



The Emerging Paradigm

Financing and Managing Pennsylvania's Transportation Infrastructure and Mass Transit

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**The Emerging Paradigm:
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Transportation Infrastructure and Mass Transit**

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EXECUTIVE SUMMARY

In November 2006, Governor Ed Rendell's Pennsylvania Transportation Funding and Reform Commission identified a \$1.7 billion annual shortfall in funding for the Commonwealth's transportation infrastructure and mass transit services. The Commission suggested an additional \$900 million for state highways and bridges, \$65 million for local highways and bridges, and \$700 million for mass transit is needed on an annual basis to sufficiently meet Pennsylvania's transportation funding needs.

In order to fill this funding gap, the Commission recommended multiple tax increases, including increases in the gas (Oil Company Franchise) tax, higher license and vehicle fees, and an increase of the Realty Transfer Tax. The Commission also proposed increases in local taxes for mass transit funding, including a higher local sales tax, a higher local Earned Income Tax, or a higher local realty transfer tax.

In addition, the Commission identified \$180 million in savings by improving efficiencies (\$120 million in highways, \$60 million in transit) and recommended the utilization of Public-Private Partnerships (P3s) in both road and transit services. P3s are a means of leveraging private capital and expertise to provide a public service.

Governor Ed Rendell delivered his fiscal year 2007-08 budget proposal to the General Assembly in February 2007 in which he proposed a new 6.17% Oil Company Gross Profits Tax (to generate \$760 million in new revenue) to fund mass transit in Pennsylvania, and a possible lease of the Pennsylvania Turnpike to a private contractor to generate \$965 million per annum for roads and bridges.

The decision to explore the potential lease of the Pennsylvania Turnpike represents the emergence of a new funding paradigm in transportation. Instead of relying solely on traditional revenue sources—gas and vehicle taxes—state and local transportation agencies are increasingly looking to supplement those sources with private investment through Public-Private Partnerships (P3s). P3s can build new infrastructure, maintain existing infrastructure, and operate existing services, particularly mass transit.

The Emerging Paradigm explores these options for funding and managing Pennsylvania's transportation infrastructure and mass transit services by considering the P3 experiences of other states and cities. For example, in 2005, leases of two toll roads—the 99-year lease of the 7.8-mile Chicago Skyway and the 75-year lease of the 157-mile Indiana Toll Road—garnered the City of

Chicago nearly \$2 billion and the State of Indiana more than \$3.8 billion. The upfront payment to Indiana is generating more than \$500,000 in interest *per day* to fund its transportation needs without raising taxes or fees.

Pennsylvania could also utilize P3s in mass transit through “competitive contracting.” Pennsylvania’s two major public transit agencies—the Philadelphia-based Southeastern Pennsylvania Transportation Authority (SEPTA) and the Pittsburgh-based Port Authority Transit (PAT)—are facing a financial crisis. However, the crises at SEPTA and PAT are cost, not revenue-driven. Despite the fact that only 1% of all travel in Pennsylvania is done via mass transit, it receives 25% of all transportation subsidies.

American cities like San Diego, Denver, Los Angeles, San Francisco and Boston, as well as foreign cities such as London, Copenhagen, Stockholm, Melbourne and Tokyo, have successfully embraced “competitive contracting” of transit services whereby private contractors take over the operation of transit services through a contract with the government entity. The City of London has reduced bus costs by approximately 50% since 1985, and Stockholm has reduced bus, subway, and commuter rail costs approximately 20% since the early 1990s.

The experience of the City of San Diego—which has contracted out its bus system—compared to PAT is revealing. If SEPTA would have controlled costs as well as the San Diego Transit Bus System, the 2002 operating costs would have been 57.8% lower (\$432.5 million less). And if PAT would have controlled costs as well as the San Diego Transit Bus System, the 2002 operating costs would have been 62% lower (\$167.9 million less).

The Emerging Paradigm also explores additional opportunities for P3 utilization in transportation. The report concludes with a discussion about the benefits of P3s and addresses the common concerns about Public-Private Partnerships.

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INTRODUCTION: THE EMERGING PARADIGM

The funding of highways, roads, bridges, and mass transit is entering a new paradigm around the world. Like many states, Pennsylvania is at the convergence of a transportation crisis where the growth of transportation needs is outstripping capacity and available revenue while, at the same time, funding for the maintenance and renovation of existing systems is insufficient. These realities have led to the current transportation challenges in Pennsylvania and if left unresolved will lead to greater congestion and lowered reliability of service. By any measure, these realities impact Pennsylvania's economic competitiveness and its citizens' quality of life.

QUANTIFYING THE TRANSPORTATION CRISIS

In November 2006, the Pennsylvania Transportation Funding and Reform Commission released a report in which it identified a \$1.7 billion annual shortfall in funding for the Commonwealth's transportation infrastructure and mass transit services. The Commission suggested an additional \$900 million for state highways and bridges, \$65 million for local highways and bridges, and \$700 million for mass transit is needed on an annual basis to sufficiently meet Pennsylvania's transportation funding needs.¹

The Commission recommended multiple tax increases, including increases in the gas (Oil Company Franchise) tax, higher license and vehicle fees, and an increase of the Realty Transfer Tax. The Commission also proposed increases in local taxes for mass transit funding, including a higher local sales tax, a higher local Earned Income Tax, or a higher local realty transfer tax.

In addition, the Commission identified \$180 million in savings by improving efficiencies (\$120 million in highways, \$60 million in transit) and recommended the utilization of Public-Private Partnerships (P3s) in both road and transit services. P3s are a means of leveraging private capital and expertise to provide a public service. According to the National Council for Public-Private Partnerships,

A Public-Private Partnership is a contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.²

GOVERNOR RENDELL'S PROPOSED SOLUTION

In February 2007, Governor Ed Rendell delivered his fiscal year 2007-08 budget proposal to the General Assembly, offering a menu of options for dealing with Pennsylvania's transportation funding crisis. In addition to implementing a new 6.17% Oil Company Gross Profits Tax (to generate \$760 million in new revenue) to fund mass transit in Pennsylvania, the governor proposed leasing the Pennsylvania Turnpike to a private contractor to generate \$965 million per annum for roads and bridges.³ Governor Rendell outlined four options for consideration:⁴

OPTION 1

The first option would implement the Commission's recommendations without leasing the Turnpike. Roads and bridges would receive \$815 million through a 12.5 cents per gallon increase in the gas tax (Oil Company Franchise Tax) and \$150 million through an increase in license and vehicle fees. Mass transit would receive \$576 million through a 0.9% increase in the Realty Transfer Tax, and \$184 million through local tax increases.

The other three options include leasing the Turnpike in order to generate an estimated \$965 million annually.

OPTION 2

The second option would provide mass transit with \$286 million from a 0.5% increase in the Realty Transfer Tax, \$100 million from increased vehicle and license fees, \$190 million from a new portion of the Sales Tax, and \$184 million from an increase in local taxes.

OPTION 3

The third option would provide mass transit with \$300 million from 14 new toll barriers that would be erected on Interstate Highways 78, 79, 80, 81, and 95, \$286 million would be generated by a 0.5% increase in the Realty Transfer Tax, and \$174 million would be generated through new vehicle and license fees.

OPTION 4

The fourth option would provide mass transit with \$760 million from a new Oil Company Gross Profits Tax through a "combined reporting" method of taxation. Currently, these oil companies pay approximately \$71 million in taxes through the Corporate Net Income tax (CNI). The new 6.17% Oil Company Gross Profits Tax would replace the CNI tax for these companies, increasing their current taxes by more than 1,000%.

Governor Rendell proposed the fourth option as the preferred route to filling the \$1.7 billion transportation funding gap identified by the Commission.

P3S: AN ALTERNATIVE APPROACH TO FUNDING PENNSYLVANIA'S TRANSPORTATION NEEDS

While the vast majority of transportation projects around the country continue to be funded from traditional sources—gas and vehicle taxes—a new funding paradigm is rapidly emerging. More often state and local transportation agencies are increasingly looking to supplement these

sources with private investment. Public-Private Partnerships are just one “tool in the tool box,” but they are a promising and valuable tool available to policymakers which, to date, have been underutilized in Pennsylvania. P3s can build new infrastructure, maintain existing infrastructure, and operate existing services, particularly mass transit.

LEASING THE PENNSYLVANIA TURNPIKE

Perhaps the most promising P3 opportunity for Pennsylvania is the lease of the Turnpike. Semantics are important in this discussion. A lease is not a sale. Under Governor Rendell’s proposal, the Commonwealth would not divest itself of this 530-mile transportation asset. Ownership and oversight of the Turnpike remains with the state, and at the end of the concession period, total control of the asset will transfer back to the Commonwealth.

Governor Rendell projects a lease of the Pennsylvania Turnpike could generate \$10 to \$12 billion, and even upwards of \$16 billion.⁵ Such a large sum of upfront money from a private investor could produce nearly \$1 billion in annual interest for the state’s transportation infrastructure. Indeed, the potential of P3 with the Turnpike could obviate the need to raise \$1.7 billion in new taxes and fees.

Recently, the use of P3s has provided other states and cities with additional private capital to help solve their transportation funding problems. In 2005, two high profile P3 leases—the 99-year lease of the 7.8-mile Chicago Skyway and the 75-year lease of the 157-mile Indiana Toll Road—garnered the City of Chicago nearly \$2 billion and the State of Indiana more than \$3.8 billion. The 530-mile Pennsylvania Turnpike could likewise be leveraged through a long-term lease agreement to generate billions of dollars to help meet the state’s transportation needs.

THE CHICAGO SKYWAY

In Chicago, the winning bidder paid the city \$1.83 billion in return for a 99-year lease and operating rights (referred to as a toll concession agreement). This upfront payment from a private company to city government equated to annual payment of more than \$18.4 million for 99 years. This is more than double the annual net profit of \$8.4 million (on total revenues of \$44 million) the City of Chicago was earning prior to the concession agreement.

Another way to view the P3 benefit to the city is the poor return on investment (ROI) of the Skyway before contracting with a private company to run it. The \$8.4 million profit, on an asset value now known to be \$1.8 billion, represented an ROI of just 0.5%. Meanwhile the city was paying interest upwards of ten times its ROI. The concession payment also allowed the city to reduce its debt load.

According to the Federal Highway Administration the contract includes detailed operating standards to assure safety in operations and high engineering standards during the term of the lease.⁶ Standards of performance are clearly outlined in the contract. These include any capital improvements that the concessionaire (private operator) will complete over the term.

The contract puts clear limits on the amount and timing of toll increases the private company can impose. The schedule imposes maximum toll rates through January 1, 2017—by no means, however, does this mean actual toll rates will reach the maximum. After 2017 rates can increase relative to a series of formula, including the Consumer Price Index.

The concessionaire is responsible for maintenance and operations of the road during the term. In addition, the contractor has the right to collect the tolls. The city maintains the right to all other revenues associated with the road, including the sale of naming rights and the installation of utilities and billboards.⁷ Chicago also maintains full auditing, inspection and review rights—and the contract establishes dispute resolution processes. Additionally, although the City of Chicago continues to police the Skyway, the concessionaire reimburses the city for those costs.

One of the most important components of the lease is that a non-compete clause does not exist. The city could develop, redevelop, modify, or expand any existing or new transportation alternative to the Skyway, at any time, without penalty.

Since the deal was closed there has been a greater focus on customer service. Satisfaction levels have risen and reversible lanes to accommodate peak demand during rush hours have been added. Further, electronic toll collection was rolled out in record time—saving commuters time and relieving them of the hassle of searching for change.⁸

In announcing sale of the Skyway, Chicago Mayor Richard Daley said running a toll road “is not a core function of city government.”⁹

THE INDIANA TOLL ROAD

The winning bid for the 157-mile Indiana Toll Road paid the state \$3.85 billion for a 75-year lease. This public-private partnership is enabling the State of Indiana to complete an ambitious transportation investment plan called “Major Moves”—nearly half of the projects that otherwise would have been left on the drawing room table will now be completed. Using the lease proceeds, in all, more than 200 strategic transportation projects will now be paid for throughout Indiana—without raising taxes or fees.

After receiving the payout the state retired more than \$225 million in debt. After a few additional obligations were paid, the remainder of the proceeds, some \$3 billion, were deposited and are earning approximately \$500,000 in interest per day.

In addition, the deal results in direct cost avoidance for Indiana on multiple fronts. The state was expending millions of dollars in operating and maintaining the Indiana Toll Road (ITR) each year. While these costs were offset by toll revenue, debt obligations and capital costs often exceeded available revenues. At best, state operation of ITR represented a return on investment of less than 1%, while interest rates were much higher. The state considers itself in a much better position earning interest rather than paying it.

ITR faced a significant maintenance and capital backlog resulting from a lack of investment. In fact, the state department of transportation conceded that sections of ITR did not meet their own performance standards. Those capital needs and performance improvements have now been shifted to the concessionaire. Indeed, the contractor has already begun several capital projects—pledging more than \$200 million in upgrades in the next few years. Further, they intend to spend upwards of \$4.4 billion for upgrades to ITR during the life of the lease.

Beyond the obvious fiscal implications, there are significant benefits to the Indiana commuter as well. The deal enables new capacity to be put in place many years faster. It means getting Interstate 69 financed and built by 2015 rather than 2035. Countless other projects will not have to

wait for money to become available—it will already be there. Projects to strategically connect the state, enabling greater mobility of goods and people, will become realities. Safety will also improve as improvements will be made to many of Indiana’s rural highways.

A detailed 263-page concession agreement protects other public interests. According to the contract, toll rates and possible increases are established as well as limits on the return on investment for the concessionaire. The contract further establishes performance levels and requirements that the contractor is legally required to meet or face penalty. Many of those standards exceed what the state department was able to accomplish.

Looking globally, since 1999, there have been at least six major global leases of existing toll roads. These long-term leases, not sales, include:

- o Chicago Skyway, \$1.8B
- o Spain, \$1.8B
- o Portugal, \$2B
- o Canada, \$2B
- o Italy, \$6.7B—more than 2000 lane-miles.
- o France, \$17.8—essentially every major expressway will now be under private operation.

FUNDING MASS TRANSIT

While Governor Rendell understands the potential power and benefit of utilizing a Public-Private Partnership with the Turnpike, he did not extend that knowledge to mass transit in his budget proposal. Instead, he is recommending a 1,000% tax increase on oil companies through the imposition of new Oil Company Gross Profits Tax to generate \$760 million in annual revenue.

THE OIL COMPANY GROSS PROFITS TAX

Before proposing an alternative means of funding and operating mass transit in Pennsylvania, it is important to understand why the Oil Company Gross Profits Tax would be bad public policy.

First, in his 2007-08 budget address, Governor Rendell announced that “We propose a tax on gasoline, but for the first time, we propose to tax those who *make* gasoline rather than those who *buy* it” (emphasis in original).¹⁰ It is unclear how the governor will prevent oil companies from passing these increased taxes on to consumers. Even Senate Democratic Minority Leader Bob Mellow called the proposal “foolhardy” to think motorists would not feel the impact of higher taxes on oil companies, saying “Any time you tax a producer, it gets passed on to the consumer.”¹¹

Second, the assertion that oil companies are not paying their fair share in taxes is unfounded. Governor Rendell remarked:

America’s oil companies have earned record profits in the past few years, and these profits come from one source: the pockets of the American people. Since 2004, the oil companies have reaped \$368 billion in profits nationwide. Last year, ExxonMobil’s profits alone – \$39.5 billion – were almost 50% larger than the entire \$26 billion Pennsylvania budget. And, even more amazingly, ExxonMobil profits in each of the last three years have been the highest ever earned by any corporation in American history.

These numbers are mind-boggling – think for a second about the implications of Exxon making a \$4.5 million profit, each and every hour of each and every day, 365 days a

year. More importantly, the numbers remind us that instead of asking our citizens to pay yet again to fund our transportation needs, it is time for the oil companies to finally pay their fair share of the transportation tax burden in Pennsylvania.¹² [emphasis in original]

Although the statistics cited by Governor Rendell are accurate, they fail to place ExxonMobil's record profits into proper context. The Washington, D.C.-based Tax Foundation notes,

While they were recording record profits last year, they were also writing checks to Uncle Sam to the tune of \$100.7 billion—two and a half times what they made in net profit. In fact, previous Tax Foundation research found that from 1977 to 2004, federal and state governments extracted \$397 billion by taxing the profits of the largest oil companies and an additional \$1.1 trillion in taxes at the pump. In today's dollars, that's \$2.2 trillion.¹³ [emphasis added]

Clearly, the assertion that Big Oil companies have somehow escaped paying taxes is factually inaccurate, and it remains unclear how the Governor will “grant to the Attorney General the power to ensure that these taxes are not passed on to our citizens at the pump.”¹⁴ Despite suggestions to the contrary, prices are not “set” by oil companies; rather they are a function of supply and demand. The demand side of the equation is affected by exponential global growth and use of oil products, while the supply side encompasses such factors as geopolitical instability, irregular weather patterns, and production capacity. Only the last variable is somewhat controllable. So how will the Governor or the Attorney General know which price spikes are attributable to the marketplace, or from the 1,000% tax increase on these companies?

AN ALTERNATIVE TO RAISING TAXES: P3S AND MASS TRANSIT

Similar to the Public-Private Partnership lease of the Turnpike, Pennsylvania could also utilize this management tool for mass transit. Pennsylvania's two major public transit agencies—the Philadelphia-based Southeastern Pennsylvania Transportation Authority (SEPTA) and the Pittsburgh-based Port Authority Transit (PAT)—are facing a financial crisis. But the crisis is hardly due to a lack of taxpayer funding. Simply increasing taxes on oil companies by 1,000% will do little to address the reasons for the systems' financial woes.

To its own detriment, public transit policy in Pennsylvania has generally ignored innovative, competitive alternatives from across the United States and around the world that have improved mass transit service at lower costs. For too long, SEPTA and PAT (and to a lesser extent, a number of Pennsylvania's smaller public transit systems) have been trapped in a vicious cycle of service cuts, fare increases, and pleas for higher taxpayer subsidies, mostly from non-transit users.

However, none of the preceding alternatives is a viable long-term solution for Pennsylvania. Raising taxes on oil companies—and consumers of oil products—to provide more transit funding would not only be yet another drag on Pennsylvania's economy, but also would reward SEPTA and PAT for their inability to live within their means and allow them to avoid difficult decisions on how to better allocate the resources they already receive.

So what can Pennsylvania policymakers do to rescue SEPTA, PAT and other transit system? First, many mass transit officials and advocates must come to grips with the fact that no mass transit system, no matter how lavishly funded or extensive in service, is going to displace the private automobile as the means of transportation for the vast majority of commuters.

For example, in 2001, according to the National Transit Database, state taxpayers provided \$468.1 million (44.2%) of the operating and capital funds expended by SEPTA and \$184.4 million (49.2%) of the operating and capital funds expended by PAT. Yet mass transit's 2001 share of urban travel was no greater than 2.84% of the market in the Philadelphia metro area, and no greater than 1.98% of the market in the Pittsburgh metro area, as calculated by internationally renowned transit expert Wendell Cox.¹⁵

Still, mass transit can play a substantive role in Pennsylvania. To that end, the policy that American cities like San Diego, Denver, Los Angeles, San Francisco and Boston, as well as foreign cities such as London, Copenhagen, Stockholm, Melbourne and Tokyo, have successfully embraced is “competitive contracting” of transit services—a variation of a Public-Private Partnership. The City of London has reduced bus costs by approximately 50% since 1985, and Stockholm has reduced bus, subway, and commuter rail costs approximately 20% since the early 1990s.¹⁶

As governments—and taxpayers—around the world tire of the escalating costs of mass transit systems, they are responding by inviting private companies to submit proposals to operate all or part of their service. Public agencies determine and administer the level of services, routes, fares, etc., and the private sector fulfills the terms of the contract for a specified period of time. Public agencies can contract for some or all transit needs including operations, maintenance, planning, marketing, customer information, technology, and security, as well as establish both incentives and severe penalties for safety, employee turnover, cleanliness, information, on-time arrivals, and ridership. Contracts go to the lowest, most qualified and responsible bidder, and that bidder is monitored throughout the contract to ensure compliance. This is not entirely new to Pennsylvania, as many school districts already utilize competitive contracting for transportation and other non-instructional services.

Competitive contracting has produced positive results for American and foreign transit agencies. The quality of competitively bid transit has been found to be equal to or better than that provided previously, and ridership has generally risen as cost savings allow for expanded service. According to Cox, direct savings from competitive contracting have ranged from 20 to 60% over the former non-competitive service.

Of course, it will not be easy for SEPTA and PAT to change how they do business and embrace competitive contracting on a scale that could significantly reduce overall costs and improve service. This is so in large part because many powerful interests benefit from the current, predominantly non-competitive system—not least of which are the public employee labor unions representing transit workers.

To surmount the obstacles blocking real reform of how public transit operates, Pennsylvania can begin by looking to Colorado, which enacted a law mandating competitive contracting in 1988. Between 1988 and 2002, Denver's Regional Transportation District (RTD) achieved unit cost savings of 30% and a 90% increase in service levels—in marked contrast to the 33% cost increase and 13% decline in service levels for the 10 years prior to the imposition of contracting.¹⁷

Pennsylvania policymakers must break the cycle of subsidy and failure that has ensnared SEPTA, PAT, taxpayers and transit commuters. Gov. Rendell is understandably proud of how his “strategic sourcing” program has reduced costs for state taxpayers on items that government purchases. And he should be applauded for exploring the potential leasing of the Turnpike. But instead of raising taxes on motorists through the new Oil Company Gross Profits Tax, he should em-

ploy use those same competitive models to reduce the cost and improve the quality of public transit service in Pennsylvania.

Correctly understood, mass transit in Pennsylvania does not have a funding problem—it has a cost problem. Rather than increasing taxpayer subsidies and fares or cutting services, Governor Rendell should utilize “competitive contracting” in the provision of transit services.

THE POTENTIAL OF “COMPETITIVE CONTRACTING” FOR SEPTA AND PAT

Once again, semantics are important. “Competitive contracting” is not privatization in the sense that the public entity divests itself of the responsibility of providing mass transportation services for citizens. Competitive contracting is a Public-Private Partnership that draws upon the strengths of both the private and the public sectors, but helps to minimize their individual weaknesses.

In considering the potential for P3s in mass transit, some facts are important to keep in mind. First, despite that only 1% of all travel in Pennsylvania is done via mass transit, it receives 25% of all transportation subsidies. The notion that mass transit has been under-subsidized by non-transit users is baseless.

SEPTA and PAT have a cost crisis, not a funding crisis. For example, if cost increases had been held to inflation between 1983 and 2002, SEPTA’s 2002 operating costs would have been 22% lower (\$165 million less), while PAT’s would have been 29.8% lower (\$80.7 million less). Furthermore, if SEPTA would have controlled costs as well as the San Diego Transit Bus System, the 2002 operating costs would have been 57.8% lower (\$432.5 million less). And if PAT would have controlled costs as well as the San Diego Transit Bus System, the 2002 operating costs would have been 62% lower (\$167.9 million less).¹⁸

If the cost problem in mass transit is not adequately addressed, Pennsylvania’s transit systems will continue to lurch from funding crisis to funding crisis, and taxpayers will see no relief from the agencies’ ever-increasing demands.

TRANSIT MANAGERS WOULD DO IT AGAIN

A recent Transportation Research Board survey notes that—when asked if they had to do it over again—roughly 80% of transit managers who chose contracting say they would stick with it a second time.¹⁹ Several of the world’s largest transit systems are operated under a contractual arrangement. London’s entire bus and tube system is competitive contracted, as is Melbourne’s. In New Zealand a 1990 act of Parliament required that all public transit services be provided commercially or through a “competitive pricing procedure.” The cities of Copenhagen, Stockholm, and Helsinki also have significant experience with contracting out. Each of these cities has received high quality transit services for lower costs.

In 1988, the Colorado legislature passed Senate Bill 164 requiring the Denver Regional Transportation District (RTD) to contract out 20% of its bus service. The primary purpose of this legislation was to improve RTD’s cost effectiveness. Between 1989 and 1998, RTD achieved cost savings of 40%—saving at least \$101 million.²⁰ Wendell Cox further notes that “the financial benefit to the community is even more, since RTD’s private contractors pay state and local taxes, fuel taxes and license fees, unlike RTD.”²¹

In addition, cost savings continue to escalate as RTD continues to encourage competition and chase efficiencies. Indeed, competitive contracting produced a “ripple” effect and has even induced better cost performance within RTD. Before competition, RTD bus system costs per hour rose 24.3%, but have fallen 22.3% during competitive contracting.²² And, for many measures of safety and quality of service, the contractors performed as well as or better than RTD.

Las Vegas also has used competitive contracting to deliver bus transit services. In fact, the fast-growing city is home to the largest U.S. system that has been fully contracted out. Costs per service hour are among the lowest in the nation—approximately 30% below the average of systems of similar size.²³

And it’s not just buses that are contracted out. Approximately 15% of commuter rail services in the United States are competitively tendered, including systems in Baltimore, Boston, Los Angeles, San Diego, San Francisco, and Washington.²⁴

In the U.S. and Europe, competitive contracting has reduced operating costs from 20 to 51%, with savings of about 35% being the norm. Houston saw savings of 26%, San Diego by over 30%, and Denver by 46%.²⁵

UTILIZING P3s FOR CONGESTION RELIEF AND NEW CONSTRUCTION

In addition to leasing existing assets, P3s can also underwrite the development of new roads as well. Reason Foundation first suggested in 1988 that the private sector could build supplemental congestion-relief lanes, using electronic toll collection to charge market prices so as to keep the lanes free flowing even at the busiest of rush hours.²⁶ The first such lanes were developed in Orange County, California under a private franchise awarded in 1991 under California’s AB 680 public-private partnership legislation. Opened to traffic in December 1995 in the median of SR-91, the “91 Express Lanes” demonstrated that electronic variable pricing works well to keep traffic flowing smoothly. And the toll revenues proved sufficient to pay for the construction, operation, and maintenance of the new lanes.

Because the 91 Express Lanes were built where high-occupancy vehicle (HOV) lanes had originally been planned, the concession agreement required that the concessionaire permit three-person carpools to use the lanes at no charge. The concept of limited-access lanes to which one could gain access either by meeting an occupancy requirement or by paying a toll was dubbed High Occupancy Toll (HOT) lanes in a 1993 Reason paper.²⁷ HOT lanes can be created either via new construction or by converting existing, underutilized HOV lanes into HOT lanes. The next three HOT lane projects to emerge in the 1990s—on I-15 in San Diego and on I-10 and US-290 in Houston—were all HOV conversions. A private firm was hired to manage the I-15 Express Lanes, illustrating another role for the private sector.

The early years of the 21st century have seen a proliferation of proposals for more congestion-relief lanes in congested urban areas. Denver recently completed a conversion of existing HOV lanes to HOT lanes, with private-sector management. The Virginia DOT has received private-sector proposals to add two HOT lanes in each direction to the southwest quadrant of the Washington Beltway (I-495) and to add HOT lanes to I-95 approaching the Beltway and the Shirley Highway (I-395) within the Beltway.

Indeed, the toll lanes currently being negotiated on I-495 rescued a traditional road widening project collapsing under a barrage of local opposition. The concessionaire came up with a pro-

posal that nearly eliminated the need to acquire extra right of way for the road, saving hundreds of homes from eminent domain condemnations, and reduced the project cost from about \$3 billion to \$700 million.

In a subsequent effort on I-395 and I-95, two private teams proposed expanding the High Occupancy Vehicle (HOV) lanes and giving access to the lanes to single-occupant drivers willing to pay a toll. The proposals involve adding a third-lane of about 28 miles on the existing facility, plus 20-mile extensions southward and new entry and access points and ramps. Further, substantial improvements to park and ride and bus facilities will also be completed. Currently the Virginia DOT is working out the details of a \$999 million long-term concession.

In Maryland, the State Highway Authority has requested the private sector to advise it on the feasibility of private projects to add Express Toll Lanes to the Maryland portion of the Capital Beltway (I-495), the Baltimore Beltway (I-695), and several other major highways in the area.

Further, this model can benefit bus transit riders as well. Indeed, there can be real synergy between HOT or express toll lanes and bus rapid transit (BRT). The BRT concept has attracted much recent attention as a way of achieving service quality akin to that of rail transit, but at much lower capital cost thanks to the ability of buses to use already existing infrastructure. However, for the long-haul portions of express bus service, BRT proponents much prefer exclusive busways, in order to guarantee reliable high-speed service (giving BRT a speed advantage over driving). But except in very rare cases (where one or two buses per minute can be justified), an exclusive busway is enormously wasteful of the costly exclusive right of way. Some time-saving can be achieved by operating express buses in HOV lanes (as in Houston and on the El Monte Busway in Los Angeles), but since successful HOV lanes fill up with traffic, the speed and reliability gains for buses are not sustainable long-term.

A much better solution is to operate BRT service on HOT lanes, as proposed in Reason's 2003 report.²⁸ Electronic market pricing can ensure that the number of vehicles per lane per hour is limited to an amount compatible with free-flow conditions (typically no more than 1,700 vehicles/lane/hour). Hence, the HOT lane becomes a "virtual exclusive busway"—from the transit operator's perspective, it obtains the service quality of an exclusive busway, but does not have to pay for it, thanks to the premium tolls paid by the automobiles that share the use of these lanes.

A number of metro areas are currently studying the possible creation of a network of such managed lanes, serving as both congestion-relievers for drivers and as BRT infrastructure. They include Dallas, Houston, Miami, Phoenix, and the greater Washington, DC area. Minneapolis-St. Paul has recently moved forward with such a plan. All the states involved have public-private partnership laws in place, which would permit such projects to be done under their auspices.

Another type of specialized toll project is new lanes designed for exclusive use by trucks. Such lanes would be designed with heavy-duty, longer-lived pavement, less-steep grades, etc. to better match the physical features of heavy trucks. They would also be separated from general-purpose lanes by concrete barriers, increasing highway safety by reducing the likelihood of often-deadly car-truck collisions.

Historically, the trucking industry has staunchly opposed tolls and toll roads, considering it "double taxation" to pay both tolls and fuel taxes on the same highway. But one concept of toll truckway has won significant support in trucking circles. This is Reason's proposal that long dou-

ble- and triple-trailer rigs be allowed to operate on such barrier-separated lanes in states where they are otherwise forbidden by federal law.²⁹ These larger rigs can in many cases allow a rig to haul double the payload at very little increase in operating cost, making it worth the operator's while to pay a fairly hefty toll to gain these savings.

Truckway projects in California and Texas, though at an earlier stage, appear to have trucking industry support. The Southern California Association of Governments has included in their new 2030 long-range plan a \$16 billion system of toll truckways to link the ports of Los Angeles and Long Beach with the Inland Empire and Barstow. Its financing plan is based on the high toll rates justified by the operation of double and triple-trailer rigs. And as part of its Trans-Texas Corridors program, the Texas Department of Transportation is reviewing unsolicited proposals for a new north-south corridor the length of the state, parallel to I-35, whose first component would be toll truckways.

ADDITIONAL P3 OPPORTUNITIES

In many ways, Public-Private Partnerships have always been utilized in transportation. Dozens of states already contract with private companies for services related to the delivery of highways and roads, including design and engineering. Nearly every function currently handled by the Department of Transportation has been successfully contracted or outsourced in one state or another.

HIGHWAY MAINTENANCE

At least 22 states contract for highway maintenance at some level.³⁰ Florida's DOT administers several contracts for highway maintenance—nearly three-quarters of its maintenance is under contract. According to "Asset Management Program Summary," April 2005, the state has saved \$105 million, or 17%, throughout the life of the contracts.³¹ An additional six contract awards for highway maintenance are planned. By July 2008, Florida expects to have 28 active asset management contracts. At the local level, the two major toll operators in Orlando and Miami also successfully contract out road maintenance.³² The contracting agency states that the contractor is "performing at better levels and the quality is at least the same if not superior."³³

In 1997, Virginia awarded a total asset management maintenance contract. The initial contract was for six years with a value of \$131.6 million covering 251 miles of interstate, including state highways in urban Richmond, rural west Virginia, and the southwest part of the state.

The contractor is responsible for determining how they will maintain the road i.e., what type of materials, techniques, and procedures they will use. The contract requires the contractor to maintain all fencing, mowing, snow plowing, pothole repair, cracking, and striping along the 251 miles of highway, to standards established by VDOT during contract negotiations. VDOT relies on a team of engineers and consultants set the standards, but they aggressively work with the contractor since the product quality and liability are transferred to the contractor.

An annual audit is conducted and a report card is issued describing the contractor's progress toward the contract goals. In 2000, Virginia Tech conducted an independent assessment for VDOT. They found cost savings between \$16 million to \$23 million over the five-year period.³⁴ The savings were generated from lower input costs for materials, labor, and capital equipment. VDOT exercised its initial five-year contract extension and recently extended the contract even further, evidence of their satisfaction with the product.

Virginia’s experience with contract maintenance has been so successful that the Virginia General Assembly passed legislation in 2006 requiring the state Department of Transportation to contract out all highway maintenance.

DESIGNING AND ENGINEERING

A 1991 study published in *Professional Services Management Journal* showed that states that contract out 50 to 70% of their engineering services have the lowest overall cost of engineering; whereas those with less than 10% have the highest cost of engineering.³⁵

Private contractors currently perform the majority of the Florida’s Department of Transportation activities (see Table below).³⁶ Many functions within the FDOT tend to be commercial in nature, making them readily available for competition. Indeed, in March 2001, the Office of Program Policy Analysis and Government Accountability (OPPAGA) suggested that private contractors “can handle additional work” and called for the expedited contracting for toll collection operations.³⁷

Activity	Percent of Budget Contracted (2002-03)
Construction Engineering and Inspection	85
Design	83
Materials Testing/Research	55
Planning	57
Right-of-Way	74
Maintenance	74
Tolls	99

THE BENEFITS OF P3S IN TRANSPORTATION

Without serious attention road and highway conditions in Pennsylvania will only continue to deteriorate. As population grows or expands, increased demands will continue to be placed on the aging network of roads and highways. At the same time, state and local government entities are faced with uncertain fiscal conditions. Tax dollars are already stretched thin, and preventative maintenance is all too often put off for another day.

Governments are faced with the challenger of trying to do more with less and less. Public-Private Partnerships offer a solution to improve quality and save money. Cities, counties, states, and the federal government have used transportation P3s to achieve a number of goals.

Some of these objectives may be contradictory. For example, it may not be possible to realize significant cost savings and, at the same time, dramatically improve quality. However, many of these objectives are complementary. For example, gaining access to expertise, improving efficiency, and spurring innovation are all somewhat related. One of the benefits of Public-Private Partnerships is that there isn’t a one-size-fits-all answer. In fact, P3s affords policy makers to make tradeoffs between different goals and customize the partnership package that meets their specific needs and goals.

ACHIEVING COST SAVINGS

Achieving cost savings is always leading driver behind P3s in transportation. There is a long history of achieving significant savings in operational functions. For example, Florida’s P3 initiatives for highway maintenance have generated cost savings between 15% and 20%.³⁸ As noted earlier, some of the largest opportunities for savings occur in transit operations.

ACCESS TO CAPITAL

In addition to saving money, P3s also open up new sources of capital to the Commonwealth. A lease of the Turnpike would potentially bring in billions of dollars that should be dedicated to strategic investments in other transportation infrastructure projects throughout the state. Other concession opportunities may also emerge bringing additional money for transportation purposes.

In addition, P3s get away from traditional procurement requirements allowing the state and the private partner to use innovative financing which can make additional capital readily available, as well as reduce the common delays in project completion.

GREATER EFFICIENCY

Closely related to saving money, some agencies seek P3s to explicitly gain the “maximum utility from tax dollars”³⁹ and improve overall system efficiency—achieved through competition and specialization. Study after study shows that a competitive system is more efficient and effective than traditional single provider systems. For example when Massachusetts turned to competition for its highway maintenance, nearly half of the contracts were won by employee groups who competed. For the first time, efficiency and effectiveness were introduced system wide producing tremendous improvements. The state was able to lower labor input costs and receive greater productivity in return. Furthermore, the introduction of competition freed up resources that could be allocated to other, higher priority needs. Simply put, a “competitive system improves the status quo ... [where] the fundamental goal is turn out the best product possible.”⁴⁰

ACHIEVING PERFORMANCE OR QUALITY IMPROVEMENTS

The contractual mechanism in P3s increases the incentive to produce high-quality work and to ensure high performance. Indeed, the level of performance is firmly established in the contract. Generally, contracts can (and should be) performance-based (focusing on outputs or outcomes) and can include quality assurances or quality control assurances.⁴¹

Enhancing accountability and performance also are prime considerations for many public officials. Partnerships require strong contracts with performance requirements. In many cases, this adds an additional level of transparency into the operations.

CHANGING THE INCENTIVE STRUCTURE

Similarly aligned with performance or quality improvements is changing the incentive structure. If nothing else, P3s change traditional business practices, making them more flexible, innovative, transparent, and customer focused. In addition, P3s change incentive structures as well—leading to more on-time and on-budget project delivery.

ENHANCING RISK MANAGEMENT

P3s allows government agencies to shift risk from taxpayers to the contractors. With the power of a contract at hand, governments can build quality assurance and/or quality controls into project delivery as a means to manage risk. An increasing trend is the employment of warranty concepts whereby the contractor places a long-term guarantee on their work. This further shields taxpayers from risk.

SPURRING INNOVATING

P3s produce innovative solutions. The freedom to invent “allows old processes to be discarded in favor or entirely new ones.”⁴² In non-competitive systems and where the incentive structure is not set up to reward innovation, both of which government agencies are, there is no motivation to “swim upstream” and advance a new idea. Private firms have far more opportunity and incentive to encourage and foster innovative ideas at all levels.

BEST PRACTICES & GUIDELINES FOR P3S

Not all Public-Private Partnerships are created the same. P3s can be crafted and implemented well and they can be crafted and implemented poorly. This is true of each type of P3 from simple operational contracts to concession agreements for new assets and of course, a lease agreement for the Pennsylvania Turnpike. Fortunately, while these arrangements may be new to Pennsylvania, they are not new to the rest of the world. A long history has established best practices and guidelines to ensure that quality is delivered and that taxpayers are protected.

The public sector’s key role is setting the agenda—outlining expectations, goals, and desired outcomes. In an operational contract, the public entity establishes the standards and performance requirements. Once a private partner has been selected through a competitive and open process and a contract is signed, the role of the public sector shifts to that of oversight and evaluation. The public entity does not sign a contract and walk away. Rather, strong reporting, evaluation, and auditing components should be put in place to strictly monitor the contract and performance.

For new P3 transportation projects, the public sector is typically responsible for defining the route and the nature of the project, land acquisition, and the environmental review process, as well as preliminary design. Of course, the oversight and evaluation component remains as well.

Given the focus and importance on a lease of the Pennsylvania Turnpike, careful examination is warranted. While there are general guidelines as to how these deals are completed, it is important to note that each is unique in its own way. Indeed, one of the undervalued benefits of P3s and concession arrangements is that they are cus-

Getting What You Expect from Public-Private Partnerships

Typical steps in a responsible and well managed concession process includes the following steps:

1. Select qualified outside legal and financial consultants to advise the state on all aspects of the process.
2. Appoint a qualified and respected selection and negotiating panel.
3. Publish of a timetable for the selection process.
4. Prepare informational materials on the history and present state of the facility plus commissioning a professional traffic and revenue study.
5. Release a formal Request for Expressions of Interest (to “potential proposers”).
6. Release informational materials to potential proposers and the public.
7. Make available traffic and revenue study results to potential proposers (although independent assessments by bidders should also be encouraged).
8. Issue Requests for Conceptual Proposals and Qualifications to potential proposers.
9. Select the best three to five potential proposers (a short-list) and formally ask them for detailed proposals.
10. Review proposals by selection panel.
11. Negotiate with best proposer, holding others in reserve.

Source: Robert Poole and Peter Samuel “Public-Private Partnerships: What They Are and What They Can Do for Indiana,” *Indiana Policy Review*, Summer/Fall 2006.

tomizable to fit the needs, goals, and desired outcomes of a community or a state. In addition, the concession should be structured to mitigate any concerns, and adequate protections for the public interest must be incorporated into the binding terms of the concession agreement.

There are many components of a concession agreement—length of concession, toll schedule, and performance requirements, to name a few. Depending on the goals or needs of the public interest, the public entity can increase or decrease the value of the contract to both the public and the private contractor. One way to view this is that each component of the contract—length of agreement, toll schedule, performance requirements, etc.—is an individual dial that can be adjusted up or down. For example, “dialing down” the length of the concession term will lower the concession price while “dialing up” the ability of the concessionaire to raise tolls will increase the price. The governing body will have to balance its need for raising revenue with the needs of users and taxpayers. The public sector will be responsible for identifying and specifying the best mix of outcomes—and adjusting the dials accordingly—to satisfy the public interest and assure appropriate protections for users and taxpayers. Clearly, the governing body has tremendous control and power to set the terms of the agreement.

CONCESSION LENGTH

To put it simply, the longer the term the higher the bids are likely to be, increasing the size of the upfront payout (all other things being equal, of course). Generally speaking, the minimum term to make most investments worthy is approximately 35 years.

Recently, the global trend has been toward longer terms. Chicago signed a 99-year lease for the Skyway and Indiana choose a 75-year lease for the Indiana Toll Road. The State of Texas has focused on 50-year terms for many projects in their pipeline. Terms of this length and nature are similar to investor-owned utilities in the United States where franchises are granted for similar lengths.

The concession term should be considered against other competing goals. In fact, the interests of the Commonwealth of Pennsylvania may be best served by asking for bids that consider multiple terms—35-years, 50-years, 99-years, and “in perpetuity” for example—to make a more fully informed decision on what term presents the best value to the people of Pennsylvania.

TOLLING SCHEDULE

The ability for the concessionaire to set and/or raise tolls has a significant impact on the price investors are willing to offer. Most concession agreements allow increased toll rates on an annual basis according to inflation.⁴³ Many European toll concessions use a formula with a maximum toll rate.

Again, dialing this component up or down will reveal the trade-offs that must be considered. While there is nothing that says a concession agreement needs to control toll rates, politically speaking it is a necessary component. The greater the flexibility and/or ability for the concessionaire to set toll rates, and increase them over time, the greater the initial pay out will be. “Dialing down” or limiting the ability of concessionaires to raise tolls will likely result in smaller bid prices. The goals and needs of the Commonwealth will have to be weighed in this context, as well as reasonable incentives for the concessionaire to have the capital to continue investing in the infrastructure.

REVENUE SHARING

Revenue sharing provisions are also something to consider. Essentially, these provisions state that the concessionaire would share profits with the state beyond a certain rate of return. The SR 125-South toll road under construction in the San Diego area has this provision.⁴⁴ More recently the 99-year lease of the Pocahontas Parkway in Richmond, Virginia included a profit-sharing mechanism. In fact, rather than receiving an upfront concession fee, the state of Virginia will receive 40% of gross revenues once the road becomes profitable. That number increases to 80% at higher rates of return. Thus, the deal could potentially add millions in revenue to state coffers over its 99-year life.

NON-COMPETE CLAUSES

Some concession agreements contain a non-compete clause—essentially preventing the state from investing in or establishing competing routes. Obviously, the stronger or wider the non-compete zone is the higher the value to investors—resulting in larger up-front payments. However, not all concessions have these clauses.

In fact, the Chicago Skyway concession agreement contains no non-compete clauses. Therefore, the concessionaire is not protected from any future competition. The private consortium operating the Skyway, Cintra/Macquarie, is entirely at risk for traffic and revenue.

EXISTING EMPLOYEES

Manual toll collecting is a dying occupation throughout the world. The sophistication of electronic toll collection machines has enabled toll roads to significantly reduce labor costs while also improving the efficiency and effectiveness of collections. Nevertheless, the agreement could protect these increasingly outdated jobs. However, like all other “dials,” this would make the concession agreement less profitable for the state, as the concessionaire would likely want the freedom and flexibility to determine the proper number of toll collectors versus other innovative means of collecting fares.

Another possible option—instead of forcing the concessionaire to maintain positions it deems unnecessary—is to utilize some of the proceeds from the lease agreement to help displaced workers find new employment. Of course, a large workforce will always be necessary, and many current employees—particularly those with expertise in specific areas—would likely be retained by the private contractor.

MAINTENANCE AND PERFORMANCE REQUIREMENTS

The agreement should, of course, require the facility to be kept in good and safe physical condition throughout the term of the concession. However, the concession agreement presents a unique opportunity to establish standards and performance requirements as specific conditions in the contract. Failure to meet these contract provisions should result in consequences of significance.

The Indiana Toll Road lease, for example, is governed by a detailed 263-page concession agreement which is designed to protect the public’s interests. The contract details many “what ifs” scenarios and established well-defined performance levels that the contractor is legally required to

meet or face penalty. Dead animals in the roadway, for example, need to be cleared within eight hours, and potholes must be filled within 24 hours. Many of the standards in the contract exceed the standards applied to the roads under the control of the Indiana Department of Transportation—something that could not have been done except through a private-lease agreement.

Most important of all, the State of Indiana can revoke the contract at any time for breach of contract. The concession agreement sets the conditions for the state to cancel the contract and resume operations of the road should the contractor fail to perform. In any event, the state keeps the \$3.85 billion upfront payment. The contractor has assumed all the risk, not the taxpayers.

MAXIMIZING AND PROTECTING NEW TRANSPORTATIONS FUNDS

The prospect of a multi-billion dollar “windfall” for the state can present problems for public officials who all believe they could best spend the new money. The following are some guidelines to consider how to maximize these new transportation funds.

1. Any debt on existing assets should be paid off—which in the long run, will create a stream of future benefits because of a smaller debt service.
2. Monies should be dedicated toward one-time capital expenses in need of immediate attention. For example, the Transportation Funding and Reform Commission identified many unsafe bridges that need repair.
3. The majority of the corpus should be placed in a trust fund that would provide annual interest payments to fund ongoing maintenance and operations.

ANSWERS TO OBJECTIONS TO P3S

Despite the increased utilization of P3s, and the benefits to taxpayers and the public sector, there are reasonable concerns expressed by both policymakers and the general public.

FOREIGN COMPANIES

A common concern about leasing the Turnpike is the likelihood that a foreign company will become the Commonwealth’s partner in operating the toll road. The potential is high that a foreign company would win the bid because it is foreign companies that have the most experience with Public-Private Partnerships. Roads in Australia, New Zealand, France, Italy, and Spain have utilized P3s for years. Therefore, it is not surprising that the private-sector role in the provision of transportation services is more developed and mature in other countries than in the United States. However, a domestic market is rapidly emerging in America. Investment firms including Goldman Sachs and the Carlyle Group have created their own infrastructure investment groups. In a recent P3 proposal in Colorado several of the bids were from domestic firms.

Governor Rendell has expressed an interest in finding a domestic-based partner, however, Pennsylvanians should not be too concerned if a foreign company from Australia or Spain (like the consortium currently operating the Indiana Toll Road) wins the bid. First, the Turnpike remains the property of the Commonwealth of Pennsylvania. Second, the terms and conditions of the contract would empower the state to seize control of the Turnpike should the company violate their contractual agreements. Third, the Turnpike is a fixed asset. It is not as if a foreign company will be able to take this asset back “home.” Finally, many foreign companies are part of the pension portfolios of many Pennsylvanians, particularly labor union workers. The fact that Ameri-

cans are investing substantial amounts of money in these companies, such as the Australia-based Macquarie, effectively blurs the line between foreign and domestic interests.

Furthermore, the fact that foreign investment could flow into Pennsylvania represents a reversal of the “outsourcing” phenomenon that captured the attention of the nation a few years ago. The opportunity to “insource” significant amounts of foreign cash into the Commonwealth should be embraced rather than rebuffed.

TOLL HIKES

Toll hikes are a common concern voiced in opposition to a P3 with the Turnpike. As noted earlier, the contract will likely establish a schedule for potential toll hikes over the period of the lease. The state can severely restrict toll increases; however, the trade-off will be a lower upfront payout. Even if toll increases are permitted in the agreement, it is still in the best interest of the concessionaire to maximize usage of the Turnpike—not maximize the toll rate. The last thing the concessionaire wants is to lose users by significant increases in toll rates. Nevertheless, tolls are how the private company earns a profit and generates revenue for reinvestment in the Turnpike.

BANKRUPTCY

What if the concessionaire goes bankrupt? Fortunately, the payment for the lease is an upfront fee. In the event of a corporate bankruptcy, the asset would revert back to the state, which could re-lease it again. Should the concessionaire need to sell, get out of, or modify the contract for any reason, final approval rests with the Commonwealth.

OTHER CONCERNS

Many of the other common concerns about P3s can be mitigated in the contracts. Strong performance measures and auditing prevent the concessionaire from being able to violate the contract without consequences. The contract delineates the conditions for termination (e.g., failure to performance) and the rights of the concessionaire.

CONCLUSION

Public-Private Partnerships have proven to be valuable tools in leveraging private capital, improving efficiencies, and managing and developing the transportation infrastructure and services that are foundational to our economy. Thus far, Pennsylvania has underutilized the power of P3s to help solve our public transportation problems. The choice is clear: Higher taxes and fees, or partnerships with the private sector. Policymakers are no longer forced to make the choice between increasing costs to taxpayers or reducing services to motorists. P3s, when implemented properly, can benefit both the Commonwealth and its citizens.

This new paradigm is emerging, and Pennsylvania’s policymakers must choose whether or not to embrace it. Doing so will likely better position the Commonwealth for future economic development and growth. Numerous public-private partnership opportunities exist in Pennsylvania, in all facets of transportation. These include leasing the Pennsylvania Turnpike, various transit operations, and contracting for highway maintenance. Each represents a new way of thinking for Pennsylvania—and that’s where the future lies.

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MATTHEW J. BROUILLETTE

Matthew J. Brouillette is president and CEO of the Commonwealth Foundation, an independent, non-profit public policy research and educational organization located at the foot of the Pennsylvania Capitol in Harrisburg. The Commonwealth Foundation is dedicated to advancing state-level public policies based on our nation's founding principles of limited government, economic freedom, and personal responsibility.

The Foundation's in-house policy experts and affiliated scholars also analyze and develop public policy issues ranging from taxation and regulation to health care and transportation. The Foundation is frequently called upon to provide expert testimony before both House and Senate committees, as well as executive commissions and agencies.

Mr. Brouillette is a board member of the REACH Alliance, a Pennsylvania school choice advocacy organization, and the Joshua Group, a Harrisburg nonprofit serving at risk youth. He also serves on an advisory council of the E. G. West Centre for Market Solutions in Education at the University of Newcastle Upon Tyne in England, and is on an advisory committee for the New York City-based Atlantic Legal Foundation. Mr. Brouillette is also an advisory board member for the American Academy for Liberal Education in Washington, D.C., a national organization dedicated to strengthening and promoting liberal education through accreditation and research.

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ABOUT REASON FOUNDATION

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The Commonwealth Foundation’s research and educational efforts are firmly established on several core values that form the basis of a “civil society.” The activities of the Foundation are therefore committed to:

- Respecting and protecting the lives and property of others.
- Recognizing the inseparability of personal and economic freedom.
- Upholding personal responsibility and accountability for one’s actions.
- Challenging the general perception that government intervention is the most appropriate or most efficient means of solving societal problems.
- Demonstrating the power of private institutions—both for-profit and non-profit—to create a good and civil society.
- Promoting the use of economic reasoning to understand a world of scarcity, trade-offs, and the unseen consequences of governmental solutions to societal problems.

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