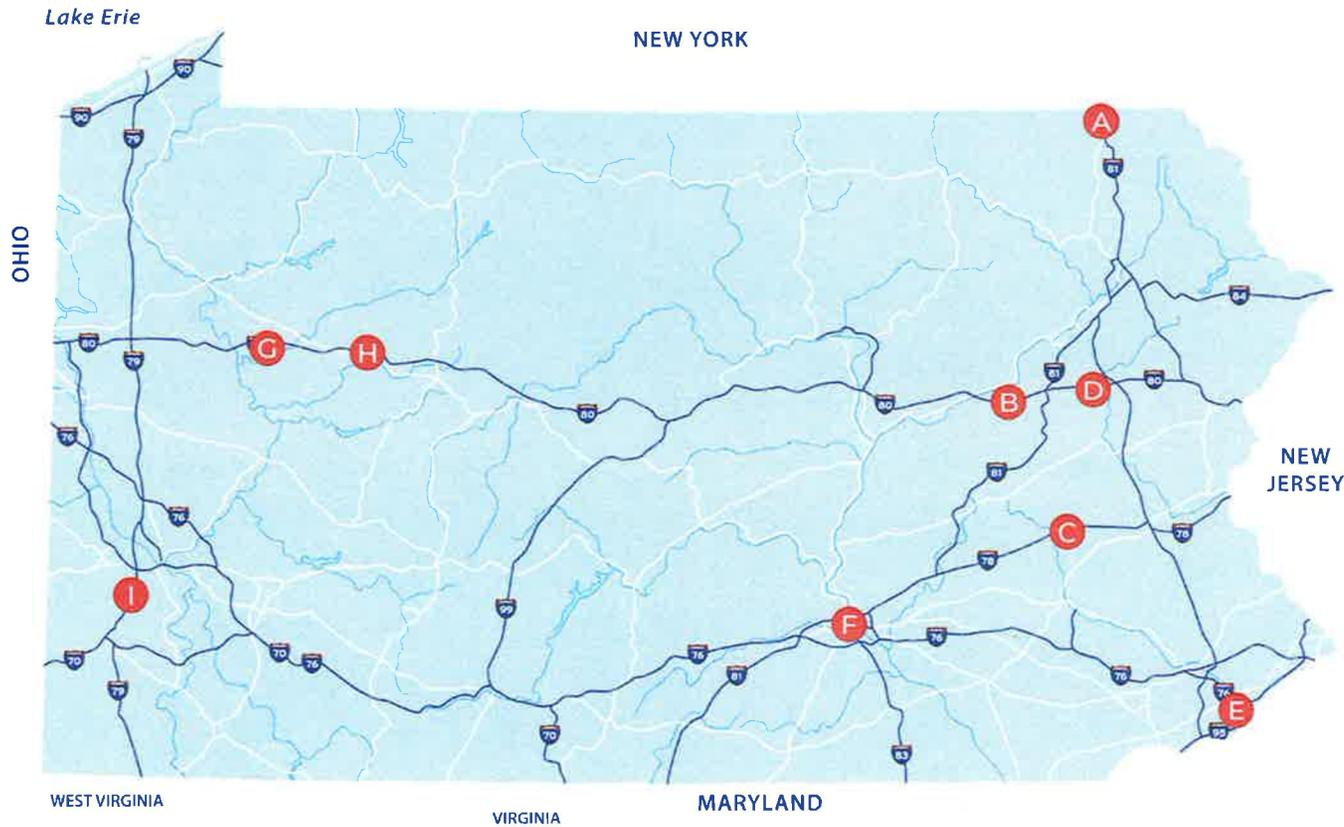


Candidate Bridge Projects



- A I-81 Susquehanna
- B I-80 Nescopeck
- C I-78 Lenhartsville
- D I-80 Lehigh
- E I-95 Girard Point
- F I-83 South Bridge
- G I-80 Canoe Creek
- H I-80 North Fork
- I I-79 Bridgeville

PennDOT House Transportation: Potential Federal Funding and Pennsylvania's Transportation Funding Status

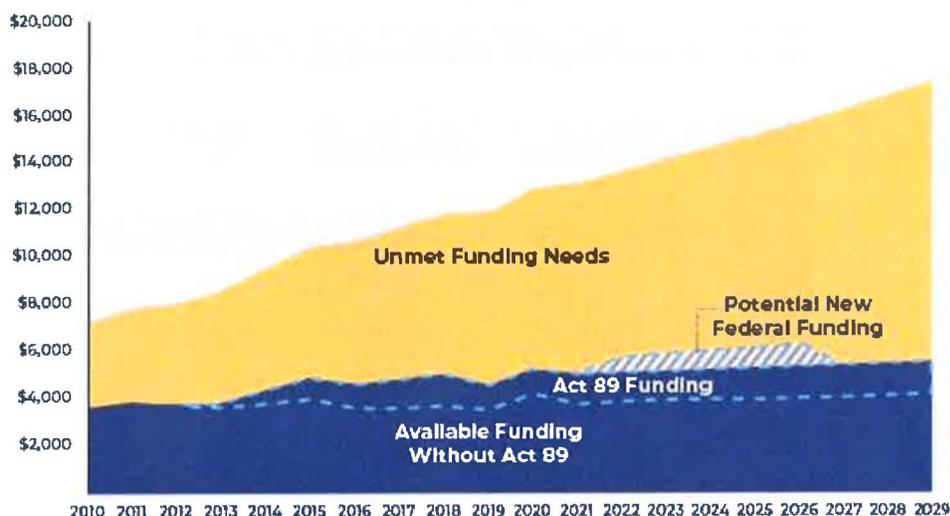
Chairman Hennessey, Chairman Carroll, and members of the House Transportation Committee, thank you for the opportunity to provide an update on our transportation funding situation.

The department has shared extensively, in various forums, the revenue challenges we faced before the coronavirus pandemic and which COVID-19 has exacerbated. Information and images related to these challenges remain at www.penndot.gov/funding for your and the public's review.

Today I will reiterate why this challenge needs multiple solutions – federal, state, and alternative funding. I'll focus on the highway and bridge side of the business.

Some of you were in the Legislature when Act 89 of 2013 was passed. The Transportation Funding Advisory Commission established by then-Governor Corbett completed its work 10 years ago. Act 89 did not meet the needs established a decade ago, and those needs have grown to a current, annual highway and bridge gap of \$8.1 billion.

PennDOT Highway & Bridge Funding
(\$ Millions)



We are optimistic about the federal funding legislation being considered in Washington, and we hope it passes. I'd like to clarify what it could mean for Pennsylvania. This is a five-year bill. PennDOT and our metropolitan and rural planning partners plan projects out for 12 years. Even within that 12-year timeframe, there are many projects we cannot fully fund, and some we cannot fund at all. Without new investments and solutions, we will follow a path of inadequate, bandage-type work that impacts our economy but could also impact our safety – costs that far outweigh the costs of this self-funded program.

As we look at the federal bill, keep in mind that some numbers used publicly for Pennsylvania are **not all new funding**. We already receive \$1.8 billion annually from the feds for highway and bridge needs, totaling nearly \$9 billion as a “baseline” for the next five years. We don't know all the details or what requirements may come with this funding – for example, how many of the dollars must be used on air-quality related highway projects – but in the following table we show estimates based on typical formulas distribution and requirements.

In year one, 2022, we might see \$377 million in additional highway dollars. Through a new bridge program, we might see \$262 million in additional dollars in year one. In short, over the next five years, the federal bill could bring approximately \$4 billion in new funding to Pennsylvania.

FFY	Poss. Increase Based on Formula	Special Bridge Program	Est. Total Increase	Poss. Federal Fund Totals (Existing/New)	Est. State Match Needed for New Federal Funds
2022	\$377.5 million	\$261.7 million	\$639.1 million	\$2.4 billion	\$159.8 million
2023	\$421 million	\$294.4 million	\$715.3 million	\$2.5 billion	\$178.8 million
2024	\$465.3 million	\$327.1 million	\$792.3 million	\$2.6 billion	\$198 million
2025	\$510.5 million	\$360 million	\$870.3 million	\$2.7 billion	\$217.6 million
2026	\$556.7 million	\$392.5 million	\$949.2 million	\$ 2.7 billion	\$237.3 million
Est. 5-yr total	\$2.3 billion	\$1.6 billion	\$4 billion	~\$13 billion	\$991.6 million

This is great news, but it only meets part of our annual need. It also only applies to roadways eligible for federal funding, which are Interstates or higher-traffic routes. Additionally, we must have stable and sufficient state funding to leverage these federal dollars.

Federal funding is reimbursed, so we must first spend the money, and federally funded projects usually require a 20-percent state match. With that in mind, we expect we would need approximately \$1 billion in **additional state funds to match** this funding. Additionally, we would need the appropriate highway and bridge capital budget bills passed in the state Legislature so that we can expend the state dollars on the new projects. If state matching funds are not available, we will not be in a position to leverage all the proposed new federal funds. Therefore, not helping to close our funding gap.

Another needed tool in our toolbox is public-private partnerships, or P3s. Our Major Bridge P3 Initiative is continuing, with the procurement and candidate-bridge engagement happening on parallel tracks, as illustrated in the below timeline. We continue to progress the detailed analysis of each bridge which studies and models the projected traffic, revenues, and diversionary impacts as a result of tolling. Because these elements and mitigation strategies are interdependent, these studies are iterative in nature and are refined through the design process. We are nearly finished with diversion workshops for each candidate bridge. The feedback from each of these sessions with local officials will inform the environmental evaluations, potential

mitigation, and content presented in upcoming public meetings and be factored into the overall modeling. The public meetings will occur from October through February. One of the last steps in the process is the final rate setting, which is based on the final analysis and the final costs for the project. The projected initial toll rates for passenger cars using EZ Pass will be in the range of \$1-\$2 (any increases would be from inflationary adjustments). Should the required toll rate appreciably exceed these levels, the bridge will be removed from the program.

Major Bridge P3 Initiative Process Timeline



These bridges remain candidates until federal National Environmental Policy Act approval is given, and we are constantly evaluating and learning from our stakeholders and engineering analysis. We are proceeding methodically according to state and federal requirements. And under some proposed legislative changes to the P3 law, much of this type of effort would be required before a project is even officially approved by the P3 Board. This would put an additional strain on our funding by requiring staff and consultant resources to analyze future candidate projects to such a detailed level without knowing whether the Legislature would approve any such project to proceed as a P3. This means agencies like PennDOT would be forced to expend significant upfront financial resources on projects that may never be approved. This would significantly impact our ability to complete other transportation projects as we would be required to expend pre-development costs on projects that could ultimately be shelved and never approved or delivered. Additionally, some of the proposed legislative changes would also duplicate existing processes that exist for necessary environmental clearances and design work.

On the procurement side, the PennDOT team has been working hard on this initiative for almost a year. This month we announced that three teams who submitted documents for our Request for Qualifications are being invited to submit proposals. The teams were selected based on criteria including experience and technical approach to carry out the project; their relevant experience and qualifications of key personnel; their investment and financial experience; and their overall understanding of the project and their approach to deliver all project requirements.

PennDOT will issue a Request for Proposals (RFP) before the end of the year and proposals from the competing teams will be due in early 2022, with proposer selection anticipated in the spring. The shortlisted firms will submit a proposal with their detailed approach of how they would best deliver the program.

P3 projects are often wrongly portrayed as being detrimental to the local and state economy to the benefit of larger, international companies. But that is a stereotype, and not at all what the Major Bridge P3 initiative does. The procurement calls for a group of experienced designs,

contractors and financiers to invest their money, time and effort directly in Pennsylvania. To note, the entity selected for this project will need to front all the costs of the project design and the construction of project package, which will be constructed with no less than 65 percent of the work being done by contractors prequalified to work in Pennsylvania. And only after the entity presents packages acceptable to PennDOT can the projects proceed.

We agree that getting the right number of and size of packages is critical, which is why PennDOT has opted for the two-step progressive approach and will work in conjunction with the entity to create workable, sensible, and buildable packages of bridges that deliver work for local Pennsylvania contractors and new infrastructure for motorists.

While the developer ultimately chosen for this endeavor may not be headquartered in Pennsylvania, we are very confident that their team will consist of dozens of subcontractors and engineers that have a local presence. We anticipate the developer bundling the bridges into smaller groups for bidding to subcontractors. The reality of the construction industry is that equipment, materials, and labor forces typically do not travel far to be economically competitive, meaning many local opportunities are available. State and federal procurement laws inhibit PennDOT's ability to place a requirement on geographical location of companies. As an example of past Pennsylvania participation in P3 projects, the department's [Rapid Bridge Replacement program](#) to replace 558 bridges included a private partner and more than 50 Pennsylvania-based designers and contractors as primary and subcontracted partners. Moreover, 89 Pennsylvania-based contractors have participated in the Compressed Natural Gas Fueling Stations for Public Transit Agencies P3 project to build 19 liquified natural gas stations to date.

This detailed process is anticipated to reach financial close in fall 2022. That means that this will be roughly a two-year, intensive procurement process by the time it is executed.

Some have asked why we need this P3 program. In looking at the candidate bridges, we defined them as interstate or expressway bridges of substantial size that warrant timely attention and would require significant funds to rehabilitate or replace. Additionally, these bridges were selected based on the feasibility of construction beginning in two to four years to maximize near-term benefits. Without this program, the question becomes "which projects won't get done?"

These candidate bridges total roughly \$2.2 billion in construction value, and through this P3, they can be funded without delaying or cancelling other projects. By itself, the South Bridge project – estimated at up to \$650 million – would wipe out more than a year of statewide Interstate Improvement Program funding. That would also take up a huge portion of our roughly \$2 billion annual construction lettings, meaning fewer projects for our industry partners.

In the context of potential new federal funding, this same bridge would use roughly a whole year of that new funding. We want these dollars to flow into every community and allow these bridges to be paid for by those who use them.

As an example of how these resources could help your communities, funding these candidate bridges with tolls could free up enough funds to either:



Repave ~1,900 miles
of highways

or



Build ~730 miles of
new interstate lanes

or



Replace ~6,600 miles
of guiderail

You may remember that in 2019, we and our planning partners had to move money from regional projects to the Interstate program which meant less funding for other projects in your communities. If we rely on additional federal funding alone, even more projects for roads and bridges our farmers rely on will not happen. The first- and last-mile projects connecting our freight hubs to the world economy will be delayed or cancelled.

The cost of doing nothing significantly outweighs the cost of a toll on these bridges which would cause significant impacts to not only our residents, but other industries such as tourism and trucking. An example of this comes with the recent, emergency closure of the I-40 bridge over the Mississippi River connecting Tennessee to Arkansas. The bridge was closed for approximately 12 weeks while it was being repaired. At the onset of that closure, it was costing the trucking industry an estimated \$2.4 million per day. Major congestion was also experienced on the detour routes as a result of the bridge closure. The movement of people and goods was stymied, and local businesses could not be accessed. It is PennDOT's mission to make sure that this same thing doesn't occur to our major bridges on the interstate system in Pennsylvania. Having a bridge closure of this magnitude would have a significant impact on local and regional businesses, emergency response, tourism, as well as the effective movement of people and goods.

Also remember that our base maintenance allocation has not been increased since 2006. This means that in many instances, we cannot afford reconstruction or paving, and we need to use lower-cost and preservation treatments. This also means fewer maintenance contracts.

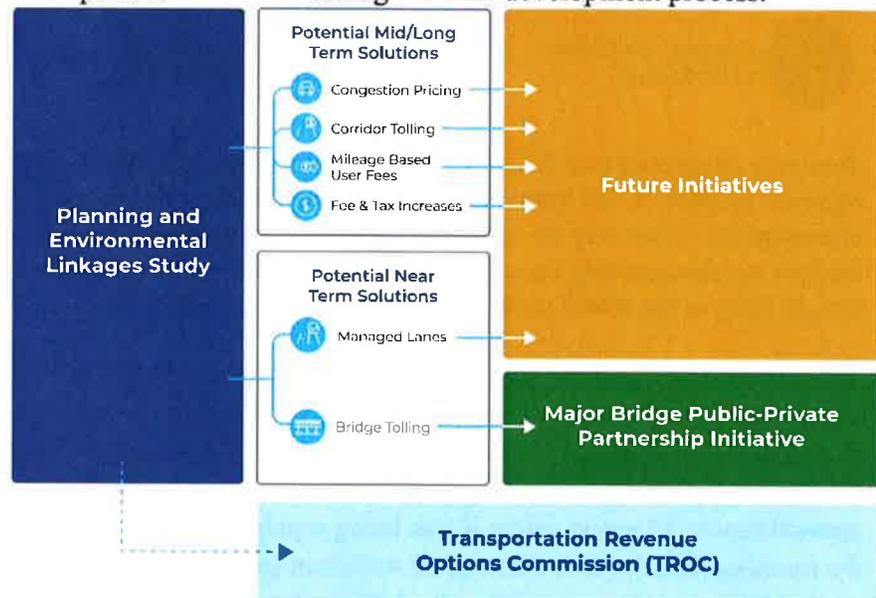
Some have asked what can PennDOT do internally to help cut costs. We're incredibly proud that since 2015, PennDOT process improvement and cost savings initiatives – along with changes due to employee suggestions – have resulted in an estimated \$48 million in annual savings. We are doing what we can, as we must. Despite our funding challenges, our teams are working their hearts out and are dedicated to fulfilling our mission.

Through August, we lost \$625 million in gas tax revenue through the pandemic. We are grateful for the \$279 million allocated in this year's budget, which helped offset some of this loss. But the trends are not in our favor. Alternative and electric-vehicle adoption is moving faster. Many automakers are committed to many or all new models going electric in just four years.

With more than 74 percent of our highway and bridge funding coming from the gas tax, we cannot solve this with efficiencies. We are many years into this challenge, and we have been working to identify solutions. We have shared with you and the public that the Major Bridge P3 Initiative involving bridge tolling was identified as a short-term solution in our Planning and Environmental Linkages study, or PEL. Today I can share that after extensive outreach and feedback, the final PEL document has been submitted to the Federal Highway Administration for

review and acceptance. This final report included public comment that was received during two separate, 30-day public comment periods conducted during the PEL development process.

The PEL Study will serve as a guidebook as we pursue and implement alternative funding strategies to help support our entire transportation system. The most near-term funding needs are in our highway and bridge programs, but we will need to support transit, aviation, ports, waterways, and rail as well. The findings of the PEL study will help guide the implementation of future funding strategies and can be modified as needs evolve.



After the PennDOT Pathways and PEL launch, in March 2021 Governor Tom Wolf established the Transportation Revenue Options Commission (TROC), which included this committee's chairs, as well as representatives of dozens of legislative, transportation, economic and community organizations. As the commission chair, I was honored to lead this group, which submitted a report of recommendations for a path forward, including short and long-term solutions for transportation funding.

Through the PennDOT Pathways program to identify secure, reliable, and future-focused funding solutions, we have not only developed a framework to identify and evaluate those solutions, but also placed a heavy focus on equity. Through the PEL process, which ultimately informs the bridge P3 initiative, we established and met with an Equity in Transportation Working Group to discuss the members' communities' transportation needs and concerns.

These important discussions have helped our thinking and planning for mitigation for low-income populations in the Major Bridge P3 Initiative. We recognize that – while tolling is a pay-by-use funding method – not everyone who uses the bridges has the same financial ability to afford it, especially if they need to cross the bridge every day. Like Pennsylvania Department of Human Services' programs that offer financial assistance to low-income households, PennDOT is proposing to offer toll-free or discounted access to low-income populations who depend on these bridges for daily travel to work or other destinations.

This mitigation would be targeted to the necessary population on a bridge-by-bridge basis. Details are being worked out for the execution of this program, but we are confident that it will more than meet federal mitigation requirements while also ensuring security and fairness for all users.

Based on the scale of our challenges and our opportunities, we must have federal, state, and public-private solutions to tackle this current and future need. We will continue moving forward with projects such as the Major Bridge P3 Initiative and continue studying potential solutions identified in the PEL.

I am looking forward to partnering with you and other legislators on moving us forward. We are excited about the discussion around automated vehicles and phasing out our gas-tax reliance through mileage-based solutions. Whether it is developing solutions identified by the TROC, addressing our current disparity with electric vehicles inconsistently paying for their use of the system, or other tools, we are enthusiastic about finding and implementing our P3 bridge program to support the future of Pennsylvania transportation funding.

PennDOT Highway & Bridge Funding

(\$ Millions)

