

# ***POLICY BRIEF***

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## **Senatorial Connector Criticism Gets Lame PAT Response**

In a recently released report by Senators Coburn and McCain titled “Summertime Blues”, the North Shore Connector—Pittsburgh’s \$529 million “big dig”—was identified as the third most offensive use of stimulus funds. For the record and for the curious, the Connector was bested in its offensiveness as a waste of money by a closed visitors’ center that was fitted with new windows and a software package for interpretative dance.

The Senators’ report (which cited Allegheny Institute work on North Shore development) takes issue with the \$62 million the Connector received when it was determined that it would take more than \$118 million to keep the project going. It should have come as no surprise to our readers that what began as a \$363 million project has ballooned to its current \$529 million level. The stimulus money was just the latest in a long series of actions, which included allocation of Federal transportation funds by the Southwest Planning Commission as well as state and County dollars, aimed at reaching the light at the end of the tunnel.

So how did officials at the Port Authority (PAT) respond to the report’s assertions about the Connector? Their spokesman tried to justify the project by claiming it has produced as many as 4,000 jobs. Beyond the obvious problems with the jobs claim, such as the fact that many of the jobs were peripheral and of short duration, there are two greater difficulties with the hyperbolic posturing about the jobs created by the Connector and most public sector capital projects.

First, the apologists for these overhyped public projects completely ignore the concept of opportunity costs. For example, what could have been done with the \$529 million that will be spent on the Connector? Many unsatisfactory roads and bridges that are heavily used could have been repaired or rehabilitated resulting in many temporary construction jobs and additional paychecks. Millions of dollars in materials and equipment would have been sold. Alternatively, the money could have been left in the hands of taxpayers who would have saved, spent, bought cars, houses, etc. thereby helping to grow or sustain private sector jobs.

Nor do the Connector apologists consider the unmeasured costs caused by construction related disruptions. This would include stores and restaurants losing business, commuters’ inconvenience of having to spend far more time getting to and from work, and general discouragement of travel into the City.

Second, public sector capital projects, just as private sector investment, must (or should) meet fundamental cost-benefit criteria. In short, these projects should generate a stream of benefits over time that has a present value greater than the expenditures on the development.

For some reason, PAT excuse makers never mention this critical point. And little wonder. The project’s forecast of benefits barely convinced the Feds that the Connector warranted Federal

funding when the cost estimate stood at \$363 million. Since the Fed approval of funding the Connector's price tag has skyrocketed and the Convention Center leg, which was to be a major contributor to Connector benefits, was dropped to reduce construction costs. That's why in a December 2005 statement the acting Executive Director at the time stated "given significant increases in the cost of steel and cement and across-the-board increases in construction costs due to recent spikes in fuel prices and other factors, we believe our best option is to defer the convention center line". That meant dropping the line altogether from the project. The Convention Center spur was to be a substantial contributor of rider benefits. Apparently, the Feds were not concerned about the loss of benefits since they did not rescind their funding approval.

The challenge for PAT is to show how the acting Executive Director's statement of 2005 can be consistent with the recent comment by the current PAT spokesman: "our prices skyrocketed. We incurred 50 to 60 percent increases. So, of course the Connector price tag was jacked up." The latest statement would have been more forthcoming if it had noted the elimination of the Convention Center spur that was done to offset those big materials price jumps as the acting Executive had done five years before.

Beyond that, the project's cost estimate has had an inflation factor built in from the beginning. During the phase when bids were being opened it was clear that inflation was having an effect on the project's cost. Do PAT officials think that the public does not remember that the agency had supposedly taken precautions to guard against cost overruns brought on by inflation? Furthermore, would it not have been rational and prudent to abandon the project in light of the sharply rising costs and the shrinking benefits? In this case, the cost of the Connector without the Convention Center spur has risen by almost 80 percent above the original estimate that took into account expected inflation. Obviously, PAT's estimators were off badly. And that raises the question: Where were the Federal watchdogs on this project and why did they not pull the plug?

In short, taxpayers have funded a project that began with a tenuous cost-benefit ratio that has sunk far below acceptable levels owing to the elimination of a critical part of the project followed by further enormous cost increases for the remaining portion of the project.

There can be no doubt that the Connector cost will greatly exceed any future stream of benefits. Indeed, conservatively estimated using PAT ridership projections, a roundtrip ride on the Connector will cost taxpayers more than \$40 in capital and operating expenses over the first twenty years of operation.

One can easily understand why Authority apologists try to obfuscate and confuse with a steady stream of spurious arguments in support of this indefensible misuse of taxpayer money.

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