

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE HEARING
BUDGET HEARING

STATE CAPITOL
MAJORITY CAUCUS ROOM
HARRISBURG, PENNSYLVANIA

MONDAY, MARCH 3, 2008, 10:10 A.M.

VOLUME II OF V

PRESENTATION ON TURNPIKE COMMISSION

BEFORE:

HONORABLE DWIGHT EVANS, CHAIRMAN
HONORABLE MARIO J. CIVERA, JR., CHAIRMAN
HONORABLE STEPHEN E. BARRAR
HONORABLE CRAIG A. DALLY
HONORABLE GORDON R. DENLINGER
HONORABLE BRIAN ELLIS
HONORABLE DAN B. FRANKEL
HONORABLE JOHN T. GALLOWAY
HONORABLE WILLIAM F. KELLER
HONORABLE THADDEUS KIRKLAND
HONORABLE BRYAN R. LENTZ
HONORABLE TIM MAHONEY
HONORABLE KATHY M. MANDERINO
HONORABLE MICHAEL P. MCGEEHAN
HONORABLE FRED McILHATTAN
HONORABLE DAVID R. MILLARD
HONORABLE RON MILLER
HONORABLE JOHN MYERS
HONORABLE CHERELLE PARKER
HONORABLE SCOTT A. PETRI

1 BEFORE: (cont.'d)
2 HONORABLE SEAN M. RAMALEY
3 HONORABLE DAVE REED
4 HONORABLE DOUGLAS G. REICHLEY
5 HONORABLE DANTE SANTONI, JR.
6 HONORABLE MARIO M. SCAVELLO
7 HONORABLE JOHN SIPTROTH
8 HONORABLE MATTHEW SMITH
9 HONORABLE KATIE TRUE
10 HONORABLE GREGORY S. VITALI
11 HONORABLE DON WALKO
12 HONORABLE JAKE WHEATLEY, JR.

13
14 ALSO PRESENT:
15 MIRIAM FOX
16 EDWARD NOLAN

17
18
19
20
21
22
23
24
25
DEBRA B. MILLER
REPORTER

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X
TESTIFIERS

NAMES	PAGE
JOSEPH G. BRIMMEIER	5
TIMOTHY J. CARSON	7
DAVID W. SELTZER	29
CHRISTOPHER McNICHOL	73
FRANK J. KEMPF, JR.	74

1 CHAIRMAN EVANS: I would like to reconvene
2 the House Appropriations Committee.

3 This is a joint effort with the
4 Transportation Committee. Representative Joe
5 Markosek is the Chairman, Representative Rick Geist
6 is the Republican Chairman, and they are both
7 here.

8 I want to thank the Turnpike Commission for
9 coming with such short notice. I greatly appreciate
10 it.

11 The reason we felt you needed to come before
12 us, there were a lot of questions being raised by the
13 members of this committee -- obviously, you know, on
14 the tolling issue, obviously some other kinds of
15 things that have been suggested -- and we felt it
16 would be better to talk directly to the Turnpike
17 Commission. So that is why I greatly appreciate you
18 coming.

19 So what I would like to do is have you
20 introduce yourselves for the purpose of the record
21 -- I want you to introduce yourselves -- and then the
22 members are going to go directly to the questions
23 rather than any kind of testimony.

24 So if you would introduce yourselves for the
25 record.

1 MR. BRIMMEIER: Okay. Thank you, Mr.
2 Chairman.

3 I am Joe Brimmeier, CEO of the Pennsylvania
4 Turnpike. This is Bill Lincoln, Commissioner with
5 the Turnpike Commission; Tim Carson, Commissioner
6 with the Turnpike Commission; and our Chief Engineer,
7 Frank Kempf.

8 CHAIRMAN EVANS: Joe, I don't have to tell
9 you that you have been hearing a lot of discussions,
10 obviously we passed Act 44 -- you didn't pass it, but
11 we passed it. That's a policy that we felt was in
12 the best interests, and then you hear a lot relating
13 to the question about I-80.

14 I have seen some of the correspondence that
15 you have sent and some of the responses. Can you
16 give us somewhat of a status on the issue of what is
17 taking place with I-80 at this particular point?

18 MR. BRIMMEIER: Yes, Mr. Chairman.

19 We have submitted, it is basically a
20 three-phase process. You submit what they call a
21 letter of intent that you want to convert an existing
22 interstate to a toll road. You then file a phase 1
23 application and apply for, in our particular case,
24 one of the three slots that we applied for was the
25 reconstruction and rehabilitation pilot program.

1 There are three of them that exist. Two of
2 the slots have been applied for, and we are applying
3 for the third slot. That is part of phase 1.

4 If the Federal Highway Administration
5 approves our phase 1 application, we will move on to
6 phase 2, which is a more formalized process than
7 obviously phase 1.

8 Where we are right now is we have submitted
9 the phase 1 application. The Federal Highway
10 Administration has come back to us with questions for
11 a request for additional information regarding our
12 phase 1 application.

13 We are in the process of gathering the
14 information to answer those questions. But, Mr.
15 Chairman, I have to tell you that this is going to be
16 a lengthy process.

17 Some of the administrators at the Federal
18 Highway Administration have conveyed to me
19 particularly that, you know, this is also a learning
20 process for the Federal Highway Administration, as it
21 is for us at the Pennsylvania Turnpike Commission.
22 Neither one of us has ever done this before.

23 We are the first State, even though there
24 are two other applicants, and we do understand
25 unofficially that Virginia is one of the other two

1 and they will be withdrawing their application, so
2 there might only be two left at some point in the
3 near future.

4 But, however, it is going to be a lengthy
5 process, and we expect to participate in that process
6 with all of the information that we can provide. It
7 will be a very scrutinized process. It will also be,
8 as everything we have done to date since the passage
9 of Act 44, it will be an open process.

10 The questions, the answers, the
11 applications, everything is on our Web site, Mr.
12 Chairman.

13 MR. CARSON: If I could just add, Mr.
14 Chairman, the financial model which underlies Act 44
15 allowed for a full 3 years to get the Federal Highway
16 Administration approval and begin tolling. So it has
17 always been envisioned that this would be a lengthy
18 process.

19 CHAIRMAN EVANS: I know this is really a
20 speculative question, and I know you said that there
21 were potentially two other applicants -- Virginia
22 withdrew.

23 My understanding is, this tolling idea is in
24 Federal law. Do you have any general sense of
25 optimism in terms of it being implemented?

1 MR. BRIMMEIER: Well, yes. We are very
2 optimistic. I mean, this is an undertaking that if
3 we weren't optimistic, shame on us.

4 CHAIRMAN EVANS: Right.

5 MR. BRIMMEIER: We intend to meet all of the
6 requirements of the Federal law and regulations in
7 order to get approval, and that is again why, Mr.
8 Chairman, it is going to take some time to exchange
9 these bits of information.

10 CHAIRMAN EVANS: As I said earlier, this is
11 a joint committee meeting. The Chairman of the
12 Transportation Committee, Representative Chairman
13 Joe Markosek.

14 REPRESENTATIVE MARKOSEK: Thank you, Mr.
15 Chairman.

16 First of all, let me just say as a longtime
17 customer of the turnpike, living in the Pittsburgh
18 area and traveling down here back and forth for going
19 on 26 years now, the turnpike has never been in
20 better shape, at least between here and Pittsburgh,
21 in those 26 years.

22 So I want to congratulate you for that. You
23 have done a lot of work in rebuilding it, widening
24 it, making it safer. It is just that I know you have
25 spent a lot of money to do that. It needed done.

1 You took the bull by the horns.

2 And I think the other areas of the turnpike
3 are just as improved. I know we have a new bridge
4 going up over the Allegheny River, we just built a
5 new bridge over the Susquehanna River, and I want to
6 just say that I think the turnpike has had a lot of
7 positives. And your services are great -- the snow
8 removal -- and I just wanted to bring that up
9 publicly.

10 I do have one question, and I think perhaps
11 Mr. Carson would be able to answer it. It is
12 relative to how you raise your money, through
13 bonding, as we all know, and being a public entity,
14 how is that different from the private entities that
15 you see out there?

16 For example, there are some other States
17 that have privatized their similar highways, their
18 turnpikes. What is the difference in what you can
19 raise and at what cost based on the fact that you are
20 a public entity versus a private entity?

21 MR. CARSON: Mr. Chairman, I will answer
22 this as Vice Chairman of the commission, but I will
23 also answer it with the benefit of 30 years of
24 experience as a public finance lawyer working with
25 many of the investment banking houses and global

1 banks along the way that have interest in
2 privatization efforts.

3 There is a significant difference and a
4 difference which finds itself evident as you compare
5 privatization efforts in the United States versus
6 privatization efforts in other countries. And I try
7 not to be technical about this, but it has to do with
8 the cost of capital.

9 In the United States, it is the only country
10 that I'm aware of where both the Federal and State
11 governments in essence subsidize the borrowing cost
12 of public entities by permitting them to issue
13 municipal bonds or tax-exempt bonds. It means that
14 much cheaper financing is available to public
15 entities.

16 As you bring this over into the
17 privatization debate, what you find is that the cost,
18 the financing cost, of a public entity monetizing --
19 as we are discussing in this public policy debate --
20 is much lower for the public entity than it would be
21 for any private entity that would be coming in.

22 The private entity would use taxable debt, a
23 mixture of taxable debt and even more expensive
24 equity. So the weighted cost of capital for the
25 private entities is much higher.

1 This has a direct bearing on a monetization
2 transaction, as is being discussed these days, in
3 that you either, it is an arithmetic reality that you
4 are either able to raise more money up front in terms
5 of monetizing proceeds or you are able to pass on
6 lower toll increases or some combination of the two
7 if you are doing it as a public entity as opposed to
8 a private entity.

9 That is one of the underlying tenets to
10 Act 44, is that recognition that in fact a
11 public-public partnership is a more cost-efficient
12 way of doing the monetization.

13 REPRESENTATIVE MARKOSEK: Okay.

14 Thank you very much, Mr. Chairman.

15 REPRESENTATIVE KELLER: The minority
16 Chairman of the Transportation Committee,
17 Representative Rick Geist, please.

18 REPRESENTATIVE GEIST: Thank you very much,
19 Mr. Chairman.

20 I have a bunch of questions, but I don't
21 want to cover a bunch of old ground.

22 I have very, very deep concerns about the
23 financial limits that the Turnpike can bear while you
24 await the tolling of 80, and under the public-public
25 partnership of Act 44, the Pennsylvania Turnpike

1 Commission has already borrowed a total of
2 \$532 million.

3 In order to make the final \$229 million
4 payment on the \$750 million due, PENNDOT, for the
5 fiscal year that ends June 30 and in order to start
6 making the \$800 million in payments for the next
7 year, we understand that the Pennsylvania Turnpike
8 Commission anticipates borrowing another \$450 million
9 by May.

10 How will all this borrowing impact the
11 Pennsylvania Turnpike Commission's annual debt
12 service payments, and where is the income stream to
13 support this borrowing while we wait for I-80
14 tolling?

15 And the reason I ask that is because in
16 public statements that have been made by officers of
17 the Turnpike, they allude to the fact that there is a
18 3-percent cap in Act 44, and nowhere can our staff
19 find that cap anywhere, and I think that this
20 question is very legitimate.

21 We had asked this of Citicorp when they were
22 in our offices for the briefing and really have a big
23 concern as to what point and how far out you go
24 before you implode, and I think that question needs
25 to be answered.

1 MR. CARSON: To the extent that 3 percent
2 has been used, Representative, you are correct.

3 It is not a cap; it is the toll increase
4 after the initial 25 percent that was always
5 envisioned to help with our reconstruction program
6 and so forth. But 3 percent is the toll increase
7 escalation factor that has been used for all our
8 financial models.

9 The borrowings that you are talking about
10 will be sustained with those 3-percent increases, and
11 our financial model is based upon that so that they
12 can be accommodated.

13 It was always envisioned that the front end,
14 if you will, of the 50-year lease, which is the
15 bedrock of Act 44, the lease that will produce
16 literally, under the terms of the lease, \$83.6
17 billion, an average of almost \$1.7 billion a year
18 over that 50-year period. But the bedrock of that is
19 that financial model, which has and provides for the
20 3-percent increase.

21 REPRESENTATIVE GEIST: The question is --
22 let's make it simpler. At what financial point of
23 borrowing do we get D-rated and at what point do we
24 implode? What would that number be? How much debt
25 can you carry?

1 MR. CARSON: I'm not sure that I have an
2 answer to that. We have some financial people in the
3 audience.

4 But again, the financial model envisions a
5 3-year process on the I-80 and the revenues coming in
6 there. Again, the 3-percent increase after the
7 initial 25 would apply both to the I-80 corridor and
8 to the main line.

9 REPRESENTATIVE GEIST: My concern there is
10 that if this does happen, then we in the General
11 Assembly have to turn to traditional methods of
12 raising that money, which whether it be car
13 registrations or at the pump or whatever, to generate
14 the moneys to make up that difference.

15 MR. CARSON: Well, one of the other
16 alternatives -- and I don't want to in any way be
17 presumptuous in terms of what the General Assembly
18 might do -- but it would be if I-80 were turned down
19 and so forth, the lease now provides for an annual
20 payment of \$450 million.

21 The delta, if you will, between that number
22 and what is now provided for in the lease, it would
23 be possible, again, with more substantial toll
24 increases, that that be picked up by the existing
25 turnpike system.

1 That would be what would happen in the event
2 of a privatization without I-80, for example. You
3 would have the existing turnpike picking up the
4 entire tab, if you will. That would be another
5 alternative, as well as considering some of the
6 revenue enhancements in the way of be they gas tax,
7 be they registration fees, be they other taxes or
8 other charges.

9 REPRESENTATIVE GEIST: Thank you.

10 I want to thank you very much for coming in.
11 I think that this is very much needed. Last week was
12 an exercise in knowing nothing, and so it is a good
13 idea to get you here.

14 And all I want to know is, who's on first?
15 Thank you.

16 MR. CARSON: I'm not sure I have an answer
17 to that one.

18 REPRESENTATIVE KELLER: Representative Dante
19 Santoni, please.

20 REPRESENTATIVE SANTONI: Thank you, Mr.
21 Chairman, and good morning, gentlemen.

22 MR. BRIMMEIER: Good morning.

23 MR. CARSON: Good morning.

24 REPRESENTATIVE SANTONI: First of all, I
25 want to thank you, I also happen to sit on the House

1 Transportation Committee, and we have worked with you
2 on many different things. I just want to thank you
3 for the communication that you provide us, the
4 information that you provide us through our Chairman,
5 Mr. Markosek. So the first thing I want to say is
6 thank you for that.

7 And just to follow up on a couple of points.
8 I know you are going to hear about the I-80. I'm
9 sure that's going to come up all morning long, along
10 with some of the other information on the turnpike.

11 Chairman Geist talked about the payment that
12 the turnpike has to make to PENNDOT. Could you
13 briefly tell us how that works? I mean, where are we
14 now, how many payments have you made, and what is the
15 schedule on that?

16 MR. BRIMMEIER: Yes, sir.

17 REPRESENTATIVE SANTONI: Could you just
18 update me on that.

19 MR. BRIMMEIER: To date, we have paid
20 \$520 million. In April, we will make another payment
21 of \$230 million, which brings the first year's
22 payment to the \$750 million.

23 We are then obligated in '08 to make a
24 payment of \$850 million, and then '09, \$900 million.
25 And then it gradually progresses every year

1 thereafter for the next, well, 47 years until we get
2 to a point, a net of about \$84 billion over the
3 50-year lease with PENNDOT.

4 REPRESENTATIVE SANTONI: Thank you.

5 And the other question, I mean, I think
6 Act 44 under the leadership of Chairman Markosek, was
7 a historic piece of legislation.

8 I know that you can't always get everything
9 you want in a bill, and I'm sure that if you asked
10 the members of the General Assembly, they would have
11 liked something a little bit different here and
12 there. But I think Act 44 is a great bill and
13 something that other States are going to look at.
14 And I understand other States are looking at it
15 currently, New Jersey for one and Texas for another.

16 My concern, and I asked PENNDOT this about
17 the I-80 tolling procedure and what we need to do
18 with the Feds and the chances of rejection and all
19 that, and I know it is difficult to give a percentage
20 prediction on what you think the chances are. But
21 you indicated in your opening remarks upon
22 questioning from Chairman Evans about, this is
23 competitive, and you mentioned that it is a
24 competitive process. There is one open slot left
25 with regard to the tolling.

1 My question, I guess, is, the criteria that
2 is used in approval from the Feds on these kinds of
3 programs, does that match what we are doing versus
4 what the other contestants of that are doing?

5 I mean, I'm worried about us getting
6 rejected, and I just think that Act 44 is such a good
7 piece of legislation and this tolling is such an
8 integral part. The criteria used, that the Feds used
9 to approve this, where do we stand with that and
10 maybe give us an idea of what some of those are.

11 MR. BRIMMEIER: Well, first, Representative,
12 you are exactly right, that the Act 44 public-public
13 partnership is a model and a historic model for
14 Pennsylvania that is starting to be used by other
15 States.

16 And you are right about Texas. Texas
17 actually had a public-private partnership about to be
18 implemented and then pulled it back, and they now are
19 doing what we are doing with a public-public
20 partnership.

21 So you are right about that. It is a
22 historic landmark piece of legislation. Again, not
23 perfect, but headed in the right direction.

24 To answer your question, I don't think you
25 have to be worried. I mean, we are all concerned

1 that our application has the potential of being
2 rejected. But again, we are going into this process
3 with a lot of confidence that we have assembled a
4 tremendous team that is putting this application
5 together.

6 We believe that as we continue down this
7 road with the Federal Highway Administration, that we
8 will meet all of the requirements of the law.

9 In fact, because we are the third applicant
10 for the third slot, our phase 1 application is going
11 to be in much greater detail than the other two
12 applicants' original phase 1 applications for the
13 mere fact that because of the Act 44 passage, we are
14 the first State that actually has the legislative
15 process completed for converting an existing
16 interstate to a toll road.

17 One of the things that the present Federal
18 Administration and the Federal Highway Administration
19 is encouraging States to do is to find other
20 alternatives for the funding of the reconstruction
21 and rehabilitation of interstates, because, I think
22 as most of you on the Transportation Committee know,
23 in 2009, the Federal Transportation Trust Fund dries
24 up. So there has to be a way to fund the
25 reconstruction and rehabilitation of the interstates,

1 and Act 44 certainly is a great piece of legislation
2 leading toward that.

3 MR. CARSON: Yeah; we are very confident
4 that we will satisfy the statutory requirements of
5 the pilot program that we are applying for.

6 We are not politically naive, however.
7 There are not only legal/statutory requirements at
8 work here; there is a political calculus in
9 Washington that we are not oblivious to, and we have
10 an ongoing public policy debate in Washington.

11 We have folks that would like to privatize
12 everything, and we have folks, including the U.S. DOT
13 Secretary who is very strong on privatization, and on
14 the other side we have folks like the Chairman of the
15 House Transportation and Infrastructure Committee,
16 Chairman Oberstar, who would not really look toward
17 using P3s at all.

18 So there is quite a difference in terms of
19 facing up to what I have always referred to as the
20 pink elephant in the living room of the Federal
21 Highway Administration, and that is the literally
22 trillions of dollars that will be required to
23 reconstruct the entire Federal interstate highway
24 system. And at this point, all we have to look to is
25 a soon-to-be-bankrupt Highway Trust Fund.

1 It's a real crisis, and Pennsylvania has
2 taken a bold, innovative step, which is a little bit
3 in the middle between the privatization/tolling
4 concepts and the concept of keeping public control,
5 and we are confident that it will be used as a model
6 elsewhere.

7 So, General Assembly, take some credit for
8 that.

9 REPRESENTATIVE SANTONI: Thank you very
10 much.

11 Thank you, Mr. Chairman.

12 REPRESENTATIVE KELLER: Thank you.

13 In my limited experience in Washington, I
14 think it is very important what you are doing, coming
15 here and having all the questions answered, because
16 although they are in chaos down there, when you come
17 and ask them for something, they need you to have all
18 your ducks in a row and they don't like to see what
19 they conceive as chaos in what we are doing, and I
20 think by answering these questions and getting
21 everything out front, we will then show that we have
22 this act together.

23 Act 44 is a star piece of legislation, and
24 that is just a perception. So we thank you for
25 coming here, and I think this will go a long way in

1 dispelling a lot of the rumors and innuendo that is
2 going on.

3 MR. CARSON: We are always available for
4 this committee and for other committees of the
5 Legislature.

6 REPRESENTATIVE KELLER: Representative Fred
7 McIlhattan.

8 REPRESENTATIVE McILHATTAN: Thank you, Mr.
9 Chairman.

10 I would like to take and divide my questions
11 into two areas. First I would like to talk a little
12 bit about the operation of the commission, and then I
13 would like to talk a little bit about Act 44 and I-80
14 and how that impacts where I come from and what your
15 thoughts are on that.

16 Mr. Brimmeier, just for my recollection, how
17 are you structured? I mean, who runs the Turnpike
18 Commission? Are the four or five or six
19 Commissioners? I mean, real briefly; I'm just trying
20 to get the structure in my mind.

21 MR. BRIMMEIER: Well, there are five
22 Commissioners: two from the Republican Party and two
23 from the Democratic Party, and the Secretary of
24 Transportation, who sits as the fifth Commissioner.

25 REPRESENTATIVE McILHATTAN: Okay.

1 The members of this commission, are they
2 paid members or are they ad hoc members? How do they
3 operate?

4 MR. BRIMMEIER: Yes; they are paid members.

5 REPRESENTATIVE McILHATTAN: What are they
6 paid?

7 MR. BRIMMEIER: I believe it is \$26,000 a
8 year?

9 REPRESENTATIVE McILHATTAN: Okay; \$26,000.

10 MR. BRIMMEIER: That's about a dime an hour
11 that they devote to this.

12 REPRESENTATIVE McILHATTAN: I didn't mean
13 that---

14 MR. CARSON: It's a little less than that.
15 I think it is about 4 1/2 cents.

16 REPRESENTATIVE McILHATTAN: I guess the
17 reason I'm asking that question is last week we had a
18 member, one of those five before us here, and that
19 person wasn't really able to answer the questions we
20 asked, and it sort of confused me a little bit to
21 think, well, is the tail wagging the dog here or what
22 is going on? Because you would think everybody
23 involved, these top guys, would know what was going
24 on and be able to answer questions.

25 So that's the reason I asked that. I found

1 that a little bit confusing, okay?

2 MR. BRIMMEIER: Yes.

3 REPRESENTATIVE McILHATTAN: And that just
4 puzzled me.

5 Labor agreements. Have you just signed a
6 labor agreement, and how long is that? Is that a
7 normal type of agreement you usually sign?

8 MR. BRIMMEIER: Yes. We just recently came
9 to an agreement with the Teamsters. That is the
10 union that represents our unionized employees, and we
11 have a 4-year agreement with our union.

12 REPRESENTATIVE McILHATTAN: Is that
13 historically 4-year agreements? Is that what you
14 usually have? I'm just asking.

15 MR. BRIMMEIER: Well, they have been 3 years
16 in the past. This year we felt that a 4-year
17 agreement worked out better for us, and so that is
18 why we entered into a 4-year agreement.

19 REPRESENTATIVE McILHATTAN: Okay.

20 Let's move into Act 44 a little bit, and I
21 have some questions I want to deal with you on that.

22 And to be candid with everyone here, I have
23 a county that I represent -- it's my home county --
24 that has six exits on Interstate 80. So I certainly
25 have an interest and I certainly have a bias maybe on

1 where I stand. We are really concerned about the
2 economic impact of that whole system, and I can tell
3 you that it is going to have a devastating impact
4 upon Clarion County that I represent and I think also
5 across the whole corridor. I have met with my
6 stakeholders, the folks involved, and they tell me
7 this is going to impact them terribly economically.

8 I just had a letter just last week from a
9 group that built a high-tech park on Interstate 80,
10 just finished it up -- \$12 million invested between
11 the Feds and the States and their own \$4 or
12 \$5 million out of their own pocket -- and their
13 letter to me was, Fred, since Interstate 80 was
14 announced that it might be tolled, all the interest
15 has dried up; everybody is on hold, and they are
16 going to wait and see, and if 80 is tolled, nobody is
17 going to come, and I think that's just one example of
18 the impact that is going to have negatively on the
19 economy of the I-80 corridor areas.

20 But let's take a look a little bit about the
21 application of a few of those things, Mr. Brimmeier,
22 and the one thing that always bothered me, and I will
23 be candid with you, that I know in your expression of
24 interest -- you and I have been through this before,
25 I think -- one of the questions was whether or not

1 there were public meetings held concerning the
2 tolling of Interstate 80, and the response that you
3 folks gave, gentlemen sitting there, during the
4 spring of 2007, a number of hearings were held by the
5 State Senate and the State House Transportation and
6 Appropriations Committees to review the proposal to
7 convert I-80 to toll. And gentlemen, I just can't
8 buy that.

9 I know -- I checked with Rick Geist. The
10 Transportation Committee didn't have any hearings.
11 There was one hearing held in the Senate more or less
12 about the turnpike modernization. There weren't any
13 meetings that I know of in my district or along the
14 corridor.

15 Now, am I missing something, or are we being
16 disingenuous in your answer to that answer? I mean,
17 I think that is important here.

18 MR. BRIMMEIER: Well, Representative, there
19 were, to the best of my knowledge, three hearings
20 held: a Senate Transportation hearing, a Senate
21 Policy hearing---

22 REPRESENTATIVE McILHATTAN: On Interstate
23 80?

24 MR. BRIMMEIER: Yeah, on Act 44, which
25 obviously was part of Interstate 80.

1 REPRESENTATIVE McILHATTAN: Okay.

2 MR. BRIMMEIER: And the House Appropriations
3 Committee, I believe, was held, a subcommittee was
4 held.

5 We have had numerous, since Act 44 was
6 passed, we have had 10 public hearings along the I-80
7 corridor to get public input -- the impact that it
8 may have on the residents of I-80, the businesses of
9 I-80. Our process, again, has been a completely open
10 process where all of these meetings, the minutes from
11 these meetings, have been placed on our Web site.

12 We have filed with the committees a
13 quarterly report, two of them now about the progress
14 that we are making since Act 44 became law, and
15 obviously we have had numerous exchanges of
16 information with the Transportation Committees, both
17 in the House and the Senate.

18 MR. CARSON: And Representative, if I
19 might add, we are here today. We have to wait for
20 an invitation to come before legislative
21 committees---

22 REPRESENTATIVE McILHATTAN: I know that.

23 MR. CARSON: ---so that we want you to know
24 that any invitation that is extended to us will be
25 accepted and we will be there.

1 REPRESENTATIVE McILHATTAN: Okay. I guess
2 the point that I would raise in turn is that
3 basically after the damage is done, you went out and
4 had the hearings. I think the argument would have
5 been that if we had had those intense hearings before
6 Act 44 was considered, we might have ended up with a
7 totally different situation, but that is my point.

8 The Federal Highway has the Corridors of the
9 Future program. Now, there has been criticism of
10 why, if Interstate 80 is in such bad shape and we
11 really wanted to toll that, there was a tailor-made
12 program from the Federal Highway Administration which
13 was the Corridors of the Future, and we didn't apply
14 for that, because we would have to use all of our
15 money on Interstate 80, so it is an idea that maybe
16 because--- Why didn't you apply for that? Let's ask
17 that question. Why didn't you apply for Corridors of
18 the Future?

19 MR. BRIMMEIER: I can't really answer that,
20 Representative. We applied for the third pilot
21 program under the reconstruction and rehabilitation.

22 If there is anybody here that can answer
23 that---

24 REPRESENTATIVE McILHATTAN: Because that is
25 tailor made. If you just want to toll Interstate 80

1 and you want to keep those tolls for Interstate 80
2 only and not to use it for other things, which you
3 guys are basically telling me that is what you are
4 doing with that money, that's the way to go, and you
5 didn't go that, so I'm assuming that you have a plan
6 to use this money elsewhere than Interstate 80.

7 MR. CARSON: Again, Representative, I know
8 that the approved applicant for that had to have been
9 PENNDOT as opposed to the Turnpike Commission. I
10 don't know that that's a complete explanation.

11 And I might turn to either Frank or we have
12 our Federal Highway Transportation Policy Advisor in
13 the back here. David, is there anything you can add
14 to that?

15 This is David Seltzer from Mercator
16 Advisors. David is very modest, but among the
17 positions he has held along the way here was being
18 head of Innovative Finance at the Federal Highway
19 Administration and the U.S. DOT, so he is our
20 resident professional advisor with respect to Federal
21 highway programs.

22 MR. SELTZER: Yes, Representative. Only
23 State Transportation Departments were, I believe,
24 authorized to respond to that particular corridors
25 program.

1 The interstate reconstruction program,
2 though, was available through joint application by
3 PENNDOT and the Turnpike Commission, and that is the
4 program that the Federal government directed our two
5 organizations to when we asked them which existing
6 Federal program was the best fit for the proposed
7 I-80 reconstruction.

8 REPRESENTATIVE McILHATTAN: Okay.

9 And the reply back to you, after you
10 submitted your proposal and then they got back to
11 you, Joe, they mentioned that you needed to identify
12 the improvements you wanted to make on Interstate 80
13 and the schedule of those improvements and how you
14 were going to finance those.

15 Have we identified that? Done that yet? Is
16 that complete?

17 MR. BRIMMEIER: We are in the process,
18 Representative, of doing that right now, and as soon
19 as we have that type of information, you will have it
20 as well as everybody else on the various committees.

21 REPRESENTATIVE McILHATTAN: Okay.

22 We hear that the toll fees on the interstate
23 and the turnpike, we get this 25 percent and this
24 3 percent-3 percent type of thing.

25 You guys are the experts on Act 44. Is

1 there a cap on tolls in Act 44?

2 MR. CARSON: No. There is no statutory---

3 REPRESENTATIVE McILHATTAN: There are no
4 statutory caps. Is that correct or not correct? I'm
5 trying to get this straight.

6 MR. CARSON: That is correct,
7 Representative, if all the financial models are done
8 at the 3-percent level. But it is not a cap; that is
9 correct. And to the extent anybody may have misspoke
10 along the way or is being perceived to have
11 misspoken, it is not a cap under the statute, but it
12 is in fact what all the financial models are based
13 on.

14 REPRESENTATIVE McILHATTAN: Okay. And one
15 final question, then I will move on, seeing that a
16 lot of folks have questions.

17 The move to the public-private partnership,
18 and everyone knows that is where we lease out the
19 turnpike to a private organization. They would pay
20 an upfront balloon payment, we would put that money
21 in the bank, and we would take the interest off that,
22 which could be somewhere between \$1 and \$2 billion,
23 and we would have enough money to fund the
24 transportation program.

25 Now, the Turnpike Commission has been out

1 there with advertisements and things on the radio
2 against this proposal. I guess my question to you
3 is, why are you working so hard to poison that well,
4 I guess, in simple terms.

5 MR. BRIMMEIER: Well, Representative, I
6 don't believe that our advertisements are out there
7 trying to poison that well. Of course some people
8 interpret it that way.

9 You know, first of all, July 17 of '07, when
10 the Governor passed Act 44, changed the whole
11 complexion and the mission of the Turnpike. We were
12 an agency that we collected our tolls and we put our
13 money back into the roads. We have now become an
14 agency very similar to the Lottery, very similar to
15 the Liquor Control Board, where we are now
16 responsible for funding a program, particularly
17 obviously roads, bridges, and mass transit, other
18 than taking care of the turnpike.

19 So we have an obligation to, one, make sure
20 that we keep our present customers, and two, make
21 sure we expand our customer base.

22 Now, we have been running ads, and I know
23 this is a touchy subject with some members, but I
24 will explain.

25 Starting about 3 years ago, we had a problem

1 that I recognized, that our E-ZPass sales, the
2 transponders that we sell---

3 REPRESENTATIVE McILHATTAN: Yes.

4 MR. BRIMMEIER: ---stayed stagnant for about
5 a year, particularly in western Pennsylvania, here in
6 central Pennsylvania, and the Northeast Extension.

7 We then put together a program, going back 3
8 years, of advertising, and we spend roughly \$300,000
9 a year compared to the Florida Turnpike that is
10 similar in size to us. They spend \$4 million a year.

11 Now, having said that, 3 years ago we had,
12 in just the 412 area code and the 724 area code out
13 in the west, and I will use that as an example,
14 25,000 transponders, people that had transponders.

15 Because of our advertising program, we now
16 have 100,000 customers in those two area codes, and
17 that is just one example. So our advertising program
18 has been very successful in what we set out to
19 accomplish.

20 MR. CARSON: Representative, I'm going to
21 give you a little bit, if you don't mind, of a
22 personal view of this.

23 REPRESENTATIVE McILHATTAN: Certainly.

24 MR. CARSON: As I said, this is not my day
25 job. I spent 30 years as a public finance lawyer.

1 I guess as I sit as Vice Chairman here, I
2 look at a duty that I have to, I believe, act in the
3 best interests of the citizens of Pennsylvania, both
4 current citizens and future -- very importantly,
5 future -- generations of Pennsylvanians, which is
6 what we are talking about, whether we are talking
7 about the Act 44 50-year lease or a potential 75- or
8 99-year concession agreement.

9 But in addition to that, we are also
10 entrusted as stewards of a very, very valuable,
11 important -- it is a Pennsylvania icon -- the
12 Pennsylvania Turnpike Commission. There is no more,
13 perhaps arguably, no more valuable transportation
14 asset in the Commonwealth.

15 And we act as stewards, not totally
16 independent. We look to legislative guidance through
17 statutes, be it our original enabling statute or
18 Act 61, which added a number of projects that we were
19 supposed to do, or Act 44. So we look to the
20 Legislature for guidance in that regard.

21 But I think after 68 years of operating the
22 Turnpike, I feel that we have earned the right to
23 participate in this public policy debate that is
24 going on here in Pennsylvania and elsewhere, and I
25 believe that we have not only the right but a

1 fiduciary duty to be a player in that debate.

2 So again, that's a personal view that I
3 have, and again, I welcome any of these types of
4 dialogues, because I think informing the Legislature
5 and the public about this is very important.

6 REPRESENTATIVE McILHATTAN: One final
7 question, if I can.

8 The public-private partnership, there will
9 be teams submitting bids to the Governor for
10 consideration. Are you cooperating with any team
11 that is submitting the bids, that bid?

12 MR. CARSON: No.

13 MR. BRIMMEIER: Yes.

14 We are not--- I'm sorry.

15 REPRESENTATIVE McILHATTAN: Well, that's not
16 an answer I understand.

17 MR. CARSON: Let me--- We are
18 cooperating---

19 REPRESENTATIVE McILHATTAN: Who is running
20 this place? That's always been my question, and here
21 we go again.

22 MR. CARSON: Let me make sure. We are not
23 on any team in terms of cooperating like that. We
24 are cooperating with all the teams and the Governor's
25 Office.

1 REPRESENTATIVE McILHATTAN: Joe, you wanted
2 to make a comment.

3 MR. BRIMMEIER: Yeah. We are cooperating
4 with Secretary Biehler and the URS, the firm that
5 they have coordinating this.

6 We have compiled every request. They have
7 been on our roads for months doing traffic studies,
8 inspecting bridges, looking at our facilities. And
9 quite frankly, you know, I can give you copies of all
10 that in the chronological order of things that, quite
11 frankly, we have met, and this is just a small
12 segment of it.

13 REPRESENTATIVE McILHATTAN: Well, what you
14 are basically saying is, you cooperate with any team
15 that has any questions. You are not favoring one or
16 the other. You are not involved in one team or the
17 other. Is that correct?

18 MR. BRIMMEIER: No. That is correct.

19 MR. CARSON: That is correct, and that is
20 how I originally interpreted your question.

21 REPRESENTATIVE McILHATTAN: Okay. I
22 understand that, and thank you.

23 Thank you, Mr. Chairman.

24 REPRESENTATIVE KELLER: Thank you.

25 If the members would be aware, we have the

1 Department of Corrections and the Board of Parole,
2 who are supposed to be here at 10:30. We also have
3 11 members who are on the list to ask questions. So
4 if you would just be mindful of that, and that we are
5 going to be back here at 1 o'clock for Military and
6 Veterans Affairs.

7 So if all the members would just be mindful
8 of that, and the panel, if your answers would also be
9 mindful of that.

10 Representative Don Walko, please.

11 REPRESENTATIVE WALKO: Thank you, Mr.
12 Chairman.

13 First of all, I would also like to say you
14 have done a wonderful job. As one who rides the
15 turnpike so frequently between Monroeville and
16 Harrisburg West, I can't believe what you have done
17 given the topography with which you must deal and the
18 other issues.

19 And I want to say in comparing to the only
20 privatized turnpike I have ever been on, Indiana, you
21 are unbelievably great. Indiana, you get off and go
22 to the rest stops, it is like visiting a poorly kept
23 State correctional institution. I just think they
24 have done a bad job, and if that's the example of
25 privatizing, I don't think we should consider it.

1 I also think that not only do we have to
2 consider current generations, as the Vice Chair said,
3 we have to consider future generations, but we have
4 to consider past generations as a matter of policy.

5 People coming out of the Great Depression
6 built the turnpike between Pittsburgh and Carlisle.
7 People coming out of World War II, many of whom
8 fought in World War II, built the extension to
9 Philadelphia, built the extension to Ohio. We cannot
10 ignore those generations.

11 We can't sell everything in the United
12 States of America, whether it is a long-term lease or
13 whether it is outright sale. As a matter of public
14 policy, the public, through our commission, should
15 honor past generations and protect future generations
16 by keeping the turnpike in public hands.

17 Do you have any comment?

18 MR. BRIMMEIER: Thank you.

19 REPRESENTATIVE WALKO: You are welcome.

20 MR. CARSON: We agree.

21 REPRESENTATIVE WALKO: And I just want you,
22 as you are going through this debate, to consider
23 those generations. Thank you, Mr. Brimmeier.

24 Thank you, Mr. Chairman.

25 REPRESENTATIVE KELLER: Thank you.

1 Representative Dave Millard.

2 REPRESENTATIVE MILLARD: Thank you, Mr.
3 Chairman.

4 I know that there have been a lot of
5 comments here about how good Act 44 is, but I just
6 would like to offer my comment that we in the rural
7 area pretty much recognize it for what we believe it
8 is, and that's a mass transit bill.

9 But that having been said, Mr. Brimmeier,
10 the letter from the Federal Highway Administration,
11 and I know that you answered some of this a little
12 bit earlier here this morning, but that stated that
13 the tolling pilot program under which the
14 Commonwealth is making its application, better known
15 as the ISRPP program, requires that an applicant
16 demonstrate that it will use the tolling revenues of
17 the facility, which would be I-80 in this case, to
18 conduct needed reconstruction and rehabilitation that
19 could not otherwise be accomplished without the
20 collection of tolls.

21 The application did not explain how I-80
22 will be improved, to my knowledge. Moreover, the
23 Turnpike Commission intends to use the I-80 toll
24 revenue as follows: first of all, to pay debt
25 service on nearly \$2 billion in debt, a billion of

1 which would be used to construct these 10 gantry toll
2 facilities, and another billion to provide funding
3 for road and bridge improvements throughout the
4 Commonwealth. Any toll revenue not used to pay off
5 the debt would also provide funding for highway and
6 bridge needs Commonwealth-wide.

7 Now, my question is, how do you reconcile
8 this proposed spending of toll revenues with the
9 requirements of the program?

10 MR. BRIMMEIER: Well, that is exactly,
11 Representative, what we will do in the future, which
12 we are doing now, with the questions that the Federal
13 Highway Administration has regarding the first
14 phase 1 application.

15 REPRESENTATIVE MILLARD: Okay.

16 Now, the Federal Highway Administration has
17 asked for an I-80 capital improvement schedule with
18 greater specificity than what was provided prior to
19 its December letter to you. They have also requested
20 a proposed or contemplated project schedule, and
21 along with that, a finance plan for the
22 reconstruction and rehabilitation of I-80.

23 Now, have the capital improvement and
24 project schedules as well as the finance plan been
25 provided to them? Now, Secretary Biehler told us

1 that he didn't know.

2 MR. BRIMMEIER: Well, not as of today.

3 Again, that is part of the overall package
4 that we are working on to respond in total to the
5 Federal Highway Administration. And again,
6 Representative, as soon as we have that information
7 compiled and ready to submit, you will also have that
8 information.

9 REPRESENTATIVE MILLARD: Okay. That answers
10 my next and final question, which is, serving as a
11 Representative along the I-80 corridor, I think that
12 all of us who serve along that corridor would like to
13 be notified as this application progresses.

14 We understand that it is a work in progress,
15 but we would like to know, you know, what the
16 positives, what the hang-ups are, and be in the loop,
17 even though I do oppose the tolling of I-80.

18 MR. BRIMMEIER: Again, Representative, as
19 soon as we have it, you will have it.

20 REPRESENTATIVE MILLARD: Okay. Thank you.

21 MR. CARSON: A very fair request.

22 REPRESENTATIVE MILLARD: Thank you, Mr.
23 Chairman.

24 REPRESENTATIVE KELLER: Representative Bryan
25 Lentz.

1 REPRESENTATIVE LENTZ: Thank you, Mr.
2 Chairman.

3 Good morning, gentlemen.

4 I have just a couple of questions on the
5 process, or really sort of the outcome of this
6 Act 44.

7 I'm in my second year now in the Assembly,
8 and I recall very vividly the process last year when
9 we went through it. Chairman Markosek, under his
10 leadership, worked very hard to get Act 44 out of the
11 House and eventually passed and signed by the
12 Governor.

13 It seemed to me, at the most basic level
14 last summer when we were talking about it, that we
15 needed an alternative to increasing taxes or fees
16 and/or leasing the turnpike, and I think at a gut
17 level, many of us are resistant to the idea of
18 leasing our assets, our infrastructure assets. I
19 think Representative Walko described that well.

20 And this, in the end, seemed to be a pretty
21 good alternative, and I'm interested in the comments
22 you made with regard to the fact that this is at
23 least one case where the government can do something
24 cheaper than the private sector because of the
25 subsidies that you described with regard to bonding

1 and borrowing. So I think it is a pretty good
2 alternative.

3 And I'm sympathetic to the concerns of those
4 that represent people that live along I-80.
5 Obviously, they have to, and I take them as sincere
6 in their concerns and opposition.

7 I come from a suburban county, Delaware
8 County, outside of Philadelphia where mass transit is
9 very important, so I'm interested in that.

10 But one of the things that I think has been
11 done is that there has been a lot of misinformation
12 with regard to the effects of tolling I-80 and the
13 proceeds. If you read the newspapers, you would
14 think that when you throw your coins in the basket,
15 that there's a pipe that takes the quarter all the
16 way underground directly to Philadelphia and it pops
17 up at the other end.

18 And I hear a lot about the devastating
19 impact, and I don't know, you know, whether that is
20 true or not. And you can submit these answers,
21 because I know we are tight on time, but I would be
22 curious about two areas.

23 One is that there has to be some past
24 experience and some past data on the impact of
25 tolling a road and the mitigation that I know has

1 been proposed. I remember hearing some discussion
2 about local travel not being tolled. So do you have
3 any data like that where you have tolled roads in the
4 past and you can tell us, did it devastate the local
5 economy? Did it help the local economy? You know,
6 what was the impact?

7 And the second thing is, and I know that the
8 Federal government has asked you to clarify this,
9 could you describe the connection between the tolling
10 of I-80 and the funding of mass transit, and how do
11 we get from one to the other? Thank you.

12 MR. BRIMMEIER: Well, very quickly,
13 Representative, yes, we are working on all of that.

14 We are not in the business to have a
15 negative impact on anybody, both the residents and
16 the business community along I-80 or even along the
17 existing turnpike. So we are working on that. The
18 team of experts that we have, after a number of
19 meetings, are working on that.

20 Your second question. The lease between the
21 Pennsylvania Turnpike and PENNDOT specifically states
22 that none of the tolls collected on I-80 will be used
23 for any of the 73 transit agencies that exist in
24 Pennsylvania.

25 MR. CARSON: And one last element to that

1 was the effect of tolling.

2 The only thing in Pennsylvania that we have
3 that is remotely similar to this is 3 years ago, to
4 fund our reconstruction program, we put in on the
5 main road, on the existing turnpike, a 43-percent
6 toll increase -- very substantial. We were worried
7 about diversion and so forth. The reality was, we
8 lost virtually no traffic.

9 So that's the only Pennsylvania experience
10 that is even remotely similar to tolling a road that
11 was previously untolled.

12 REPRESENTATIVE LENTZ: Thank you.

13 REPRESENTATIVE KELLER: Representative
14 Lentz, we have a request from the gentleman from
15 Monroe: Will you stop stealing his material about
16 the quarter showing up in Philadelphia?

17 REPRESENTATIVE SIPTROTH: I'm on that side.

18 REPRESENTATIVE KELLER: The gentleman from
19 Monroe, Scavello; Representative Scavello.

20 REPRESENTATIVE SCAVELLO: I'm going to
21 remain as random as possible.

22 REPRESENTATIVE KELLER: Representative Brian
23 Ellis, please.

24 REPRESENTATIVE ELLIS: Thank you very much,
25 Mr. Chairman.

1 Mr. Brimmeier, I just have a couple of
2 questions.

3 First relating to the North Texas Tollway
4 Authority. From what I understand, they did a
5 similar borrowing plan that is much like Act 44, and
6 as a result of that, they were downgraded in their
7 rating.

8 Has anyone specifically advised you that
9 what we are attempting to do here looks very similar
10 to that and that we will probably be looking at a
11 lowering of the rating as well for the Turnpike
12 Commission?

13 MR. BRIMMEIER: I'm not aware of that,
14 Representative, if that exists.

15 REPRESENTATIVE ELLIS: So no one has ever
16 suggested to you that if we don't toll I-80 and we
17 continue with this borrowing, that we are going to be
18 downgraded?

19 MR. BRIMMEIER: Well, there is a potential
20 for that, but I'll let the expert on bonding answer
21 that.

22 MR. CARSON: Yeah; I think there is probably
23 a potential, even putting the whole package together.

24 We have a very high bond rating right now.
25 There are only two toll agencies in the entire

1 country with bond ratings higher than the
2 Pennsylvania Turnpike Commission right now.

3 It is not impossible that putting even the
4 whole thing together that we could lose perhaps half
5 a grade and so forth. We would still be well above
6 most of the toll agencies in the country, and we
7 would be far above whatever the private sector would
8 be, who would do a highly, a very highly leveraged
9 deal that would be of triple B quality or something
10 like that as opposed to the double-A-minus rating
11 that we have now.

12 REPRESENTATIVE ELLIS: Okay.

13 Well, now everything, I mean, you guys have
14 been citing a financial model. That is based on the
15 assumption that you keep your current rating. Does
16 that change if the rating goes down?

17 MR. CARSON: The models that we have done
18 thus far show us with sufficient coverage, if you
19 will, revenues minus debt service and so forth, that
20 we will sustain the rating we have right now.

21 But, I mean, it's not impossible that
22 perhaps under a worst-case scenario type thing that
23 that could drop slightly.

24 REPRESENTATIVE ELLIS: Okay. Now, are
25 you---

1 MR. CARSON: The model has been done
2 assuming -- and it supports coverage ratios that
3 would sustain the existing bond rating.

4 REPRESENTATIVE ELLIS: And the model that
5 you keep referencing, is that the Citigroup model? I
6 mean, is that---

7 MR. CARSON: Citigroup has been our
8 financial advisor for this, yes.

9 REPRESENTATIVE ELLIS: Okay.
10 Now, I understand that they had that and you
11 guys have a copy of that and that there have been
12 several requests for right-to-know applications to
13 have a copy of that report, and I understand they
14 were denied. Can you explain to me why they were
15 denied?

16 MR. CARSON: Well, we have released the
17 Citigroup report.

18 Now, we are, at this point as we go through
19 the Federal Highway Administration process, we are
20 receiving new traffic and revenue information from
21 Wilbur Smith, who is our traffic and revenue
22 specialist. We will be redoing the model as part of
23 the Federal Highway Administration application
24 process.

25 But we have released the Citigroup numbers

1 from basically last fall, which was the most recent
2 amendment. We have not had Citigroup release their
3 entire model as such or make that available. That is
4 intellectual property which you wouldn't expect them
5 to, so I want to make that distinction.

6 REPRESENTATIVE ELLIS: Right.

7 MR. CARSON: But the actual numbers
8 themselves have been available. I have actually used
9 them as I have spoken at national transportation
10 finance conferences and so forth.

11 REPRESENTATIVE ELLIS: Okay.

12 Now, you used that model and that analysis
13 in the December report of 2006, the Turnpike
14 Commission's response to requests for expression of
15 interest. Is that correct?

16 MR. CARSON: That was an early version.
17 The models have been, of course, as we went through
18 Act 44 and so forth, the models have been amended all
19 along the way that way.

20 REPRESENTATIVE ELLIS: Okay. Now---

21 MR. CARSON: So the most recent numbers, I
22 think, from the Citigroup that would have been
23 available would have been numbers run from fall of
24 '07, I guess. Is that right, Chris?

25 REPRESENTATIVE ELLIS: Now, I would assume

1 in all other, you know, studies and models and stuff
2 there is always the caveat that you should use it in
3 its entirety and not just pick and choose which parts
4 of the recommendations they are making.

5 Do your reports at this point encompass
6 everything that Citigroup has suggested in their
7 analysis, or are you just picking what you want from
8 their analysis?

9 MR. CARSON: No; we are looking at an
10 overall model that takes into account all the various
11 revenue sources, and we are looking, of course, to
12 provide in the last column, if you will, the stream
13 of payments that is required over a 50-year period
14 under Act 44, those payments which aggregate
15 \$83.6 billion.

16 So for each year, we are looking to hit with
17 the various revenue sources -- toll revenues,
18 borrowings, whatever it might be -- we are looking to
19 hit the magic number, if you will, that is the amount
20 required under the lease.

21 REPRESENTATIVE ELLIS: Okay. And then just
22 finally on that.

23 I'm a little confused here. Now, based on
24 what I understand, Citigroup did not charge the
25 Turnpike Commission at all to do the analysis? Is

1 that a true statement?

2 MR. CARSON: I don't know that we--- Do you
3 have that?

4 There has been no charge at this point.
5 There has always been, as part of the plan, various
6 bond issues that would be included, and while there
7 has been no promise of their involvement in any of
8 that, I think there has certainly been a strong hope
9 that they might be included with other firms.

10 REPRESENTATIVE ELLIS: And have they been
11 contracted at this point to do any of the bond
12 underwriting for Act 44?

13 MR. CARSON: I don't believe we have an
14 official engagement letter, but they would be -- I
15 think the understanding is that they are hoping to be
16 involved in that first--- Well, wait a minute.

17 I'm sorry. They did handle the bond
18 anticipation note.

19 REPRESENTATIVE ELLIS: So they did the
20 analysis for free, and then they were awarded the
21 contracts for the bonding. Is that correct?

22 MR. CARSON: They did the analysis, the
23 financial model, and they were the lead underwriter
24 on the initial financing back in the fall, so that is
25 correct.

1 REPRESENTATIVE ELLIS: There was never at
2 any point a competitive bid process for that or an
3 RFP put out or anything like that?

4 MR. CARSON: We have financial advisors that
5 are always monitoring the bond levels -- in this
6 case, the levels on the notes -- and giving us and
7 making sure that those are competitive rates, yes.

8 REPRESENTATIVE ELLIS: Well, I appreciate
9 that, but in all due respect, this certainly
10 looks like a quid pro quo situation where they do
11 something for free and then they are rewarded quite
12 handsomely.

13 I would hope that as we move forward with
14 the continuance of bond issuing, that maybe it is a
15 little more open of a process.

16 Thank you very much, Mr. Chairman.

17 REPRESENTATIVE KELLER: Thank you.

18 I think this is a very important hearing.
19 I mean, we are getting a lot of questions answered.
20 But if the members would be mindful, we still
21 have eight members who are on the list to make
22 questions.

23 Representative Greg Vitali, please.

24 REPRESENTATIVE VITALI: In the interests of
25 time, I'm going to waive off.

1 REPRESENTATIVE KELLER: Thank you,
2 Representative.

3 Representative David Reed.

4 REPRESENTATIVE REED: Thank you, Mr.
5 Chairman, and thank you, Commissioners, for appearing
6 before the committee today.

7 I have two very quick follow-up questions
8 and then another topic I want to discuss relatively
9 quickly as well.

10 First in follow-up to Representative
11 McIlhattan's questioning about the assertion in the
12 expression of interest by the Turnpike Commission
13 that public hearings had been held on the tolling of
14 I-80, it is my understanding there were three public
15 hearings in particular that may have touched upon the
16 tolling of I-80, two within the Senate, and that was
17 part of a package of hearings that dealt with the
18 entire turnpike modernization plan, and there was one
19 House Appropriations subcommittee in the House that
20 dealt with transit funding options as a whole.

21 And maybe I'm mistaken, but could you
22 perhaps enlighten me as to which of those hearings or
23 whether there were additional hearings out there that
24 dealt with this specific plan as a focal point for
25 those hearings? Or are those the hearings that you

1 are actually referencing in that expression of
2 interest?

3 MR. BRIMMEIER: Yes, those are the hearings
4 that we were referencing.

5 REPRESENTATIVE REED: Okay. So there were
6 no actual hearings dedicated solely to the tolling of
7 I-80. It was generally part of a larger, broader
8 topic of discussion.

9 MR. BRIMMEIER: That is correct.

10 MR. CARSON: That is correct.

11 REPRESENTATIVE REED: Okay.

12 My second question, you referenced a little
13 bit earlier about recent contract negotiations within
14 the workers. Does that contract contain any
15 provisions that deal with how the workers would be
16 dealt with or protected should a lease of the
17 turnpike occur?

18 MR. BRIMMEIER: No. That would be up to the
19 Commonwealth to determine that.

20 REPRESENTATIVE REED: Okay.

21 Third, I want to talk a little bit about how
22 the Turnpike Commission looks to affect the public
23 policy debate within the Commonwealth.

24 First could you tell me, how many inside
25 government relations staff members do you have within

1 the Turnpike Commission?

2 MR. BRIMMEIER: I'm not so sure I understand
3 your question, Mr. Representative.

4 REPRESENTATIVE REED: How many folks that
5 work for the Turnpike Commission deal with government
6 relations and/or lobbying---

7 MR. BRIMMEIER: Oh; okay.

8 REPRESENTATIVE REED: ---that are direct
9 employees of the commission?

10 MR. BRIMMEIER: One.

11 REPRESENTATIVE REED: One?

12 MR. BRIMMEIER: One to the best of my
13 knowledge.

14 John, is that right? Yeah; one. He is with
15 us today, John Martino.

16 REPRESENTATIVE REED: Okay.

17 Could you tell me how many outside lobbyists
18 does the Turnpike Commission have hired to deal with
19 public relations or public policy within the
20 Commonwealth?

21 MR. BRIMMEIER: We have, to the best of my
22 knowledge right now, three firms that we have used in
23 the past, one of which, one contract, that we since
24 no longer deal with.

25 REPRESENTATIVE REED: All right.

1 MR. BRIMMEIER: So right now we are down to,
2 I believe, two contracts? Is that right, John?
3 Yeah; two contracts with two firms.

4 REPRESENTATIVE REED: Okay.

5 MR. CARSON: But, Representative, I would
6 add that both from the standpoint of Commissioners
7 and others, certainly Joe Brimmeier and others, we
8 have spent a great deal of time -- and I can say that
9 personally -- in direct communication with members of
10 the Legislature in their offices and so forth.

11 So I would certainly number my cell phone at
12 perhaps hundreds of hours that I have spent talking
13 and answering questions of members of the Legislature
14 and so forth. So to the extent that you are talking
15 about in-house, I would certainly, and other
16 Commissioners as well as Mr. Brimmeier, be involved
17 in that effort.

18 REPRESENTATIVE REED: Well, and I think
19 those are probably appropriate uses of both your time
20 and your in-house government relations folks.

21 Could you tell me the total cost of the
22 outside contracts where the Turnpike Commission has
23 hired outside lobbying firms to lobby State
24 government? Ballpark, what are we talking about
25 cost-wise?

1 MR. BRIMMEIER: Total for our Federal
2 lobbying effort, which is the help that we are
3 getting, you know, with Act 44 and the, if you want
4 to call it strictly State, it is probably about
5 390-some-thousand dollars. Is that right, John?
6 Yeah.

7 REPRESENTATIVE REED: Are you aware of any
8 other quasi-State agencies that have similar setups
9 where they higher outside lobbying firms to lobby the
10 State and Federal government?

11 I know PHEAA used to have that policy in
12 place, but from what I understand, they have since
13 changed that policy when that came to light over the
14 past year. Are you aware of any quasi-State agencies
15 that do a similar practice?

16 MR. BRIMMEIER: No; I'm not familiar with
17 it, Representative.

18 REPRESENTATIVE REED: And I guess---

19 MR. CARSON: Well, wait; wait.

20 Certainly there are a number that I'm aware
21 of -- authorities, counties, cities, et cetera --
22 that do hire lobbyists to lobby on their behalf,
23 those public entities' behalf, with the Legislature.

24 REPRESENTATIVE REED: It would probably be
25 safe to say that most of those folks do not have the

1 Secretary of Transportation sitting as one of their
2 five board members, though at least especially at the
3 local authority and county level, and I guess that is
4 my overall question.

5 Your board is basically composed of five
6 folks, four of which are appointed by the Governor,
7 confirmed by the Senate, and the Secretary of
8 Transportation.

9 If the Secretary of Transportation of the
10 Commonwealth of Pennsylvania cannot effectively lobby
11 on behalf of the Turnpike Commission for the public
12 policy he believes and you believe are in your best
13 interests, how is an outside firm expected to do any
14 better?

15 MR. BRIMMEIER: Well, I do believe that, as
16 you all know, I would assume that all of you are
17 lobbied at some point for exchanges of information,
18 and that is what lobbyists do.

19 REPRESENTATIVE REED: And it is my
20 understanding---

21 MR. CARSON: And it would also, I think, be
22 worthy of note that when we talk about lobbying,
23 especially now with the new lobbying law, that means
24 all kinds of things. There is a direct lobbying,
25 going to the office of a member and sitting down

1 there. There is also a communications function which
2 these firms have been helping us with.

3 This is a once-in-a-lifetime, by definition,
4 as we look at a 50-year lease, or the alternative
5 being a 75- or 99-year concession, it is a
6 once-in-a-lifetime situation for the Turnpike. So we
7 are not staffed up to handle the communications
8 requirements of something like this, and we had to
9 turn to outside firms.

10 REPRESENTATIVE REED: But one of your board
11 members, the Secretary of Transportation, is the head
12 of a State agency with over 10,000 employees, and you
13 are spending \$390,000 to lobby State government when
14 he is a member of your board.

15 Is that because the other four Commissioners
16 of your board disagree with the Administration and
17 PENNDOT on some public policy issues? And are you
18 hiring that outside counsel basically because you
19 don't have the support of the Administration and the
20 Secretary of Transportation on a number of the issues
21 that you have hired them to lobby on?

22 MR. BRIMMEIER: Well, that, Representative,
23 that number includes the Federal lobbying effort
24 that we have to go after Federal dollars that we
25 need.

1 That number also, which is the bigger part
2 of it, is to help us with the Act 44 process,
3 application process, I-80 tolling process.

4 MR. CARSON: And I would mention again, the
5 application that we have from the Federal Highway
6 Administration is a joint application of PENNDOT and
7 the Turnpike Commission, which includes a letter of
8 support from the Governor.

9 Now, if there are perceived differences in
10 opinion, I would leave it for the Governor and his
11 office to answer those.

12 REPRESENTATIVE REED: Okay. Thank you very
13 much.

14 REPRESENTATIVE KELLER: Thank you.

15 Representative Reed, it has been brought to
16 my attention that the Appropriations Committee
17 Subcommittee on Economic Impact and Infrastructure
18 held a meeting, a hearing, last March. Although
19 Act 44 wasn't in place, they did discuss leasing
20 and the proposal of leasing, and Mr. Seltzer was at
21 that meeting. So there was a forum for that in the
22 past.

23 Representative Craig Dally, please.

24 REPRESENTATIVE DALLY: Thank you, Mr.
25 Chairman.

1 Good morning, panel.

2 I would like to return to that issue of I-80
3 tolling.

4 The Federal Highway Administration, as I
5 think Representative Millard indicated, has been
6 given or has provided you with a letter in terms of
7 the framework for that tolling approval process, and
8 I think your plan calls for debt service of nearly
9 \$2 billion or \$2 billion in debt, a billion dollars
10 for the toll mechanisms and a billion dollars for
11 providing funding for roads and bridges. Am I
12 correct? Is that the basic framework?

13 MR. CARSON: Yes, but that is, as I think we
14 pointed out, Representative, that is the subject
15 matter of ongoing discussion with the Federal Highway
16 Administration, and appropriately so.

17 REPRESENTATIVE DALLY: Okay.

18 MR. CARSON: And we expected that.

19 REPRESENTATIVE DALLY: Because the toll
20 revenue that is generated, as I understand it, from
21 I-80 would have to be used solely for I-80
22 improvements? Is that correct?

23 MR. CARSON: That is not technically
24 correct. I think it is fair to say they would like a
25 robust investment in I-80, but the proceeds of those

1 tolls could be used for other transportation
2 purposes as defined under the applicable statutes
3 and so forth. So we do have some flexibility with
4 that.

5 REPRESENTATIVE DALLY: I see. Okay.

6 And if the Federal Highway Administration
7 denies your request, is there a fall-back position in
8 terms of looking at other revenue streams, or is that
9 all falling on the Turnpike?

10 MR. BRIMMEIER: Well, under Act 44, the
11 Turnpike would still be responsible for \$450 million
12 a year payment to PENNDOT.

13 REPRESENTATIVE DALLY: Okay. And that is
14 above and beyond your current obligation, correct?

15 MR. BRIMMEIER: That is correct, yes.

16 MR. CARSON: Yeah.

17 REPRESENTATIVE DALLY: And have you---

18 MR. CARSON: All new money.

19 REPRESENTATIVE DALLY: Okay. Have you
20 envisioned what impact that would have on your
21 current toll structure?

22 MR. BRIMMEIER: We are prepared to meet that
23 obligation if in fact it does occur.

24 REPRESENTATIVE DALLY: Okay. And in what
25 fashion? I mean, you are going to meet the

1 obligation. What does that mean as far as tolling
2 increases? I mean, have you determined what that
3 would be?

4 MR. CARSON: Yes. We would meet that with
5 the 3 percent that we have talked about.

6 REPRESENTATIVE DALLY: Oh; I see.

7 MR. CARSON: That we have tested the model
8 to make sure, and in fact it is not impossible that
9 maybe we could squeeze a little bit more out of that,
10 but we are comfortable with the 450 figure if in fact
11 I-80 is not approved.

12 REPRESENTATIVE DALLY: Okay. Thanks.

13 And, Mr. Carson, I'm glad you pointed out
14 earlier, you know, we talked about this act. There's
15 a 40-year contract spending \$57 billion.

16 MR. CARSON: It is actually 50 years with an
17 aggregate amount payable of 83.7.

18 REPRESENTATIVE DALLY: Okay.

19 MR. CARSON: A billion here, a billion
20 there, so, you know, at some point we're talking
21 about real money.

22 REPRESENTATIVE DALLY: So what was the total
23 spending?

24 MR. CARSON: The total amount, the aggregate
25 amount over a 50-year period that we would be

1 paying lease payments to PENNDOT, aggregate amount,
2 \$83.7 billion.

3 REPRESENTATIVE DALLY: All right. That
4 makes it---

5 MR. CARSON: An average of about a billion 7
6 a year.

7 REPRESENTATIVE DALLY: And that makes it
8 even more compelling, because earlier in this
9 hearing, I think, Mr. Brimmeier, you responded to a
10 question about the hearings that were held prior to
11 the adoption of this act, and as Mr. Carson aptly
12 pointed out, that is not your job to request
13 legislative hearings before we pass legislation, and
14 I wholeheartedly agree with that.

15 But I believe you said there was a Senate
16 hearing, a Senate Policy Committee hearing. Do you
17 know what Policy Committee in the Senate?

18 MR. CARSON: That was a Democratic Policy
19 Committee hearing.

20 REPRESENTATIVE DALLY: Okay. And then there
21 was one Appropriations subcommittee, which I think
22 the Chairman referred to as the Economic Development
23 Subcommittee? Okay.

24 So we basically had one standing committee
25 in the Senate, we had a political hearing by the

1 Policy Committee, and we had a subcommittee hearing
2 in the House before a bill that entails a 50-year
3 contract and \$83.7 billion in spending was approved.

4 And then after passage, when the horse is
5 already out of the barn and through the first toll
6 booth, then we hold 10 hearings about the nuances of
7 the plan and what the public thinks about it.

8 So I think that we really have our
9 priorities backwards, but here again, that is not
10 your problem; that is the Legislature's problem.

11 MR. CARSON: We go wherever we are invited,
12 Representative.

13 REPRESENTATIVE DALLY: Right. Okay.

14 That's the end of my questions. Thanks.

15 REPRESENTATIVE KELLER: Thank you.

16 Representative Kathy Manderino.

17 REPRESENTATIVE MANDERINO: Thank you.

18 Thank you, gentlemen, for being here.

19 I will be succinct. Representative Lentz
20 touched on this, but there has been so much rhetoric
21 that I think sometimes the facts get lost in that.

22 Am I correct that under Act 44, the
23 monetization, securitization, bonding, whatever you
24 want to call it, of the southern corridor of the
25 existing turnpike revenues would be for mass transit,

1 and the tolling of I-80, which might be in the
2 northern corridor, is for I-80 and other highways and
3 bridges?

4 MR. BRIMMEIER: Yes and no.

5 The present monetization of the turnpike and
6 the bond revenues that we would generate would fund
7 mass transit and our existing costs to operate and
8 reconstruct the Pennsylvania Turnpike. You are
9 exactly right about the I-80 tolls going specifically
10 to I-80 and to road and bridges.

11 REPRESENTATIVE MANDERINO: So if the I-80
12 corridor tolling does not come to fruition, either
13 because of Federal government action or legislative
14 action to repeal the tolling of I-80 that was
15 provided for in Act 44, unless all of Act 44 is
16 repealed in its entirety, but if only the part of
17 Act 44 is repealed by this Legislature that deals
18 with I-80 tolling or if the Federal government does
19 not approve I-80 tolling, the money raised through
20 bonding or monetization of the southern existing
21 turnpike will still be available for mass transit and
22 for some additional highway and bridge reconstruction
23 projects.

24 MR. BRIMMEIER: That's correct. It is
25 \$200 million for roads and bridges, \$250 million for

1 mass transit.

2 REPRESENTATIVE MANDERINO: So the notion---

3 MR. CARSON: Excuse me, Representative.

4 It would not provide the same amount for
5 mass transit---

6 MR. BRIMMEIER: That is correct.

7 MR. CARSON: ---that would be provided
8 before, just because of how the dollars work in the
9 model.

10 REPRESENTATIVE MANDERINO: Because some of
11 it will be going for bridges and highways, not
12 because some of I-80 tolling was going for mass
13 transit.

14 MR. CARSON: Correct.

15 MR. BRIMMEIER: That is correct.

16 REPRESENTATIVE MANDERINO: So the notion
17 that I-80 tolling is going for mass transit is a
18 totally incorrect notion.

19 MR. BRIMMEIER: That is correct.

20 REPRESENTATIVE MANDERINO: Thank you.

21 My second point is, and I think Commissioner
22 Carson touched on it, I don't believe that the
23 Turnpike must statutorily have hearings when they are
24 planning a toll increase, but you have had toll
25 increases in the past.

1 Have you had public input hearings on those?
2 Do you hear from businesses that you can't raise
3 tolls because that is going to have a negative impact
4 on our businesses? And has that in fact been the
5 case that we have had businesses close along the
6 southern turnpike corridor as a result of fare
7 increases?

8 MR. BRIMMEIER: Well---

9 REPRESENTATIVE MANDERINO: I mean, I
10 understand the fear of the unknown, but we do have a
11 model of the known, at least, for those of us in the
12 southern part of the State, and if you could give us
13 some guidance with that, I would appreciate it.

14 MR. BRIMMEIER: Well, one, Representative,
15 as Commissioner Carson alluded to earlier, when we
16 implemented our 42 1/2-percent increase in '04,
17 there were fears about diversion, particularly
18 of commercial truck traffic, and we saw none of
19 that.

20 What we have done, for instance, we have
21 worked with the trucking industry, Jim Runk in
22 particular, to have as minimal impact on the trucking
23 industry as we could, and we believed what we were
24 told back then, that if the trucking industry knew up
25 front, particularly maybe a year in advance, that

1 they could build any increase in tolls into their
2 contracts with the companies that they are hauling
3 for.

4 So that kind of dialogue and exchange of
5 information, particularly with one of our biggest
6 customers, has gone on.

7 REPRESENTATIVE MANDERINO: My final
8 question.

9 A lot of this dialogue about Act 44 and the
10 raising of the money seems to be kind of focusing on
11 Pennsylvania's and our State's highway needs, and it
12 is about our State highways. But I guess the final
13 point that I want to make is, putting this in context
14 with the Federal Highway Trust Fund and what is
15 happening with dollars there, what is the prediction
16 after 2009, if the Feds don't make some significant
17 changes on their level with regard to funding
18 highways, about the State and the condition of all of
19 Pennsylvania's highways and interstates, I-80,
20 whether it is tolled or not, and our ability to
21 provide a safe and navigable thruway across our
22 northern tier?

23 MR. BRIMMEIER: In the interests of time, I
24 won't answer that -- no.

25 In all honesty, I mean, something has to be

1 done. That is why we said the political courage that
2 the Legislature showed last summer in enacting Act 44
3 was a tremendous first step.

4 And again, it is not a perfect bill; it is
5 not a perfect answer to the transportation funding
6 crisis that exists, and that crisis is only going to
7 get worse. So naturally there is going to have to be
8 something done.

9 REPRESENTATIVE MANDERINO: Thank you, Mr.
10 Chairman.

11 MR. CARSON: You are correct to be concerned
12 about our other interstates and what the inevitable
13 reconstruction of those will require, and right now
14 there is no real answer as to where that money is
15 coming from.

16 We have an idea for I-80, but that is all at
17 this point.

18 REPRESENTATIVE KELLER: Thank you.

19 Representative Mario Scavello.

20 REPRESENTATIVE SCAVELLO: Thank you, Mr.
21 Chairman.

22 Good morning, gentlemen.

23 It is a quarter that goes down, but I guess
24 it gets to Philly at 12 1/2 cents.

25 A couple of questions.

1 It is my understanding that Act 44-related
2 debt issue, a portion is guaranteed by the Motor
3 License Fund in the case of a default. Is that
4 correct?

5 MR. CARSON: Yes.

6 REPRESENTATIVE SCAVELLO: Tell me, what is
7 the total potential exposure of the Motor License
8 Fund?

9 MR. CARSON: Excuse me just a second.

10 REPRESENTATIVE SCAVELLO: Sure.

11 MR. CARSON: The maximum exposure in a year
12 is -- give me that number again -- \$363 million.

13 REPRESENTATIVE SCAVELLO: For the overall
14 exposure, would it be more close to about \$5 billion
15 for the length of the -- on total amount?

16 MR. CARSON: That is the total amount once
17 all of the Motor License Fund bonds are issued.

18 REPRESENTATIVE SCAVELLO: But if this isn't
19 working and we don't have enough revenue, we could be
20 exposed to \$5 billion. Is that what we are saying
21 here?

22 MR. CARSON: That is the initial pot to look
23 for, is the Motor License Fund itself. Yes.

24 REPRESENTATIVE SCAVELLO: Okay.

25 Act 44 establishes a 3-year period during

1 which the Commonwealth can attempt -- and we talked
2 about this earlier -- for Federal permission for
3 tolling I-80, and this period may be extended by
4 three 1-year periods.

5 Assuming that we attempt for 6 years to
6 convert I-80 toll and are unsuccessful in 2013,
7 the funding obligation will decrease, and we spoke
8 about that \$200 million annually for highways and
9 \$250 million for transit. Assuming a 6-year
10 conversion period, how much Act 44-related debt will
11 the Turnpike incur during that period, according to
12 your models?

13 MR. BRIMMEIER: I can't answer that right
14 now, Representative.

15 MR. CARSON: These are the types of
16 questions that if we had them in advance, we could
17 answer them.

18 REPRESENTATIVE SCAVELLO: Oh; I thought you
19 guys--- I got a lot of confidence in you folks.

20 MR. CARSON: Representative, could you give
21 me that question once again? I have numbers in front
22 of me now, and somebody was whispering in my ear. Go
23 ahead.

24 REPRESENTATIVE SCAVELLO: I'm sorry.

25 Assuming a 6-year conversion period, how

1 much Act 44-related debt will the Turnpike incur
2 during the period according to your models? If it
3 took 6 years to convert.

4 MR. McNICHOL: Representative---

5 REPRESENTATIVE KELLER: Excuse me; excuse
6 me.

7 If he would like to answer, you will have to
8 identify yourself for the record.

9 MR. CARSON: Let me identify. This is Chris
10 McNichol from Citigroup, and he can, I believe,
11 answer the question for you, Representative.

12 MR. McNICHOL: Yes. Good morning.

13 REPRESENTATIVE KELLER: You'll have to take
14 the microphone also.

15 MR. McNICHOL: Representative, just a
16 question before I answer.

17 Is the question that I-80 is tolled and
18 converted after the 6-year or that it is not?

19 REPRESENTATIVE SCAVELLO: It is not.

20 MR. McNICHOL: Assuming it is not and the
21 Turnpike's obligation starting in 2014 falls to
22 \$450 million, we would issue an expected \$3 billion
23 in MLF, Motor License Fund-backed bonds and
24 approximately \$6 1/2 billion of Turnpike monetization
25 bonds.

1 REPRESENTATIVE SCAVELLO: Okay.

2 In a 6-year period, will you incur debt that
3 is backed by the I-80 toll revenues?

4 MR. McNICHOL: No.

5 REPRESENTATIVE SCAVELLO: So if I-80 gets
6 approved in 6 years from now, all that debt that was
7 incurred will not be backed by the I-80 toll
8 revenues?

9 MR. McNICHOL: That is correct.

10 REPRESENTATIVE SCAVELLO: How is it going to
11 get paid?

12 MR. McNICHOL: It is paid by the Turnpike's
13 tolls.

14 REPRESENTATIVE SCAVELLO: Okay.

15 If I-80 is not tolled, will the Turnpike be
16 able to pay debt service on the bonds issued during
17 the 6-year period, and we have answered that.

18 My question: Have we figured what it would
19 cost for a vehicle to go from one end of I-80 to the
20 other at the 20th year? And a truck to make that
21 same trip in the 20th year? Using the 3-percent
22 incrementals.

23 MR. KEMPF: We do not have that calculation
24 exactly, but the initial assumption is that
25 approximately for the 311 miles, it would be \$25 for

1 a car trip and about just under a hundred dollars for
2 a truck trip. Escalate that at 3 percent for
3 whatever length of time you care, and that would be
4 your amount.

5 REPRESENTATIVE SCAVELLO: And that is
6 providing we are using that 3-percent number.

7 From what I have heard here today, that does
8 not necessarily have to be 3 percent; it could be
9 4 and 5 percent. Am I correct? Those were the
10 comments made earlier.

11 MR. BRIMMEIER: There is no cap.

12 MR. CARSON: It is not a cap. It is, once
13 again, the figure that was used for all the financial
14 modeling that is accommodated with that model.

15 REPRESENTATIVE SCAVELLO: If you did a
16 model, I think you will see that for a vehicle to go
17 across the Commonwealth, and it is across the
18 Commonwealth on that stretch of road, it could be
19 close to 60 bucks one way in the 20th year, because
20 it is 3 percent over that.

21 So, you know, you are talking about a
22 vehicle going from one end of the Commonwealth to the
23 other on I-80, and on a return trip, it is about
24 \$120, in that area. It is significant. And that
25 is using 3 percent, and if it had to go to 4 and

1 5 percent, who knows what it is going to cost.

2 You know, we sell it at \$25, but it is
3 actually much, much more.

4 MR. CARSON: And of course it would be the
5 same rate---

6 MR. BRIMMEIER: Right.

7 MR. CARSON: ---on the southern route as
8 well. I just point that out.

9 MR. BRIMMEIER: Yes.

10 REPRESENTATIVE SCAVELLO: Well, look, I'm
11 not opposed to tolling a road, a brand-new road. If
12 you build a road -- Route 1 in Delaware. They built
13 the brand-new road, and they are paying for it with
14 tolls. On the weekend, they even actually get a
15 little bit more, you know. And I think that is --
16 you know, you built a brand-new road; it is going to
17 get paid for with tolls.

18 This is a free road. This road was built
19 for free. You know, it was taxed by your dollars,
20 but it wasn't built for the intentions of tolling,
21 and now here we are tolling it.

22 And I want you to know, I wasn't a supporter
23 of, you know, privatization as well. You know, to
24 me, I can't fathom, and we call this historic and a
25 good piece of legislation -- I call it a piece of

1 junk. I really do.

2 In my area, I have got trucking companies,
3 one that just told me that if these tolls go by, that
4 he is going to cut his workforce and move some of
5 that work somewhere else, which is going to affect my
6 community. And I have had other companies tell me
7 that they would not have come to my area.

8 And I know I'm talking to the choir, folks.
9 You know, you are the messengers here. We made this.
10 I just want to bring this out to you that it is going
11 to affect trucking companies in that I-80 corridor.

12 I have supermarkets telling me that it is a
13 substantial hit on their bottom line, and they are
14 going to have to pass those costs on. So even if I'm
15 not a traveler of the I-80 corridor, if you have a
16 business, if you have stores in those areas and you
17 are a shopper in those areas, guess what? You are
18 going to be paying for it in the stores, because the
19 trucking companies are going to have to pass that on
20 and these businesses are going to have to pass that
21 on.

22 I just want to go---

23 MR. CARSON: If I could just comment,
24 Representative.

25 The only thing I would say there is that you

1 are correct. This has been a, quote, "free road,"
2 but as many in the transportation world are apt to
3 say, there is no such thing as a free road.
4 Somebody, of course, is always paying for it.

5 And what we are faced with, again, if I can
6 make reference to the pink elephant that we talked
7 about before, is that it is one thing to build the
8 road many years ago; it is another thing to face the
9 inevitable reconstruction of the road. It is as if
10 you are building an entirely new road at many times
11 the original cost of it. That is what we are all
12 grasping to fund. And there is no free lunch; you
13 are right.

14 REPRESENTATIVE SCAVELLO: I received, I have
15 a letter here from the Office of Chief Counsel, the
16 U.S. Department of Transportation, stating that any
17 tolls that are collected on I-80 must stay, those
18 dollars must stay and be invested in I-80.

19 Are you aware of that? Because, you know, I
20 know we have this other grand scheme, but here it
21 does not have any exemptions, nothing at all. The
22 dollars---

23 MR. CARSON: Yeah; let me just correct that
24 so you understand it.

25 The actual lease payments themselves, we

1 believe, will be considered an acceptable operating
2 cost, which then would go, again, to PENNDOT. So
3 that is how that works, Representative.

4 REPRESENTATIVE SCAVELLO: Your lease payment
5 for what?

6 MR. CARSON: Lease payment under Act 44, the
7 aggregate amounts that we talked about that
8 aggregate---

9 REPRESENTATIVE SCAVELLO: But the dollars
10 aren't being spent on I-80. This is for the lease of
11 I-80. The dollars are not being spent on the repair
12 of the road, the repair of the bridges, on I-80.
13 They are going to pay a lease, and where are those
14 lease dollars going?

15 MR. BRIMMEIER: To repairs on roads and
16 bridges.

17 It is very similar, Representative, if a
18 private entity was leasing I-80, that private entity
19 would be paying a lease payment to I-80. In this
20 particular case, it is just that we have got, again,
21 the public-public partnership rather than the
22 public-private partnership.

23 REPRESENTATIVE SCAVELLO: Okay. Just two
24 final questions.

25 The first one, this was in my paper about

1 four times. It is an ad talking about that tolling
2 I-80 is probably the best thing since sliced bread,
3 you know, praising Act 44.

4 How many of these are across the
5 Commonwealth? And I hope this isn't going to be paid
6 for by the future folks that are going to be using
7 the tolling of I-80. These are pretty expensive ads,
8 aren't they?

9 MR. BRIMMEIER: Yes.

10 REPRESENTATIVE SCAVELLO: What was the cost
11 of these ads?

12 MR. BRIMMEIER: I don't know what it was.
13 Does anybody know---

14 REPRESENTATIVE SCAVELLO: And I guess, I
15 assume every newspaper might be a bit different.

16 MR. BRIMMEIER: Yes, they are. I don't know
17 what the exact cost was.

18 REPRESENTATIVE SCAVELLO: I know in my
19 paper, it is about \$2,000, and that is just, you
20 know, one ad.

21 You mentioned earlier that you used, was it
22 \$390,000 in lobbying?

23 MR. BRIMMEIER: Yes.

24 MR. CARSON: That includes the Federal side.

25 MR. BRIMMEIER: That includes the Federal

1 side.

2 REPRESENTATIVE SCAVELLO: I have been
3 reading up to 700, and actually I'm looking at an
4 article here. It was over \$700,000. The newspapers
5 have reported it improperly? I'm confused.

6 As a matter of fact, it also says that --
7 let me just read a little bit further here -- that
8 out of 15---

9 MR. BRIMMEIER: Well, Representative, we can
10 provide you with the exact breakdown.

11 MR. CARSON: We will get you the exact
12 amount.

13 MR. BRIMMEIER: And a breakdown of where it
14 is, whether it is Federal or State. So we can
15 provide that for you in the future.

16 REPRESENTATIVE SCAVELLO: I heard that they
17 did a study of the top 15, and you were number 4 in
18 the country compared to States? You are actually
19 tolling, you are using more dollars on lobbying than
20 States are and DC.

21 MR. BRIMMEIER: Well, I'm not aware of that,
22 but one thing to keep in mind, we are the first State
23 undertaking an effort like Act 44 and, you know, this
24 Federal Highway Administration process that we are
25 going through. But we will get you the exact

1 breakdown and where it goes and how it was spent.

2 REPRESENTATIVE SCAVELLO: You know---

3 MR. CARSON: I would also comment,
4 Representative, that of course with Act 44 and the
5 mission change of the Turnpike from running a
6 break-even operation to generating funds sufficient
7 for transportation all over Pennsylvania, this really
8 is a State program, so it should be viewed that way.

9 REPRESENTATIVE SCAVELLO: Have any decisions
10 been made on where the first toll enter in the
11 Commonwealth from New Jersey is going to be?

12 MR. BRIMMEIER: No. I mean, Wilbur Smith,
13 our traffic and revenue firm, is working on that
14 right now, and again, as soon as we have, you know,
15 the tolling facilities -- and as you know, Act 44
16 provides for a maximum of 10. That doesn't
17 necessarily mean that there will be 10, but as soon
18 as the locations for those are provided for or the
19 suggested locations for those by Wilbur Smith, we
20 will have that information to you, Representative.

21 REPRESENTATIVE SCAVELLO: Normally when you
22 look at a toll location, would you consider whether
23 there are 77,000 vehicles a day over a
24 35,000-vehicle-a-day location? Does that come into
25 play at all if it is based on revenue?

1 MR. BRIMMEIER: Yes.

2 MR. CARSON: Frank Kempf, our Chief
3 Engineer, can answer that question a little better.

4 MR. KEMPF: Certainly the revenue generated
5 in any draft or any tolling location is a
6 consideration, but there are many other ones.

7 One is diversion, and in some places, just
8 picking the highest traffic would also dictate huge
9 diversions. We don't want to do that. We are not
10 interested in getting traffic off of I-80; we are
11 interested in keeping traffic on I-80.

12 So it is really an iterative process. We
13 will put some draft locations on the map. We will
14 run some traffic and revenue information based on
15 that, based on the results -- diversion, revenue
16 generation, environmental impacts, other
17 considerations. It will be another set.

18 As Joe said, once we are ready to go to the
19 public with a set of tolling locations precisely, we
20 will share that information with the Legislature.

21 REPRESENTATIVE SCAVELLO: Will the
22 Legislature be allowed to, for example, if one of
23 those locations is going to burden a community -- I
24 throw that 77,000 number out there. Between Route 33
25 and 380, there's a substantial amount of vehicles,

1 and then it veers off to 380.

2 Now, you cannot put a toll up on that hill
3 before 380 because you can't stop trucks, and I have
4 got 77,000 vehicles that are on the highway at that
5 point, and my concern is exactly what you just said.

6 And, you know, I am one of those that never
7 says never, you know. A diversion in that area would
8 gridlock my county -- gridlock it to no end. You
9 know, our population has doubled over the last 15, 16
10 years without any new infrastructure.

11 So, you know, I'm just hoping that Act 44 of
12 2007 goes the same way as Act 44 of 2005 -- it was
13 repealed. So I am hoping that Act 44 of 2007 goes in
14 that same direction.

15 Thank you, gentlemen.

16 MR. BRIMMEIER: Thank you.

17 REPRESENTATIVE KELLER: Representative Tim
18 Mahoney.

19 REPRESENTATIVE MAHONEY: Thank you, Mr.
20 Chairman.

21 Thanks, panel, for showing up today. It has
22 been a long day.

23 First of all, I want to agree with my
24 Representative friend, Don Walko. I have been on the
25 Indiana Turnpike, and there's no comparison to

1 Pennsylvania. If we are going to go in that
2 direction, then it is way out of whelm of which way
3 we want to take Pennsylvania.

4 Last year we passed Act 44 in this House.
5 We passed, I think, legislation that was on the
6 cutting edge of funding for mass transit and
7 transportation in the State of Pennsylvania.

8 My first question to you all, have you lived
9 up to Act 44 as the Turnpike?

10 MR. BRIMMEIER: Yes; we have.

11 REPRESENTATIVE MAHONEY: Has all the funding
12 been completed to the way that we set it up through
13 Act 44?

14 MR. BRIMMEIER: Yes, it has.

15 MR. CARSON: In excess of over half a
16 billion dollars passed over thus far.

17 REPRESENTATIVE MAHONEY: Have public
18 meetings been made for citizens to come in and voice
19 their concerns?

20 MR. BRIMMEIER: Yes; they have.

21 REPRESENTATIVE MAHONEY: Has the turnpike
22 looked ahead as far as -- let me go straight from the
23 heart.

24 The turnpike is probably one of the best
25 assets we have in the State of Pennsylvania. I think

1 it is run probably the best in the country, and for
2 us to not look at Act 44 that we passed last year and
3 go ahead with the funding for the transportation
4 problems that we have in Pennsylvania would be a
5 mistake.

6 I support wholeheartedly the way that we are
7 doing the funding with Act 44, and I think the
8 Turnpike is doing a great job.

9 And I have one more question: The Wilbur
10 Smith study, when will it be completed?

11 MR. BRIMMEIER: I can't answer that today.
12 You know, it is a work in progress. Hopefully soon,
13 but I can't give you a specific date right now,
14 because it is a work in progress.

15 REPRESENTATIVE MAHONEY: All right. And one
16 other thing I have to say.

17 The PSAs that you have done, I think they
18 were done professionally, I think they were done
19 honestly, and I think they were done in the right
20 manner to increase the E-ZPass application.

21 MR. BRIMMEIER: Well, thank you very much.

22 REPRESENTATIVE MAHONEY: Thank you.

23 REPRESENTATIVE KELLER: Representative Doug
24 Reichley.

25 REPRESENTATIVE REICHLEY: Thank you, Mr.

1 Chairman.

2 Gentlemen, I'll try to make this brief.
3 Just two quick questions on Act 44, and then I want
4 to move to another topic.

5 I take it that your somewhat unbridled
6 enthusiasm for Act 44 would be tempered if we were
7 talking about the Gordner legislation to segment off
8 the turnpike. Is that correct? Have you taken any
9 position on Senator Gordner's legislation to do
10 separate leases?

11 MR. BRIMMEIER: No. No, it is not our
12 position to take a position.

13 REPRESENTATIVE REICHLEY: You would be
14 opposed to it, I would gather.

15 MR. BRIMMEIER: I have no comment.

16 MR. CARSON: I can say I would be personally
17 opposed to it.

18 REPRESENTATIVE REICHLEY: Okay.

19 MR. CARSON: I'll go out on a limb.

20 REPRESENTATIVE REICHLEY: That's all right.

21 All we are looking for is some honest answers.

22 With regard to the \$500 million you just
23 cited or so of the payments that you have made
24 already, if for any reason Act 44 gets repealed -- I
25 apologize for not knowing the act well enough -- is

1 there any provision for that money to be refunded
2 back to the Turnpike Commission, or you are just on
3 the hook for having paid almost \$750 million in this
4 fiscal year?

5 MR. BRIMMEIER: Yeah; we roll the dice.

6 REPRESENTATIVE REICHLEY: Okay. Fair
7 enough.

8 The last question really deals with
9 something I brought up last week with Secretary
10 Biehler. Since you are in such a generous mood in
11 saying that you can maintain the current payment
12 obligations under Act 44, even if I-80 tolling is not
13 approved -- I think you said that based upon your
14 anticipation, a 25-percent increase in the tolls
15 2 years from now and the 3 percent after that -- you
16 can maintain the revenue stream that you need for the
17 payments for mass transit and highways and bridges,
18 as far as that.

19 MR. BRIMMEIER: The \$450 million that Act 44
20 provides or mandates that we provide PENNDOT, yes.

21 MR. CARSON: So that yearly number drops
22 down, in other words.

23 REPRESENTATIVE REICHLEY: I understand the
24 payment number, but you believe you can maintain that
25 level---

1 MR. CARSON: At the 450.

2 MR. BRIMMEIER: Yes.

3 MR. CARSON: That is correct.

4 REPRESENTATIVE REICHLEY: Right.

5 Under Act 3 of 1997, you received a flat
6 \$28 million Executive authorization and 14 percent of
7 the 55 mills of the oil company franchise tax from
8 Act 26 of 1991. All told, that is about \$87 million
9 coming from gas tax revenue over to the Turnpike, and
10 I think I sort of was curious to the fact that if we
11 advertise or you advertise or extol the fact that you
12 are a self-sustaining organization, then why should
13 any gas tax revenue be coming over to the Turnpike
14 Commission.

15 So I guess my question is, if you believe
16 that you can in fact sustain a \$450 million
17 obligation from your current revenue, can we get your
18 agreement today to repeal those past statutes so that
19 we can bring \$87 million, at the very least, back
20 over to the Motor License Fund to put that toward
21 road and bridge construction now?

22 MR. BRIMMEIER: Well, that money,
23 Representative, was obviously mandated that the
24 Turnpike build those projects, and specifically that
25 is the Mon/Fayette Expressway and the Southern

1 Beltway.

2 Last year, we got \$64 million from the
3 oil franchise tax and \$28 million from the Motor
4 License Fund.

5 To be very honest with you, those moneys are
6 already dedicated to the bond issues that were issued
7 to build the segments of the Mon/Fayette Expressway
8 and the Southern Beltway that have already been
9 constructed.

10 MR. CARSON: Yeah. If you will, that is
11 almost off-balance-sheet financing.

12 Those are specific projects, Act 61 projects
13 -- the largest one being, of course, the Mon/Fayette
14 and Southern Beltway -- that we have been in essence
15 named the general contractor for those projects. We
16 do them really separate and apart from the rest of
17 our system, which is sustained solely on the basis of
18 the toll revenues that we collect.

19 So it is a concept of kind of off balance
20 sheet. We only do the amount of projects that those
21 two revenue streams permit us to do, and we, as
22 Mr. Brimmeier was saying, we use those revenue
23 streams to bond, so they have already gone into
24 projects on Mon/Fayette and the Southern
25 Beltway.

1 REPRESENTATIVE REICHLLEY: I understand that,
2 but I believe that based upon what you are projecting
3 is that your anticipated healthy bond rating in the
4 future, even if I-80 tolling does not go through, in
5 your capacity, based upon the 25-percent increase
6 plus 3 percent year after year after that, you could
7 take over those obligations on the debt service and
8 return \$87 million back to the Motor License Fund for
9 road and bridge work to be done now within this
10 fiscal year and then the years after that.

11 So I would encourage you -- I understand
12 what you are saying, that there are certain
13 contractual obligations toward the debt service, but
14 if you believe that you have the wherewithal to still
15 provide that level of funding, which has been
16 described for Representative Manderino, for instance,
17 even if I-80 tolling does not go through, that you
18 should take a second look with the Administration and
19 the Legislature at repealing those provisions to get
20 that money back over to the Motor License Fund and
21 off the Turnpike Commission.

22 MR. BRIMMEIER: Thank you.

23 MR. CARSON: That would in essence take us
24 from the 450 up to 450 plus 87. I don't know that
25 the model would take that. I suspect it wouldn't,

1 but we will certainly take a look at it.

2 REPRESENTATIVE REICHLEY: Well, my last note
3 is, I appreciate, you know, and certainly you have
4 been a convenient whipping boy here today, but on one
5 note, Mr. Martino has been very responsive about an
6 issue we have back in the district, and in fact
7 I got a call yesterday afternoon on that same issue.
8 So I appreciate the response, and I am just looking
9 for more help on that, but it certainly is very well
10 appreciated. Thank you.

11 MR. BRIMMEIER: Thank you.

12 REPRESENTATIVE KELLER: Representative
13 Gordon Denlinger.

14 REPRESENTATIVE DENLINGER: Thank you, Mr.
15 Chairman.

16 I want to get back to the leasing of the
17 turnpike issue, just for a moment.

18 Is the PTC participating in the turnpike
19 lease process by cooperating with one of the teams
20 responding to the RFP? So to put a finer point on
21 this question, is there a group of employees within
22 the Turnpike Commission, within the broader base,
23 that is coming together to present its option of
24 leasing the turnpike?

25 MR. BRIMMEIER: No.

1 MR. CARSON: No; no.

2 MR. BRIMMEIER: No.

3 REPRESENTATIVE DENLINGER: Categorically no.

4 MR. CARSON: Categorically not.

5 MR. BRIMMEIER: No.

6 REPRESENTATIVE DENLINGER: Okay.

7 If in fact a group did form and approach on
8 that, would they be counseled by yourselves to seek
9 out the Attorney General's Office to make sure there
10 were not conflict-of-interest issues?

11 MR. BRIMMEIER: Well, I don't see it
12 happening. I mean, I would like to meet the group
13 that has the ability to put that kind of money
14 together. But no.

15 I would assume if that hypothetical case
16 were to exist, yeah, I guess they would have to be
17 cleared that there would not be a conflict of
18 interest.

19 REPRESENTATIVE DENLINGER: Well, it wouldn't
20 be assumed that they would raise the money personally
21 but would go out and seek bond counsel and make it
22 happen. Certainly employees by outside corporations
23 do happen.

24 MR. BRIMMEIER: Well, there may be previous
25 employees that are working with companies now that

1 are interested in leasing the turnpike, but there are
2 no present employees that are working with any groups
3 to buy, lease, the Pennsylvania Turnpike.

4 MR. CARSON: That we are aware of.

5 REPRESENTATIVE DENLINGER: Very good.

6 MR. BRIMMEIER: If you know something I
7 don't, I'll talk to you afterwards.

8 MR. CARSON: Yeah; let us know.

9 REPRESENTATIVE DENLINGER: Very good.
10 Thank you, Mr. Chairman.

11 REPRESENTATIVE KELLER: Thank you.

12 As you can see, Chairman Evans is back and
13 I'll be chastised for running 90 minutes late. But
14 there were 18 members with questions, and I think it
15 was very, very productive, and I doubt if the
16 Secretary of the Budget will have 18 members that
17 will question him.

18 Mr. Chair.

19 CHAIRMAN EVANS: Thank you.

20 One, I would like to thank all of you for
21 coming to testify before this House Appropriations
22 Committee and thank you for what you do for the
23 people of the Commonwealth of Pennsylvania, and thank
24 you for coming with such short notice.

25 So this hearing currently is adjourned. We

1 will take a 5-minute break, and then we will bring
2 Corrections and Parole before us.

3 Thank you very much.

4 MR. BRIMMEIER: Thank you.

5 MR. CARSON: Thank you, Mr. Chairman.

6

7 (The hearing concluded at 11:55 a.m.)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the
3 notes taken by me on the within proceedings and that
4 this is a correct transcript of the same.

5

6

7

Debra B. Miller, Reporter

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25