually held up a train,  
18 Mr. Chairman. But thank you.

19                  Mr. Setzer, thank you. That was  
20 incredibly informative, but I have a couple of  
21 questions.

22                  You had -- you had mentioned prior to  
23 World War II most of our public transportation  
24 systems were indeed private holdings. Now,  
25 we've moved into the public sector for 60

1 years. Every year -- it seems like every year  
2 they come for more money.

3 What would make privatization, such a  
4 thing, possible now? I -- I don't know what  
5 has changed that would now allow private  
6 interests to be a feasible option.

7 MR. SETZER: When I -- when I  
8 speak -- Representative, good question.

9 When I speak of public-private  
10 partnerships, the public part of the  
11 partnership is -- is essential. This is not a  
12 way for the private sector to replace the  
13 public sector, and it's certainly not a  
14 solution that works in every situation.

15 There is no question in my mind that  
16 an operating subsidy will continue to be  
17 necessary whether -- whether -- at least for  
18 the near term, meaning the next 30 or 40  
19 years, whether a public -- whether a private  
20 party is engaged in this or not.

21 The -- where it works is where the  
22 efficiencies in financing and the efficiencies  
23 in project development are great enough that  
24 the public side of the partnership decides  
25 they'd prefer to do it that way than some

1 other way.

2 It's not -- it is not a suggestion  
3 that private works better than public, because  
4 that's not -- clearly not the case.

5 REPRESENTATIVE PYLE: A couple more,  
6 Mr. Chairman.

7 You said P-3s, because of the  
8 business aspect you need to create properly,  
9 is the bottom line. Avoid high staffing  
10 contexts and use specialized tax incentives.

11 With your -- with your knowledge of  
12 our current Pennsylvania public transportation  
13 system, is this -- is this a problem for us?

14 MR. SETZER: Well, first of all,  
15 Representative, I -- my knowledge of public  
16 transportation in Pennsylvania isn't all that  
17 great.

18 In -- in the case of operating  
19 knowledge, it's probably pretty -- in the  
20 larger systems at least, it's very well  
21 developed, I think. I know a few people at,  
22 for example, the Port Authority in Pittsburgh  
23 and they're generally considered in our  
24 industry to be very, very good at what they  
25 do, very professional.

1           I think it's more in the large  
2 project development where -- where you're  
3 building something new, where there's a  
4 temporary but intense need for engineering  
5 skills or environment remediation skills.

6           These are the kinds of skills that  
7 even the largest agencies often don't have on  
8 staff and could only add at a pretty high  
9 cost, whereas a private operator who might be  
10 doing these projects in many places could  
11 bring those skills and charge the public only  
12 for the amount of that that they need. They  
13 wouldn't create a permanent -- a -- permanent  
14 salaried positions for instance.

15           REPRESENTATIVE PYLE: One last one,  
16 Mr. Chairman, and then I'll conclude.

17           You had mentioned the light rail  
18 project in Rouen, France and listening to what  
19 our previous speaker, Mr. Ardolino -- who had  
20 mentioned the Allegheny -- Allegheny Valley  
21 light rail system.

22           Would it be possible for me to get  
23 more information from you and Mr. Ardolino,  
24 because I think what he's calling Allegheny  
25 Valley is actually Alle-Kiski Valley project?

1 I'm in the Allegheny Valley.

2 Hey, it's baseball, too.

3 I'm just curious. Are there any

4 other forms of information and websites,

5 anything like that you can point us to?

6 Because this interests me very much.

7 And I know I'm not speaking for him,

8 but Representative Pallone has been a very

9 strong advocate of the -- of the New

10 Kensington connector and I'm sure he'd like to

11 see it as well.

12 MR. SETZER: I think there are a

13 number -- a number of sources. Are you asking

14 specifically about public-private partnerships

15 or about --

16 REPRESENTATIVE PYLE: Well, I'm very

17 interested in the P-3s, but specifically with

18 the light rail project. I'm curious as to how

19 they structured the Rouen light rail. You

20 said private --

21 MR. SETZER: Right.

22 REPRESENTATIVE PYLE: Is used for the

23 actual construction, engineering, and design

24 implementation.

25 In that sense what was the public

1 part of this deal? Where is the partnership  
2 as opposed to this just being a private  
3 enterprise?

4 MR. SETZER: Representative, I'll  
5 have to get some more information to you. I  
6 don't have a great deal of experience with  
7 that particular project, and so I can't tell  
8 you now.

9 But I'm sure there's information  
10 available. I'll provide it to the committee.

11 REPRESENTATIVE PYLE: Thank you.

12 And, Mr. Chairman, if you need  
13 somebody to go inspect this light rail, I mean  
14 I might be available.

15 CHAIRMAN MARKOSEK: Greensburg, yeah,  
16 it runs to Allegheny County.

17 REPRESENTATIVE PYLE: The one I'm  
18 referring to?

19 CHAIRMAN MARKOSEK: Oh, Rouen.

20 REPRESENTATIVE PYLE: I'd be willing  
21 to carry your luggage.

22 CHAIRMAN MARKOSEK: Yeah.

23 Thank you. Anything you want to  
24 submit, if you can submit it to the -- to the  
25 chair, we'll distribute it to the members.

1                   MR. SETZER: I'll do that

2 Mr. Chairman, yes.

3                   CHAIRMAN MARKOSEK: Chairman Geist.

4                   REPRESENTATIVE GEIST: Thank you very  
5 much. I think your presentation was  
6 excellent. Very, very straightforward and  
7 easy to understand.

8                   Tell me a little bit about the  
9 financing background and how it is your  
10 company brings it to the table and also the  
11 ability to expedite projects.

12                  In Pennsylvania it takes us about 14  
13 years from the time we say go to build a  
14 highway, and I know that all over the world  
15 P-3s have operated and moved much, much more  
16 rapidly than that.

17                  And the third question is, do you  
18 have any success in getting Corps of Engineer  
19 permits?

20                  MR. SETZER: Thank you for the  
21 question. Let me take -- three questions, I  
22 think. Let me take them -- take them one at a  
23 time.

24                  The -- the -- the first question was  
25 about the financing. In a -- in a very small

1 project, say a hundred million dollar light  
2 rail or streetcar project, for instance,  
3 Veolia would be likely to finance that  
4 itself.

5 Veolia is a very large global  
6 corporation, about 40 billion in revenues last  
7 year. And so in some situations we will act  
8 as a bank by ourselves. It depends on the  
9 size of the investment.

10 More often, we would bring in a  
11 financing partner, like a Goldman Sachs or a  
12 Merrill Lynch, and take a position, make an  
13 investment in that special purpose company,  
14 but not be the sole financer.

15 There is, in fact, I'm told -- and  
16 I'm way out of my league here -- there's a  
17 great appetite in the financial markets now  
18 for investments like these that are -- are  
19 ultimately backed by tax dollars as opposed to  
20 some other investments that haven't done so  
21 well as of late.

22 So it depends on the project, where  
23 the money would come from originally and who  
24 would participate in the financing.

25 I think the second question was about

1           our ability to expedite projects. And  
2           particularly in the transportation field, I  
3           think this is -- this is a good time to do  
4           that.

5           For -- for the last 40 years or so  
6           the creation of capital intensive public  
7           transportation projects has all been driven by  
8           the federal capital grant process, which was a  
9           very robust process back in the '60s when it  
10          started, when you could get 80 percent federal  
11          money to build a project and when the  
12          requirements to get that money and to run the  
13          project were -- were pretty modest.

14          Well, what's happened over the years,  
15          which I suppose is no surprise, is that the  
16          amount of money available has gone way down  
17          but the requirements, the red tape, if you  
18          will, that go with it has gone way up. So  
19          that a rail project today would take six to  
20          seven years, at the very best, from the  
21          decision by the local government to -- if they  
22          use federal funds, the decision by the local  
23          sponsor to proceed, until the time the first  
24          spade of earth is turned.

25          And that's the best. Some

1 projects have gone -- in fact, I have great  
2 familiarity with the Hiawatha light rail  
3 project in Minneapolis which took 30 years  
4 from the initial conception to the turning of  
5 the -- the first shovel of earth.

6 Largely, not entirely, but largely  
7 because of the federal requirements, which as  
8 you may know, they go -- you go one step at a  
9 time in the new start process. Initial  
10 design. Submit it to the feds. Wait.

11 You can't go to the next step. You  
12 can't start preliminary engineering until some  
13 of that has been approved.

14 Alternative's analysis, submit it.  
15 Wait. Preliminary engineering, submit it.  
16 Wait. All the NEPA requirements, environment  
17 requirements, submit. Wait. That adds both  
18 dollars and -- and time to the -- to the  
19 project.

20 When a public-private partnership  
21 does it, you can -- you can commence some of  
22 these steps without waiting for that  
23 approval. You may still apply federal money  
24 eventually, but you need not wait for that  
25 kind of approval.

1                   At least conceptually that's the  
2 case. Nobody has done it in the U.S. yet.  
3 The -- the federal requirements permit capital  
4 cost of contracting in a private engagement to  
5 be covered with federal capital funds.  
6 Although, as I say, it hasn't really been done  
7 on a large scale project yet. So at least  
8 there's that possibility.

9                   So if you can take three years out of  
10 the beginning of the project by sort of going  
11 express through those requirements, if I can  
12 use that terminology, then whatever -- you  
13 take some cost out and perhaps, more  
14 importantly, the public sector harvests  
15 whatever the benefits are.

16                  If it's improved property value, if  
17 it's improved competitiveness of the city  
18 versus some other cities, they begin to  
19 harvest those benefits three years sooner.

20                  And that's really -- that's really  
21 the thought process that the public partner  
22 has to go through. Are we going to pick up  
23 enough advantage by starting sooner that we're  
24 willing to -- to pay the costs of financing  
25 this thing in the first place?

1           Much -- much -- it's much the same  
2           thought process that we all went through when  
3           we bought our house. Rather than waiting till  
4           we had all the cash in the bank, we took a  
5           mortgage because we anticipated that the  
6           benefits of getting it sooner would be greater  
7           than the cost of doing so.

8           And your third question was about --  
9           army corps of -- corps permits. No, I don't  
10          have any experience with that. There may be a  
11          way. I don't know about it yet though.

12          CHAIRMAN MARKOSEK: Okay. Thank you.

13          Representative Tina Pickett.

14          REPRESENTATIVE PICKETT: Thank you,  
15          Mr. Chairman.

16          Thank you for your testimony. I view  
17          our time here in the legislature right now as  
18          taking a solid look at our next century of  
19          transportation, I guess, in -- in Pennsylvania  
20          and looking far ahead and trying to really  
21          plan a success for Pennsylvania out in the  
22          future.

23          When I look at your map of  
24          operations, I'm quite impressed. You have a  
25          lot of operations in this country. I didn't

1 realize that.

2 So being probably a very proactive  
3 company and looking for where you might be  
4 able to go to do some business and make some  
5 investments, have you looked at Pennsylvania's  
6 transportation needs, say, for the next decade  
7 or two and could you specifically pinpoint  
8 some projects that you think should be on the  
9 top of the consideration list if we were to  
10 look at doing business in this fashion?

11 MR. SETZER: Representative, I -- I  
12 apologize. I don't know very much about  
13 Pennsylvania's needs. I'm actually a pinch  
14 hitter today for -- for Mr. Hartman who has  
15 been working with you for some time now. So I  
16 apologize for my -- for my lack of information  
17 about that.

18 In general, I would say that a  
19 public-private partnership is a -- is an  
20 alternative to be considered where there are  
21 capital needs that -- that cannot be readily  
22 met out of existing state and federal sources,  
23 or where there's a -- sort of a innovative  
24 opportunity where we're doing something new,  
25 where there's no really good cookbook for how

1 to do this new thing, where I think a private  
2 entrepreneurial kind of company could -- could  
3 explore those options more easily than  
4 government can.

5 Instead of fulfilling a very detailed  
6 specification, we would be trying to create an  
7 economically successful version and so we  
8 would be looking for new technology, quicker  
9 construction methods, those kind of things.

10 So I think that's an opportunity for  
11 public-private partnerships.

12 And I also think -- here I'm going  
13 back to my -- my days as a chief executive on  
14 the public side. There -- there are things  
15 that public agencies do very, very well; but  
16 oftentimes we have too many tasks. We're  
17 asked to do too many different things.

18 So, for instance, in Cincinnati,  
19 where I worked recently, we outsourced to  
20 another company the operation of our  
21 paratransit system because there's a big  
22 technology component and we didn't think we  
23 were very good.

24 We think we do a great job at running  
25 fixed route bus service. And we think we do

1           that as efficiently as anybody and never had  
2           much interest in bringing in a private partner  
3           on that.

4           We have had great success in bringing  
5           in partners on the paratransit area because  
6           they have the ability to and the flexibility  
7           to work with technology and really improve  
8           some things for our customers without adding a  
9           lot of the costs.

10          So those would be the principles I'd  
11         look at in looking for a good place to apply  
12         this idea.

13           REPRESENTATIVE PICKETT: Thank you.

14           CHAIRMAN MARKOSEK: Representative  
15         Mark Longietti.

16           REPRESENTATIVE LONGIETTI: Thank you,  
17         Mr. Chairman.

18          Our previous presenter had mentioned  
19         the idea of having local approval prior to  
20         entering into a public-private partnerships on  
21         any particular project.

22          Do you have any view on that in your  
23         experience?

24           MR. SETZER: Yes, Representative. I  
25         think the -- when I say partnership, I

1 really -- I really mean partnership. That's  
2 one -- that's one of the distinctions between  
3 this and simply outsourcing something.

4 The public partner in one of these  
5 partnerships has to be fully engaged from the  
6 beginning. So one of the -- one of the points  
7 I tried to make in describing how -- how  
8 successful it works, is there's a lot of time  
9 and thought early on in what -- what's the  
10 public agency's role and what's the private  
11 company's role.

12 This is not a situation where the  
13 public agency abandoned, signs a contract and  
14 then walks. It's rather one where there's a  
15 long-term creative involvement and the  
16 relationship is structured so the public  
17 agency has the tools it needs to be able to  
18 look to the citizens, look to the taxpayers,  
19 and say, oh, yes, we are -- we are in control  
20 on this. These -- we know what's going on.  
21 These assets will be ours eventually. We --  
22 we are confident that we're -- we're going to  
23 deliver to you -- we, the partnership, are  
24 going to deliver to you, the public, a first  
25 quality operation at -- at a reasonable cost

1 because we have approval on this and we have  
2 approval on that and we have this kind of  
3 working relationships.

4 The good relationships that we have  
5 with local government are very -- are very  
6 much partnership oriented.

7 And I've been on both sides of those  
8 partnerships. There are good ones and there  
9 are not so good ones.

10 I know that's very general,  
11 Representative. I don't know if that responds  
12 to your question.

13 REPRESENTATIVE LONGIETTI: Yeah. I  
14 was just trying to get a feel because I heard  
15 our prior presenter, he was talking about the  
16 need for -- instead of this -- the concept --  
17 well, the concept may flow from the state  
18 level, but for a specific project, instead of  
19 the state government here in Harrisburg  
20 saying, well, we're going to do this project  
21 as a P-3, he thought, if I understood him  
22 correctly, that it ought to bubble up from the  
23 local. The local municipality should first  
24 say, yes, we agree. We think this is a good  
25 P-3 project. And then it goes up to the state

1 level for the state to say we also agree.

2 Let's move forward.

3 MR. SETZER: If I could offer one

4 example I have a lot of familiarity with.

5 It's not a full scale P-3, but it was a

6 design-build construction project. The

7 Hiawatha light rail line in Minneapolis is a

8 \$715 million project which we did using

9 design-build.

10 And essentially the way that works is

11 the public agency, metropolitan council in

12 that case, produced a project where

13 engineering was at about the 30 percent

14 stage. It was all the way through preliminary

15 engineering.

16 That's the spec against which the

17 private consortia bid, and we eventually

18 selected a group of designers and build -- I

19 was on the public side in that case.

20 We selected a group that included

21 some -- some designers, some engineers and

22 some construction generalists and construction

23 specialists, and they all worked to that 30

24 percent spec that we put out.

25 Ultimately, the result was very

1 good. It came in -- most of it came in six  
2 months early. A little bit of it came in  
3 right on time. None of it came in late. And  
4 it came in on budget.

5 It's an unusual thing for a rail  
6 project these days. And I think it's because  
7 the public agency did that preliminary  
8 engineering well and then put -- then we put  
9 the onus on the private designers and builders  
10 to deliver on that.

11 It was a very active relationship.  
12 It wasn't like, here's the contract, call us  
13 when it's ready. We were engaged in a daily  
14 dialogue, sometimes an arm wrestling with the  
15 private providers.

16 But they, I believe, made a profit at  
17 the end, and the public got a very effective,  
18 very successful transportation project on time  
19 and in budget.

20 REPRESENTATIVE LONGIETTI: Well, I  
21 want to understand this a little better, how  
22 the money flows in all of this.

23 One of your examples -- and I think  
24 you talked about some of the overseas projects  
25 your company has been involved on -- in where,

1 if I understand you correctly, your company  
2 was the contractor to build the project and  
3 then it also became the operator after it was  
4 built.

5 And you indicated in many cases you  
6 have to find financing from -- from the -- you  
7 know, from a player like a Goldman Sachs.

8 How does that work on the public  
9 end? Does the public sector over time make  
10 payments toward the construction of a project,  
11 then also pay a management fee to your company  
12 to operate?

13 You indicated in some cases you take  
14 fare risks and participate in the fare box.  
15 What percentage of the fare box do you  
16 generally receive?

17 I'm just trying to understand how the  
18 money flows.

19 MR. SETZER: Well, Representative, I  
20 think there are any -- any number of different  
21 versions of that.

22 But those are all variables and a  
23 specific engagement might include any of  
24 those.

25 In its simplest form there might be a

1       30-year engagement that starts at the  
2       preliminary engineering stage where the public  
3       agency has created and done preliminary  
4       engineering on a project.

5           Let's say it's a street car line  
6       that's two miles long. It would then consider  
7       proposals from private providers. And so a  
8       company like ours would team up. We'd want to  
9       be the operators. That's really what we do.

10          So we team up with an investment  
11       banker and an engineering firm and a  
12       construction firm and maybe some other  
13       specialists, depending on what the project is,  
14       and we propose that you -- the public agency  
15       pay us \$10 million a year for the next 30  
16       years. And that we would collect the --  
17       that's -- that's not a specific project. But  
18       just a number like that.

19          And so our job then would be to  
20       recover our investment in the -- in the  
21       initial capital investment, plus make --  
22       between operating revenues, fare box and other  
23       things, maybe like advertising, or there might  
24       be some other opportunities for investment --  
25       for revenue there, plus the payment from the

1       public agency, if we -- if we plan this well  
2       and managed it well, then we make money. And  
3       if we don't, then we don't make money. But  
4       from the public agency's point of view the  
5       cost is fixed.

6               That's -- that's an oversimplified  
7       version, but that would kind of be the basic.  
8       The public agency might say we want to -- we  
9       want to move the costs toward the back end.  
10      We don't want to be paying you this much while  
11     you're building it. So you might change the  
12     payment schedule and then -- it would be a  
13     very negotiated kind of thing.

14              But -- but from the public's point of  
15       view there's just one payment to one  
16       consortium, and whatever -- whatever struggles  
17       there are between the builders and the  
18       operators, which is a classic -- classic kind  
19       of difference of -- viewpoint would be --  
20       would be all within that -- that private  
21       company and the public agency wouldn't have to  
22       deal with that at all.

23              So if -- if the private -- if the  
24       engineer wants to do it real cheap, but the  
25       operator says, no, that's going to cost me

1 over 30 years, then that headbutting takes  
2 place off stage between the private  
3 constituents of the special purpose company,  
4 and the local government doesn't have to  
5 participate in it.

6 REPRESENTATIVE LONGIETTI: Where you  
7 share in the fare revenue, are you able to  
8 give a range of percentage that your company  
9 normally receives in an arrangement like  
10 that?

11 MR. SETZER: In some cases,  
12 Representative, it's all of the fare revenue.  
13 And that -- again, that's up to the public  
14 agency to decide how much of that they want.

15 So our cost -- our proposal to the  
16 public agency would be -- would -- would gauge  
17 what we thought we would get from the  
18 private -- from the fare box revenues.

19 So if we get all the fare box  
20 revenue, then our -- our -- our subsidy  
21 expectations to the public agency would be  
22 less.

23 But I think -- I think it's most  
24 often a hundred percent. Because once you  
25 make that choice to incent the private

1 providers with fare box revenue, then there's  
2 really not much revenue to -- to keep some of  
3 it back.

4 REPRESENTATIVE LONGIETTI: Thank you,  
5 Mr. Chairman.

6 CHAIRMAN MARKOSEK: Representative  
7 Wheatley.

8 REPRESENTATIVE WHEATLEY: Thank you.  
9 Thank you, Mr. Chairman.

10 A question, or several. When you  
11 were in Cincinnati, does Ohio have this type  
12 of scenario set up for you to use  
13 public-private partnerships?

14 MR. SETZER: Representative, no.  
15 Ohio, there's no prohibition on it, but there  
16 are no actual projects.

17 As I was mentioning earlier, this is  
18 a relatively new idea in the U.S. So in  
19 almost any state you would not find working  
20 examples beyond -- in public transportation.

21 You would find it in highway  
22 construction and some other areas. You would  
23 find it very common in -- and Veolia is also  
24 in this business -- in water. The provision  
25 of water and waste water treatment is often

1           done with public-private partnerships that  
2           involve investment of private capital. But  
3           it's still a pretty exotic idea in public  
4           transportation.

5                   REPRESENTATIVE WHEATLEY: So just so  
6           I'm clear, because I'm -- I'm listening and  
7           I've been trying to read up on this and  
8           sometimes it's very -- the lines kind of keep  
9           moving on me.

10                  MR. SETZER: Yes.

11                  REPRESENTATIVE WHEATLEY: We're  
12           talking about -- because I've heard and I  
13           think I've read that there are some public and  
14           private partnerships that are operating right  
15           now, even within the confines -- maybe not to  
16           the degree that you're talking about, but  
17           there are -- I mean, for example, the  
18           paratransit, you talked about that.

19                  I know that in our local region we're  
20           doing some of that with a public and a private  
21           partnership.

22                  MR. SETZER: Uh-huh.

23                  REPRESENTATIVE WHEATLEY: So what  
24           you're talking about is a more extensive  
25           partnership than that and that needs to be

1 more -- I guess does that need to be  
2 legislated?

3           Because what I also heard you say is,  
4 like in any partnership, people come together  
5 around common goals of how they think their  
6 interests will be met best.

7           And so do we have laws that prevent  
8 us from coming together when we think there  
9 are something that's to our advantage and  
10 there's a private entity that is willing to  
11 help us coming together, do we have something  
12 in the law that prevents us from doing that,  
13 that requires us to do a law that allows for  
14 it to happen?

15           MR. SETZER: Representative, I'm not  
16 a lawyer and so I -- and I'm not -- certainly  
17 not familiar with Pennsylvania statutory law.

18           In -- in most states that I know of  
19 there is no need to -- there's no prohibition  
20 in state law.

21           In -- in Colorado, I do know that  
22 there have been some changes in state law, not  
23 because it was prevented. And Colorado, by  
24 the way, is kind of a leader in this. So  
25 Denver is planning to build out four new

1       lines. They already have two light rail  
2       lines. They're going to build out four new  
3       lines probably using public-private  
4       partnerships because they think they can  
5       deliver what they promised the public faster  
6       and in budget only by doing that.

7                 But in Colorado they changed -- they  
8       made some changes in law so that the public's  
9       ability to borrow money at tax free rates  
10      could be -- you could take advantage of that.  
11      You could do this -- and I don't understand  
12      how this works, because I don't know a lot  
13      about finance.

14                But you could take private providers'  
15       access to capital markets and public agencies'  
16       ability to borrow at municipal interest rates  
17       and marry those together so they got the  
18       cheapest financing costs.

19               That may require a change -- that did  
20       require a change in Colorado. That might  
21       require a change here, too. I just don't  
22       know.

23               REPRESENTATIVE WHEATLEY: Okay. So,  
24       again, just so -- if I may, just so I'm clear,  
25       what we're talking about here is a more

1 extensive, closer to what other countries are  
2 doing and have been doing as a way to kind of  
3 model this, and you're suggesting -- because I  
4 think you made a very significant point, at  
5 least for me -- is you're not suggesting in  
6 and of itself the public or private can handle  
7 our transportation needs better than the  
8 public can.

9                   What you're saying is when there's  
10 opportunities to take advantage of a  
11 partnership, we should look at all the tools  
12 that are available for us to do that and if  
13 private industry can come to the table with  
14 public participation and make it happen, then  
15 we should take advantage of it. When it  
16 doesn't make sense, we should back off of it.

17                   So I just want to make sure that --  
18 you know, that I'm hearing --

19                   MR. SETZER: Yep.

20                   REPRESENTATIVE WHEATLEY: -- what  
21 you're saying.

22                   MR. SETZER: Representative, you put  
23 it very well. We don't think that private  
24 managers are better than public managers, and  
25 I can tell you having been both the only

1 difference is that -- that public managers get  
2 to review their mistakes in public and private  
3 we hope not.

4                 But, you know, it's -- it is very  
5 opportunistic. There are many cases where  
6 there isn't any advantage in combining public  
7 and private, but there are specific cases  
8 where there may very well be and I would -- I  
9 would look for those.

10               And when I answered the question  
11 earlier where accelerating the process would  
12 deliver benefits to the public, where  
13 financing is just not available but you still  
14 want to do the project or where there's a need  
15 for a lot of flexibility and innovation,  
16 that's where private managers can bring  
17 some -- some additional capabilities.

18               But the word partnership is not just  
19 a nice sounding term here. It really would  
20 have to be a partnership between both.

21               REPRESENTATIVE WHEATLEY: And I think  
22 I heard you at the end say, too, that at some  
23 point these things that are created will  
24 eventually come back into the public hands at  
25 some point even if the agreement is ten years,

1 twenty years, it is not looked to be, you  
2 know, a long-term, you know, final give-away  
3 to a private industry or a private company.  
4 It is to get it started, get it completed, and  
5 get it functional and then back into the  
6 public.

7 MR. SETZER: Yes, Representative.  
8 That's usually the way it works, that at the  
9 end of this period of time the public ends up  
10 owning the assets.

11 REPRESENTATIVE WHEATLEY: Thank you.

12 CHAIRMAN MARKOSEK: Okay. Thank you.

13 Chairman Ron Marsico.

14 REPRESENTATIVE MARSICO: Thank you,  
15 Mr. Chairman.

16 I simply yield to my good friend and  
17 neighbor in Perry County, Representative  
18 Keller, but before I do that I want to say  
19 thank you for your information.

20 MR. SETZER: You're welcome. Thank  
21 you.

22 REPRESENTATIVE MARSICO: It was very  
23 good information.

24 MR. SETZER: Thank you.

25 CHAIRMAN MARKOSEK: Representative

1 Keller.

2 REPRESENTATIVE KELLER: Thank you,  
3 Mr. Chairman.

4 Thank you for your testimony, sir.

5 Quick question. As I think through the -- the  
6 company that you represent and the  
7 private-public partnership, I'm trying to get  
8 a handle around the fact that, you know, your  
9 presentation today speaks a lot about rail and  
10 how your company has continued to be a partner  
11 in rail and that type of transit.

12 My question is the actual stations  
13 themselves, would that also be part of a  
14 private-public partnership as like an  
15 intermodal rail station that, you know,  
16 would -- would address rail, bus, transit,  
17 air, you know, the whole gamut?

18 MR. SETZER: Representative, it  
19 certainly could be. Particularly in Asia,  
20 that is the common formula. Most of the big  
21 rail systems in large Asian cities are also  
22 real estate developers and operators.

23 In fact, they subsidize the operation  
24 of the transportation by -- by the development  
25 around the station. I think that's --

1       that's -- whether or not that's included in a  
2       project depends on the project. It's not --  
3       it doesn't have to be, but it may very well be  
4       that that's a way to capture some real estate  
5       income and direct it to the transportation  
6       operation if -- if that's desirable and if  
7       that's -- if it's even feasible in a  
8       particular project.

9                   So that the stations could be as  
10       simple as a concrete platform with an overhang  
11       or they could be as exotic as Grand Central  
12       Station I suppose.

13                   REPRESENTATIVE KELLER: All right.  
14       Thank you.

15                   Thank you, Mr. Chairman.

16                   CHAIRMAN MARKOSEK: Okay. Thank  
17       you.

18                   Seeing no other questions,  
19       Mr. Setzer, thank you. I know you're a late  
20       inning substitute, you're a pinch hitter, but  
21       you hit a home run.

22                   MR. SETZER: Thank you very much,  
23       Mr. Chairman.

24                   CHAIRMAN MARKOSEK: Very good  
25       testimony. Thank you very much.

1 MR. SETZER: Thank you.

2 CHAIRMAN MARKOSEK: Okay. Next,

3 Mr. Toby Fauver from PennDOT, which had  
4 about -- excuse me. He's the Deputy Secretary  
5 for Local and Area Transportation. I just  
6 know him as Toby. Sorry about that. With  
7 PennDOT, of course.

8 And he's going to chat a little bit  
9 about privatization and the -- some potential  
10 privatization with transit.

11 Then we have three transit agency  
12 folks that I'd like to bring up after you're  
13 finished, the three of them together, if  
14 that's possible, and move from there. So --

15 DEPUTY SECRETARY FAUVER: Okay.

16 Great. Thank you.

17 Many -- many people know me as Toby  
18 because I'm pretty easy to get along with and  
19 I recognize many friendly faces here.

20 I was asked to come talk a little bit  
21 about the requirement in Act 44 that required  
22 systems that get funding greater than \$5  
23 million from Act 44 to evaluate the  
24 feasibility of partnering with private service  
25 providers and financial partners as a method

1       of -- to operate new or existing services.

2                  We have eight systems in the state  
3       that receive five million or more in funding  
4       from Act 44, and we have eight systems that  
5       submitted a report on time, which was, you  
6       know, good and we like to see that.

7                  Let me just say, first of all,  
8       that the -- the legislation required that the  
9       systems produce a report and submit that.  
10      We -- we did not participate in the studies  
11      that the systems conducted.

12                 We did, however, provide a few  
13      friendly reminders along the way to the  
14      systems to ensure that they met the deadline  
15      and gave them a few thoughts on things that  
16      they might want to include in their report in  
17      terms of an outline.

18                 The systems, the eight systems are  
19      SEPTA in Philadelphia, Port Authority of  
20      Allegheny County, Berks Area Reading  
21      Transportation Authority in Reading, Cambria  
22      County Transportation Authority in Johnstown,  
23      Capital Area Transit in Harrisburg, County of  
24      Lackawanna Transit System, Erie Metropolitan  
25      Transportation System, and the Lehigh and

1 Northampton Transportation Authority, and I  
2 think the next three, those three systems that  
3 follow me are SEPTA, Port Authority, and the  
4 Capital Area Transit here in Harrisburg, are  
5 going to be able to talk specifically about  
6 their reports.

7                   So I'll just talk a little bit about  
8 private contracting for public transportation,  
9 what some of the challenges are, and then give  
10 you a few highlights from the other systems  
11 that you're not going to hear from today.

12                  First of all, I'd like to start off  
13 by talking very briefly about Act 44 and the  
14 major change that took place in Act 44.

15                  I know Act 44 as a -- as a piece of  
16 legislation often gets linked to tolling  
17 Interstate 80, and that's an important piece  
18 of Act 44 and is a major funding piece of Act  
19 44.

20                  But let me tell you that Act 44 is a  
21 landmark piece of legislation when it comes to  
22 public transportation, that -- the funding  
23 programs and the way the programs are  
24 delivered and oversight on those programs.

25                  We've had prior to Act 44 a whole

1           layering of funding. Every time there was  
2           another transit funding crisis there was  
3           another layer added. In 1991 we had a layer  
4           added. In 1997 we had a layer added.

5                 And there was a series of  
6           requirements that went along with those  
7           layers, different matching requirements,  
8           different eligible uses for funding, and it  
9           created a -- a real nightmare in terms of  
10          administration for the program and also  
11          reporting requirements, but not real good in  
12          the way of performance and oversight related  
13          to the way the legislation worked.

14                And so another Einstein quote that's  
15          always good, that I like to use, is insanity  
16          is doing the same thing over and over again  
17          and expecting different results. And that's  
18          one of my favorite quotes because change is --  
19          is really necessary to improve things.  
20          Constant change.

21                Act 44 was a major change in the way  
22          programs are delivered. Some of those changes  
23          included consolidating all the existing  
24          background funding programs, putting them  
25          together in two programs that make sense.

1            You got an operating program and a  
2 capital program. And the operating program  
3 and the capital program are separate and  
4 distinct and can't -- you can't put the  
5 capital money into operating, and nor can you  
6 put operating money into capital. There's  
7 no -- no little tricks there to make that  
8 work.

9            And funding is distributed on a -- on  
10 a formula that makes sense. It's distributed  
11 on the number of passengers you carry, the  
12 number of senior passengers you carry, the  
13 number of vehicle miles that you operate, the  
14 number of vehicle hours that you operate.

15           So there's performance built into the  
16 formula. If you don't carry very many  
17 passengers, you don't get very much funding  
18 for that piece of the formula.

19           Then there's also four minimum  
20 performing -- or four performance standards  
21 for which we're establishing minimum criteria  
22 and regulation. We're working on the  
23 regulations currently with the transit  
24 industry and within the department.

25           There are -- the legislation also

1 provided for more department oversight than  
2 has ever been in place before.

3           In fact, before, in the old  
4 legislation, there were management performance  
5 reviews, but the management performance  
6 reviews were conducted by the transit  
7 agencies, produced by the transit agencies,  
8 and then submitted to the department. The  
9 department is supposed to track their -- the  
10 actions that was produced by those performance  
11 reviews.

12           The department wasn't set up to be  
13 able to go in and do those reviews. Now this  
14 legislation sets the department up into --  
15 into an ongoing performance monitoring  
16 system.

17           We can go in and do performance  
18 audits on systems or enabled to do that under  
19 this legislation as we plan to do.

20           There's various experiences in  
21 private contracting around -- around the  
22 Commonwealth and around the country. You've  
23 heard on public-private partnerships. You've  
24 heard on private contracting this morning or  
25 earlier related to public transportation.

1           What makes private contracting  
2 interesting? Well, first of all, you have  
3 market competition. And that's important. If  
4 you create market competition or have some  
5 basis for market competition, in theory you  
6 improve customer service and you control or  
7 help to control or manage costs. And you  
8 heard from some of the earlier presenters on  
9 those topics.

10           There's four main areas in public  
11 transportation that you can look at private  
12 contracting. Really in capital equipment,  
13 capital construction, maintenance, ongoing  
14 maintenance of equipment, ongoing maintenance  
15 and repairs of equipment, and then large scale  
16 maintenance, such as outsourcing major engine  
17 re -- re -- or overhauls and transmission  
18 overhauls and things like that.

19           There's administrative functions,  
20 which you'll see in the reports that were  
21 delivered. There was a whole series of  
22 administrative functions that are outsourced  
23 where it makes sense, such as payroll and some  
24 of the insurance, security, pension programs,  
25 medical -- medical programs, even sometimes

1       service scheduling is outsourced to schedule  
2       services that are delivered.

3                 The next area is service. And that's  
4       one of the most difficult ones and -- and  
5       often the most controversial one to deal with  
6       in terms of private contracting. And we'll  
7       talk a little bit about why that is.

8                 The biggest reason that -- that  
9       service is difficult is because all eight of  
10      these systems, and the majority of the systems  
11      in the state of Pennsylvania, have labor --  
12      labor contracts and labor unions. And you  
13      have Section 13 (c) of the Federal Transit Act  
14      which provides protection for existing labor.

15                In fact, Section 13 (c) requires that  
16      fair and equitable protective arrangements  
17      have to be made by the grantee, those  
18      receiving public funds, to protect employees  
19      affected by such assistance.

20                What is difficult with that, and  
21      there's five or so caveats that go with that  
22      section, is that federal labor laws under the  
23      Transit Act make it difficult to look at  
24      private contracting or look at contracting out  
25      any existing services because you might impact

1                   your existing labor bargaining units.

2                   So it can limit the ability to  
3                   contract out existing service and doesn't  
4                   necessarily limit your ability to look at  
5                   contracting out for new services.

6                   So what are some of the challenges  
7                   with contracting out for services? Someone  
8                   potentially integrating new private contracted  
9                   service with your existing service. Making --  
10                  making fare structure, making the way the  
11                  buses look, making the way equipment operates,  
12                  making the schedules all work together, those  
13                  are operational issues that have to be worked  
14                  out.

15                  The level of customer service can  
16                  also sometimes be difficult to ensure that the  
17                  private contractor maintains or has the same  
18                  level of customer service that the public  
19                  sector does when you're integrating the two  
20                  together.

21                  And then just overall performance of  
22                  the contractor. You can set performance  
23                  standards in the contracts, but sometimes  
24                  management may not have the right performance  
25                  standards set and it may be difficult then

1 to -- to manage your contract.

2                   There's many systems. There's two  
3 different, really, types of public  
4 transportation in Pennsylvania. We got fixed  
5 route service, and then we got something  
6 called shared ride. Shared ride, for those  
7 who may not be familiar with it, is the  
8 largely county-based services that -- that  
9 help to carry senior citizens and provide  
10 service for people on Medical Assistance and  
11 persons with disabilities and things like  
12 that.

13                  And many, many systems -- and that's  
14 paratransit that was talked -- talked about by  
15 some of the earlier people -- many systems  
16 that contract out shared ride services and  
17 paratransit services. In fact, we'll talk a  
18 little bit about what some of the -- the  
19 providers that responded to the legislative  
20 requirement are doing.

21                  And Colts in Scranton has contracted  
22 out some service that they had that was  
23 welfare to work service. It was welfare to  
24 work service that started in 1999. So it was  
25 new service in '99. And they were able to --

1 able to look at contracting that out because  
2 it didn't affect their existing labor -- labor  
3 issues.

4 They've also contracted out some  
5 additional suburban service. When they  
6 expanded fixed route service, they contracted  
7 that out. In the report they identified that  
8 that -- when they contracted that service out,  
9 the service cost in 2007 was \$350,000, give or  
10 take a few dollars.

11 If -- they estimated what it would  
12 cost if they did it in-house today and the  
13 difference was \$119,000. That's real  
14 savings. They were able to contract it out  
15 for 119,000 less than what it would have taken  
16 them to do it on their own in-house.

17 ADA service as well. ADA  
18 complimentary paratransit services, another  
19 area they've contracted out. And in this case  
20 they saved \$67,000 by contracting out that  
21 particular piece of service.

22 They have some success factors they  
23 identified in their report. The biggest  
24 success factor is they look at value for  
25 money. And in the end they look at -- they

1       look at price, track record, experience,  
2       operational and safety performance, wage and  
3       work condition competitiveness. You look at  
4       all those things together instead of just  
5       looking at price as a bottom line driving  
6       factor.

7                 And sometimes you may not select the  
8       lowest priced vendor if they're not able to,  
9       you know, show that they have a proven track  
10      record or are established or able to deliver  
11      that service.

12               Because you want to make sure that  
13      you don't turn somebody on one day and two  
14      days later you have to turn them back off  
15      because they're not meeting the requirements.

16               Lehigh Northampton, LANTA, which is a  
17      very large system, not large in comparison to  
18      SEPTA and Port Authority but large in  
19      comparison to other urban areas, identified  
20      they have -- they've contracted out 41 percent  
21      of -- of their service and operating needs.  
22      41 percent. That's pretty substantial.

23               But the reason they're able to claim  
24      41 percent is because they've contracted out  
25      their entire paratransit division. They would

1 have turned that whole division over to a  
2 private contractor and it's been the same  
3 contractor. They bid it out every five years,  
4 but it's the same contractor since 1988.

5           Been very satisfied with that  
6 contractor. That contractor is based there  
7 and provides a very stable service that  
8 they're able to continue providing.

9           A few factors that they identified  
10 that they looked for is ability to perform the  
11 work and then also cost when they're selecting  
12 their contractor.

13           In Erie, got a little bit of a  
14 different example. In Erie, the county  
15 contracted for paratransit services, and they  
16 did that for many, many years, from the 1970s  
17 up until 1997.

18           The county's experience there is  
19 every three years they would -- they would bid  
20 out a new contract. They selected many times  
21 the contractor based on price and no other  
22 factors.

23           They select -- selected a taxicab  
24 company in the last few years that they  
25 operated that service. The taxi -- the

1           particular taxicab company, the owner of that  
2           taxi cab company was put in jail a little bit  
3           later on for fraud because they were  
4           overreporting the number of trips that they  
5           were to be receiving reimbursement from state  
6           lottery funds for.

7           Once that was done, EMTA, the local  
8           public transit agency, was asked to come in  
9           and operate the service for a period of time,  
10          in an interim basis. The county rebid the  
11          service. They found a private company who is  
12          a nationally known private company for  
13          delivering transit service. That nationally  
14          known company came in, operated the service  
15          for a few years, and broke the contract and  
16          walked away because they weren't able to  
17          provide the service for the -- for the -- for  
18          the dollars that were being provided by the  
19          county.

20           And at that point Erie Transit  
21          Authority stepped in, took over the service,  
22          and have been operating on a public basis  
23          really since.

24           That's not to say that private  
25          contracting couldn't work or shouldn't work in

1 Erie, but it's just their experience.

2 And you look at Reading. They have  
3 34 percent of their paratransit service  
4 contracted out. And that's -- that's more  
5 typical of -- of transit agencies, fixed route  
6 operators. They'll have some percentage of it  
7 contracted out and that will be employing some  
8 of the local taxicab companies and other  
9 private nonprofits and private for-profit  
10 companies that help to deliver Medical  
11 Assistance trips, help to deliver shared ride  
12 services that may be outside normal hours or  
13 in regions that stretch beyond where the  
14 public agency operates within their county.

15 They also have maintenance support,  
16 facility maintenance and security, and other  
17 administrative functions contracted out as  
18 well.

19 In Johnstown CamTran really does  
20 everything in-house. The majority of the  
21 service they do in-house. They don't have  
22 identified in their report anything they have  
23 contracted out currently.

24 In fact, I know that from my visits  
25 to the system in Johnstown, they even do major

1 engine overhauls and transmission rebuilds in  
2 their shop instead of contracting that out,  
3 and they found that their costs to do that  
4 because they have a skilled labor force that's  
5 familiar with doing that, is actually less  
6 expensive than it would be if they would bid  
7 it out. That's their experience.

8 So let me close by saying a couple of  
9 things. One, there's a whole series of  
10 challenges that exist to private contracting.  
11 There is no major bullet to generating  
12 efficiency and effectiveness in transit.

13 My opinion is that the best thing  
14 that can be done in transit is to focus on  
15 good management practices. Use private  
16 contracting as one of the tools in the toolbox  
17 to make -- make your system as efficient as  
18 possible. Look for opportunities. Look at  
19 good management and oversight. Maintain  
20 customer service so you can build ridership.  
21 Work on seamless integration when you do have  
22 other providers offering service in your  
23 area. And look for ways to sustain cost  
24 savings.

25 If you bid something out initially

1 and the private sector comes in and -- and  
2 gives you a price to do something and then  
3 they start operating service, look to maintain  
4 or sustain that cost savings over time. Make  
5 sure you have a way to monitor that so that  
6 you can verify those real cost savings.

7                   Mr. Chairman, I think that concludes  
8 my remarks.

9                   CHAIRMAN MARKOSEK: Okay. Thank you  
10 very much, Deputy Secretary.

11                   Chairman Geist.

12                   REPRESENTATIVE GEIST: Thank you very  
13 much, Toby.

14                   What percentage of system costs now  
15 is SEPTA paying? What percentage is the state  
16 paying? Is it still 13 percent about?

17                   DEPUTY SECRETARY FAUVER: What  
18 percentage of the system -- I mean in terms of  
19 operating costs, I think they're cover --  
20 they're recovering 40-some percent out of  
21 their fare box on operating. So the remainder  
22 would be state and local and federal  
23 subsidies.

24                   REPRESENTATIVE GEIST: I had a couple  
25 other questions for you while you're here.

1           About 30 years ago, I know I was one  
2       of the guys that proposed building a train  
3       station at the Harrisburg airport and then  
4       when -- during the Ridge administration when  
5       we funded the state's share to do that  
6       project, one of the committed projects was a  
7       train station at the Harrisburg airport.

8           And I use this as an illustration of  
9       bureaucracy probably at its worst in  
10      Pennsylvania in dealing with Amtrak and  
11      everybody else involved.

12       Where does that stand today?

13       DEPUTY SECRETARY FAUVER: Sure.

14       REPRESENTATIVE GEIST: Because we had  
15      the meeting in my office five years ago and  
16      all it required was a signature from each of  
17      the people participating.

18       And my understanding now is that it's  
19      not underway and the costs have gone up. And  
20      are we planning on actually building it or  
21      aren't we?

22       DEPUTY SECRETARY FAUVER: Well, let  
23      me just say in terms of funding, there was  
24      about 6 or \$7 million of capital budget money  
25      out of the hundred -- out of the TAP program

1       that was released to help pay for that project  
2       and that was when the project cost estimate  
3       was about \$10 million. There was another \$2  
4       million or so of congestion mitigation or  
5       quality money committed off the TIP, and at  
6       the time the estimate was, again, about \$10  
7       million. This was a number of years ago.

8                  Then the airport authority -- because  
9       the whole thing was done in coordination with  
10      the airport -- the Harrisburg Airport  
11      Authority, SARA, decided they were going to  
12      move the terminal and build a new passenger  
13      terminal. And many of you have probably been  
14      through that terminal.

15                 But when they -- they abandoned the  
16      old terminal and moved the terminal, they also  
17      decided -- the authority decided that they  
18      wanted to take over the rail station project.

19                 And at the time Deputy Secretary Rick  
20      Peltz, who -- who was in my position at the  
21      time, wrote a letter to the airport authority  
22      and in that letter outlined the funding that  
23      was available and it was originally a state  
24      project but were willing to turn over the  
25      whole project to the airport authority and the

1           airport authority had to agree to accept the  
2           project, the funding for the project, and  
3           agree to fund any deficit or any -- any  
4           additional costs associated with building that  
5           station at that time.

6                 And then since then there was a whole  
7           series of things occurred. Norfolk Southern  
8           had costs associated with -- with the project,  
9           track relocation. Some things that weren't  
10           even costed out and required tracks be built  
11           30 years from now, or 40 years from now, or  
12           whenever they decided they wanted to build  
13           tracks, which becomes very difficult to sign  
14           onto.

15                 Amtrak had costs associated with the  
16           project, flagging and other things, which  
17           caused the costs to go up.

18                 But one of the biggest things in my  
19           opinion that caused the cost to go up were --  
20           were heavy inflation, things that hit, and  
21           then also trying -- the airport authority,  
22           when they re-designed the station project,  
23           they decided to put in pedestrian overpasses,  
24           moving walkways, and a series of other  
25           passenger-type amenities, which also escalated

1           the cost.

2                 The last cost that I heard for the  
3           project was about \$32 million. So the project  
4           went from 10 million a few years ago up to 32  
5           million today.

6                 And as I understand, the airport  
7           authority hadn't identified a way to pay for  
8           that cost overrun and, as I understand, the --  
9           the MPO took the CMAQ money off the TIP, I  
10           think, so it's no longer available. And  
11           that's where the project sits right now.

12                We're looking at trying to do a  
13           feasibility study with the Borough of  
14           Middletown, the airport, Capital Area Transit,  
15           the Modern Transit Partnership, and others in  
16           the area to see if there's some other way to  
17           do or accomplish the same type of project.

18                The Middletown station really can't  
19           rebuilt in place and meet ADA requirements.  
20           It's on a curve, super elevation.

21                So we're in the process of working  
22           with a consultant to get a feasibility study  
23           to look at -- see if there's a station  
24           alternative other than building something for  
25           \$30 million.

1                   REPRESENTATIVE GEIST: Isn't it  
2 amazing that we can put \$70 million of state  
3 money and \$70-plus million of federal money  
4 into upgrading the line between Harrisburg  
5 and -- and 30th Street Station and we can  
6 improve the number of trains, we're at 14 a  
7 day now, and we can jack ridership right  
8 through the roof, but we can't build a station  
9 to have an intermodal seamless ability to go  
10 to an airport. It makes no sense.

11                  And while I'm talking about that, the  
12 PennDOT study in cooperation with Norfolk  
13 Southern so that we can get more than one  
14 passenger train a day west of Harrisburg, four  
15 years ago Norfolk Southern said that that  
16 project was a go with them and yet we've done  
17 nothing.

18                  DEPUTY SECRETARY FAUVER: I can't --

19                  REPRESENTATIVE GEIST: They haven't  
20 committed a nickel as far as I know to  
21 servicing western Pennsylvania. Can you tell  
22 us why?

23                  DEPUTY SECRETARY FAUVER: I can say  
24 that seven years ago when Amtrak was still  
25 operating two trains a day between Harrisburg

1 and Pittsburgh, Amtrak called us a few days  
2 before they decided to cancel one of those  
3 trains and let us know they were canceling  
4 that train.

5 We didn't get much notice. We asked  
6 what it would cost to operate that service if  
7 we had to subsidize that on an operating  
8 basis, and this was prior to Act 44, and it  
9 was over \$2 million a year just to operate one  
10 train.

11 And since then, I think the study  
12 you're referring to, there was also a whole  
13 series of capital costs, capital expenses that  
14 were included, and, if I remember correctly,  
15 it was -- it was between one and two hundred  
16 million dollars of -- of capital investment  
17 that was identified in that study that Norfolk  
18 Southern would require before expand -- before  
19 allowing expansion of service or increasing  
20 service on the corridor.

21 I know that I've spoken with the  
22 Secretary about this corridor. We've spoken  
23 with you many times about it. And we are very  
24 interested in seeing intercity service  
25 expanded in the state.

1                   REPRESENTATIVE GEIST: Well, isn't it  
2                   an amazing political fact that we can take  
3                   care of everything politically east of  
4                   Harrisburg, but in western Pennsylvania we  
5                   can't even institute another state-subsidized  
6                   service, whether it be DMU or another train.  
7                   The Old Pennsylvania was actually profitable  
8                   above the rail.

9                   So we know the ridership is there.  
10                  We know it's -- it's absolutely horrible going  
11                  anywhere from Pittsburgh. And if you want to  
12                  go west, the connection, the layover night is  
13                  absolutely horrible.

14                  How in the world can we not try to  
15                  service the people that live in western  
16                  Pennsylvania?

17                  Joe and I would love to be able to  
18                  ride a train to Harrisburg.

19                  DEPUTY SECRETARY FAUVER: Well, I  
20                  would, too. But we -- we -- there's a whole  
21                  bunch of things that are going on nationally  
22                  as well. It's not just Pennsylvania.

23                  One of the things that make the  
24                  Keystone corridor a real success is because  
25                  the Keystone service can be counted as

1           commuter service with the Federal Transit  
2           Administration and, thus, we're able to  
3           participate and get federal funding back from  
4           the Federal Transit Administration to support  
5           that service.

6                 80 percent of the investment the  
7           state made in the Keystone corridor was  
8           federal funds we got from FTA. We don't have  
9           that -- we don't have the ability to get those  
10          Federal Transit Administration funds for the  
11          service between Harrisburg and Pittsburgh.  
12          And that's one of the challenges.

13               The other piece -- the other piece  
14          that -- that is really difficult is that the  
15          federal government has been really  
16          underfunding Amtrak for a long time, and  
17          that's -- that's a big challenge.

18               And I know there's several -- there's  
19          an Amtrak reauthorization bill that's sitting  
20          around in Washington somewhere; and that bill,  
21          if it -- if it can get passed at a reasonable  
22          authorization level and funded at a reasonable  
23          level, might provide, you know, for the  
24          ability for Amtrak to be able to become a  
25          sustainable backbone for intercity service.

1                   But this -- in the end if -- if the  
2                   federal government continues to push -- push  
3                   off its cost on intercity transportation down  
4                   to states, we're going to have to continue to  
5                   pick up an increasing share of that service or  
6                   see it scaled back.

7                   And -- and what's happening between  
8                   Harrisburg and Pittsburgh is it's been able --  
9                   it's scaled back because it's not been able to  
10                  rely upon Federal Transit Administration  
11                  funds.

12                  REPRESENTATIVE GEIST: The reason I  
13                  brought all that up is because the first  
14                  testifier talked about the privatization from  
15                  Greensburg to Pittsburgh, and we had worked  
16                  with the four authorities to set this up to  
17                  have commuter service starting daily from  
18                  Altoona, Johnstown, Greensburg, et cetera,  
19                  into Pittsburgh, and still nothing.

20                  DEPUTY SECRETARY FAUVER: Well,  
21                  we're -- we're supporting and working with  
22                  representatives in that area to -- to look at  
23                  the corridor from Greensburg in. We're  
24                  participating in that study and supporting  
25                  that.

1           In fact, we've got staff that attend  
2       every meeting, and we're looking for ways to  
3       try make it competitive in the federal  
4       process.

5           We're also looking to make sure that  
6       the capital costs and operating costs that  
7       come out of the study are real. Not saying  
8       others aren't, but sometimes projects come  
9       back with estimated costs that are much lower  
10      and then escalate very quickly when they --  
11      they start into engineering phases and -- and  
12      then become cost unaffordable.

13           So we want to make sure we got a good  
14      price up-front, we know what service is going  
15      to generate, and try to compete for federal  
16      funding and see where it goes.

17           CHAIRMAN MARKOSEK: Thank you.

18           Chairman Marsico.

19           REPRESENTATIVE MARSICO: Thank you,  
20      Mr. Chair.

21           Just to follow-up on Chairman Geist's  
22      questions and statements about the train  
23      station in Harrisburg International.

24           I, too, was involved in those  
25      meetings and am a strong supporter of the

1           intermodal system and doing the train station  
2           there as well.

3           I guess my -- the bottom line  
4           question: Is PennDOT still committed to the  
5           project?

6           DEPUTY SECRETARY FAUVER: I think  
7           we're committed to finding a cost affordable  
8           option that can be constructed there that  
9           makes sense.

10          REPRESENTATIVE MARSICO: And is the  
11          \$6 million still there?

12          DEPUTY SECRETARY FAUVER: The \$6  
13          million, the release is there. It's been  
14          there the whole time.

15          REPRESENTATIVE MARSICO: Are you  
16          willing to provide more than the \$6 million?

17          DEPUTY SECRETARY FAUVER: I think if  
18          we get a good -- if we end up getting a good  
19          project and it makes sense with the MPO and  
20          the other partners, yes. I think there were  
21          many partners walked away, including the MPO,  
22          when it got to the point where it -- the  
23          estimate got to \$30 million or  
24          30-couple-million dollars.

25          And I'm not saying they walked away

1 from the -- you know, completely from the  
2 project, but we have to find something that's  
3 cost affordable that all the partners can  
4 agree to.

5 REPRESENTATIVE MARSICO: Okay. Well,  
6 you're saying, though, that the -- you're  
7 there and you're still committed, okay, and if  
8 it's a reasonable increase?

9 DEPUTY SECRETARY FAUVER: Sure.

10 REPRESENTATIVE MARSICO: You're --  
11 you're willing to provide additional dollars  
12 to help with the project? Is that what you're  
13 saying?

14 DEPUTY SECRETARY FAUVER: Let me --  
15 let me if I can --

16 REPRESENTATIVE WHEATLEY: You  
17 pinged.

18 DEPUTY SECRETARY FAUVER: Let me give  
19 you the -- the right answer here. Because  
20 the -- the funding decision isn't totally up  
21 to me.

22 But -- because if it goes through  
23 capital budget process, there has to be a  
24 release requested and things like that.

25 But if we can find a project that's

1 cost affordable, then you -- then I know that  
2 we're committed to seeing something built that  
3 connects the train to the bus system and to  
4 the airport.

5 REPRESENTATIVE MARSICO: Thank you.

6 Mr. Chairman, once again, I'd like to  
7 yield to my good neighbor and friend from  
8 Perry County.

9 CHAIRMAN MARKOSEK: The chairman of  
10 the MPO?

11 REPRESENTATIVE KELLER: Yeah.

12 CHAIRMAN MARKOSEK: That's safe.

13 Representative Keller.

14 REPRESENTATIVE KELLER: I want to  
15 make the record clear here. The MPO did not  
16 walk away from the project. What has happened  
17 is there was not ownership upon the project  
18 and the actual funding on the TIP was laid  
19 aside.

20 DEPUTY SECRETARY FAUVER: Right.

21 REPRESENTATIVE KELLER: Now, it can  
22 come back.

23 DEPUTY SECRETARY FAUVER: Sure.

24 REPRESENTATIVE KELLER: You know,  
25 very easily come back. Because it's something

1           that I followed through very closely.

2                   So I just want to clear the record.

3           The MPO did not walk away --

4                   DEPUTY SECRETARY FAUVER: Right.

5                   REPRESENTATIVE KELLER: -- from the  
6           project.

7                   DEPUTY SECRETARY FAUVER: No. I  
8           understand. Maybe I used the wrong words,  
9           but --

10                  REPRESENTATIVE KELLER: I'm just  
11           checking.

12                  DEPUTY SECRETARY FAUVER: Because I  
13           know the project is still included in the  
14           plan.

15                  REPRESENTATIVE KELLER: Right.

16                  DEPUTY SECRETARY FAUVER: And it's  
17           included in the 12-year part of the plan, but  
18           it's not on the funded piece of the plan right  
19           now because -- because the money was sitting  
20           not being used for something.

21                  REPRESENTATIVE KELLER: That is  
22           correct.

23                  DEPUTY SECRETARY FAUVER: Right.

24                  REPRESENTATIVE KELLER: That is  
25           correct. And I thank you for that.

1           Now, my question goes back to your  
2 testimony today, when you talked about the --  
3 the savings on the transits of the 119, 68.

4           DEPUTY SECRETARY FAUVER: Sure.

5           REPRESENTATIVE KELLER: You know, the  
6 question I have is the level of service in  
7 those areas, can you tell me, is the level of  
8 service the same as it was prior to that?

9           DEPUTY SECRETARY FAUVER: Well, in  
10 this case, this service was not  
11 publicly-provided service beforehand. When  
12 they started that service, it was an expanded  
13 piece of service for that system; and when  
14 they started it, they started out with the  
15 private contractor delivering the service.

16           And what they did is -- is did -- did  
17 a -- an estimate, given their current labor  
18 market, of what their costs are. They did an  
19 estimate if they provided that service  
20 in-house what it could cost them to do it  
21 in-house. That's the comparison you're  
22 seeing.

23           So the level of service hasn't  
24 changed. I mean it's the same level of  
25 service as when it started. But it's always

1       been private. That piece has always been  
2       private.

3                   REPRESENTATIVE KELLER: Are we  
4       talking about the same thing? The 119 and the  
5       68?

6                   DEPUTY SECRETARY FAUVER: That's  
7       correct. That's in Colts where they --

8                   REPRESENTATIVE KELLER: Yeah.

9                   DEPUTY SECRETARY FAUVER: They --  
10       they have a base system that they operate; but  
11       due to the federal labor rules, they're not  
12       able to contract that service out.

13                  But as they expanded service  
14       previously, they looked to the private market  
15       to provide that service and they've paid the  
16       private sector to deliver that service and  
17       they've always paid the private sector to  
18       deliver that service and they just made an  
19       estimate of what it could cost them if they  
20       had to do the same service. And the -- the  
21       difference is that 119,000 or 60-some  
22       thousand.

23                  REPRESENTATIVE KELLER: Okay.

24                  DEPUTY SECRETARY FAUVER: Sure.

25                  REPRESENTATIVE KELLER: Thank you,

1 Chairman.

2 CHAIRMAN MARKOSEK: Representative  
3 Pyle.

4 REPRESENTATIVE PYLE: Thank you,  
5 Mr. Chairman.

6 Thank you for appearing today,  
7 Mr. Deputy Secretary. I have a few  
8 questions.

9 DEPUTY SECRETARY FAUVER: Sure.

10 REPRESENTATIVE PYLE: Before I get  
11 started, I want to make sure I heard you  
12 correctly on one of the things you said.

13 You said there was more oversight by  
14 PennDOT now than ever before under the tenets  
15 of Act 44. How much money has been driven out  
16 by Act 44 thus far? And can you give me a  
17 breakdown on public transportation systems  
18 versus highway road projects?

19 DEPUTY SECRETARY FAUVER: You know, I  
20 can get you the exact numbers.

21 REPRESENTATIVE PYLE:  
22 Percentage-wise?

23 DEPUTY SECRETARY FAUVER: The --  
24 the -- just out of Act 44, the new -- the new  
25 money that was generated from Act 44 --

1                   REPRESENTATIVE PYLE: Hundreds of  
2 millions of dollars.

3                   DEPUTY SECRETARY FAUVER: -- last  
4 year was 300 million.

5                   REPRESENTATIVE PYLE: 300 million?

6                   DEPUTY SECRETARY FAUVER: 300  
7 million.

8                   REPRESENTATIVE PYLE: Great. You  
9 mentioned there were eight large transit  
10 systems in the state --

11                  DEPUTY SECRETARY FAUVER: Sure.

12                  REPRESENTATIVE PYLE: -- receiving  
13 over \$5 million?

14                  DEPUTY SECRETARY FAUVER: Sure.

15                  REPRESENTATIVE PYLE: I'm assuming  
16 SEPTA is the largest of those?

17                  DEPUTY SECRETARY FAUVER: That's  
18 correct.

19                  REPRESENTATIVE PYLE: PAAC would be  
20 second and the other six --

21                  DEPUTY SECRETARY FAUVER: Correct.

22                  REPRESENTATIVE PYLE: -- follow along  
23 at a distance?

24                  DEPUTY SECRETARY FAUVER: Correct.

25                  REPRESENTATIVE PYLE: Okay. A couple

1 more prelimins and then I'll get to it.

2                 Did I hear you correctly when you  
3                 said market competition improves service?

4                 DEPUTY SECRETARY FAUVER: I think --  
5                 personally I think it does.

6                 REPRESENTATIVE PYLE: And did I hear  
7                 you also correctly that sometimes management  
8                 doesn't have the right performance measures?

9                 DEPUTY SECRETARY FAUVER: I -- I  
10                 don't think that's right. I think that it --  
11                 I think that it's important that management  
12                 have good performance measures and -- and --  
13                 and follow good management -- good business  
14                 management practices.

15                 REPRESENTATIVE PYLE: I stand  
16                 corrected. Thank you. Thank you.

17                 DEPUTY SECRETARY FAUVER: Sure.

18                 REPRESENTATIVE PYLE: You also  
19                 mentioned the breakdown on funding for public  
20                 transportation system is usually a 60/40.  
21                 Sixty percent being put up by the federal and  
22                 the state, the other 40 being borne by  
23                 county/municipal/local, what they're getting  
24                 from the fares and whatnot. Because you did  
25                 mention that they're now achieving about 40

1 percent self-sufficiency?

2 DEPUTY SECRETARY FAUVER: Yeah.

3 40 -- 40 -- they -- they -- I think they get a  
4 little bit more than 40 percent in fare box  
5 recovery, the actual fares collected from  
6 individuals that pay to use the service.

7 REPRESENTATIVE PYLE: Okay. I  
8 noticed recently when reading the Philadelphia  
9 Inquirer, one of our major buses that we just  
10 mentioned is going to drop a million dollars  
11 into advertising, I'm assuming to bump  
12 readership -- ridership -- pardon me -- and  
13 make people more aware of where the transit  
14 stops are so people can avail themselves of  
15 that transit.

16 Is that overseen by PennDOT, the  
17 decision to put a million dollars into  
18 advertising?

19 DEPUTY SECRETARY FAUVER: The --  
20 Pennsylvania -- the Department of  
21 Transportation --

22 REPRESENTATIVE PYLE: PennDOT.

23 DEPUTY SECRETARY FAUVER: Yeah. Has  
24 the ability now to do performance audits and  
25 oversee things through the performance

1 standards that are established in the  
2 legislation.

3 We're not dealing with the agencies  
4 every day and making -- second guessing every  
5 decision they make and things like that.

6 REPRESENTATIVE PYLE: Well, I'm just  
7 curious. Because it would seem to me,  
8 logic -- you know, again, we're bantering  
9 Einstein around all day. He's a big fan of  
10 logic.

11 DEPUTY SECRETARY FAUVER: Sure.

12 REPRESENTATIVE PYLE: If a line is  
13 not getting the ridership it needs to create  
14 the fare box collections and they have to  
15 advertise to boost the ridership on that  
16 line -- and I know that Mr. Bland, who is  
17 going to speak later, did this -- should not  
18 that line be looked at for possible  
19 elimination since it is not generating the  
20 revenue fare boxes?

21 And this is how it all segues,  
22 Mr. Deputy Secretary, the performance  
23 assessments, and evaluators, I just wondered  
24 are we pouring good money after bad if we have  
25 to advertise bus lines that aren't drawing

1           riders?

2           DEPUTY SECRETARY FAUVER: Okay.

3           REPRESENTATIVE PYLE: Now, just a  
4           couple more. Prior to Act 44, we had a layer  
5           in the funding that created a nightmare of  
6           problems.

7           I -- again, I -- you know, I'm just a  
8           bumpkin from Armstrong County. You know, we  
9           don't have trains or buses, but we do have an  
10          awful lot of bridges.

11          Would it be correct to say that buses  
12          still need bridges but bridges don't  
13          necessarily need buses?

14          DEPUTY SECRETARY FAUVER: I guess  
15          that's one way --

16          REPRESENTATIVE PYLE: Is that  
17          accurate?

18          DEPUTY SECRETARY FAUVER: One thing  
19          you could say, sure.

20          REPRESENTATIVE PYLE: And following  
21          up on Chairman Geist's comment about rail  
22          access, are there any plans for expanding  
23          passenger train railage other than what was  
24          mentioned earlier by Mr. Setzer and  
25          Mr. Ardolino about the proposed Allegheny

1 light rail connecting Greensburg, Altoona, all  
2 that into Pittsburgh? Are there any other  
3 plans? Something stretching northward or  
4 northeast or --

5 DEPUTY SECRETARY FAUVER: You're  
6 asking about --

7 REPRESENTATIVE PYLE: Are there any  
8 passenger train --

9 DEPUTY SECRETARY FAUVER: That are in  
10 the planning phase?

11 REPRESENTATIVE PYLE: -- projects  
12 with western Pennsylvania that PennDOT hasn't  
13 actually subsidized as heavily as we subsidize  
14 other train systems?

15 DEPUTY SECRETARY FAUVER: Well, the  
16 only thing I'd say there is that we've got to  
17 look at every project as they come in.

18 We aren't planning those projects,  
19 nor are we, you know, doing all the  
20 development work. Those -- those projects are  
21 developed locally, planned locally, and then  
22 we look at each one, along with the Federal  
23 Transit Administration, really look to the FTA  
24 as the major capital funding partner.

25 REPRESENTATIVE PYLE: Okay. I

1 appreciate your -- your frank and earnest  
2 discussion with me. I'd love to sit down with  
3 you sometime for coffee.

4 DEPUTY SECRETARY FAUVER: Sure.

5 REPRESENTATIVE PYLE: I do have to  
6 beg to differ on one thing you said.

7 DEPUTY SECRETARY FAUVER: Okay.

8 REPRESENTATIVE PYLE: I -- I  
9 personally voted against Act 44 all three  
10 times. Even once when it was 65 blank pages.

11 You had -- you had said it's  
12 distributed in a way now that makes sense.  
13 That's the part I -- I disagree with.

14 I would think that the public transit  
15 systems need to achieve greater  
16 self-sufficiency, and for all the hassle  
17 Mr. Onorato is gathering in Pittsburgh, he has  
18 achieved a partial solution, as unpopular as  
19 it may be.

20 But, you know, again, I have a  
21 hundred ton commercial four-lane bridge that  
22 connects Westmoreland, Allegheny, Armstrong,  
23 and Butler Counties that recently scored two  
24 when you all did the bridge inspection  
25 following the Minneapolis catastrophe, and it

1       needs fixed.

2                  You know, when I see the public  
3       transit systems are dumping money into  
4       advertising rather than us putting bolts to  
5       metal, it makes me question the funding  
6       distribution formula. But that's just a  
7       comment really.

8                  And thank you, Mr. Secretary, and  
9       Mr. Chairman.

10                 CHAIRMAN MARKOSEK: You're welcome.

11                 Representative Jake Wheatley

12                 REPRESENTATIVE WHEATLEY: Thank you,  
13       Mr. Chairman. I think it was a set-up that I  
14       came right after Representative Pyle.

15                 REPRESENTATIVE PYLE: At least I  
16       didn't put you to sleep.

17                 REPRESENTATIVE WHEATLEY: I  
18       originally wanted to ask questions around -- I  
19       wasn't around for the Harrisburg discussion,  
20       so I wasn't sure if that was a part of the  
21       public-private partnership that you were  
22       trying to bring together to -- to try to make  
23       this project work or -- or if that's -- so I  
24       wanted you to kind of explain to me what the  
25       process was, who was at the table, because you

1 had made mention that the state was still  
2 at -- PennDOT is still at the table but others  
3 kind of pulled back when the financial thing  
4 became evident that, for whatever reason, from  
5 their standpoint, this project wasn't worth  
6 the investment.

7                 However, right before I -- I started  
8 my questioning, it got more into the heart of  
9 what I care about and when you start talking  
10 about public transportation, I want -- I'm  
11 sorry, Mr. Chairman, if I take up more time  
12 than necessary, but I think this is always  
13 critical to -- to explain, at least from my  
14 perspective, public transportation from the  
15 start was something that we saw as a  
16 government was never going to be  
17 self-sufficient.

18                 To be honest, you know, port  
19 authorities, SEPTA, they're never going to be  
20 self sufficient, and I don't know if we -- if  
21 we ever intended for them to be that way  
22 because, if so, I think -- I don't know,  
23 someone before you talked about Port  
24 Authority, before it became Port Authority,  
25 was starting to be separate --

1 DEPUTY SECRETARY FAUVER: Sure.

2 REPRESENTATIVE WHEATLEY: -- private  
3 companies trying to make it work, and it just  
4 wasn't profitable that way. It couldn't  
5 function the way they needed to, for a lot of  
6 ways, a lot of reasons.

7 So when we get into this conversation  
8 around trying to make these systems -- I think  
9 you said it best. What we did in Act 44 was  
10 we tried to put a little more accountability  
11 over them. We tried to put some measures to  
12 how we will hold them accountable to what we  
13 want them to be and how we want them to be.  
14 But we understand that, in essence, they will  
15 never by themselves be able to function.

16 Just like by themselves we will never  
17 be able to maintain all of our infrastructure,  
18 bridges and highways, if we don't figure out  
19 another way.

20 I think this is why there's broader  
21 conversation around public-private and why it  
22 is the time for the conversation, because how  
23 do we do this infrastructure that we need as  
24 necessary in this country when we are, in  
25 fact, faced with some resource -- great

1 resource challenges.

2 So anyway -- so I don't know if I  
3 have a question in there. I'd just like to  
4 put that on the table because I think it is  
5 important. At least I'm not necessarily happy  
6 that Port Authority had to cut routes because  
7 some of those routes that -- may not have been  
8 heavily used and there are still people who  
9 are looking to use them, now they are more  
10 inconvenienced to try to find a way to get to  
11 where they need to go.

12 So if they are investing a little bit  
13 of money to try to advertise for people who  
14 may not, for whatever reason, access those  
15 routes, I would rather see that than the total  
16 elimination because I don't want to see anyone  
17 stranded and can't get to a health  
18 appointment, can't get to a -- a recreational  
19 opportunity for their family or a food  
20 opportunity, whatever. I would rather for us  
21 to do that.

22 But, anyway, that's my perspective.  
23 I guess generally speaking the one main  
24 question I have is, all of what you had -- I  
25 heard you say, I don't think that the

1 department or the -- or the administration is  
2 adverse to a public-public-private  
3 partnership, that you talk about this drive of  
4 trying to -- even with the transit  
5 authorities, to try to make sure they are  
6 including opportunities for this to happen,  
7 and you're -- you're seeing it for the first  
8 time.

9                   Are there other things that you think  
10 we should be -- we should be doing? I asked  
11 this question earlier. Are there things in  
12 our law, regulatory things, that prevent  
13 from -- public-private partnerships from  
14 happening that we have to change or that you  
15 are suggesting changing?

16                   So just talk to me briefly about what  
17 you see in that.

18                   DEPUTY SECRETARY FAUVER: Well, I  
19 think on the capital side, and I think the  
20 people from SEPTA and Port Authority will be  
21 able to speak to this much better than I can,  
22 because they deal with with trying to get  
23 capital projects on the ground, the four-part  
24 bidding process is another -- another sort of  
25 impediment or challenge that's out there for

1 having to bid the different components of a  
2 project separately.

3 REPRESENTATIVE WHEATLEY: Okay.

4 DEPUTY SECRETARY FAUVER: As another  
5 piece or challenge that --

6 REPRESENTATIVE WHEATLEY: That's  
7 regulatory? They have to do that by law or is  
8 that --

9 DEPUTY SECRETARY FAUVER: I think  
10 that's state law, but -- but our -- our guys  
11 that deal with this on a -- on a  
12 day-in-day-out basis, the Port Authority and  
13 SEPTA can verify that.

14 And then there's -- there's a variety  
15 of other requirements that are -- that are  
16 challenges that can sometimes help to -- to  
17 reduce your ability to deal with or get lowest  
18 costs, you know, for different reasons.

19 Some of those are things like the  
20 federal Buy America requirement.

21 REPRESENTATIVE WHEATLEY: Which we  
22 like, don't we?

23 DEPUTY SECRETARY FAUVER: Which is a  
24 good thing in that -- which is a good thing in  
25 that it -- it requires that you buy, you know,

1 American products, but sometimes in our global  
2 economy, as more and more equipment becomes  
3 available, and as equipment in the U.S.  
4 becomes limited, sometimes you're -- you may  
5 not be able to get the best product, which is  
6 partially manufactured in the U.S. and  
7 partially manufactured somewhere else.

8                   And there's other -- there's other  
9 items that are -- that are more specific to  
10 day-to-day operations.

11                  REPRESENTATIVE WHEATLEY: So you --  
12 you do see from a departmental standpoint and  
13 operational standpoint, if we're going to  
14 really do this, if we're going to provide for  
15 an opportunity to find the best partnerships  
16 that -- that are mutually beneficial, we will  
17 have to change some of our laws that oversee  
18 this?

19                  DEPUTY SECRETARY FAUVER: It may be  
20 necessary. It depends on the type of  
21 public-private partnership you look at or the  
22 partnerships you develop and the types of  
23 projects that you go after.

24                  You can certainly form a  
25 public-private partnership with a private

1 operator today to come in and help to operate  
2 service. That's being done.

3 And it just requires that the public  
4 sector continue to help to finance it --

5 REPRESENTATIVE WHEATLEY: Sure.

6 DEPUTY SECRETARY FAUVER: -- because  
7 it's not paying for itself.

8 REPRESENTATIVE WHEATLEY: Sure.

9 Thank you.

10 Thank you, Mr. Chairman.

11 CHAIRMAN MARKOSEK: Okay. Thank you  
12 very much, Toby. You did a great job.  
13 Hopefully you can stick around.

14 We're going to have the three transit  
15 folks that are here. We have the CEO, Steve  
16 Bland; Joe Casey from SEPTA; and Mr. Hoffer  
17 from CAT.

18 So if we can have all three, please.  
19 Make our folks testifying do some of the work  
20 here. We appreciate the three of you  
21 traveling to Harrisburg here today.

22 Mr. Hoffer didn't have to even take  
23 the bus, I guess, but --

24 MR. HOFFER: And I didn't get run  
25 over by an operator either.

1                   CHAIRMAN MARKOSEK: And we appreciate  
2 it. I guess what we'll do is maybe have  
3 Mr. Bland go first and then Mr. Casey and then  
4 Mr. Hoffer's remarks, and then have all three  
5 of you stand for questions, please. Thank  
6 you.

7                   MR. BLAND: Thank you, Mr. Chairman.

8                   Steve Bland, Chief Executive Officer  
9 for Port Authority of Allegheny County.

10                  First of all, I'd like to second  
11 Chairman Geist's comments on rail service. I  
12 would have loved to have done what Joe did  
13 this morning, hop on a train to Harrisburg.  
14 So we all look forward to that day.

15                  A copy of -- a copy of the Port  
16 Authority's actual report that we submitted to  
17 PennDOT I know is available here for your  
18 review. So rather than go into lengthy detail  
19 on that, I guess I'd like to highlight some  
20 high points where we view the role of  
21 public-private partnerships with the Port  
22 Authority.

23                  First of all, I'd like to highlight a  
24 couple of comments or a couple of -- of main  
25 issues that both Mr. Ardolino and Mr. Setzer

1 pointed to.

2                   One is the word partnership. That we  
3 view our role with the private sector, if  
4 it's -- if it's in any way adversarial or it  
5 becomes truly contractual, it's almost doomed  
6 to fail from the beginning.

7                   And the second is flexibility. One  
8 of the main advantages that frankly the  
9 private sector or private operators or private  
10 contractors have over us is the ability to  
11 move quicker and not have some of the  
12 bureaucratic hurdles that we are faced with.

13                  Having said that, highlighting a  
14 couple issues in Pittsburgh, first of all,  
15 about 15 percent of our current operating  
16 budget is what we would call privatized.

17                  And I would really highlight one  
18 of -- one of the biggest features of that  
19 being, as Representative Wheatley pointed out  
20 earlier, our paratransit system as well, and  
21 Deputy Secretary Fauver that identified, as  
22 did Mr. Setzer, that's fairly common practice  
23 in the public transportation industry.

24                  I think one of the things that's  
25 unique about the Port Authority's arrangement,

1       it is a very longstanding arrangement, for  
2       years and years and years, as it's really a  
3       public-private-private partnership.

4                  We actually partnered with  
5       Mr. Setzer's firm, Veolia. They serve as the  
6       broker for the paratransit system in  
7       Pittsburgh, and they're responsible for client  
8       eligibility determinations, billing,  
9       paperwork, a lot of, frankly, the management  
10      requirements.

11                 They, in turn, subcontract with eight  
12      additional private contractors, many of them  
13      small enterprises in Pittsburgh, to do the  
14      actual transportation.

15                 So in Pittsburgh, while Veolia is a  
16      significant player, they don't operate a  
17      single vehicle for us. They manage the  
18      overall operation.

19                 They essentially split the geography  
20      into four quadrants of Allegheny County,  
21      assign two operators to each quadrant. And  
22      one of the things it does in enabling better  
23      customer service is it gives that user, that  
24      individual customer, some freedom of choice,  
25      that if you're -- if you're in the western

1 part of the county and getting your service  
2 from operator A, maybe operator A has been a  
3 little late lately or the operators haven't  
4 been as courteous, now you have the  
5 opportunity to go to operator B.

6 And we've seen that, frankly,  
7 compared to national averages, both customer  
8 service and costs are really enhanced in that  
9 environment. In fact, we have people not just  
10 from around the country but from around the  
11 world come to visit specifically to look at  
12 the -- our -- our paratransit is referred to  
13 as ACCESS -- but to look at the ACCESS model.

14 The second thing I'd point to, in --  
15 in Act 44, the importance of the requirement  
16 of the analysis tool to look at private  
17 opportunities. Frankly, they swing both  
18 ways.

19 When we underwent the analysis that  
20 ultimately resulted in the report that we  
21 submitted, we also looked at things that we  
22 had outsourced and whether it continued to  
23 make sense to outsource them.

24 And I would use as one example, we  
25 have a high occupancy vehicle facility

1 referred to as the Wabash Tunnel that had been  
2 opened under a private concessionaire who  
3 essentially managed the changing of the gates  
4 and the video surveillance and the maintenance  
5 of the tunnel.

6 And what we found was, with a  
7 relatively simple upgrade to our fiber-optic  
8 network we could do a lot of that through our  
9 existing security system in our police  
10 department and, frankly, the folks who were  
11 maintaining it, dedicated to that relatively  
12 new facility by the private contractor,  
13 duplicated some of the services we provided in  
14 our other facilities.

15 So we were able to essentially  
16 discontinue that relationship, not add  
17 employees, not add staff, and especially save  
18 a net of \$400,000 per year. That facility  
19 now, because it involves a -- a leased  
20 park-and-ride facility, a private vendor  
21 continues to operate, is essentially a  
22 self-sustaining facility. So it does not  
23 operate with subsidy.

24 And then the last thing I'd like to  
25 highlight from the Port Authority is really

1       efforts in the transit-oriented development  
2       and joint development realm.

3               We have a couple of projects in  
4       various stages of development. The furthest  
5       one along is adjacent to our South Hills  
6       Village parking facility where we're  
7       partnering with a developer in a fairly  
8       straightforward long-term land lease to  
9       develop office facilities on that location.

10              There really is a three-part benefit,  
11       financial benefit to the Authority. One will  
12       be the direct long-term lease payments we  
13       receive from the developer.

14              The second will be the fact that  
15       frankly it has put more people into our pay  
16       garage facility, so we've seen about an 80  
17       percent increase in the utilization of that  
18       facility with the revenue that goes along with  
19       it.

20              Third, we will be seeing tenants of  
21       that facility because part of the lease  
22       arrangement will be the long-term use of our  
23       parking facility. Rather than them building  
24       their own parking, they're essentially going  
25       to be leasing spaces from us in that

1 facility.

2                   And then, finally, obviously, there  
3 will be, we believe, significant ridership  
4 benefits as we have a higher density  
5 development immediately adjacent to a major  
6 transit station that we will see an increase  
7 in passenger fares. That one is the furthest  
8 along.

9                   One of the ones that we're very  
10 excited about and that Representative Wheatley  
11 is very familiar with is in the East  
12 Liberty/Eastside development area where we're  
13 advancing joint development opportunity with  
14 Mosites development, essentially taking the  
15 very small site we have, a very small site  
16 that they have, trying to join those, upgrade  
17 the development, sustain the transit facility  
18 requirement in a different configuration and  
19 generate long-term revenue, frankly not just  
20 for the Authority, but also for the  
21 municipalities.

22                   And South Hills Village is another  
23 example where we will essentially be returning  
24 a property to the -- to the property tax  
25 rolls.

1                   And the one thing that was a common  
2 thread, frankly, in the developers that we  
3 work with and, again, pointing to what both  
4 Mr. Ardolino and Mr. Setzer pointed to, was  
5 really the need for flexibility. When we look  
6 at about a half dozen of these projects that  
7 are everywhere from very, very early in the  
8 conversation stage to the South Hills Village  
9 project, which is right now waiting for final  
10 approval from the Federal Transit  
11 Administration, no two of them look anything  
12 like each other.

13                  And if we try to put a process in a  
14 box and say, this is the way it has to work, I  
15 suspect -- and someone like Mr. Ardolino can  
16 speak to this much better than I could -- we  
17 will send developers running and screaming for  
18 the exits because, frankly, particularly in  
19 the market like Pittsburgh, you know, which  
20 maybe isn't quite as robust as we would like  
21 it to be, there's always another site for them  
22 to go to.

23                  So I would encourage the flexibility  
24 piece of it.

25                  Just highlighting from our

1 perspective, and certainly Mr. Casey is even  
2 better able to speak to this than I am,  
3 probably two of our impediments to -- I guess  
4 you would view them as impediments -- first of  
5 all, on the construction side certainly is the  
6 Separations Act, you know, and the ability  
7 to -- we have kind of a two-sided -- under  
8 state law with the Separations Act we have the  
9 multiple low bid requirement. Under federal  
10 law and the Brooks Act, when we do engineering  
11 and that type of service, it's -- it's a  
12 qualifications-based procurement.

13 So if you want to essentially package  
14 your design-build project, and I'd use our  
15 existing, we've had a number of folks in town  
16 look at our major project now in our North  
17 Shore connector and say why didn't you do that  
18 as a dual line build?

19 Well, philosophically that may or may  
20 not have been the way to go, but actually  
21 because of kind of the contradictions between  
22 those two laws, it really became impractical  
23 from a legal prospective for us to do that.

24 And the other issue is in a system  
25 like Pittsburgh -- and we are not, frankly, at

1           the current time in an expansion mode. We  
2           are, as a couple of the representatives have  
3           mentioned earlier, really are -- really are  
4           having to look at the productivity of overall  
5           service and individual routes; but because we  
6           are not adding service at this point, we have  
7           to be very cautious in those contracting  
8           arrangements of preserving conditions for the  
9           existing workforce.

10           And that's what we found as a  
11           requirement both of the 13 (c) process at the  
12           federal level and also, frankly, what we've  
13           seen in state labor law, our history, our  
14           collective bargaining agreements don't  
15           specifically prohibit our contracting out  
16           service, but case history has shown us that  
17           the status quo is generally preserved.

18           Where we get grievances and  
19           arbitrations on work that we have  
20           traditionally contracted out, we tend to win  
21           them. Where we get grievances and  
22           arbitrations on work that we've traditionally  
23           operated in-house, we traditionally lose  
24           them.

25           And that frankly is -- and I'm not

1 making an observation whether that's right,  
2 wrong, or indifferent, but it is an issue that  
3 we look to. And, you know, when we see -- for  
4 instance, we have had some success in  
5 outsourcing the rebuilding, particularly of  
6 electronic components.

7                 But we've only been successful in  
8 doing that when there's been a sufficient  
9 workload to make sure the people in those  
10 units did not lose work.

11                 So those are just a few of the issues  
12 that -- that we're faced with. I know  
13 Mr. Casey and Mr. Hoffer have a lot more as  
14 additions.

15                 Thank you, Mr. Chairman.

16                 CHAIRMAN MARKOSEK: Okay. Thank  
17 you.

18                 Mr. Casey, SEPTA.

19                 MR. CASEY: Thank you very much. My  
20 name is Joe Casey, general manager for SEPTA.

21                 Our report, as I assume you all have  
22 copies of it, concentrated on three different  
23 areas. One is our history with contracting  
24 out. Number two is some of barriers we have  
25 in contracting out. And the last one was

1                   future opportunities for contracting out.

2                   Now, the history, currently SEPTA's  
3                   budget is over a billion dollars. But of that  
4                   billion dollars, \$91 million is spent for  
5                   subcontractors.

6                   38, almost \$39 million is for ADA  
7                   paratransit services. Currently we have six  
8                   paratransit services that provide those  
9                   services.

10                  Maintenance and other transportation  
11                  services of almost \$23 million and  
12                  professional services of about \$30 million.

13                  In addition to that, we spend about  
14                  \$240 million for contractors to design and  
15                  construct capital projects to improve the  
16                  infrastructure at SEPTA.

17                  Some of the impediments, as Steve had  
18                  mentioned, we have similar impediments. We do  
19                  have no layoff contracts with our unions.

20                  We do have arbitration decisions that were  
21                  adverse to SEPTA when we attempted to contract  
22                  out routes. Specifically in 2001 we tried to  
23                  restructure a route that fell below service --  
24                  our service standards, and we tried to improve  
25                  those service standards. We both restructured

1           the route, but attempt -- also attempted to  
2           contract that out. Send that out to a third  
3           party.

4                 The union grieved. The arbitrator  
5           ruled against SEPTA and said that that  
6           violated the contracts and you could not  
7           subcontract that services out. So that set a  
8           precedent for us.

9                 However, what we attempted to do for  
10          all new services, we -- we -- all new  
11          services, we put on all new routes -- we were  
12          attempting to subcontract those services out,  
13          and currently we have four routes that are  
14          currently being subcontracted out.

15                 In addition to that, we funnel  
16          through our Job Access program money to our  
17          TMAs who also sub -- subcontracts out small  
18          shuttle services, and currently there's 17  
19          routes that are being operated through the  
20          TMA's, through the funding that we provide  
21          through the Job Access program.

22                 And Steve had mentioned it goes both  
23          ways for contracting out and bringing the  
24          things in. But actually SEPTA also has been  
25          requested to bid on certain contracts that are

1           operated by private companies, private  
2           organizations, and have asked us to bid on  
3           those contracts. And SEPTA has proven to be  
4           the low bidder on at least two of the  
5           contracts that we currently operate. So --  
6           so, again, it works both ways.

7                 Now, some of the things that Steve  
8           had mentioned I -- I want to reiterate. The  
9           13 (c) provision is an issue for us. The  
10          union contracts are an issue for us.

11                But the Separations Act, as far as  
12          subcontracting a route or getting a private  
13          operator to ride --to run a route, I think  
14          that's really an impediment to doing a DBOM.

15                But in addition to that, the  
16          Separations Act also adds significant cost to  
17          our capital projects. Just by the fact that  
18          we have to divide those contracts up to the  
19          various elements adds cost to any capital  
20          improvement that we make.

21                The last thing I just want to  
22          mention, similar to Steve, there are a couple  
23          of joint development projects that we're  
24          doing. And I'm really excited about one in  
25          Ardmore, and that project is really led by the

1 local township. Because I heard remarks about  
2 local. We really need the local participation  
3 to put forth that -- that effort and to really  
4 buy into projects. And they really took the  
5 lead in developing that project.

6 The overall project will -- will use  
7 some of SEPTA's current parking. They would  
8 put a parking lot there. They would put  
9 highrise apartment buildings there. They  
10 would put stores, et cetera, there.

11 What that provides us, for a little  
12 investment, we would get a brand new facility,  
13 stations, et cetera. We would have additional  
14 parking lots for our riders to come to that.  
15 But we also have a huge potential ridership  
16 base with the additional residents that will  
17 be in that location.

18 So we're really excited about that  
19 project and we really think that that really  
20 takes off, that will be -- that will be an  
21 example for other developers to really come to  
22 develop some of the other projects around our  
23 stations.

24 So thank you very much.

25 CHAIRMAN MARKOSEK: Okay. Thank

1           you.

2           Mr. Hoffer.

3           MR. HOFFER: Thank you, Mr. Chairman.

4           CHAIRMAN MARKOSEK: Capital Area  
5           Transit.

6           MR. HOFFER: Good afternoon, members  
7           of the committee. My name is Jim Hoffer,  
8           Executive Director of Capital Area Transit,  
9           more commonly know as CAT.

10          REPRESENTATIVE GEIST: Is your mike  
11          on?

12          MR. HOFFER: Well, I have the green  
13          light there. I'll get a little closer. And a  
14          second one will help. Thank you.

15          Okay. Is this better?

16          Feasibility of -- now I know that's better.  
17          Thank you.

18          The feasibility of partnering with  
19          private sector firms for the provision of  
20          service, maintenance of our equipment and  
21          facilities, and for the administration  
22          function of public transportation service has  
23          been a long-standing consideration and  
24          practice of Capital Area Transit where it is  
25          cost effective to do so and it makes good

1 business sense.

2                   Opportunities for greater involvement  
3 of the private sector should be viewed as  
4 supplementing the provision of basic public  
5 services rather than a substitute for public  
6 services.

7                   And I like the way Mr. Setzer talked  
8 about partnering. I thought he said it very  
9 well. He said it better than I. It's  
10 partnership.

11                  In the Harrisburg area private  
12 operators have the opportunity to participate  
13 in the planning of transportation services  
14 prior to the addition of TIP, the  
15 Transportation Improvement Program. Public  
16 notice is given of the intent of all MPO  
17 meetings. The meetings are open to the  
18 public, which includes the private operator.

19                  We do have one private operator  
20 representative which attends on a very regular  
21 basis.

22                  Service provision - fixed route  
23 transportation.

24                  Consideration of utilizing private  
25 sector for-profit operators to operate service

1       when establishing a new route, to supplement  
2       existing public service routes, or to add  
3       special services available to the general  
4       public has been a multi-year practice of  
5       Capital Area Transit's.

6                  Results have been mixed. Private  
7       operators have at times not responded to bid  
8       solicitation for new service. On other  
9       occasions, mixed results have occurred.

10                 Some bids have resulted in awards of  
11       contracts to operate new service at a cost  
12       less than which could have been provided  
13       directly by CAT. On other occasions, the  
14       private operators' costs would have resulted  
15       in an expense greater to the taxpayer than  
16       that incurred by CAT in the direct operation  
17       of the service.

18                 To date, CAT's most successful  
19       integration of a private contractor operating  
20       fixed route service has been with our Raider  
21       Regional Transit System, providing service to  
22       Shippensburg borough and the surrounding  
23       area.

24                 Capital Area Transit supplies the  
25       three revenue vehicles required for the

1 service. These arrangements have been in  
2 place since August of 1999.

3           While the costs per hour from the  
4 private contractor have been slightly less  
5 than those of Capital Area Transit, CAT  
6 recently received a request for an eight  
7 percent increase in the hourly rate being paid  
8 to the private contractor by CAT.

9           As this compares to a three percent  
10 increase in the cost of providing hourly  
11 service directly operated by Capital Area  
12 Transit, we have to certainly continue  
13 evaluation of the cost differences to  
14 determine if using a private contractor  
15 continues to be the most cost effective way to  
16 operate that service.

17           Capital Area Transit has been  
18 responsible for providing Shared Ride  
19 Transportation in Dauphin County since January  
20 of 1998. Prior to that it was operated by the  
21 Dauphin County Transportation Department as a  
22 division of county government and the county  
23 commissioners had asked Capital Area Transit  
24 to take over that responsibility.

25           Throughout the last ten-and-a-half

1 year period, CAT has continuously used a mix  
2 of taxicab operators, private sector  
3 for-profit operators, public non-profit  
4 agencies, along with direct operation of  
5 service by CAT. Results have been mixed and  
6 they continue to be so.

7 Taxicab operators operate at less  
8 cost per trip than CAT, but at a very high  
9 customer complaint ratio as compared to  
10 service operated by CAT employees.

11 The public non-profit agencies do a  
12 good job, both with their type and cost of  
13 service delivery, but they serve a limited  
14 client base. Just those human service agency  
15 programs that they in particular are  
16 responsible for.

17 We have had mixed results with  
18 private sector for-profit operators as to  
19 service delivery, customer relations, and  
20 comparative cost per trip. When placing  
21 portions of this service out to bid, the  
22 results have led to a variety of private firms  
23 providing service.

24 In summary, there has been a dollar  
25 advantage in savings to the taxpayer where

1 private sector firms have operated as  
2 paratransit service.

3 Also there has been a much higher  
4 ratio of customer complaints when being  
5 transported by the private sector firms  
6 regarding sensitivity and care of CAT's  
7 customers, our citizens, as well as safety  
8 issues.

9 Currently the provision of CAT Shared  
10 Ride Transportation trips is 62 percent by CAT  
11 direct operation of service, with CAT  
12 vehicles, CAT operators, and 32 percent by  
13 subcontracted private sector firms and 6  
14 percent by subcontracted non-profit agencies.

15 Maintenance division.

16 Capital Area Transit employs a very  
17 capable maintenance staff to maintain CAT's  
18 fleet of vehicles. However, some maintenance  
19 work is beyond the scope of the CAT facility  
20 and time utilization of the maintenance  
21 staff.

22 This work includes major engine  
23 overhauls or rebuilding along with some  
24 vehicle rehabilitation and major accident  
25 repairs. This work is contracted out to the

1 private sector companies to perform on a  
2 competitive bid or cost quotation basis.

3 In addition, all parts and supplies,  
4 as well as machinery used by the maintenance  
5 department, are purchased from private sector  
6 firms.

7 When required, the towing of vehicles  
8 is contracted out among several private sector  
9 firms in the Harrisburg area. Private sector  
10 investment in maintenance also occurs with the  
11 provision of various service agreements for  
12 the maintenance department and maintenance  
13 function.

14 Additionally, the custodial  
15 maintenance of CAT's administrative facility  
16 is performed under contract by private sector  
17 firms through a periodic bidding process.

18 Professional and technical services.

19 Numerous private sector firms provide  
20 a myriad of services on either a low bid or  
21 low quotation basis. Among these are auditing  
22 services, legal services, actuarial service  
23 for the pension plan, medical services,  
24 computer services, property security services,  
25 along with insurance services just to cite a

1 number of examples.

2                   Another important service sought is  
3 arrangements with area private sector  
4 retailers to sell the authority's bus tickets  
5 and passes. The privately-owned retailers  
6 realize a profit from bus ticket sales -- we  
7 provide a commission -- as well as prospective  
8 increased sales of merchandise due to the  
9 additional store traffic created by CAT  
10 customers.

11                  Employer support programs.

12                  It's another way of private sector  
13 investment and support and CAT has had a  
14 growing rate of success in seeking employer  
15 investment in the provision of public  
16 transportation service. Much of this has come  
17 about by investment by private sector  
18 employers in various types of commuter benefit  
19 programs for their employees.

20                  The various types of employer  
21 financial support had been a part of ridership  
22 and service growth of fixed route division  
23 service during the past four years.

24                  Another part that's very important is  
25 representation from the private business

1 community, and this should certainly continue  
2 to be a major player in Capital Area Transit.

3 And these serve as either appointed  
4 policy board members or as members of advisory  
5 and planning groups to assist CAT.

6 The private sector participation by  
7 allowing their employers (sic) on time paid  
8 for by the private sector employers is an  
9 important investment in the public  
10 transportation system.

11 As you have heard several times this  
12 afternoon, I would repeat the impediment of  
13 Section 13 (c) of the original UMTA Act, Urban  
14 Mass Transportation Act of 1964, as amended.  
15 Details have been provided to you.

16 I think the legislative process must  
17 give attention to measures that affect  
18 collective bargaining agreements that are in  
19 place and our need to work with labor unions  
20 are which are currently in place.

21 And I would suggest that a number of  
22 those issues, such as 13 (c), the Davis-Bacon  
23 Act, they're federal issues in nature.

24 To summarize, it's apparent from the  
25 presentation not only of the CAT information,

1       but of others here this afternoon, there are  
2       many aspects of private enterprise that  
3       interrelate to public transportation.

4                  Just a wide range of activities and  
5       opportunities in which private sector  
6       involvement occurs.

7                  In closing, I really have to say that  
8       on behalf of Capital Area Transit, I would  
9       like to again publicly -- and I've done this  
10      many times since the passage of Act 44 last  
11      July -- express appreciation for Act 44.

12                 I know there are many thoughts about  
13       it, but certainly without the support of Act  
14      44 public transportation in the Harrisburg  
15      urbanized area would have been placed in an  
16      extremely difficult situation. It would not  
17      have been pretty.

18                 Thanks for the opportunity to be  
19       here.

20                 CHAIRMAN MARKOSEK: Okay. Thank you  
21       very much, gentlemen. I know we have --  
22       Representative Keller had a question.

23                 REPRESENTATIVE KELLER: Thank you,  
24       Mr. Chairman.

25                 This is directed to you, Mr. Casey.

1 As you were giving your testimony, you  
2 referred to your budget. I -- did I hear you  
3 correctly when you said 30 million for  
4 professional services?

5 MR. CASEY: Yes.

6 REPRESENTATIVE KELLER: What? Could  
7 you clarify professional services to me?  
8 Because your concept of professional services  
9 and mine may be two different ones, and I'd  
10 just like to know what --

11 REPRESENTATIVE GEIST: Public  
12 accountant. That's the best.

13 MR. CASEY: Representative Keller,  
14 included in professional services are workers'  
15 comp administration; consulting and general  
16 engineering services; legal services;  
17 laboratory, employee counseling and physician  
18 services; investigative and surveillance  
19 services; audit services; software maintenance  
20 and support; and data processing.

21 REPRESENTATIVE KELLER: Is that an  
22 ongoing contract with different agencies or is  
23 that, you know --

24 MR. CASEY: Yes. It's all different  
25 agencies.

1                   REPRESENTATIVE KELLER: Okay. All  
2 right.

3                   MR. CASEY: I can do a detailed  
4 breakdown if you need to know.

5                   REPRESENTATIVE KELLER: It seems  
6 really high to me.

7                   MR. CASEY: Our annual budget is now  
8 \$1.2 billion.

9                   REPRESENTATIVE KELLER: All right.  
10 Thank you.

11                  CHAIRMAN MARKOSEK: Chairman Marsico.

12                  REPRESENTATIVE MARSICO: Thank you,  
13 Mr. Chairman.

14                  Just to follow up on your budget, are  
15 you financially stable now this year?

16                  MR. CASEY: Yes, we are.

17                  REPRESENTATIVE MARSICO: How about  
18 Allegheny, are you financially stable?

19                  MR. BLAND: For the current year, we  
20 have a balanced budget. Our concerns are more  
21 in the multi-year horizon. But it's a  
22 balanced budget for this year, yes.

23                  REPRESENTATIVE MARSICO: I know under  
24 the direction and leadership of Mr. Hoffer CAT  
25 is definitely financially stable.

1                   MR. HOFFER: We are. Yes, we are  
2 financially stable for our projections of  
3 fiscal year '08/'09. And we should be okay  
4 for the following year.

5                   It's when under Act 44 the growth is  
6 projected to only be two, two-and-a-half  
7 percent a year in funding that we need to  
8 manage now for the future.

9                   REPRESENTATIVE MARSICO: Several  
10 years ago the administration, Governor  
11 Rendell, flexed highway dollars for mass  
12 transit. I'm sure you all remember that.

13                  MR. CASEY: Yes, sir.

14                  REPRESENTATIVE MARSICO: So it took  
15 away the monies from our highways and bridges,  
16 especially in this area and other rural areas  
17 of the state.

18                  What did those dollars actually go  
19 for for your agencies?

20                  MR. CASEY: For SEPTA, it primarily  
21 sustained our current public transportation  
22 operation. It wasn't necessarily capital  
23 improvements but it sustained the operations.

24                  REPRESENTATIVE MARSICO: Why did you  
25 need to do that? Were you having financial

1 problems or manager problems before? What was  
2 the reason for the dollars going -- being  
3 taken away from highways and bridges in the  
4 state?

5 MR. CASEY: Well, I think it was a  
6 combination of a number of years. I mean the  
7 transit agencies throughout had an imbalance  
8 in their operating budget and he came through  
9 with the flex dollars one year. The following  
10 year he came up with additional. So it's a  
11 domino effect. So it was one layer on top of  
12 another to deal with our financial  
13 difficulties.

14 MR. BLAND: If I were to -- I would  
15 repeat everything for Pittsburgh that  
16 Mr. Casey just mentioned, keeping in mind one  
17 of the objectives that you all navigated with  
18 Act 44 was the prior sources had been very up  
19 and down, unreliable, flat. We had the PRTA  
20 issue from years gone by.

21 So the flexing was -- and we did  
22 exactly the same thing, flex money to sustain  
23 operations. There wasn't a particular capital  
24 investment.

25 And certainly if Act 44 has

1                   accomplished anything, it's accomplished a lot  
2                   of things, but there is a predictability and a  
3                   -- and in the formula that Deputy Secretary  
4                   Fauver described, we know we have a better  
5                   balance on how to measure the effectiveness of  
6                   our services where that really was a difficult  
7                   thing to do.

8                   MR. HOFFER: For Capital Area  
9                   Transit, we were not the recipient of any of  
10                  the flexible funds, simply because of the  
11                  uniqueness of our operation and certainly our  
12                  limited capital program as compared to Port  
13                  Authority and SEPTA, but that did not mean we  
14                  didn't have financial challenges.

15                  We had some serious issues and the  
16                  Department of Transportation, as well as the  
17                  administration, did find some discretionary  
18                  funding to help Capital Area Transit that we  
19                  could sustain the operation pretty much in  
20                  place without any serious cuts and without any  
21                  significant fare increases during that  
22                  two-year period.

23                  REPRESENTATIVE MARSICO: Thank you,  
24                  Mr. Chairman.

25                  Thank you.

1 CHAIRMAN MARKOSEK: Thank you.

2 Representative Kathy Watson.

3 REPRESENTATIVE WATSON: Thank you,

4 Mr. Chairman.

5 I guess in the -- full disclosure, we  
6 should note that of all the colleagues and  
7 everyone sitting here, I think I'm the one who  
8 drives from east to west to get to  
9 Harrisburg.

10 And so I will address questions --  
11 particularly we'll start with SEPTA. Perhaps  
12 you detected, sir, a bit of an aura in the  
13 room of skepticism, and I was here for some of  
14 the previous questions that I think in general  
15 talked about, you know, what is SEPTA really  
16 doing and the kind of money that they spend.

17 So allow me to, let's go over that.

18 Coming from the east, suburban person, so I'm  
19 not at the city, which is usually the first  
20 question they ask and, you know, you must be  
21 from Philadelphia, and I didn't know it was an  
22 either/or.

23 But I do have constituents who use  
24 SEPTA facilities. I also have an area where  
25 you cut services.

1           But I'd like to hear from each of you  
2 gentlemen, to talk I think -- we talk here in  
3 Harrisburg about accountability and we talk  
4 about spending money wisely or indeed that is  
5 always our goal.

6           And what swirls around us is the fact  
7 that, well, you know, we can't be sure --  
8 especially if you're not here, we talk about  
9 you a lot.

10          MR. CASEY: Are you talking to me?  
11          I'm sorry.

12          REPRESENTATIVE WATSON: Well,  
13 actually Mr. Casey we've not met yet. You're  
14 the prime target. I know you're new on the  
15 job.

16          MR. BLAND: We're in this together,  
17 Joe.

18          REPRESENTATIVE WATSON: Yeah. But  
19 actually, Mr. Bland, my colleagues that do  
20 drive from west to east, they talk about you a  
21 lot, too.

22          MR. BLAND: I know that for a fact.

23          REPRESENTATIVE WATSON: Sir, you've  
24 done real well. Okay?

25          MR. HOFFER: But you see our

1 operation every day.

2 REPRESENTATIVE WATSON: I know. But  
3 they rarely mention you or at least they don't  
4 take your name in vain, sir.

5 MR. HOFFER: Thank you.

6 REPRESENTATIVE WATSON: As they might  
7 the other two. Not specifically to you  
8 gentlemen, but certainly to the authorities  
9 you represent.

10 But in a very serious way, I try to  
11 get at it lightly, but very seriously, I think  
12 you need to talk a little bit about your  
13 accountability.

14 What have you done to work -- we'll  
15 call it necessarily not meaner, because you  
16 deal with the riding public, but definite -- I  
17 mean not meaner but leaner -- and you heard a  
18 question certainly about a particular line  
19 item.

20 You heard Representative Pyle when he  
21 was here talking about spending money for  
22 advertising and what is the fare box route,  
23 what should that contribute, and indeed I'm  
24 aware from what we've read before that there  
25 isn't any authority across the United States

1           that, in fact, pays for itself.

2                 But let's go through that for each of  
3           you, if we might. Just, you know, ten quick  
4           facts about what you're doing and how it all  
5           works, that kind of accountability.

6                 Thank you.

7                 MR. CASEY: I'll start. I'll start  
8           off. If I can just step back to the reform  
9           commission when they did the analysis, one of  
10           their major tasks was to compare the agencies  
11           within Pennsylvania to peer agencies of like  
12           size throughout the nation.

13                 And when they looked at SEPTA, one of  
14           the things they were -- actually I think they  
15           were kind of shocked at -- is how efficient we  
16           were compared to everyone else. Specifically  
17           on the cost-per-hour basis. We've been very  
18           efficient. We've been very diligent in our  
19           contracts with our labor unions and very, very  
20           watchful of the bottom line.

21                 In my former capacity I was chief  
22           financial officer, and prior to that I was  
23           budget director. So, yeah, I went through it  
24           for a number of years and, you know, that's --  
25           you know, anything that's -- you know, that

1 gets spent at SEPTA goes through the budget  
2 department, goes through finance, and then  
3 goes through the general manager's  
4 department.

5 Getting back to that specific line  
6 item of the million dollars of marketing,  
7 again, we have a budget of \$1.2 billion. It  
8 is a big operation. To spend a million on  
9 marketing is not a significant number.

10 And for the effect of that marketing,  
11 all we have to do is move the ridership .1  
12 percent and we more than make up for that --  
13 that million dollars. And we think we can do  
14 that.

15 One of the things we're doing now is  
16 rolling out -- because we're faced with  
17 unprecedented ridership increase, specifically  
18 on the regional rail, and one of the things  
19 that we just rolled out last week, which will  
20 start in the fall, is increased service out  
21 there. Specifically during the peak periods  
22 where we have severe overcrowding and in some  
23 cases we were passing up people on the  
24 corners, et cetera, because they simply had no  
25 room on the buses.

1           But we're also putting out service,  
2 later nights, on weekends, et cetera, where  
3 the transit wasn't for the people. It wasn't  
4 an opportunity, and they wasn't being to take  
5 the service.

6           So that's one of the things that  
7 we're gearing the marketing campaign around,  
8 to let people know the services that we're  
9 putting out there, that it will be more  
10 convenient for them to ride, and we think that  
11 we'll more than make up for that million  
12 dollars we're spending in the advertising.

13           REPRESENTATIVE WATSON: Thank you. I  
14 am familiar because I'm aware for the district  
15 that I represent in Bucks County that one of  
16 the things that was always used against using  
17 public transportation, certainly via a bus,  
18 but particularly via rail, that if you are  
19 absolutely in a job going to Philadelphia,  
20 that direction, where you really work, you're  
21 8:30 to 4:40 or 9:00 to 5:00, you're okay.  
22 But if indeed you have to stay, as most of us  
23 do in our jobs, or whatever, a little late,  
24 it's something you can't get home really well  
25 or you sit for over an hour or even you're

1           simply -- you know, your car may be at a  
2           particular location but you can't get there  
3           after 7:30 at night, or whatever, when we work  
4           late and so, therefore, we have lots more  
5           people who they would drive who -- if they  
6           understand now that things have changed for  
7           you, would take the opportunity for public,  
8           which would benefit our breathing as well as  
9           prices for gasoline.

10           Sir?

11           MR. BLAND: Thank you. And I'll  
12           highlight a few, and certainly if there are  
13           any follow-up questions on these, rather than  
14           spend exhaustive time.

15           Particularly the focus for the Port  
16           Authority has been in claims management,  
17           reducing claims both in terms of claims with  
18           other -- with passengers or motorists but also  
19           in the workers' compensation and disability  
20           area and focusing on that.

21           There was an overall reduction of 20  
22           percent of our management staff, including  
23           about 37-and-a-half of the senior management  
24           staff over the last two years.

25           One of the things we started out with

1 was what we referred to as our service score  
2 card and taking every route in our system,  
3 every rail route, every bus route, and through  
4 a collaborative community effort coming up  
5 with measures, not just, you know, cost per  
6 passenger or the efficiency measures, but to  
7 what extent did it serve disadvantaged  
8 neighbors and do some of the other things and  
9 through that consensus process we were able to  
10 rate routes and that's what guided our service  
11 restructuring, including the elimination of 29  
12 routes out of about 210.

13 We're now taking that to the next  
14 level with a full-blown system development  
15 plan. Frankly, nothing that's foreign. I  
16 know SEPTA has a very well developed service  
17 development and benchmarking process and the  
18 smaller systems like CAT have done it for  
19 years.

20 But now going beyond the route level,  
21 down to the stop level, and saying, well,  
22 okay, even if the route might be performing  
23 well on an overall level, what segments of the  
24 route are doing well or not well, all aimed  
25 toward what we're referring to as our Connect

1       '09 program toward service restructuring next  
2       year to again improve the efficiency and  
3       effectiveness of those routes.

4           We've redone our board governance  
5       models to make sure that the board is involved  
6       in a much earlier phase in decision-making. I  
7       think one of the complaints that the general  
8       public and certainly a lot of our board  
9       members had was we get to make a decision  
10      after there's really no other decision to be  
11      made.

12           So making sure that that -- you know,  
13       that volunteer group of people who are  
14       representative of the community are more  
15       involved in the up-front elements.

16           And we're working now with our  
17       regional partners. We're -- we're -- we're  
18       quite a bit different -- well, we're different  
19       in a lot of ways than SEPTA is, but one is we  
20       are not a multi-county authority. We're one  
21       county. We're Pittsburgh, Allegheny County.

22           And we have -- in our MPO area there  
23       are ten total counties and each of those  
24       counties has another transit operator and  
25       we've been working much more collaboratively

1 over the last two years and a project that is  
2 really coming to fruition now is a regional  
3 smart card project.

4 Is that the train to Pittsburgh?

5 REPRESENTATIVE COSTA: It's leaving  
6 in 20 minutes.

7 MR. BLAND: But, in essence, the  
8 ability by the end of next year that someone  
9 in the region can pick up a smart card and --  
10 and use it on any of the systems.

11 And we believe, frankly, even within  
12 the authority, and I know a lot of our  
13 brothers and sisters in the region believe  
14 that we will find more revenue derived out of  
15 those partnerships.

16 We've completely renegotiated -- we  
17 have significant, what I refer to as wholesale  
18 partnership agreements with a number of  
19 organizations in the region. The two that are  
20 the most significant are with the University  
21 of Pittsburgh and with Carnegie Mellon  
22 University where students, staff, and faculty  
23 of those institutions have all ACCESS use  
24 through our system with just an employer or  
25 student ID.

1           Those arrangements were renegotiated,  
2 will amount to essentially a doubling of the  
3 contribution of those institutions over five  
4 years, a 15 percent a year annual increase  
5 which cumulatively doubles that contribution  
6 without any requirement to add service and  
7 there's no -- there's no requirement that we  
8 add expense. You know, it's simply they're --  
9 they're understanding more of the benefit of  
10 that program.

11           That was also tied to our smart card  
12 initiatives. So we're working with Carnegie  
13 Mellon and Pitt on the smart card project so  
14 that essentially a student ID can be used as a  
15 smart card on our system.

16           So those are a few. I know you have  
17 a long afternoon so I'll let Jim take it from  
18 here.

19           MR. HOFFER: Thank you. I believe  
20 that Mr. Bland touched upon many things that I  
21 would discuss for Capital Area Transit.  
22 However, CAT is on a far different scale, a  
23 far smaller scale.

24           But I'd like to share a few other  
25 thoughts, and I would like to think that all

1           transit managers and hopefully many managers  
2        in working with public money would start with  
3        the management of philosophy.

4           It is public money. I'm a taxpayer  
5        also. My wife is a taxpayer. Our sons are  
6        taxpayers. It's our money. And I think you  
7        need to instill that in the workplace with  
8        your co-workers, that the spending decisions  
9        that are made, they're made with public  
10      money.

11          Now, having said that, are there  
12      places that we could find that we can do  
13      better, that we can save money, do ways in a  
14      more cost effective manner? The answer is  
15      yes. Because that's real life. You can  
16      always do better.

17          Mr. Fauver referred to performance  
18      standards, performance audits, and under the  
19      previous Public Transportation Act, Act 26, we  
20      had those service standards but we had those  
21      service standards going back to the time when  
22      I was first hired at CAT in 1978. We have  
23      carried that on.

24          Each month we have basically  
25      two-and-a-half pages of statistics that --

1       that we look at internally, that is shared  
2       with our board of directors, and we have some  
3       measurements there that we try to measure  
4       against where we want to be month by month.

5           So I think really it's -- it's an  
6       institutional mindset that the manager is  
7       responsible to keep in front of everybody.  
8       It's public money.

9           REPRESENTATIVE WATSON: Gentlemen,  
10      thank you very much.

11           Mr. Chairman, can I just ask one  
12      quick question from the gentlemen from  
13      Pittsburgh?

14           CHAIRMAN MARKOSEK: Sure.

15           REPRESENTATIVE WATSON: You mentioned  
16      two universities. I'm curious. There's a  
17      third one in Pittsburgh, Duquesne.

18           Well, I know that. I'm just --

19           MR. BLAND: Are you an alumni?

20           REPRESENTATIVE WATSON: No. But as  
21      of probably about seven o'clock tonight my  
22      niece moves in there. So I do care.

23           MR. BLAND: There are actually quite  
24      a few universities. Duquesne is certainly one  
25      of the finer ones so...

1           And we have arrangements with a  
2 number of them. Duquesne we have what I would  
3 call a limited arrangement. Pitt and CMU are  
4 the most broad and it's a university access,  
5 where a lot of the other schools, Duquesne,  
6 Point Park, Carlow, a number of them, you  
7 know, will essentially purchase passes, our  
8 normal pass, and then offer them to students  
9 and faculty at discounted rates, where the  
10 Pitt and CMU arrangements are -- frankly, I  
11 think a lot of folks on my left and on my  
12 right, in particular, would love to have the  
13 arrangements.

14           Because one of -- one of the  
15 benefits, apart from obviously the revenue and  
16 ridership impact, is it's -- it's a no cash  
17 transaction. You know, unfortunately we  
18 cash -- we collect cash at about a dollar at a  
19 time. And that gets to be very expensive in  
20 cash handling.

21           And in the -- in the case of Pitt,  
22 that's about a \$6 million a year agreement.  
23 It's done in twelve equal installments.  
24 Rather than collecting six million in one  
25 dollar bills, we're doing it with twelve

1 checks. So it's -- not only is it  
2 advantageous for the obvious reasons, but it's  
3 also much more efficient than the normal way  
4 we do business.

5 So if you have any -- if you or your  
6 niece have any ins -- ins with Duquesne, we'd  
7 love to -- we'd love to have similar -- and,  
8 frankly, when we move to the smart cards, I'm  
9 very optimistic that not just the universities  
10 but some of the other major institutions in  
11 the city will be able to do the same thing.

12 REPRESENTATIVE WATSON: Sounds like a  
13 good model for Philadelphia.

14 Thank you, Mr. Chairman.

15 CHAIRMAN MARKOSEK: Sure.

16 Representative Costa is champing at  
17 the bit to remind me about Point Park.

18 REPRESENTATIVE COSTA: That's great.  
19 Thank you, Mr. Chairman.

20 Steve, I know we talked with you  
21 about this, but we met with a bunch of Point  
22 Park students and Mariann Geyer, who is vice  
23 president, used to work for the company, which  
24 they pounded on her about that and said we  
25 want what Pitt has.

1                   So it is a very successful program,  
2 and there are universities, and I know Point  
3 Park is still very interested in trying to  
4 work something out with you.

5                   MR. BLAND: And actually,  
6 Representative Costa, I'm glad you brought  
7 that up. Point Park being the downtown  
8 university, we are advancing that  
9 conversation.

10                  They're also looking at complete  
11 redevelopment. So coming back to the  
12 transit-oriented redevelopment issue, they're  
13 looking at campus redevelopment, including  
14 improving those streetscapes and incorporating  
15 transit into their designs and how that -- how  
16 that would be done.

17                  So I definitely appreciate that  
18 comment.

19                  REPRESENTATIVE GEIST: Just -- I just  
20 want to correct something. Being from Penn  
21 State, Pitt only gives certificates of  
22 completion.

23                  CHAIRMAN MARKOSEK: Representative  
24 Longietti from Westminster.

25                  REPRESENTATIVE LONGIETTI: That's

1 right. Westminster.

2 Thank you, Mr. Chairman.

3 Do any of you do any studies on fares  
4 in terms of if we raise the fare to X, this is  
5 what our ridership will be and this is what  
6 our income will wind up being?

7 MR. CASEY: Yes. We have extensive  
8 models on that.

9 REPRESENTATIVE LONGIETTI: And I know  
10 fares were -- were increased for some of the  
11 systems not too long ago, but it just occurs  
12 to me, you know, right now we're at -- I think  
13 the national average is somewhere around 3.60  
14 a gallon for gasoline. That's gone down  
15 significantly over the last month; yet, you  
16 know, a year ago I think it was around 2.75 a  
17 gallon. The cost for people to park, it just  
18 seems like there's room, in my humble opinion,  
19 there's room for growth in fares. I don't  
20 know what your feeling is on that.

21 MR. CASEY: Well, for SEPTA we just  
22 had an increase last July. Approximately 12,  
23 13 percent across the board. And, quite  
24 frankly, we -- our model told us that we were  
25 going to lose about two percent of the

1       riders. But with the price of gas continuing  
2       to grow, et cetera, we actually increased  
3       riders and the ridership growth from year to  
4       year went up five-and-a-half percent. So in  
5       total it was seven-and-a-half percent better  
6       than what we expected.

7               Regardless, we -- we really think the  
8       ridership that --- that we're -- the growth  
9       that we have seen, people are staying with us,  
10       and generally what happens, we see an uptick  
11       in September. When the kids go back to  
12       school, we see -- we see the sudden impact.

13               But we really need to -- and this is  
14       what we're on next week, increase capacity to  
15       absorb the additional riders that we're  
16       experiencing, and we really think we have that  
17       additional capacity out there that more people  
18       will -- will come to SEPTA and stay on SEPTA  
19       regardless of what the price does in the  
20       future.

21               MR. BLAND: In the case of  
22       Pittsburgh, we had kind of a double whammy.  
23       We did -- last June, we reduced service by 15  
24       percent, again, focusing on some of those  
25       lower productivity services, and instantly we

1 saw about a four percent reduction in  
2 ridership just off that loss.

3 In January, then, we instituted a  
4 fare increase that when it all blended  
5 together was about a 14 percent; and similar  
6 to what SEPTA did in the modeling, we were  
7 looking at about an additional 1.4 percent  
8 revenue loss off of that.

9 But exactly, as you're referring  
10 with, you know, downtown parking prices  
11 remaining high, with fuel prices, our July  
12 ridership, now we're at apples to apples. So  
13 it's been over a year since the service  
14 reductions and six months since the fare  
15 reduction (sic.) Our ridership in July was up  
16 about eight percent over last July. So we do  
17 believe that -- while with 230,000 daily  
18 riders, you don't want to say no one was  
19 impacted, but there does seem to be a  
20 balancing.

21 What our board did -- I thought was a  
22 bit unique when they did it -- with the fare  
23 increase was normally you adopt a fare  
24 increase and you say, well, let it ride and if  
25 we need to look at it again, we'll look at it

1 again.

2               They specifically in the resolution  
3 adopting the fare increase said, no, you will  
4 plan to raise fares again in two years. No  
5 less than two years. If you have to look at  
6 it earlier, look at it earlier. And if there  
7 is not going to be a fare increase, you have  
8 to specifically come back to this body and  
9 tell us why there doesn't need to be a fare  
10 increase.

11               So I think there will be a bit more  
12 of a -- you know, for lack of a better word --  
13 proactive examination of pricing strategy.

14               And certainly that's something we're  
15 pursuing in our system plan through market  
16 research, what will people sustain.

17               As an example, when we look at a  
18 route-by-route level, one of the things we're  
19 finding is that the subsidy per passenger is  
20 higher on suburban commuters, express buses,  
21 where you would surmise that probably those  
22 folks maybe can afford a little bit more than  
23 that inner city rider or the late night  
24 access-to-job type of a person.

25               So those are some of the areas we'll

1       be looking at and testing those markets over  
2       the next six to eight months.

3            MR. HOFFER: I'll just echo, yes,  
4       there are standards in the industry for  
5       raising fares and anticipating adjustments on  
6       ridership, sort of a rigid rule of thumb and  
7       also elast -- elasticity formula.

8            However, CAT's last two fare  
9       increases, we could throw it out the window.  
10      Now, certainly times are different.  
11      Especially with the price of gasoline and that  
12      external impact on people's behavior and the  
13      decisions they make.

14           But we had raised our fares effective  
15      June 1st, 2007 by six percent, and last fiscal  
16      year our ridership increased over seven  
17      percent compared to the year before. Six  
18      percent fare increase, seven percent ridership  
19      increase.

20           As with the Port Authority, the CAT  
21      board of directors had taken action to  
22      implement a two-step fare increase. The first  
23      was a dime, a six percent increase effective  
24      June 1, '07, and then another nickel increase  
25      effective July 1 in 2008. So we now have

1 completed the second step of the fare increase  
2 process.

3 Our ridership for July was up  
4 11-and-a-half percent over July of last year.  
5 Again, throw the formula out the window. But  
6 the formulas do exist.

7 REPRESENTATIVE LONGIETTI: Thank you,  
8 Mr. Chairman.

9 CHAIRMAN MARKOSEK: Okay. Thank  
10 you. Gentlemen, you were great here. Great  
11 spokespersons for the industry, transit in  
12 Pennsylvania.

13 I think this was very important that  
14 we heard about what you are doing relative to  
15 the private sector and it's quite a bit. I  
16 think a lot more than most of us had  
17 realized.

18 And we really thank you for your  
19 testimony here today. You did a great job.

20 I want to thank all the other folks  
21 that testified. I want to remind the  
22 committee that we have another hearing  
23 tomorrow morning at nine o'clock in this  
24 room.

25 And hearing no other business, the

1 meeting is adjourned. Thank you.

2 (The hearing was concluded at  
3 3:58 p.m.)

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

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Brenda S. Hamilton, RPR  
Reporter - Notary Public