Date: May 2, 2010

To: The Honorable Public Officials

From: David McGuirk, Chairman
CANTR – Citizens for Alternatives to New Toll Roads

Subject: A Transportation Alternative for Pa. titled:
"Democracy in Transportation."

Dear Public Officials,

The following outlines Pennsylvania's transportation problems, needs and strategies for implementing a plan to solve the public's concerns in a financially responsible manner. It is titled "Democracy in Transportation."

My name is David McGuirk. CANTR members and I have been involved in Pa.'s Transportation Policies since 1992. In fact, we played a major role in helping to create a Citizen Advisory Panel for Pgh's Metropolitan Planning Organization, the Southwestern Pa. Planning Commission, in 1994, and advisory for Penn Future's "Citizen's Plan," a comprehensive transportation plan for southwestern Pennsylvania.

It was irresponsible public policy for Pa.'s Legislature to mortgage Pa.'s Transportation future by passing Act 44/HB1590 or in I my opinion, a **"Road to Ruin."**

Act 44 was predicated on huge governmental borrowing and spending fiscal policies.

Just after Act 44's 2007 passage, the following fiscal entities reared their "ugly head" that continues today in the form of a massive Global governmental borrowing and spending crisis like no other time in history according to Global financial experts.

Bear Stearns, the nation's fourth largest investment firm collapsed on March 17, 2008. Freddie and Fannie Mac financial institutions followed on September 8, 2008. Lehman Brothers went bankrupt in 2008.

Globally, Dubai, Greece, Portugal and other European countries along with the U.S. have generated massive governmental debt due to uncontrolled governmental borrowing and spending.

The massive borrowing under Act 44, **(for every dollar borrowed another dollar and as much as two dollars, depending on future interest rates, have or will be spent on the interest costs, legal fees and bond insurance)** comes at the worst possible time.

U.S. and Global financial institutions, governments and U.S. citizens are now trying to de-leverage debt (reducing) yet Pa. is increasing debt under Act 44 along with billions more for other state needs at interest rates double to triple what they were five to eight years ago.

Why is Pa. increasing debt when the world is de-leveraging debt?

Pa. needs a realistic transportation plan to meet the state's present and future infrastructure and transit needs that doesn't depend on a massive borrowing fiscal policy.

Executive Summary for "Democracy in Transportation:" An Alternative Transportation Plan.

Introduction: According to Pa.'s transportation leaders, Pa. faces a significant monetary shortfall for transportation funding in the immediate future. Please remember, Pa.'s transportation issues are very complex and will require solid initiatives and Legislative diligence over the next six to 12 months if Pa. is to move forward.

"Democracy in Transportation" not only addresses present funding shortfalls but also prioritizes the elimination of future transportation spending and debt service obligations that will be in the tens of billions for Pa.

1. Repeal Act 44. This will save an estimated $12 to $15 billion over the next 20 years.

2. Merge the Pa. Turnpike Commission into PennDot. This saves tens of billions in new spending for new turnpike extensions and the affiliated Debt Service Obligations.

A. Remove the PTC'S authorization under Act 61-1985 to build new turnpike extensions.

B. Re-write Acts 26 and 3 which annually sends an estimated $100 million to the PTC for new turnpike extensions from PA'S Motor License Fund. These appropriations should go through PennDot and be directed to buying down the PTC'S billions in Debt Service for new extensions.

3. Legislate a transportation fiscal policy of "Pay As You Go" versus a "Borrow Pay Later" that is currently being used by the PTC, transit and PennDot in areas separate from Act 44.

A fiscal policy of "Pay As You Go" will also save tens of billions over 20 years.

4. A national accounting firm should be hired to perform a complete audit on PennDot, the PTC and PA'S major transit authorities before any taxes or fees are raised by the Legislature.

Lawmakers, the Governor and the public need to know how much revenue Pa. annually receives, what are the expenses per category, what are the current Debt Service Obligations, what are the needs and much more.

Once this information is merged into one audit, everyone will have a "Road Map" on how to proceed to build a viable transportation future for Pa.

5. Transit Needs:

A. Create the "Office of Transportation" including the "Office of Transit" at the Auditor General's Office. These entities need oversight and Legislative accountability.

B. Initiate internal, state-wide, national and global evaluations on what works for transit.

C. Initiate areas of privatizing, competitive bidding, merge purchases, services and departments to make Pa.'s transit agencies more efficient.

D. Once these areas are in place and the Performance Audit has been completed, the Legislature can then proceed with dedicated funding sources for Transit.

6. Legislate and prioritize a "Fix it First" Policy for Pa.'s infrastructure needs.

7. Legislate the parameters for municipal use of annual transportation appropriations so this revenue can only be used for transportation investments per local entity.

8. Create an "Intermodal Office" at PennDot to coordinate freight shipments on rail and truck in and outside of Pa. along with Air and Water shipments.

9. A national engineering firm should be hired to evaluate Pa.'s methods for building and repairing Pa.'s infrastructure compared to states of similar climates to see if Pa. can improve in these areas.

Eliminating tens of billions in future debt service obligations, incorporating oversight and accountability, lowering the costs of doing business by becoming leaner and prioritizing dollars spent will move PA'S transportation future from the "Road to Ruin" to the "Highway of Sustainability."

Please reference the next section of **"Democracy in Transportation"** which goes into greater detail. Thank you for your time.

Sincerely,

David McGuirk
Citizens for Alternatives to New Toll Roads

"Democracy in Transportation"

1. Repeal Act 44. Since I-80 tolling was rejected by FHWA, the Pa. Turnpike Commission (PTC) must still annually borrow $450 million using bond financing for PennDot and Transit needs starting in the 2010/2011 fiscal year.

The PTC under Act 44 will borrow an estimated: $4.5 billion over the next ten years at an estimated interest and affiliated legal costs of $6 billion and higher. (Interest rates are expected to rapidly escalate beginning in 2011.) Can Pa. handle $12 billion and possibly higher interest costs after 20 years under Act 44?

Important Point on the Interest Cost estimates throughout this policy paper:

The PTC floated an April 25, 2008 30 year bond for $244 million. The calculated interest cost for this bond was $240 million. Therefore all interest estimates in this paper begin with a one for one ratio for principal and interest calculations.

Important Point: Act 44's annual borrowing is unsustainable at this borrowing level ($450 million/year) based on annual 3% to 5% Turnpike toll increases.

Act 44 authorizes the PTC to annually raise tolls each year to finance the bonding of $450 million per year. The toll revenue collections in fiscal year 2008/2009 were $630 million or **$38 million lower** (2008/2009 PTC Financial Report) than the previous fiscal year due to oil prices near $150 per barrel and possibly the impacts of raising tolls 25% in 2008.

The PTC raised tolls 3% in 2009 which increased toll revenues by an estimated $18.9 million. Floating a 30 year bond to raise $450 million requires an estimated annual <u>principal payment</u> of ($450 million divided by 30 years) or $15 million/year.

Add in the interest and affiliated legal costs and there's another estimated $15 to $17 million or a total annual debt service obligation of $30 to $32 million while this 3% toll increase only generated an estimated $19 million in additional annual toll revenue.

That's an estimated <u>annual shortfall</u> of $11 to $13 million for 2010/2011. WHAT ABOUT the next 47 years with the PTC borrowing $450 million each year?

Another Important Point: Act 44 doesn't place a cap on how high a toll increase can be according to a spokesman at the PTC. Therefore the PTC will have to raise tolls as high as 10%, 20%, 30% or higher to meet Act 44 funding and debt service obligations every three to five years.

These types of toll increases will place serious economic burdens on the citizens and businesses located within current Turnpike corridors and probably force businesses to locate to areas serviced by free interstates within and out of Pa.

Will the Walmart Distribution Center located along the Turnpike's Mainline eventually move to Maryland?

Another serious blow to Pa.'s economy could be these toll increases will act as a deterrent for new business to locate along a Turnpike corridor in Pa.

Another Important Point: The PTC'S 2008/2009 Financial Report states the following:

Operating Revenues: $634 million (Page 91). **Operating Expenses:** $393 million (Page 91).

Difference: $241 million. **PTC annual estimated Debt Service:** $932 million.

$932 million (Debt Service) + $393 million (Operating Expenses) = $1.3 billion.

$1.3 billion (Annual Debt Service + Operating Expenses) - $634 million (Operating revenues) = a

PTC shortfall of $666 million for the 2008/2009 fiscal year due to Act 44 borrowing.

Massive Act 44 borrowing, interest rate volatility, high risk borrowing practices like Interest Rate Swaps, oil price uncertainty, economic downturns or recessions, annual toll increases and unknown future market head winds together will lead Pa. down the **"Road to Ruin"** under Act 44.

Another Important Point: Act 44 contains language that states all Turnpike borrowing is backed by the revenues in the Motor License Fund. If the PTC defaults on a bond the MLF will make the payments.

2. Place the Pa. Turnpike Commission under PennDot's authority and remove their authority to build new turnpike extensions and to lobby for Federal transportation dollars.

A. Change the PTC'S current fiscal policy to a "Pay as You Go" from the current policy of "Borrow Now Pay Later" which matches most of PennDot's current fiscal policies.

The PTC currently has a Ten Year Capital Plan estimated at $4.7 billion. Portions have been borrowed to date and the rest will be borrowed using bond financing. If the PTC was on a "Pay As You Go" fiscal policy the interest savings would be an estimated $4.7 billion to $6 billion based on present and future interest rates.

B. Legislate and remove the PTC'S authorization for receiving annual Motor License Fund revenues. The PTC receives an estimated $67 to $75 million annually from the Oil Franchise Tax Revenue (Act 26-1991) and $28 million annually from the Driver Registration Fee (Act 3-1997) or close to $100 million per year.

That's a savings of $100 million per year once the PTC debt service obligations are satisfied.

Another Important Point: If the Oil Franchise Tax is increased the PTC automatically receives an increase in their current annual O.F. appropriation.

If the Legislature raises the current wholesale cap on fuel then language should be written in to make sure the PTC'S share is only allowed for debt reduction.

And any other increase should include language that eliminates the PTC from receiving any appropriation from any type of Motor License Fund revenue increase.

C. Accelerate paying down the PTC'S current debt obligations and eliminate any future debt obligations under Act 61-1985, Act 26-1991, Act 3 1997 and Act 44-2007.

***D.* Rescind Act 61-1985.** This Legislation authorized the PTC to bond toll revenues to raise funds to build new turnpike extensions like the Mon/Fayette and Southern Beltway and a projected billions more in new turnpike extensions currently authorized in Act 61.

The proposed 100 mile Mon/Fayette and Southern Beltway will have completed an estimated 50 miles by 2011 at an estimated cost of $3.6 billion including interest costs, which is $72 million per mile.

Another 50 miles remains unfunded with estimated costs with interest coming in at $10.6 billion.

The Legislative Budget and Finance Committee reported in their April, 1997 Turnpike Audit that Act 61 had another $4 to $8 billion in new turnpike extensions in the Legislation. Since these project cost estimates have probably doubled since 1997, make this figure $8 to $16 billion.

Add in the interest costs and we're talking $16 billion to $32 billion or more than the 2009/2010 annual budget for Pa.

Add in the Mon/Fayette and Southern Beltway uncompleted costs and these figures balloon to an estimated $27 billion to $43 billion in Turnpike project shortfalls.

Let's save ten of billions in new turnpike extensions by removing the PTC'S Act 61 authorizations to build new turnpikes and toll existing interstates.

3. Incorporate a complete "Pay As You Go" fiscal policy for PennDot, Transit Agencies and as mentioned above, the PTC. New Jersey's DOT has used a "Borrow Now Pay Later" fiscal policy since the early nineties and now is overwhelmed with debt service obligations.

Last year PennDot used bond financing to raise an estimated $300 million to fund immediate bridge repairs in Pa. Once again the affiliated interest costs are estimated at $300 million. More governmental borrowing that eats away at the Motor License Fund.

4. Fuel Tax Increase. Raising the Wholesale Cap on fuel or increasing the Oil Franchise Tax sound like simple actions but please consider these important points.

The PTC automatically receives a percentage of any Fuel Tax increase under current law. Therefore the Legislation should include the following:

A. The PTC should not receive any new appropriation of revenue under this Legislation.

B. Any appropriation for the PTC should go through PennDot to reduce current PTC debt service obligations versus allowing the PTC to continue receiving new revenues to continue building new turnpike extensions utilizing massive borrowing and spending.

C. This fuel tax increase should not be approved until (please reference point 7-a financial audit) an outside national accounting firm has completed a financial audit on PennDot, the PTC and major transit agencies to better determine Pa.'s fiscal transportation state.

This audit should outline where Pa. is in regard to total state and federal revenues, total expenses and total debt service obligations in the transportation and economic development areas.

Another Important Point: The Legislature cannot pass this Fuel Tax increase without knowing Pa.'s transportation needs, legislating change and knocking down Pa.'s current transportation foundation and then re-building with new strategies and policies.

5. Dedicated Funding for Transit.

Transit funding shortfalls need to be addressed but also, transit as it currently exists in Pa., must be re-built with new strategies and especially new **OVERSIGHT** in Harrisburg.

A. An **"Office of Transit"** should be created at the Auditor General's Office that would have a say in major decisions for Pa.'s major transit agencies like new projects, pensions, union contracts etc.

This "Office of Transit" would have oversight duties at the major transit agencies and report in a timely fashion to the Secretary of Transportation and the Legislature.

B. Performance Audits completed by the Auditor General's Office should be merged with another performance audit completed by a national accounting firm on Pa.'s transit areas. Their recommendations should be reviewed then acted on by the Legislature and Governor.

C. According to media reports, European transit has had success in privatizing certain areas.

The use of privatizing certain services and routes across Pa. should be evaluated and initiated, especially the longer routes in MPO regions.

D. Also transit mergers, consolidation and coordination for purchases of buses, supplies, technology, uniforms, maintenance, accounting, public relations and service needs to be evaluated and incorporated in the immediate future.

E. The Secretary of Transportation should form a Transit Task Force to investigate what works best in the U.S. and the Globe.

Also each transit authority and Metropolitan Planning Organization in Pa. should be surveyed for their input on what works best across the U.S. and Europe and what strategies Pa. could immediately incorporate to improve Pa. transit viability.

F. Once the needs of transit have been evaluated and points A thru E incorporated and transit still is short on funding, then dedicated revenue sources must be implemented by the Legislature and Governor.

6. Legislate a "Fix it First" Policy for Pa.'s infrastructure needs. Although PennDot has initiated a solid campaign to prioritize upgrading Pa.'s infrastructure, many bridges, highways and local infrastructure still need to be addressed ASAP.

Interchanges or any other infrastructure project for new development on major highways or interstates should be funded by the developers utilizing these interchanges versus tax dollars.

7. Initiate immediate financial audits by a national accounting firm.

These audits should be performed on PennDot, the Pa. Turnpike Commission and Pa.'s major transit agencies.

An estimated **$7 billion** is generated annually for Pa.'s Motor License Fund, the Pa. Lottery and the Turnpike Commission. Where is it all going? What are Pa.'s current transportation debt service obligations? How much of this revenue goes for maintaining the existing infrastructure?

How much is appropriated for new capacity? How are state and federal funds broken down? Are there other sources of revenue from the state or federal level that could be directed to transportation needs for Pa.?

Once these audits are completed and combined into one audit, this information can provide the foundation to determine how much more annual revenue needs to be raised, if at all, to meet PA'S transportation needs.

8. Identify and consolidate all state and federal revenue sources.

Grants from the Governor's Office, Congressional Earmarks, Economic and Regional Development and any other state or federal revenue source must be directed into one pool of revenue that can be used for PA'S transportation and transit needs.

Widen the scope for project funding from Grant Sources. Instead of funding for "Bridge A" widen the scope of funding to include any bridge within that area.

Also many rural counties can replace their own local bridges with existing funds if bridge weight capacity regulations were reduced to handle local traffic needs versus meeting the interstate weight capacity standard.

This question needs to be asked? Can Pa. meet its transportation needs by re-directing, consolidating existing funding sources and eliminating interest costs by going to a "Pay as You Go" fiscal policy?

Very Important Points: More Federal Funds for PA'S Transportation Needs.

***A.* Federal Transportation Legislation.**

Congress will be passing or be extending a new transportation bill in 2010. This legislation will provide additional funding for state infrastructure and transit needs for the future.

***B.* Stimulus Funding for 2011 and 2012.**

The 2009 Stimulus Bill still has Pa. receiving another **$684 million for highways and bridges** and **$230 million for transit** over the next two years in 2011 and 2012 according to a spokesman in the Governor's Office.

9. Legislate stricter parameters for municipality use of annual PennDot appropriations for infrastructure improvements.

10. Create an **"Office of Transportation and an "Office of Transit"** at the Auditor General's Office to monitor and provide oversight for PennDot, PTC, Transit expenditures and Legislative mandates.

11. Transit needs possible additional dedicated funding sources but only with an Auditor General **"Office of Transit"** put in place that would have a say in major financial decisions and oversight for PA'S major transit agencies.

12. Create an **"Intermodal Office"** at PennDot to coordinate truck, rail (freight and passenger) water and air shipping concepts along with a **"High Speed Rail Office"** to examine and coordinate growing this form of travel in Pa.

This **"Intermodal Office"** would coordinate with other state DOTS and the trucking and railroad industries to enhance freight movement through Pa. Its goal would be to shift freight movement off highways to the railroads at Intermodal Centers or rail to trucks.

These I.C.'S would coordinate freight movement using the railroads throughout the Northeast, Midwest, South and even into Canada.

This department could even have an **"Air and "Waterway Office"** to coordinate freight moved by air and water entities.

13. Commission an out of state national engineering firm to evaluate how maintaining, re-building and building infrastructure in other states compares with Pa.'s methods. Can Pa. improve?

Why has the "Super Pave "product used by PennDot washed off highways within 12 months of the application?

In closing, Pa. cannot continue down this "Road to Ruin under Act 44, unfunded and increasing Turnpike debt and an infrastructure and transit funding crisis without massive change to PA'S current transportation policies.

Thank you for your time.

Sincerely,

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