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### **Transportation Funding Plan Hits Pothole**

Pennsylvania's 2007 transportation funding plan (Act 44) could be in serious trouble. The key component of the plan, tolling Interstate 80, is getting opposition from members of the U.S. House as well as from a Texas Senator who plans to introduce a bill preventing the tolling of existing, federally funded roads. If this bill is enacted, Act 44 will not be able to provide the funding needed to fix the Commonwealth's deteriorating roads and bridges or subsidize mass transit. As a result, Governor Rendell is talking about reviving his earlier plan to lease the Pennsylvania Turnpike.

The Governor first proposed leasing the Turnpike in December of 2006 and issued a request for expressions of interest. Forty-eight firms responded but the submissions were classified as "proprietary" and not released.

It is not known for certain how much money the lease could generate, but the Governor is hoping to produce about a \$1 billion a year from the proceeds of an upfront payment of the full amount of the lease. In order to generate \$1 billion annually, the Governor says the lease would have to bring at least \$10 billion. According to a report by the Reason Foundation, Morgan Stanley (hired by the Governor to evaluate the potential value of leasing the Turnpike) has estimated the value of a lease to be anywhere from \$2.3 billion to \$3.6 billion for a 30 year lease or \$12 billion to \$18 billion for a 99 year lease (about 25 times current annual Turnpike revenues). Earlier leases of toll roads in Indiana and Illinois were for 99 years, for all practical purposes a transfer of ownership.

But besides the question of how much a lease will bring, there is a fairly serious hurdle to overcome—namely, the Legislature. When the leasing idea was first proposed, there was resistance in the Legislature based on fears that a private company would continuously raise tolls. Will the Legislature now consider legislation authorizing the leasing of the Turnpike? It might feel it has to if tolling I-80 is precluded by statute or permission is not granted by the Federal Transportation Administration, essentially nullifying Act 44. Legislators from areas served by SEPTA and PAT might go for leasing the Turnpike if some of the proceeds are made available for mass transit.

Additionally, the Legislature will surely want to have a high level of assurance about how much the Turnpike lease will fetch before giving a final signoff. At 530 miles, it would be the longest toll road system being leased in the country. Previous leases include the 8-

mile Chicago Skyway (\$1.83 billion) and the 157-mile Indiana Toll Road (\$3.85 billion), about 40 times annual revenue. One major difference with those systems and the Turnpike is the terrain the road passes through. Much of the Turnpike's length traverses mountainous terrain that will necessitate very large capital outlays in order to widen lanes, add lanes, widen tunnels or otherwise expand capacity. Companies rely on increasing traffic to generate revenue growth—which will undoubtedly require spending very large sums in the mountains. This could hold down the lease value.

Another major problem is Turnpike workforce. Leasing operators depend on enhancing efficiencies, better management, and improving customer service to increase usage of the roads they lease. One way they are able to do this is by replacing toll takers with electronic tolling devices. But will the Legislature force these companies to keep most or all of the existing 2,200 or so Turnpike employees? If they do, it will reduce the value of the lease. Legislatively imposed limits on toll increases as well as other restraints and conditions regarding operations, safety, law enforcement, changes in the system, could also lower the potential lease value. In short, whether or not leasing the Turnpike will generate enough money to fund the Governor's transportation funding agenda will depend upon the stipulations contained in the lease agreement.

All in all, with the tolling of I-80 across Pennsylvania in jeopardy, a frantic search for a viable alternative that will raise needed revenues can be expected to commence. To the extent that a private firm can squeeze operating costs out of the Turnpike, improve efficiencies and provide better service in order to earn its target rate of return, the state should clearly benefit from the leasing of the Turnpike. But an undertaking of this magnitude will not happen quickly even with minimal legislative resistance.

Meanwhile, perhaps the state could consider doing something meaningful to save on bridge and road repair costs such as eliminating prevailing wage requirements. Unfortunately, in Pennsylvania, it's always about finding more money to spend and not about how to save money.

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