



INDEPENDENT FISCAL OFFICE

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June 13, 2013

The Honorable Dick L. Hess
Chairman
House Transportation Committee
213 Ryan Office Building
Harrisburg, PA 17120

Dear Chairman Hess:

Thank you for the invitation to share the results from the Independent Fiscal Office's (IFO) recent report on the Pennsylvania Turnpike. The office officially released the report on May 28, 2013, and the full report is posted on the IFO's website.¹ The report had two primary goals: (1) project toll transactions and revenues for calendar years 2013 through 2024 and (2) examine driver responsiveness to historical increases in cash and E-ZPass toll rates. The report does not address whether projected toll revenues will provide sufficient revenues for the Pennsylvania Turnpike Commission to fund future operations, maintenance, capital improvement projects, debt service and statutory transfers to the Department of Transportation.

The main results of the report can be summarized as follows:

- Toll revenues are highly correlated with economic conditions. The report assumes that the regional economy expands at a real (excludes inflation) rate of 2.0 percent per annum. A recession would have significant implications for projected toll revenues.
- Prior to the Great Recession, data from 1991 to 2007 show that total transactions (i.e., trips) increased at an average rate of 2.4 percent per annum and regional real economic growth expanded at an average rate of 2.3 percent per annum.
- If toll rates increase at the same rate as inflation, then traffic volume would be largely unaffected. It is only toll increases that exceed inflation that affect driver behavior. The economic forecast used for the analysis assumes that inflation will average 1.6 percent per annum.

¹ See www.ifo.state.pa.us.

- The report finds that Turnpike drivers are moderately responsive to higher tolls. The report finds that a 10.0 percent increase in real toll rates would reduce transactions by 1.5 to 2.5 percent compared to transactions that would occur with no increase in real toll rates. This responsiveness range is generally similar to other U.S. toll roads.
- The report considered three scenarios: an annual toll rate increase of 3.0, 4.5 and 6.0 percent. Under the baseline scenario (4.5 percent annual toll increase), annual transactions increased by 2.0 percent per annum. If the toll rate grows by 6.0 percent per annum, then the growth in annual transactions declines to 1.8 percent per annum. If the toll rate grows by 3.0 percent per annum, then the growth in annual transactions increases to 2.2 percent per annum.
- Under the baseline scenario (4.5 percent annual toll increase), revenues increase by 6.2 percent per annum. The analysis assumes that future driver responsiveness to toll rates remains constant. However, if toll rates rise faster than inflation, then drivers would become more responsive over time. Hence, revenue projections are somewhat overstated. It is unknown how quickly driver responsiveness would increase. The analysis can only quantify the current level of driver responsiveness based on historical changes in toll rates.
- The analysis assumes that the E-ZPass utilization rate will increase by one percentage point per annum. For CY 2012, the data show that most passenger (64.3 percent) and commercial (81.6 percent) vehicles used E-ZPass, and therefore were subject to considerably lower toll rates. If the E-ZPass utilization rate increases more quickly than forecast, that will reduce projected revenues, assuming that the existing toll rate differential between cash and E-ZPass users is maintained.

The report notes that it is possible that driver responsiveness to toll rates could increase much faster than anticipated (based on historical trends). Therefore, driver responsiveness should be re-estimated each year to ensure accurate projections of future toll revenues.

If you have further questions regarding the methodology or findings of the report, please do not hesitate to contact my office.

Sincerely,



Matthew Knittel
Director, Independent Fiscal Office