



## House Democratic Caucus

[www.pahouse.com](http://www.pahouse.com)

### **House Democratic Leaders: Turnpike lease too much risk for too little reward**

**HARRISBURG, March 4** – House Majority Whip Keith McCall, D-Carbon; Appropriations Committee Chairman Dwight Evans, D-Phila.; and Transportation Committee Chairman Joe Markosek, D-Allegheny/Westmoreland released a study proving that leasing the Pennsylvania Turnpike would result in skyrocketing toll rates and would not deliver funding to repair state roads and bridges as efficiently as maintaining the current operation or issuing state-backed bonds against the value of the turnpike.

The independent report, prepared by Gary J. Gray, Ph.D., Visiting Professor of Finance at Penn State University Park; Patrick J. Cusatis, Ph.D, CFA, Associate Professor of Finance at Penn State Harrisburg; and John H. Foote, Senior Fellow at Harvard University, examined current and historical financial markets and data from currently operating private toll roads to craft a report to determine the best course of action to protect motorists and taxpayers.

The two key questions the authors addressed in the study are:

- Financially does it make sense for the Commonwealth to lease the Pa. Turnpike to a for-profit corporate entity, as compared to a tax-exempt monetization (issuance of bonds) or other leveraging approach?
- Strategically, and as a matter of public policy, does it make sense for the Commonwealth to lease the Pa. Turnpike to a for-profit corporate entity?

Some of the key financial findings of the report include:

- The turnpike can issue tax-exempt municipal bonds that are a low risk to investors for much less than a private operator can raise money for the initial payment to the state;
- The value of the turnpike under the current Act 44 program is \$26.5 billion;
- The value of the turnpike under full public bond issuance is \$22.8 billion;
- The value of the turnpike under a private lease is only \$14.8 billion;

- A private investor may not be able to generate the returns required and be forced to raise tolls astronomically to make up the shortfall and to pay the debt service on high-interest financing.

The report also addressed the issue of handing the turnpike over to a private company that may not be as interested in maintenance and service as it is in maximizing profits.

“Given the results of this independent study, leasing the turnpike would be a double-whammy on Pennsylvanians,” McCall said. “First, motorists would see skyrocketing tolls to guarantee profits for the private turnpike operator, then, the revenue raised from the lease would be eaten away by inflation and operating costs so future tax hikes would make the financial burden even heavier. The turnpike is an immensely valuable taxpayer-owned asset –we shouldn’t try to mortgage that asset for a quick cash fix in 2008 and then pay the price until 2107.

“This has nothing to do with the proposed tolls on I-80. This study is all about the proposed turnpike lease, and the results are clear.”

McCall noted that some of the projected profit margins required for a private operator would more than triple the 10 percent profit margin of ExxonMobil when that company earned nearly \$40 billion in profits last year.

“The cost of money will continue to increase with the current state of the financial markets in America and around the world,” Evans said. “This report shows raising the initial capital required for a potential private operator to pay the Commonwealth a fair price makes little sense when the turnpike itself can issue municipal bonds with less risk and at a much lower yield because they are tax-exempt.

“A private lease also assumes a level of efficiency by a private operator that does not bear out into the real world, especially when one considers the current operational experience and reputation of the turnpike.”

“Handing over the reins of the turnpike is not in the best interest of the Commonwealth and the millions of people who use it,” Markosek said. “No private entity would be able to raise the funds necessary to repair and sustain our infrastructure without immobilizing toll hikes.”

##bc/2008/cz

I:\print\releases\TurnpikeTuesday.122

To read "For Whom The Road Tolls: An Analysis of Financial and Strategic Alternatives for The Pennsylvania Turnpike" click [here](#)