Testimony of PA Turnpike CEO Mark Compton Before the Pennsylvania Senate's Labor and Industry and Transportation Committees June 15, 2020

Chairs Bartolotta, Tartaglione, Ward, Sabatina and Committee Members,

Good morning and thank you for inviting me to testify on behalf of the Pennsylvania Turnpike Commission (PTC). Over the last three months, the Turnpike Commission, like other businesses and agencies, has experienced a significant financial impact triggered by the COVID-19 pandemic.

The Commission's pre-COVID-19 revenue forecast for FY20 ending May 31 was $1.4 billion. At this point, the Commission has estimated toll revenues to decline by more than $100 million for FY20 alone. From a traffic standpoint, the Commission experienced a cumulative traffic decline of about 46%. To put it into perspective, the last time the Commission experienced comparable traffic volumes for the month of April was in 1985.

Such precipitous declines are unprecedented in the 80-year history of the PA Turnpike. In fact, the only other event that has similarly affected the Turnpike's traffic and revenue was World War II.

Given the drop in traffic, especially commuter traffic, and the revenue reduction, the Commission earlier this month took a major step to offset the losses and improve safety and operational effectiveness moving ahead. We announced that the cashless, All-Electronic Tolling (AET) system — instituted March 16 to minimize the spread of the COVID-19 virus — will become permanent.

There will be no return to cash collections. Customers will move through the lanes at posted speeds without stopping. All tolls will be assessed via E-ZPass, or a PA Turnpike TOLL BY PLATE invoice will be sent in the mail.

The decision results in the layoff of 492 employees, primarily toll collectors and other fare-collection personnel. The personnel action was unanimously approved by Commissioners at a June 2 public meeting. Impacted employees were notified that morning; the contractual layoff process was initiated immediately, and the first employee separations will take place on or after June. 18.

I want to be clear: The Commissioners were loath to make such a decision at a time like this. June 2 was a difficult day for all. The fact is, the world has been forever changed by the pandemic, which has had a greater impact than anyone expected. I join our Commissioners in thanking these hardworking women and men for their service and loyalty. We will continue to assist them during this transition.

The decision to operate AET permanently was driven by the three factors: the impact that the pandemic has had on the Commission's traffic and revenue; the health and safety of customers and employees; and operational challenges in a post-COVID-19 world. Beyond our most recent personnel measure, the Commission has taken other significant actions to offset the impacts of COVID-19. However, these steps were simply not enough:

- The Commission reassessed an already-curtailed 10-year, $5.95 billion capital plan to focus exclusively on mission-critical projects necessary to maintain our 552-mile tollway in its current condition — what is called a "protection-driven" plan. As a result, our FY21 capital budget of $606.7 million was slashed to $459.7 million — a reduction of about 24%. I want to be clear: our roadway is our key asset, and the Commission remains committed to advancing projects that improve or maintain safety and extend the life of that asset.

- The Commission curtailed our use of certain consultants, most notably in the Engineering and Information Technology Departments. Primary design consultants in engineering were cut by approximately 30-40%; and the overall IT consultant reduction was 27%.

- Along with reevaluating capital spending, the Commission continues to review expenses associated with our draft FY21 Operating Budget. Major reductions to the proposed FY21 Operating Budget include instituting a hiring freeze and offering a voluntary-retirement program of which 30 employees have taken advantage. Together, these measures result in a total, combined savings of approximately $30 million compared to our most-recent budget.

- The Commission requested and was granted deferment of our $112.5 million quarterly Act-44 payment that would have been due next month. (Commissioners agreed to make the April 30 payment as we had funds in reserve from a previous bond issue.) The deferment better enables the Turnpike to meet our primary mission of operating the highway system. Deferment of our future Act-44 payments will be considered on a quarterly basis depending upon the evolution of our recovery.

In addition to the measures I mentioned, the Commission has undertaken other cost-controlling activities. It has restructured some outstanding debt for FY21 to lower debt-service costs.

Separately, we recently secured a $200 million line of credit to fund operating expenses if it becomes necessary given the unknown duration of COVID-19; at this time, the hope is that we will not need to draw on the liquidity facility.

TRAFFIC AND REVENUE UPDATE

Here is a week-by-week run down of traffic and revenue numbers.

Date (2020)	Total Vehicle Volume	Volume % Change*	Total Revenue	Revenue % Change*
March 1 to 7	3,831,407	1.4%	$23,640,736	8.0%
March 8 to 14	3,574,673	-10.1%	$22,817,215	-0.7%
March 15 to 21	2,373,564	-40.8%	$17,313,885	-26.0%
March 22 to 28	1,551,352	-61.8%	$12,531,253	-47.3%
March 29 to April 4	1,505,584	-62.8%	$11,886,586	-49.6%
April 5 to April 11	1,494,449	-64.1%	$11,386,468	-52.9%
April 12 to April 18	1,546,596	-62.5%	$11,409,501	-53.0%
April 19 to April 25	1,705,435	-60.9%	$12,138,609	-52.2%
April 26 to May 2	1,848,999	-56.2%	$12,854,358	-47.9%
May 3 to May 9	2,081,707	-51.9%	$13,888,441	-45.0%
May 10 to May 16	2,316,724	-46.3%	$14,896,353	-40.9%
May 17 to May 23	2,470,637	-43.9%	$15,596,648	-40.7%
May 24 to May 30	2,521,080	-38.5%	$14,938,028	-37.8%
May 31 to June 6	2,753,267	-36.8%	$16,662,107	-34.8%
Cumulative	**-45.8%**		**-37.8%**	

*A percentage change comparison to the same week in 2019.

**Revenues are preliminary/unaudited amounts.

Highlights indicate low-water mark.

Wall Street Reaction

On April 2, Fitch Ratings lowered the rating outlook on some Pennsylvania Turnpike bonds to "negative" from "stable" in view of our decline in traffic and revenue. This rating-outlook change alerted the financial community that the Commission's financial condition had deteriorated — and was expected to continue to deteriorate — because of COVID-19.

Depending on the Commission's financial condition, subsequent rating action by Fitch could have resulted in a downgrade of our subordinate revenue bonds. As a result, investors would have demanded a higher return on their Turnpike investment, thus increasing debt-service costs to the Commission.

On June 12, Fitch advised the Commission that it had raised our rating outlook to "stable" from "negative" due to our multi-pronged mitigation efforts undertaken to improve our financial condition because of COVID-19.

Health and Safety
In addition to fiscal challenges, the decision to permanently operate AET was driven by health and safety concerns for employees and customers.

Ceasing cash collections in March to protect employees and customers was the right decision. But we did not know then how severe the impact would be; with the associated dangers, we cannot risk returning to cash collections. AET continues to be the best choice for our customers and this organization's future.

PA Turnpike drivers are now accustomed to traveling through toll plazas without stopping, so reverting to a hybrid cash/electronic system could put customers and employees at higher risk of accident and injury.

Under these circumstances, ongoing cash collections pose other operational obstacles. When a collector tests positive, for example, the interchange must be shut down, leaving gaps in the Turnpike's ticket-and-cash collections system.

If one interchange is closed, the entire ticket system must be shut down. It does not work any other way. We cannot operate under these unpredictable circumstances, and we must look ahead to the fall with a chance this pandemic might return.

Employee Education and Transition
Since 2013, the Commission made employee education and transition planning a priority by providing time, resources and assistance to those affected by the transition to AET.

Employees who would be impacted by this change had the opportunity to learn first-hand about the transition steps and customized tools and resources we made available at more than 50 Cashless Tolling Briefings over the past seven years.

In February 2015, the PTC developed and distributed a guidebook to educate employees on the tools and resources available. The document was updated in 2017 and is available to employees through the Cashless Tolling page on the Intranet, at their work locations and by request.

The Commission also maintains a "transition planning tools" website that houses up-to-date information for employee career planning.

The most popular transition tool is the tuition-reimbursement program. About 130 fare-collection employees have taken advantage of tuition reimbursement to build skills for use in careers inside and outside the PTC.

Some 62 employees received CDL licenses under this program. Nine employees are still in the process of completing CDL training. Employees received other training as varied as casino dealers' school, interior design, computer skills courses and notary licensing.

The expanded tuition reimbursement includes up to $5,250 per year, specifically for affected employees to offer:

- advanced payment of up to 50 percent for tuition, registration and books with the balance reimbursed upon completion with a “C” grade or higher;
- more eligible courses (i.e., courses considered a “core” need for the Commission, a PA state agency or the private sector); and
- elimination of the one-year requirement of Commission service following completion of a course.

As a result of completing required CDL training under the tuition reimbursement program, many impacted employees transitioned from toll collection to other departments. In fact, over the years, the PTC has seen approximately 150 fare-collection employees transition into other Commission positions.

Earlier this year, the PTC initiated a process enabling impacted employees to apply for internal job postings with the Commonwealth. We are currently under discussion to get priority placements into Commonwealth vacancies for Commission employees who are to be laid off.

New Transition Measures

By opening unfilled positions in Central Office, we were able to reduce the number of laid off workers in the Central Office bargaining unit. We anticipate being able to do the same in the field for employees in those bargaining units.

The Commonwealth last week started virtual information sessions for impacted employees, with details of Commonwealth jobs and how to apply as a Turnpike employee. We are also working with the Department of Labor and Industry on presentations for employees on unemployment information and other employment opportunities.

At tomorrow’s public meeting, Commissioners are expected to approve an MOU resulting in an improved severance package (union leadership signed the agreement last week). Elements of the package include:

- removing a previous cap on how many years of service an employee is compensated for so they will receive a severance of $700 per year of service;

- extending lifetime healthcare benefit so that those who would have been eligible on the previously anticipated layoff date still receive that benefit; and

- extending the tuition reimbursement program through the two-year layoff period in addition to the two years of contractual benefits.

Background

The PA Turnpike first explored AET options in a 2011 feasibility study. In 2013, conversion planning, design and employee engagement began in earnest. A series of pilot projects were implemented for testing and evaluation at:

- the Delaware River Bridge in 2016;
- the Beaver Valley Expressway in 2017;
- toll plazas on the upper Northeastern Extension and the Southern Beltway in 2018; and
- the Greensburg Bypass and Gateway Toll Plaza in 2019.

In mid-March, we made the decision to stop accepting cash in the lanes to protect employees and customers from COVID-19. It was intended to be a temporary condition. However, this decision to accelerate makes sense when faced with this extended pandemic.

Thank you again for considering my testimony. I would be happy to answer your questions.

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