PennPIRG
Standing Up
To Powerful Interests

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Testimony of PennPIRG State Director Megan DeSmedt before the House Transportation Committee, in support of fully funding a 21st Century Transportation System in Pennsylvania

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Chairmen Markosek and Geist, and all the members of the House transportation committee,

Thank you for the opportunity to speak to you today. My name is Megan DeSmedt, and I am the state director of PennPIRG, the Pennsylvania Public Interest Research Group. We are a non-profit, non-partisan consumer advocacy group with thousands of members across the state.

I am here today to speak about the great need we face in terms of fully funding our public transportation systems, as well as fixing our crumbling roads and bridges, here in Southeast Pennsylvania, and all across the state. I also am going to share with you a few ideas I have for how to do that, and my strong believe that this is something that the citizens of the Commonwealth will support.

Public transportation use is at an all-time high. And it's no surprise. Public transportation systems like we have here in Philadelphia are affordable, convenient, and reliable. With rising gas prices and the current economic problems, it's becoming a more attractive option, in addition to being the only option for many people.

Public transit also helps reduce congestion, which saves people time and money. This is a benefit for everyone, not just those taking transit. More people taking public transportation, means fewer people on the road, which saves time and money for everyone.

Often times, public transportation is the only option people have to get around, especially here in Southeastern Pennsylvania. More than 400 million rides are taken on public transportation in Pennsylvania every year. In Philadelphia alone, over 65,000 children use public transportation to get to school. Over 43 million rides are taken by seniors who rely on low-cost or free trips on public transit in Pennsylvania each year. The overwhelming majority of transit riders need these options to get to work, school, doctors appointments, and other necessary destinations.

We also need to maintain funding to repair our crumbling infrastructure—Pennsylvania has more structurally deficient bridges than any other state in the country.

Act 44 got it right. We shifted our focus to make sure that we are spending our transportation dollars in the most efficient way possible here in Pennsylvania, by prioritizing public transportation and fixing our current infrastructure, instead of spending money on new highways. We also came up with dedicated funding sources to make this happen into the future.

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We are now facing a setback, to be sure, with the loss of anticipated revenue from tolling I-80. But we cannot let it be a game changer.

We simply can't afford to punt this problem to the next year. People rely on public transportation to get to work, school, and other vital appointments, and in addition to decreasing the reliability of that mode, a cut in transportation funding will also force us to decide which of our state's bridges we should let fail

I believe that people in Pennsylvania want to see a solution to this problem. We rely on our transportation systems, and know that they need to be funded in order to function. For the past few years PennPIRG has been working to build support among elected officials and community leaders for our 21st century transportation principles, to impact transportation decisions at the local, state and federal level:

1. **Expands clean, efficient transportation choices for Americans:** by prioritizing investment of new capital funds for light rail, commuter rail, rapid bus service, high-speed intercity rail and other forms of modern public transportation. At the same time, federal policy should encourage transportation investments that build dynamic and accessible communities, where more Americans can walk, bike or take transit to get where they need to go.
2. **Fixes our crumbling roads and bridges:** by investing more federal highway money in maintenance, not massive new highway projects. It's time for the federal government to embrace an approach to highway spending that prioritizes maintaining and modernizing our existing highways over building more.
3. **Spends taxpayers' money more wisely:** by focusing transportation dollars on solving our nation's biggest problems. For decades, the federal government has spent billions of dollars on highway projects with little evaluation and no accountability. That must change. Federal transportation money should be spent only on projects that produce real results over the long haul - for example, by reducing our dependence on oil, curbing global warming pollution, alleviating congestion, improving safety, and supporting healthy, sustainable communities.

We are excited to continue to build support around these principles among the public, but also focusing on small business owners and local elected officials and community leaders to give the legislature the backing it needs to tackle this issue.

The Transportation Advisory Council Report released last month lays out several funding options, as does a report released by PennPIRG in August 2007: Finding Solutions to Fund Transit.

There are several principles that you should keep in mind as you are weighing funding alternatives.

- **Enhance market efficiency** - Markets work best when the costs individuals face accurately reflect societal costs. In economists' jargon, total social welfare is improved when external costs get internalized. Automobile drivers bear some of the costs they generate, but do not fully cover social costs.

- **Low collection costs** - As is the case with all government funding sources, the costs incurred by collecting, monitoring, and enforcing taxes and fees are a drain that should be minimized. Revenue that is easier and cheaper to collect is preferable to those that require elaborate and costly mechanisms to implement.

- **Reliability** - Transit agencies require reliable funding in order to plan long term and access long-term financing. Transportation infrastructure can not be efficiently increased or decreased each year according to available funds. It requires large durable investments and planners need to know that funds will be available to operate and maintain routes. Similarly, transit systems need steady sources of revenue when they issue bonds for new construction. Without dedicated revenue sources, bond traders will require agencies to pay higher interest rates which will significantly increase long-term costs.

- **Diverse Funding -** Having multiple sources of funding for transit is preferable to just one large source. Diversifying agency revenue sources protects transit systems from fluctuations in the economy that might hit one particular revenue source harder than others.

- **Fare Increases are Self Defeating -** Passenger fares do not advance transit goals. Fares are not akin to user fees for socially costly activities such as polluter fines to fund environmental cleanup. Transit ridership is a public good, and increasing the price of fares discourages riders. It makes poor economic sense to operate expensive transit systems but then discourage ridership through high fares. The net social benefits of additional transit riders tend to outweigh whatever additional fares might be paid.

  Transit systems therefore should not have designated minimum farebox recovery ratios. Transportation officials should not approach fare policy from the perspective of, "What can we recoup at the fare box?" Instead, they should ask "What can we charge before we loose significant numbers of riders?"

  Larger transit systems with high ridership can generate enough fares to cover a significant portion of operating expenses. On average, fares from transit agencies across the country cover a third of operating expenses for transit systems. More extensive systems tend to cover more of their costs through fares because they benefit from economies of scale and tend to be located in denser communities where commuters more prefer transit over the congestion and parking hassles of driving.

More details on the pros and cons of specific funding mechanisms can be found in our report (available at www.pennpirg.org, or email mdesmedt@pennnpirg.org for a copy.) But here is a list of the options we've considered:

1. Sales Taxes
2. Transportation-based revenues
   a. Gas taxes
   b. Rental car tax
   c. License, registration or title fees
   d. Tire tax
   e. Vehicle battery tax
   f. Weight-mile truck fee
   g. Toll roads and congestion pricing
3. Development Fees
   a. Development impact fees
   b. Storm water fees
   c. Real estate transfer fees

In addition to coming up with new revenue sources, we also need to look at cutting inefficiencies, closing corporate tax loopholes, and making sure that we are spending our transportation dollars in the most efficient way possible.

In terms of spending priorities, that means sticking to the priorities laid out in Act 44, of fixing our current roads and bridges, and creating more and better public transportation options, as opposed to building new roads or expanding current roads. Incidentally, this also will create more jobs—spending on public transportation creates twice as many jobs as spending on new roads.

Also want to note that there are certainly options outside of the transportation context to generate additional revenue for the state by closing corporate tax loopholes. This is another PennPIRG priority, and I'd be happy to provide more information on this matter if you are interested. But the Department of Revenue estimates that by simply making out of state corporations pay the taxes they owe, we could generate an additional $612 million. Representative Levdansky's bill 1775 would do just that.

I also want to urge lawmakers to resist pressure to fund public transportation by making a hasty deal to lease the Pennsylvania Turnpike. Focusing solely on the Commonwealth's short-term cash flow problems could significantly impair Pennsylvania's long-term financial health, and negatively impact our transportation policy for decades to come. The Turnpike is more than just a source of revenue; it is a vital component of our public infrastructure, and its operation is a keystone of Pennsylvania transportation policy.

Highway privatization deals from Colorado's E-470 and Northwest Parkway to the Indiana Toll Road include "noncompete" agreements to ensure that the private company holds a roadway monopoly within the travel corridor. E-470 and the Indiana Toll Road forbade building any "competing" roads. In the case of Indiana, that extended to any road within 10 miles. Under the 75-year lease proposed by Citi-Albertis for the Pennsylvania Turnpike in 2008, taxpayers would be required to compensate the private company for lost revenue from future transportation policies that might reduce paying traffic on the company's roadway, whether that was from new roads or improved public transportation.

For more information, please see our fact sheet "Private Roads, Public Costs: The Facts about Toll Road Privatization."

Also, please contact Megan DeSmedt at mdesmedt@pennpirg.org or 215-732-3747 with further questions.

Private Roads, Public Costs

The Facts About Toll Road Privatization

Across Pennsylvania, cash-strapped governments are struggling to plug gaping holes in their budgets, scarred by the impacts of the economic crisis. At the same time, Pennsylvania's roads and bridges remain congested and in desperate need of repair.

Enter global private infrastructure companies and their backers in the world of investment banking. Touting the benefits of public-private partnerships, these companies are seeking to build new private highways or offering up-front cash for existing roads ... all in exchange for the right to charge and collect tolls on motorists for decades to come.

Road privatization offers a hard-to-resist "quick fix" for state budget and transportation challenges. But poorly done privatization can have hidden costs and big potential downsides for the public.

Is Road Privatization on the Rise in Pennsylvania?

In 2006, Governor Ed Rendell proposed leasing the Pennsylvania Turnpike to generate money for transportation projects. Proponents touted that a deal could pay out as much as $30 billion. A private consortium headed by Citigroup and a Spanish investment firm offered $12.8 billion for a 75 year lease of the toll road. The consortium, which withdrew the bid in September 2008 when the legislature refused to approve the deal, has indicated that it intends to rebid.

In June 2008, the state Senate passed a bill that would allow state agencies to obtain private bids for the construction of new express toll lanes and high occupancy toll lanes to expand highway capacity. Legislators pointed to the need for these types of projects on I-95 and the Schuylkill Expressway.

Additional proposals for private toll projects include:

- The Mon Fayette Expressway connecting Pennsylvania Route 51 in Jefferson Hills to I-376 in Pittsburgh, and

- The Southern Beltway, a proposed link between the Mon Fayette Expressway and Pittsburgh International Airport.

Handing Over the Keys to Transportation Policy

Private toll road operators seek to maximize their profits. But what's good for business isn't always good for motorists, or for transportation policy in general. For example:

- Toll road contracts often include *non-compete clauses* that prevent states from making transportation improvements that would cut into the toll road's business. For example, a government agency was forced to buy out the private operator of California's State Route 91 express lanes because its contract with the private company forbade improvements on a nearby road.

- Contracts can *financially encourage bad transportation policy.* One toll road contract in Texas provides the state with a financial incentive for increasing the speed limit from 70 to 80 miles per hour.

- States typically *must pay private operators if policy decisions reduce toll revenue.* For example, the state of Indiana was forced to pay the private operator of the Indiana Toll Road more than $400,000 for waiving tolls to speed evacuations after a flood.

- Private toll road operators can keep raising tolls, even if increased tolls *divert traffic onto congested local roads.* One study found that private toll roads can increase accidents and maintenance costs on nearby public roads because drivers, especially truckers, seek to dodge big toll hikes.

Not Enough Bang for the Buck

Typically the biggest expense for a private road operator is the cost of borrowing upfront money from lenders and investors. But government agencies have big advantages in this area. Governments pay lower interest rates to borrow money than private companies. And public toll roads need not divert toll dollars to cover shareholders' profits.

- The public *can't be confident of getting full value when selling off toll roads.* An analysis of the Chicago Skyway and Indiana Toll Road privatization deals found that private investors will likely recoup their investments in less than 20 years—even though the private operators will charge tolls for 99 and 75 years, respectively.

- Private toll road deals require *higher tolls* to provide the same payoffs that would be possible without privatization. Based on the same schedule of toll hikes that would have been offered to a private entity, Pennsylvania could generate nearly twice as much revenue by keeping, rather than selling off the Pennsylvania Turnpike.

Risky Schemes and Lack of Accountability

Private infrastructure deals are often characterized by the same leveraging of debt, conflicts of interest, and reckless shifting of risk that triggered the recent financial crisis. And contracts can often last for 50 years or more, potentially leaving the public stuck with a bad deal for generations.

- Privatization deals can lack accountability. In Texas, the state was forced to pay an inflated price to buy back the failed Camino Columbia Toll Road after a company that bought the road out of bankruptcy had closed it to all traffic.

- The complexity of private road deals requires states to pay dearly for high-priced consultants and attorneys to monitor companies' performance—and to file litigation when the companies fail to fulfill their responsibilities.

- Private toll road deals have largely been negotiated behind closed doors and with little explicit criteria to ensure that the public interest is protected.

Protecting Against Bad Road Privatization Deals

To protect the public interest, Pennsylvania and its local governments should avoid privatization of existing roadways, and allow for private deals to construct new roadways only under the following conditions:

- The public should retain control over decisions about transportation planning and management.

- The public must receive full value so future toll revenues won't be sold off at a discount.

- No deal should last longer than 30 years because of uncertainty over future conditions and because the risks of a bad deal grow exponentially over time.

- Contracts should require state-of-the-art maintenance and safety standards instead of statewide minimums.

- Complete transparency and public disclosure are needed to ensure proper public vetting of privatization proposals.

- There must be full accountability in which the legislature must approve the terms of a final deal, not just approve that a deal be negotiated.

As a nonpartisan public watchdog group representing everyday citizens, PennPIRG Education Fund works to prevent road deals that harm the long-term public interest. For detailed information on road privatization, please see our report, "Private Roads, Public Costs: The Facts About Toll Road Privatization and How to Protect the Public," available at www.pennpirg.org/road-report.

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