



# Commonwealth POLICY BRIEF

Vol. 20, No. 04  
September 2008

## Paying for Our Paving

### *Why Leasing the Turnpike Makes Good Economic and Public Policy Sense*

#### Introduction

How should Pennsylvania pay for its transportation infrastructure, now that the Federal Highway Administration has rejected the Pennsylvania Turnpike Commission's application to toll Interstate 80? Gas taxes? Vehicle fees? Tolls?

**The economic reality of the 21<sup>st</sup> century is that gas tax revenue has become an inefficient means of funding our roads, highways, and bridges.**

Ideally, funding the construction, maintenance, and operation of our roads, highways, bridges, and mass transit systems would be directly paid for by those who use them. In mass transit, it would be riders who would pay the full costs of buses, trolleys, and trains. As for our roads, highways, and bridges, it would be those travelling on them who would directly pay for their construction and maintenance. However, state policymakers have been slow to embrace either of these approaches.

A myriad of taxes currently subsidize mass transit, while gas taxes and vehicle fees primarily fund our surface transportation infrastructure. Although a gas tax charges car and truck drivers, not all purchasers of gasoline are using the roads (I've yet to take my lawnmower for a spin on the interstate). Furthermore, the gas taxes we pay are not directly linked to the roads we actually use—or even the state or county we drive in.

Nevertheless, the public has been more or less willing to accept this cross-subsidization of taxes and fees to pay for our transportation infrastructure. But the economic reality of the 21<sup>st</sup> century is that gas tax revenue has become an inefficient means of funding our roads, highways, and bridges.

With increased fuel efficiency, motorists can drive more while contributing less to the cost of roads. Rising fuel prices have led to more conservation, and likewise resulted in declining gas tax revenue for the state.

How then should we fund our transportation infrastructure? The most direct way would be to eliminate the gas tax and charge drivers directly for their use of roads. Technology is making this option more and more feasible. However, for the near future, a hybrid of the old way of paying for our roads—gas taxes and vehicle fees—and a more user-oriented funding structure is necessary.

---

Unfortunately, Pennsylvania policymakers have been taking us in the opposite direction. Act 44 of 2007—which granted the Pennsylvania Turnpike Commission the power to toll Interstate 80—further expanded the folly of cross-subsidization. Act 44 uses toll money to fund other roads throughout the state and to significantly subsidize mass transit systems, primarily in Philadelphia and Pittsburgh. Indeed, Act 44 makes our transportation funding policy even less user-oriented than before.

Would a lease of the Pennsylvania Turnpike resolve the problem? Yes and no.

While it is apparent that Pennsylvania’s transportation infrastructure is in decay, Dr. Milton Friedman’s axiom that “There’s no such thing as a free lunch” is relevant. The policy dilemma then becomes how to get the best “meal” at the lowest price for taxpayers and motorists.

**Dr. Milton Friedman’s axiom that “There’s no such thing as a free lunch” is relevant. The policy dilemma then becomes how to get the best “meal” at the lowest price for taxpayers and motorists.**

When the transportation funding discussion began in 2006, the Pennsylvania Turnpike Commission had already announced its plans to increase toll fares by 25% in 2010 and annual increases of 3% thereafter. Tolls on the Turnpike were going to be going up, but the only beneficiaries would be the Turnpike Commission and the 537-mile road it controls. The other 40,000+ miles of roads in the Commonwealth would see no benefit from the increases in fees to travel the Turnpike.

At the time, the Turnpike Commission contributed absolutely nothing financially to the transportation infrastructure of Pennsylvania beyond the Turnpike itself. In fact, it was the state taxpayers who were subsidizing the Turnpike Commission to the tune of \$90 million per year.

Some lawmakers have called for the Turnpike Commission to be dissolved and the highway to be folded into PennDOT. While this policy change would be better than perpetuating the patronage and inefficiency of the Turnpike Commission, it would do nothing to improve our transportation infrastructure or address its funding problem.

To this end, the Commonwealth Foundation proposed leasing the toll road to a private operator—something we discussed with the Rendell Administration well before the Governor announced his support and proposal. Our reasoning is based on five premises:

- Cross-subsidization will continue to be part of the transportation policy funding mix in the foreseeable future.
- Higher gas taxes and vehicle fees would be a stop-gap and, for the reasons discussed, would only perpetuate distortions in the true cost of driving.
- The Turnpike—given its debt structure—will continue to operate as a toll road.
- The ability to limit government’s disruption and intervention in the economy and bring the efficiency and innovation of the free-market into transportation infrastructure.
- The opportunity to leverage the untapped equity and value of the Turnpike to significantly reduce the need to raise other taxes and fees to fund our

roads, highways and bridges.

Although the lease of the Turnpike does not represent an ideal means of paying for our transportation infrastructure, our analysis led us to conclude that it would be the best policy among the viable options. A comparison of the costs and benefits of Act 44 and the Turnpike lease are revealing.

**More Money for Transportation Needs.** According to our financial analysis of Act 44, the taxpayers will lose nearly **\$37 billion** in transportation revenues over the next 50 years if the state does not lease the Turnpike for \$12.8 billion to a private operator. Here are our calculations:

### Turnpike Lease vs. Act 44

50-Year State Revenue (in billions of dollars)

1. Interest on the Turnpike lease payment would yield **\$50.151 billion** over the next fifty years. This was calculated using:
  - An estimated 7.5% rate of return (below Gov. Rendell’s projected 12% rate of return).
  - A corpus of \$10.5 billion: the \$12.8 billion lease payment less \$2.3 billion to retire Turnpike debt and pay other costs related to the lease.
  - A 2.5% annual increase in the amount drawn down by the state.
  - Annual payments that would exhaust the corpus only at the end of the 75-year lease.

Turnpike Lease	
Interest on \$10.5B	\$50.151
Payment of Turnpike Commission Debt	\$2.300
Payment for State Police on Turnpike	-\$3.217
Motor License Fund Savings	\$8.481
Corporate Net Income Tax by Lessee	\$2.200
<b>Total</b>	<b>\$59.915</b>

Act 44	
<b>Total</b>	<b>\$23.350</b>

<b>DIFFERENCE</b>	<b>\$36.565</b>
-------------------	-----------------

2. The **\$2.3 billion** used to pay Turnpike Commission debt and other expenses was then *added* to the value of the lease deal.
3. The Turnpike Commission currently reimburses the state \$33 million annual for the cost of state police on the Turnpike. Over 50 years, assuming 2.5% annual increases, this cost results in **\$3.2 billion**, which was *deducted* from the value of the Turnpike lease.
4. The Turnpike Commission currently receives \$87 million annually in subsidies from the state Motor License Fund and Oil Company Franchise Tax. This subsidy is not included in the Turnpike Lease, and represents a 50-year savings for the state (assuming 2.5% annual increases) of **\$8.5 billion**, which was *added* to the value of the lease.
5. The lessee (Pennsylvania Transportation Partners) would pay the state Corporate Net Income Tax. Based on an estimate of \$3.3 to \$4.2 billion over the 75-year lease, released by PTP, the Commonwealth Foundation estimates the 50-year value of this tax would be **\$2.2 billion**.
6. Under Act 44, the Turnpike Commission promises to pay \$450 million annu-

---

ally to the state. The fifty-year value of this payment is **\$23.35 billion**.

**Earning Interest Rather than Paying Interest.** Upfront cash from a Turnpike lease could generate hundreds of millions in interest each year, whereas under Act 44, taxpayers and motorists will pay tens of billions of dollars in interest alone.

**Legal Limits on Turnpike Toll Increases.** Although the Pennsylvania Turnpike Commission has stated it plans to raise tolls by 25% in 2009 and 3% every year thereafter, there is nothing statutorily or otherwise to prevent the unelected and unaccountable Turnpike Commissioners from increasing tolls even higher. Under the proposed lease agreement, tolls would be restricted to 25% in 2009 and to the greater of either 2.5% or inflation every year thereafter. Toll would be legally capped by the lease agreement.

**A lease shifts the financial risk from taxpayers to the private-sector partner. Under the lease agreement, lower revenues from the Turnpike are the financial problem of the private contractor and its investors.**

**Reduced Taxpayer Risk, Lower Taxes.** A lease shifts the financial risk from taxpayers to the private-sector partner. Under the lease agreement, lower revenues from the Turnpike are the financial problem of the private contractor and its investors. However, required investments and standards of operation and maintenance of the Turnpike must be met irrespective of marketplace fluctuations.

If the Turnpike Commission fails to generate the expected toll revenues from the Turnpike and I-80, taxpayers and toll-payers will be forced to make up the difference. Indeed, the PTC will have to raise tolls in order to meet its debt obligations if revenues decline for whatever reason. Act 44 may also force a gas tax increase in order to pay back Turnpike bonds that are leveraged against the Motor License Fund.

**“In-Sourcing” of Jobs and Foreign Capital.** Concerns about foreign-based companies leasing the Turnpike are overblown. In our global economy the difference between foreign and domestic companies is blurred—many shareholders of “foreign companies” live in the U.S. and Pennsylvania. In addition, international companies are already providing more than 230,000 jobs in Pennsylvania today. Instead of “outsourcing” capital and jobs to foreign countries, a lease of the Turnpike would further “in-source” capital and jobs to Pennsylvania. It is we who profit from these investments, not the Turnpike Commission’s bond lawyers and politically connected friends.

In addition to the lease fee paid to the state, a private operator would hire Pennsylvania workers, contract with Pennsylvania contractors, and pay Pennsylvania taxes (something the Turnpike Commission doesn’t pay). An international operator would have strong financial interest and contractual obligations for ensuring security and safety on the Turnpike.

**Eliminating the Patronage-Ridden Turnpike Commission.** The Pennsylvania Turnpike Commission has a well-documented history of being a patronage playground for politicians. This has resulted in significant waste, fraud, and abuse. A lease of the Turnpike would eliminate this haven of corruption and self-dealing.

Approximately 2,300 people are employed by the Commission, including about

---

500 middle managers (nearly one per mile of the Turnpike), many of whom were hired as political favors. According to published reports, Turnpike CEO Joseph Brimmeier gave jobs to his son, a cousin, two sisters, the son of his godmother, the son of a county party chairman, and the son of a Congressman. According to a 139-count federal indictment of Senator Vince Fumo, Turnpike consultant Mike Palermo—who earned \$220,000 over two years—apparently completed no work for the Commission, but did find time to manage Fumo’s 100-acre Harrisburg farm. The indictment also alleges that when he was no longer able to put his no-work contracts on the state senate payroll, Fumo used the Turnpike payroll instead.

Furthermore, the Turnpike Commission used toll money to spend \$26,000 per month lobbying state legislators to pass Act 44, and spent another \$580,000 lobbying the federal government in 2007—which was fourth highest in the nation among city and state governments. In addition, the Turnpike Commission has been using toll revenues to buy radio and newspaper ads across the state to deflect criticism and thwart the lease proposal.

**No Tolls on I-80.** A lease of the Turnpike and the abolition of the Turnpike Commission would negate the need to toll I-80. However, if policymakers are determined to toll the highway, they should go to the marketplace and see what the private sector will offer through a competitive bidding process. Simply handing over the 311-mile road to the PTC would likely cost the taxpayers billions in lost transportation funding from a private sector bidder.

**Spurring Innovation, Retaining Public Control.** A Turnpike lease is neither a divesture of responsibility nor a transfer of an asset to a private interest. It is a Public-Private Partnership in which the strengths and benefits of each sector is focused on serving the public’s interest.

The advantage of a Turnpike lease is that most, if not all, concerns about performance expectations and costs to the public are mitigated by the performance standards mandated in the lease agreement; if the concessionaire failed to meet them, they would face financial penalty. This level of accountability simply cannot be matched by the traditional funding and management model of either the Turnpike Commission or PennDOT. But it does so while retaining complete control by the public of its transportation infrastructure and services. In fact, given the current unaccountable and independent operations and management of the Turnpike Commission, the public would actually be gaining control of the Turnpike in a lease, not losing it.

## Conclusion

Now, more than ever, Pennsylvania needs alternative means of financing and managing our infrastructure and mass transit systems. That is why we are encouraging the General Assembly and Governor to embrace Public-Private Partnerships. Of course, Public-Private Partnerships are not limited to leasing the Turnpike—competitively contracting mass transit operations and partnerships for new construction should also be pursued immediately.

**The advantage of a Turnpike lease is that most, if not all, concerns about performance expectations and costs to the public are mitigated by the performance standards mandated in the lease agreement**

---

It is not often that Pennsylvania lawmakers can choose between raising taxes and fees, and reducing costs and improving services. Yet a Public-Private Partnership on the Turnpike offers that opportunity. In the absence of the ideal user-based transportation funding system, we have concluded that a Public-Private Partnership on the Turnpike is in the best short- and long-term interests of taxpayers and the driving public.

### **Additional Information and Resources:**

#### Turnpike Facts

<http://www.turnpikefacts.com>

#### **Turnpike Lease/Bid**

##### Pennsylvania Turnpike Concession and Lease Agreement

[ftp://ftp.dot.state.pa.us/Turnpike Final Bid Results/PA Turnpike Concession.pdf](ftp://ftp.dot.state.pa.us/Turnpike%20Final%20Bid%20Results/PA%20Turnpike%20Concession.pdf)

##### Summary of Turnpike Lease Terms and Conditions

<http://www.tollroadsnews.com/sites/default/files/LeaseTerms.pdf>

##### TESTIMONY: Concerns about Turnpike lease are misguided

<http://www.commonwealthfoundation.org/research/detail/concerns-about-turnpike-lease-misguided>

##### NEWS RELEASE: Turnpike Commission's implicit "bid" of \$5.3 billion

<http://www.commonwealthfoundation.org/research/detail/first-turnpike-bid-is-in-only>

#### **Public-Private Partnerships**

##### STUDY: The Emerging Paradigm: Financing and Managing Pennsylvania's Transportation Infrastructure and Mass Transit

<http://www.commonwealthfoundation.org/research/detail/the-emerging-paradigm-financing-and-managing>

##### STUDY: Leasing State Toll Roads FAQ

[http://www.reason.org/pb60\\_leasing\\_state\\_toll\\_roads.pdf](http://www.reason.org/pb60_leasing_state_toll_roads.pdf)

##### COMMENTARY: Indiana Toll Road: One Year Later

[http://www.reason.org/commentaries/segal\\_20070725b.shtml](http://www.reason.org/commentaries/segal_20070725b.shtml)

##### LETTER TO THE EDITOR: Indiana Toll Road Better than Before

[http://www.pittsburghlive.com/x/pittsburghtrib/opinion/letters/send/s\\_533393.html](http://www.pittsburghlive.com/x/pittsburghtrib/opinion/letters/send/s_533393.html)

##### REPORT: Leasing the PA Turnpike: Response to critics

[http://www.reason.org/PA\\_turnpike\\_working\\_paper.pdf](http://www.reason.org/PA_turnpike_working_paper.pdf)

##### COMMENTARY: Foreigners Create Jobs

<http://www.commonwealthfoundation.org/research/detail/foreigners-create-jobs>

#### **Act 44**

##### POLICY POINT: Act 44 & Transportation Policy

<http://www.commonwealthfoundation.org/research/detail/act-44-transportation-funding>

##### Act 44: No Limits on Turnpike Tolls

<http://www.commonwealthfoundation.org/policyblog/detail/act-44-no-cap-on-turnpike>

##### REPORT: Morgan-Stanley Report

[http://www.rideonpa.org/transit/lib/transit/Financial\\_Analysis\\_Book\\_052107.pdf](http://www.rideonpa.org/transit/lib/transit/Financial_Analysis_Book_052107.pdf)



---

## **I-80 Tolling**

PRESS RELEASE: [FWHA Rejection of I-80 Tolling](#)

<http://www.tollroadsnews.com/sites/default/files/FHWApr.doc>

[I-80 Tolling Application:](#)

<http://www.paturndot.com/I80/docs.aspx>

LETTER: [Federal Highway Admin clarifying federal approval of I-80 tolling process](#)

<http://www.tollroadsnews.com/sites/default/files/FHWA-PA80.pdf>

STUDY: [I-80 Tolling Study by PennDOT in 2005](#)

<http://www.tollroadsnews.com/sites/default/files/I-80TollStdyPnDOT05.pdf>

[I-80 Lease and other documents](#)

<http://www.paturndot.com/i80>

[Where will projected I-80 revenue go?](#)

<http://www.commonwealthfoundation.org/policyblog/detail/new-analysis-of-where-i-80>

[No I-80 Tolls = Less money for SEPTA](#)

<http://www.commonwealthfoundation.org/policyblog/detail/no-i-80-tolls-less>

## **Turnpike Commission Scandals, Lobbying, Patronage, Efficiency**

NEWS RELEASE: [The Turnpike Commissions Family Tree](#)

<http://www.commonwealthfoundation.org/research/detail/turnpike-commission-family-tree-has-deep>

NEWS: [Sen. Orie on the Turnpike Patronage](#)

<http://www.post-gazette.com/pg/07109/779172-109.stm>

NEWS: [Sen. Vince Fumo Indictment with PTC references](#)

<http://www.tollroadsnews.com/node/3126>

NEWS: [Sen. Vince Fumo's farm and the PTC](#)

[http://tollroadsnews.info/artman/publish/article\\_1724.shtml](http://tollroadsnews.info/artman/publish/article_1724.shtml)

NEWS: [Patronage hires by PTC CEO Joe Brimmeier](#)

<http://www.post-gazette.com/pg/07105/778196-85.stm>

<http://www.tollroadsnews.com/node/56>

NEWS: [Turnpike Commission Lobbying](#)

[http://www.pittsburghlive.com/x/pittsburghtrib/news/cityregion/s\\_517777.html](http://www.pittsburghlive.com/x/pittsburghtrib/news/cityregion/s_517777.html)

<http://www.post-gazette.com/pg/07135/786099-147.stm>

<http://www.commonwealthfoundation.org/policyblog/detail/bill-for-turnpike-lobbying-700000>

NEWS RELEASE: [Turnpike propaganda on I-80 tolling](#)

[http://www.house.gov/list/press/pa05\\_peterson/ptcad.html](http://www.house.gov/list/press/pa05_peterson/ptcad.html)

POLICY POINT: [Turnpike Commission vs. PennDOT – Who is more efficient?](#)

<http://www.commonwealthfoundation.org/research/detail/pennsylvania-turnpike-commission-vs-penn-dot-2>

STUDY: [Pennsylvania Turnpike is One of Country's Least Efficient Toll Roads](#)

<http://www.commonwealthfoundation.org/commentary/pennsylvania-turnpike-one-countrys-least-cost-efficient-toll-roads>



### **ABOUT THE COMMONWEALTH FOUNDATION**

The Commonwealth Foundation is an independent, non-profit research and educational institute that develops and advances public policies based on the nation's founding principles of limited constitutional government, economic freedom, and personal responsibility for one's actions. More information is available at [www.CommonwealthFoundation.org](http://www.CommonwealthFoundation.org)

### **GUARANTEE OF QUALITY SCHOLARSHIP**

The Board of Directors and Staff of the Commonwealth Foundation is dedicated to providing the highest quality and most dependable research on public policy issues in the Keystone State. To this end, the Commonwealth Foundation guarantees that all statements of fact presented in our publications are verifiable, and information attributed to other sources is accurately represented.

Committed to providing Pennsylvanians with reliable information, the Commonwealth Foundation welcomes critical review of its work. If the accuracy of our research is questioned and brought to the Foundation's attention with supporting evidence in writing, the Foundation will respond. If an error exists, the Commonwealth Foundation will issue an errata sheet that will accompany all subsequent distributions of the publication, which constitutes the complete and final remedy under this guarantee.

For additional information or questions on this policy email [info@commonwealthfoundation.org](mailto:info@commonwealthfoundation.org)