

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES

REPUBLICAN POLICY COMMITTEE HEARING

STATE CAPITOL  
MAIN BUILDING  
ROOM 418  
HARRISBURG, PENNSYLVANIA

WEDNESDAY, NOVEMBER 18, 2009  
10:00 A.M.

PRESENTATION ON  
AN EXAMINATION OF THE FAIR MARKET VALUATION ANALYSIS  
OF INTERSTATE 80

BEFORE:

HONORABLE STANLEY SAYLOR, MAJORITY CHAIRMAN  
HONORABLE BRIAN ELLIS  
HONORABLE JERRY KNOWLES  
HONORABLE JOHN PAYNE  
HONORABLE JIM CHRISTIANA  
HONORABLE SCOTT HUTCHINSON  
HONORABLE MICHELE BROOKS  
HONORABLE RUSS FAIRCHILD  
HONORABLE BRAD ROAE  
HONORABLE RON MILLER  
HONORABLE JOHN EVANS  
HONORABLE RICHARD GEIST  
HONORABLE SETH GROVE  
HONORABLE JIM COX  
HONORABLE DAVE REED  
HONORABLE RICHARD STEVENSON  
HONORABLE MARK KELLER  
HONORABLE CRAIG DALLY  
HONORABLE THOMAS KILLION

---

**JEAN DAVIS REPORTING**

**7786 Hanoverdale Drive • Harrisburg, PA 17112**  
**Phone (717) 503-6568 • Fax (717) 566-7760**

BEFORE (cont.'d):

HONORABLE TINA PICKETT  
HONORABLE ADAM HARRIS  
HONORABLE KEITH GILLESPIE  
HONORABLE DICK HESS  
HONORABLE JERRY STERN  
HONORABLE PAUL CLYMER  
HONORABLE KAREN BEYER  
HONORABLE KATHY RAPP  
HONORABLE KERRY BENNINGHOFF  
HONORABLE DAVID MILLARD  
HONORABLE DONNA OBERLANDER  
HONORABLE MATTHEW GABLER  
HONORABLE CHERYL DELOZIER  
HONORABLE WILL TALLMAN  
HONORABLE MARIO SCAVELLO  
HONORABLE KAREN BOBACK  
HONORABLE DOUG REICHLEY  
HONORABLE BERNIE O'NEILL  
HONORABLE MARGUERITE QUINN

I N D E X  
TESTIFIERS

<u>NAME</u>	<u>PAGE</u>
Brian Chase	4

P R O C E E D I N G S

\* \* \*

CHAIRMAN SAYLOR: Good morning, everyone.

We will proceed and get started. I want to thank everybody for coming this morning. October 2007, the Pennsylvania Turnpike Commission submitted an application to the Federal Highway Authorization seeking authorization to impose tolls on Interstate 80. That application was rejected on the grounds that the Commission's application did not reflect I-80's fair market value.

On October 29th of this year, the commission resubmitted its application. The Commission selected Provident Capital Advisors to assess the fair market value of I-80, despite the fact that the firm has no experience providing capital advice and analysis and despite the fact that other firms with demonstrated expertise in analyzing the finances of roads and related infrastructure were available.

The relative inexperience of this firm on these issues calls into question the validity of its conclusions concerning the fair market value of I-80.

The House Republican Policy Committee is holding this hearing to consider the validity of the fair market valuation completed by Provident Capital's assessment of I-80 market value. PennDOT,

1 Pennsylvania's primary transportation authority, and  
2 Secretary Buehler declined our invitation to  
3 participate in today's hearing. I personally met with  
4 representatives from the Turnpike Commission and  
5 granted the request to have Patrick Mooney managing  
6 director to Provident Capital Advisors, to testify  
7 here today; however, since that initial conversation,  
8 the Turnpike has declined to participate.

9 Mr. Brian Chase, an independent consultant  
10 on public/private partnership, is here today to  
11 examine with us to help us to understand the important  
12 questions regarding the valuation of I-80.

13 Mr. Chase specializes in creating and  
14 implementing innovative strategy for financing and  
15 developing large infrastructure projects both in the  
16 United States and internationally. He has served as  
17 vice president of the Carlyle Group, a global private  
18 equity firm, and frequently works on private/public  
19 partnerships, P3s, enabling legislation procurements,  
20 strategy, and project implementation involving toll  
21 roads, transit systems, high speed rail, water and  
22 wastewater treatment plants, ports, airports, flood  
23 control facilities, and border crossing  
24 infrastructure.

25 Mr. Chase, thank you for coming today. And

1 you may begin your testimony. Before we do that, let  
2 me -- I forgot one housekeeping business. Let me ask  
3 the members to my right to introduce themselves and  
4 then we'll go to my left to introduce themselves,  
5 their district and counties they represent. Will  
6 Representative Mark Keller please start?

7 REPRESENTATIVE KELLER: Wow. Representative  
8 Mark Keller, 86th district. I represent Perry and  
9 Franklin County.

10 REPRESENTATIVE DELOZIER: Sheryl Delozier, I  
11 represent Cumberland County and the 88th District.

12 REPRESENTATIVE KILLION: Tom Killion,  
13 Chester and Delaware County.

14 REPRESENTATIVE KAUFFMAN: Rob Kauffman, 89th  
15 Franklin and Cumberland.

16 REPRESENTATIVE PICKETT: Tina Pickett,  
17 Bradford, Sullivan, and Susquehanna counties.

18 REPRESENTATIVE PAYNE: John Payne, Southern  
19 Dauphin County.

20 REPRESENTATIVE ELLIS: Brian Ellis, Butler  
21 County.

22 REPRESENTATIVE TALLMAN: Will Tallman, Adams  
23 and York.

24 REPRESENTATIVE OBERLANDER: Donna  
25 Oberlander, 63rd, Clarion, Armstrong.

1                   REPRESENTATIVE CHRISTIANA: Jim Christiana,  
2                   15th District in Beaver County.

3                   REPRESENTATIVE KNOWLES: Jerry Knowles,  
4                   124th, Burks and Schuylkill.

5                   REPRESENTATIVE HUTCHINSON: Scott  
6                   Hutchinson, 64th District, Venango and a portion of  
7                   Butler County.

8                   REPRESENTATIVE BOBACK: Karen Boback, 117,  
9                   parts of Luzerne, Wyoming, and Columbia counties.

10                  REPRESENTATIVE RAPP: Kathy Rapp, 65th  
11                  District, Warren, Forest, McKean counties.

12                  REPRESENTATIVE GABLER: Matt Gabler, 75th  
13                  District, Clearfield and Elk counties.

14                  CHAIRMAN SAYLOR: Representative Gillespie  
15                  and you introduce yourselves.

16                  REPRESENTATIVE GILLESPIE: Thank you,  
17                  Mr. Chairman. Good morning. Keith Gillespie, 47th  
18                  District, eastern part of York County.

19                  REPRESENTATIVE STEVENSON: Thank you,  
20                  Mr. Chairman, Representative Dick Stevenson, 8th  
21                  District, Mercer and Butler counties.

22                  CHAIRMAN SAYLOR: Representative Cox.

23                  REPRESENTATIVE COX: Jim Cox, 129th  
24                  District, Western Berks County.

25                  REPRESENTATIVE GROVE: Seth Grove, 196th

1 District, central western York County.

2 REPRESENTATIVE MILLARD: David Millard,  
3 109th District, Columbia County.

4 REPRESENTATIVE EVANS: John Evans, 5th  
5 District, Erie and Crawford counties.

6 REPRESENTATIVE MILLER: Ron Miller, York  
7 County.

8 REPRESENTATIVE ROAE: Brad Roae, 6th  
9 District, Crawford County.

10 REPRESENTATIVE FAIRCHILD: Russ Fairchild,  
11 85th District, Snyder and Union County.

12 REPRESENTATIVE BROOKS: Michele Brooks, 17th  
13 District, Mercer, Lawrence, and Crawford counties.

14 REPRESENTATIVE GEIST: Thank you,  
15 Mr. Chairman. If I may have a little latitude here,  
16 I'd like to introduce Joe Markosek, my good friend  
17 from Plum.

18 VOICE: What is his district?

19 REPRESENTATIVE MARKOSEK: That was Allegheny  
20 Westmoreland County.

21 REPRESENTATIVE Geist: And where's  
22 Representative Longetti?

23 REPRESENTATIVE LONGETTI: Hello, Mark  
24 Longetti, representative from the 7th district, Mercer  
25 County. Thank you.

1           REPRESENTATIVE GEIST: And the two guys who  
2 came in, I don't know their names.

3           REPRESENTATIVE SCAVELLO: Mario Scavello,  
4 176 District.

5           REPRESENTATIVE REICHLEY: Doug Reichley,  
6 134th.

7           REPRESENTATIVE STERN: Jerry Stern from the  
8 80th District.

9           REPRESENTATIVE REED: Dave Reed, Indiana  
10 County, 62nd District.

11          CHAIRMAN SAYLOR: Very good, Mr. Chase, you  
12 may begin. Thank you.

13          MR. CHASE: Great, and thank you very much  
14 for inviting me, Representative Saylor. And just to  
15 introduce myself briefly again, I'm here in a personal  
16 capacity -- green light. Is that better?

17                 Thank you for inviting me and I'm here  
18 basically to discuss some of the various legal and  
19 transportation policy issues that are related to the  
20 potential tolling of Interstate 80.

21                 And just to introduce myself a little bit  
22 more, I worked both for government agencies that are  
23 interested in public/private partnerships and also on  
24 the private sector side to make investments in  
25 public/private partnerships. And really, if I could

1 just sort of summarize what I did on the public side,  
2 I was looking to maximize competition among the  
3 private sector partners as much as possible. And  
4 really on the private side the game was the opposite.  
5 It was to look for advantages where you can limit  
6 competition or, you know, have a competitive edge in  
7 the bidding process.

8 So that's my background. I don't have a  
9 political ideological bias with respect to the tolling  
10 of I-80. I support tolling of the interstate highway  
11 system under the right circumstances. It's just in  
12 this particular case I don't think it's appropriate.

13 And I'm also not what one former federal  
14 official with whom I used to work referred to as a PPP  
15 panacea. I don't see public/private partnerships as  
16 the solution for all of the transportation funding  
17 challenges that Pennsylvania's experiencing, but I do  
18 think it can be a useful tool under the right  
19 circumstances.

20 I also have a very strong interest in  
21 passenger and freight mobility because I think it can  
22 really enhance U.S. competitiveness. And because of  
23 my recent work abroad, I've really seen close up what  
24 other countries are doing to improve their own  
25 transportation networks through the use of

1 public/private partnerships.

2 I was asked to give you a little more detail  
3 about my experience, and I'll try not to bore you with  
4 all the ups and downs of my career and what I've been  
5 doing. I'll try and tie it specifically to what's  
6 happening here with the potential tolling of I-80.

7 What I'm doing right now is basically three  
8 things. I'm working with the World Bank and the Asian  
9 Development Bank to develop public/private partnership  
10 legislation and programs in various countries around  
11 the world. I've been very active in Indonesia and  
12 just starting to do some work on Mongolia and actually  
13 have used some of Representative Geist's bill as  
14 inspiration for some of the provisions we're working  
15 on there.

16 I'm also advising a small international firm  
17 called Castalia, which is focused on infrastructure  
18 finance and economic consulting. And what that  
19 basically means is they're not for or against  
20 public/private partnerships. They just want to see  
21 the efficiency -- more efficiency in the delivery of  
22 transportation and the public services related to  
23 transportation facilities.

24 And finally, the last thing is kind of a  
25 personal interest that I've been talking to a lot of

1 the public pension funds in the United States which  
2 are interested in investing in infrastructure but  
3 aren't quite sure how they want to do it. And so I've  
4 been working with them to try and develop new -- new  
5 method or new vehicles for them to participate in  
6 things like the transportation network in  
7 Pennsylvania. So I'll talk about that a little bit  
8 more.

9           Until -- before that, as was mentioned, I  
10 was vice president of the Carlyle Group. And there I  
11 focused on developing investment opportunities for the  
12 investors in the \$1.1 billion infrastructure fund they  
13 have. Those investors were primarily public pension  
14 funds, so that's another reason why I'm very familiar  
15 with what their interests are with respect to  
16 investment.

17           I also was following very closely during  
18 that time Governor Rendell's Pennsylvania Turnpike  
19 lease proposal, but I -- but Carlyle did not actively  
20 participate in that process, in the bid process,  
21 primarily for two reasons. Because, first of all, we  
22 didn't think it represented a good long-term  
23 investment opportunity for our investors. It  
24 basically was a type of infrastructure credit card  
25 where you're -- an elected official would be given the

1 chance to charge a lot of money against a future asset  
2 and then it would be up to other people to have to  
3 repay that later on. And I've written about that and  
4 you can see there's -- in my written notes there's  
5 some reference as to some of the materials I did for  
6 Stanford University on that. Also, there was no legal  
7 framework to actually enter into a PPP agreement, and  
8 so we basically saved our investors millions of  
9 dollars by not participating in a process that really  
10 hadn't been well thought out.

11 On the other hand, we did respond to the  
12 Turnpike Commission's request for expressions of  
13 interest on the Mon-Fayette Expressway. And, you  
14 know, we're very interested to explore opportunities  
15 for PPPs where they made sense and where you had a  
16 willing public partner.

17 Just finally, the last -- the last thing I  
18 was involved in is at the Nossaman Law Firm, that's a  
19 law firm that specializes in representing government  
20 agencies that want to access private sector investment  
21 to improve their transportation programs. I worked  
22 very closely with the U.S. Department of  
23 Transportation in trying to understand what different  
24 states are doing with respect to their PPP legislation  
25 and help them identify best practices. So I'm pretty

1 familiar with what a lot of the states have done and  
2 what worked and what didn't work. And definitely it's  
3 very difficult to undertake any particular PPP without  
4 having a legislative framework first.

5           Some of the deals that I worked on are  
6 mentioned in my notes. I won't go into detail, but  
7 the Pocahontas Parkway concession was a 99-year lease  
8 which on first glance might seem similar to the  
9 turnpike lease that was proposed, but it was actually  
10 quite different. Because rather than taking all the  
11 proceeds up front in one lump sum payment at the  
12 beginning of the lease, it involved innovative revenue  
13 sharing that basically, if the deal was more  
14 profitable than what the public sector expected, they  
15 could recapture more of the profits that would  
16 otherwise have gone to the private sector partner.  
17 And that's an important provision because it makes the  
18 partnership more sustainable over a long term, as  
19 opposed to where all the money is taken up front.

20           The second part of it that was interesting  
21 was that it had a termination for convenience  
22 provision that allowed the Virginia Department of  
23 Transportation to get out of the deal within, I think  
24 it was, about 30 years rather than having to go  
25 through the full 99 years. So it gave the public

1 partner a little more flexibility.

2           Also, I guess the more relevant deal that I  
3 worked on is on behalf of the Georgia Department of  
4 Transportation. I helped them respond to an  
5 unsolicited proposal they received to convert a  
6 highway, which was State Route 316, from a free  
7 facility into a toll facility.

8           And so I understand firsthand what some of  
9 the challenges are and what the public opposition is  
10 likely to be if it's not done correctly. And you  
11 know, more informally I guess I can say I still have  
12 some of the lash marks on my back from the public  
13 opposition from that deal. And in some ways, it was  
14 much more comparative to toll in that instance because  
15 there was huge safety issues involving existing  
16 facility and it required further investment to upgrade  
17 it to reduce the number of traffic deaths.

18           Another just background is my former boss at  
19 Nossaman is Karen Hedlund, and she is now the chief  
20 counsel at the Federal Highway Administration who will  
21 be considering the I-80 -- involved in the I-80  
22 tolling application review. And so I -- you know, I  
23 understand that she's very interested in good public  
24 policy. And although I haven't spoken to her about  
25 this, I think that she'll be very focused on that in

1 her review.

2           Turning now just to the Provident Capital  
3 Advisors market valuation of proposed lease, I see  
4 several problems. And I won't list all the problems,  
5 but I'll just highlight the two or three major ones  
6 that I think are worth further exploration.

7           First of all is the lack of independence by  
8 Provident Capital Advisors. As was mentioned, they  
9 were hired in July 2009 by McCormick Taylor, which is  
10 a Turnpike Commission consultant. And even if they're  
11 not being paid directly by the Turnpike Commission,  
12 they most likely are being paid indirectly through the  
13 McCormick Taylor contract. And under these  
14 circumstances, it would be very difficult for them to  
15 render a fair and independent valuation.

16           It would basically be like if you wanted to  
17 borrow money from a bank to buy a house and you as the  
18 borrower were allowed to prepare the appraisal and  
19 then submit it to the bank for the amount you think  
20 you should be able to borrow.

21           And under these circumstances, I think it's  
22 more appropriate for the Federal Highway  
23 Administration to hire its own consultant to do this  
24 analysis, and possibly have that paid for by the  
25 Turnpike Commission as part of their -- the

1 application process.

2           The second issue is the lack of credibility,  
3 that was already mentioned, at Provident Capital  
4 Advisors. Until just a few days before they rendered  
5 this opinion and were actually engaged by McCormick  
6 Taylor, they were known as Provident Health Care  
7 Coalition. And in doing the review and being  
8 interested in what had been happening with the tolling  
9 of I-80, I did my one review and just curious to see  
10 who this entity was that I had never heard of and dug  
11 a little more into their corporate records and  
12 realized that they didn't have much of a track record,  
13 in fact any track record, in issuing these types of  
14 opinions.

15           So I guess my questions would be how many  
16 opinions of this type has Provident Capital Advisors  
17 issued in the last several years, who were the  
18 clients, and how much were they paid to prepare such  
19 opinions. And secondly is why wasn't a more reputable  
20 and experienced firm hired to do this work. And a  
21 typical firm that would do this work would be someone  
22 like Houlihan Lokey. So why weren't these types of  
23 firms considered?

24           The third thing is in reviewing the deals  
25 that were used to compare -- compare the valuation

1 results, they all tended to be older, public/private  
2 partnership deals. And it was seemed to be sort of a  
3 selective cherry picking of what the comparable deals  
4 were. And I've listed three or four of the deals that  
5 I think should have been included. At least even if  
6 they weren't included in the actual analysis, they  
7 definitely should have been analyzed and there should  
8 have been some discussion of -- by Provident Capital  
9 Advisors of why they were not included, because these  
10 are some of the most significant transactions that  
11 have been done, multi-billion dollar transactions that  
12 have been done in the last two or three years.

13 I'll leave it to others to get more into the  
14 details of the opinions. These are just three broad  
15 areas of concerns. There's other areas that I think  
16 if you engage someone to do a review, page by page,  
17 that would be uncovered related to the capital  
18 expenditure needs and the timing of those investments,  
19 the projected traffic growth, and the discount rate  
20 that was used, but I'll leave that for another  
21 discussion.

22 Some other relevant considerations based on  
23 my professional experience, I think it's very unlikely  
24 that the Turnpike Commission will be able to actually  
25 convert Interstate 80 into a toll facility, and

1 primarily for two reasons. Even if they're -- even if  
2 they're able to obtain the legal support or legal  
3 authorization by the Federal Highway Administration, I  
4 just think there will be significant public  
5 opposition, as we've already seen. And that's  
6 primarily because -- well, for several reasons.

7 First of all, there's a lot of public  
8 uncertainty about the promised improvements that have  
9 been promised. I believe it's about 2.5 billion. And  
10 it's even if -- I think there's a lot of uncertainty  
11 about whether or not those proposed improvements are  
12 even necessary, and if they are necessary will they  
13 actually be delivered when promised. You know,  
14 there's a difference between a promise being made  
15 about future capital expenditure and then actually a  
16 legal obligation to do that. And there's no legal  
17 obligation here to actually undertake the improvements  
18 that have been proposed.

19 I'm also not aware of any highway,  
20 interstate highway that's been successfully converted  
21 into a toll facility. And for these reasons I think  
22 this particular interstate is unlikely to be the first  
23 one that is approved by the federal government.

24 A second point is the ongoing criminal  
25 investigations. There's been a lot of discussion

1 about potential significant ethical lapses among  
2 turnpike personnel. I don't have any insight into  
3 how -- what the merits or not are of those charges as  
4 have been reported by the various news organizations.  
5 All I can say is that that will represent a major  
6 distraction for the Turnpike Commission's management,  
7 which will make it more difficult for them to execute  
8 on any plan they have for the tolling of Interstate  
9 80.

10 There's also -- you could go into more  
11 detail about some of the contracts that were  
12 questionable that the Turnpike Commission entered into  
13 involving Michael Palermo and others, but I'll leave  
14 that. I think you're more familiar with that than I  
15 am.

16 The -- another element that's likely to lead  
17 to public opposition to the tolling of I-80 is the  
18 lack of competition for entering into the lease. I  
19 think this proposal of the Turnpike Commission was  
20 never subject to any third-party competition or an  
21 objective independent analysis of the advantages and  
22 disadvantages of the particular approach. And so I  
23 think it's less likely that the general public will  
24 support it for those reasons. Also, for my  
25 perspective, just my personal opinion that Act 44

1       seemed to be kind of a desperate short-term measure to  
2       avoid an immediate crisis. But it didn't really make  
3       any significant improvements in how transportation  
4       infrastructure and services are delivered. And for  
5       that reason I don't think it's a long-term sustainable  
6       solution to the, you know, the real problems that --  
7       in underinvestment that you're facing here in  
8       Pennsylvania.

9               And then finally, the last -- the last  
10       criticism, I guess, I would offer of the current  
11       proposal is that it doesn't encourage public pension  
12       fund investment or participation in solving  
13       Pennsylvania's transportation policy challenges.

14               And just as a little background, public  
15       pension plans from the United States are increasingly  
16       interested in infrastructure and they want to invest  
17       in infrastructure. And the current lease structure  
18       just fails to encourage that type of investment. And  
19       the two trends -- two trends you may not be aware of  
20       is that there's, first of all, the increasing pension  
21       plan interest in the infrastructure investing, and the  
22       second is the growing dissatisfaction they have with  
23       existing investment vehicles that are available to  
24       them to actively invest in transportation assets like  
25       Interstate 80 and the mainline turnpike plaza.

1           And just to give you three examples that are  
2 recent, Dallas Police and Fire Pension Fund has taken  
3 a 10 percent equity interest in a couple of managed  
4 lanes, toll lanes projects in Texas. CalPERS, which  
5 is the largest public pension fund in the United  
6 States, has made a proposal to invest in the Virginia  
7 ports, the Virginia ports. And then the Ontario  
8 Municipal Employee Retirement System, which is the  
9 most active public pension fund in North America, has  
10 entered into a joint venture with the publicly owned  
11 and city owned Houston Airport.

12           So there's a lot of very interesting and  
13 innovating structures put in place to help fund  
14 infrastructure. And the U.S. public pension funds  
15 really are like the U.S. sovereign wealth funds, and I  
16 think it would be a good idea for Pennsylvania to at  
17 least look at how they might get them more involved in  
18 your transportation issues.

19           So finally, just a couple of observations,  
20 and maybe some modest proposals for your  
21 consideration. I'd recommend to you that the federal  
22 highway -- that you ask the Federal Highway  
23 Administration to conduct its own independent  
24 financial valuation of the Turnpike Commission's I-80  
25 lease payments and do so with the assistance of a

1     reputable and experienced financial advisor of the  
2     type I mentioned before. And Representative Smith has  
3     already taken a first step in this direction, and now  
4     I think it requires further follow-up.

5             Secondly, I would recommend that you pass  
6     enabling legislation to facilitate public pension plan  
7     investment of Pennsylvania's transportation system,  
8     and that you pursue a programmatic approach that  
9     relies on value for money and cost benefit analysis  
10    before significant transportation investment decisions  
11    are made.

12            And finally, I encourage you to meet  
13    directly, don't take my word for it, meet with the  
14    group of U.S. public pension funds that are actively  
15    considering how to invest in infrastructure right now.  
16    And that will help you gain some insights into what  
17    their interests are and how you might be able to  
18    involve them in making investments in Pennsylvania.  
19    Thank you very much.

20            CHAIRMAN SAYLOR: Thank you, Mr. Chase.  
21    Before I start on questions, I wanted to recognize  
22    some members who have joined us since the hearing  
23    started. Representative Adam Harris from Mifflin and  
24    Juniata has joined us. Representative Craig Dally of  
25    Northampton County has joined us. Representative Dick

1 Hess of Bedford County, Representative Bernie O'Neill  
2 of Bucks County, Representative Paul Clymer of Bucks  
3 County as well. Representative Jerry Stern as well  
4 has joined us, who is the caucus secretary.

5 The one thing I did want to note and read  
6 into the record, as you mentioned, Representative Stan  
7 Smith who is from Jefferson County, the republican  
8 leader, in his letter to Secretary La Hood -- I'm just  
9 going to take one paragraph out of his letter and read  
10 it into the record.

11 It basically says to Secretary La Hood, It  
12 appears if you go to the company's website,  
13 Provident's mission is the operation of  
14 state-of-the-art health, education, senior living, and  
15 multifamily housing facilities and services across the  
16 country, not evaluating or valuating major highways.  
17 The company runs and operates 14 jails, correctional  
18 facilities and other types of housing units in a  
19 number of states, and their website does not even  
20 mention capital analysis as an area of expertise,  
21 which draws into question, as Representative Smith and  
22 Representative -- Mr. Chase, you've mentioned, the  
23 questions of their evaluation of I-80.

24 We'll start questioning today with  
25 Representative Michele Brooks.

1           REPRESENTATIVE BROOKS: Thank you so much  
2 for being here and addressing our questions and our  
3 concerns regarding this proposal.

4           I actually have two questions. One, what  
5 are your thoughts on how the analysis actually does  
6 not explain how the lease payments from the Turnpike  
7 Commission to PennDOT were calculated, although the  
8 Federal Highway Administration specifically requested  
9 this information?

10          MR. CHASE: That's a good question. That  
11 was one of the requests that the Federal Highway  
12 Administration made for additional follow-up. And I  
13 didn't see that topic covered whatsoever in the  
14 valuation opinion that was prepared. And I also  
15 didn't see it anywhere else in the application as I've  
16 reviewed it.

17          REPRESENTATIVE BROOKS: So in your expert  
18 opinion, do you think that's a major deficiency then  
19 in the resubmission of the complication?

20          MR. CHASE: Yes, I do.

21          REPRESENTATIVE BROOKS: Okay. Thank you  
22 very much. My second question is, in your comments  
23 you had mentioned that this proposal may be turned  
24 down by the Federal Highway Administration because of  
25 the public dissent or outrage of this plan. Can you

1 further elaborate on that?

2 MR. CHASE: I guess the way I would pose it  
3 is that in order for -- and there hasn't been any  
4 successful attempt so far to convert a nontolled  
5 highway into a tolled facility, but one of the major  
6 policy recommendations that we made when I was at the  
7 Nossaman Law Firm is that it's very important to use  
8 the proceeds that result from tolling a facility  
9 within that corridor. And if you're using them, for  
10 example, to basically fund urban mass transit systems  
11 that are totally away from the corridor, that will  
12 tend to undermine public support, because they won't  
13 see significant improvements or at least can't be  
14 assured that they'll see significant improvements on  
15 the facility that they're using on a daily basis. So  
16 that's one of the most important policy considerations  
17 that we think is necessary in order to be successful  
18 in actually tolling a facility.

19 REPRESENTATIVE BROOKS: And in your opinion,  
20 as you have followed this, do you feel that those  
21 dollars are going to be diverted into the urban areas  
22 that would not meet the requirements for the approval  
23 of this application?

24 MR. CHASE: I do. I mean, there's kind of a  
25 complicated discussion or dance that the Turnpike

1 Commission has presented for why, you know, the money  
2 is unrelated. But I think most people who looked at  
3 Act 44 and understand the background of how Act 44 was  
4 implemented understand that it was to deal with a  
5 crisis in funding for the transit systems in the urban  
6 areas.

7 REPRESENTATIVE BROOKS: I want to thank you,  
8 Mr. Chase, very much for your expert opinion and your  
9 testimony today. And also for drawing attention that  
10 there is great, widespread opposition to this  
11 movement. And really, it's gone above opposition.  
12 It's more like outrage in how this has transpired and  
13 been railroaded through. And I hope sincerely that  
14 the Federal Highway Administration takes a very  
15 serious look at how this all happened. Thank you very  
16 much.

17 CHAIRMAN SAYLOR: Representative Karen  
18 Boback.

19 REPRESENTATIVE BOBACK: Thank you,  
20 Mr. Chair. Mr. Chase, do you consider, aside from the  
21 turnpike and I-80, are there any other major  
22 thoroughfares that go east west across the entire  
23 state here in Pennsylvania?

24 MR. CHASE: I don't remember offhand what  
25 the numbers are for the other interstate systems, but

1 typically it doesn't make sense to toll one particular  
2 interstate without having more of a regional plan for  
3 how you're going to keep traffic from being diverted  
4 to non-tolled interstates in the area. So I also  
5 haven't seen much of a discussion of how traffic  
6 diversion issues would be dealt with in the proposal  
7 that's being submitted.

8 REPRESENTATIVE BOBACK: But aside from the  
9 two major thoroughfares, turnpike and I-80, there are  
10 no others, are there, going east west in Pennsylvania?

11 MR. CHASE: Not that I'm aware of.

12 REPRESENTATIVE BOBACK: So then both their  
13 fares would be tolled and tolled at the same rate, if  
14 this should go through?

15 MR. CHASE: I believe that's right.

16 REPRESENTATIVE BOBACK: And, Mr. Chase, in  
17 other states that toll their interstates, do you have  
18 any data that shows how it impacts manufacturing,  
19 transportation, or businesses in general?

20 MR. CHASE: I don't personally, but I  
21 believe the Transportation Research Board, which is  
22 funded by the U.S. Department of Transportation, has  
23 information about that, as well as the International  
24 Bridge, Tunnel, and Turnpike Association.

25 REPRESENTATIVE BOBACK: Thank you. Last

1 question, the beltway in Virginia where you do have  
2 one lane of the fast lane, how is that going? Is  
3 it -- do you consider it successful? And how much  
4 money is derived? When will it be paid for for  
5 itself?

6 MR. CHASE: It's a couple of additional  
7 lanes that will use congestion pricing. It basically  
8 what the -- what the framework is is that you can't --  
9 you can't build your way out of construction. You  
10 have to be able to better utilize your existing  
11 infrastructure footprint. And so what's being done in  
12 that case, and it's under construction right now, so  
13 it's not a up-and-running facility yet, but it's  
14 designed to increase mobility, especially for transit  
15 services will be allowed to use these congestion  
16 pricing lanes for free so that will make transit rides  
17 more stable, and, you know, very innovative and  
18 brought a lot of private sector investment and  
19 expertise.

20 If I could just say more generally, the U.S.  
21 is not recognized as a leader internationally in  
22 public/private partnerships except in two areas.  
23 First of all, unsolicited proposals is a development  
24 that the U.S. has come up with that hadn't been used  
25 extensively anywhere else in the world. And then,

1 secondly, variable priced toll lanes is the second --  
2 second innovation that a lot of other countries are  
3 studying or now duplicating.

4 REPRESENTATIVE BOBACK: Thank you very much,  
5 Mr. Chase. Thanks for being with us.

6 CHAIRMAN SAYLOR: Just to -- would you -- I  
7 know in your industry there are words and groups that  
8 you mention sometimes. Would you talk to the  
9 committee, before we continue with questioning, what  
10 TRB is and what they do?

11 MR. CHASE: It's -- it's a group of  
12 individuals in the public and private sectors and  
13 academics who are interested in various aspects of  
14 transportation research, so it's a huge organization.  
15 It studies everything from safety to traffic and  
16 revenue, how you figure out where traffic and revenue  
17 will be for future projects. And they meet annually  
18 in Washington, D.C. And it's literally thousands of  
19 people who attend. And they focus on individual  
20 research topics and hear the findings of what research  
21 was done in the last year. And it receives funding  
22 from the U.S. Department of Transportation.

23 CHAIRMAN SAYLOR: Thank you. Representative  
24 Scott Hutchinson.

25 REPRESENTATIVE HUTCHINSON: Thank you very

1 much for your testimony. Before I ask a question, I  
2 did want to say, I think it's very important to note,  
3 as you noted briefly, but the fact that, although, you  
4 know, you and I are different, differ in one respect,  
5 which is you're not inherently opposed to tolling  
6 I-80, which I am inherently opposed to it; however,  
7 you said there are so many problems with this, I think  
8 that that brings a specific -- you know, that brings a  
9 different side to this -- to this whole argument that  
10 we're trying to make, that even if you're in favor of  
11 tolling certain interstates, then it has to be done  
12 the right way. And this one was -- is clearly in so  
13 many ways not done the right way. So thank you for  
14 bringing that objectivity to this discussion that  
15 we're having today.

16 I wanted to go a little bit further into  
17 what you -- I'm sorry. I didn't catch the name, but  
18 you referred to your -- I believe your boss in a  
19 previous time who's now working at the Federal Highway  
20 Administration and will be one of the key folks  
21 looking at this reapplication. And wanted to know if  
22 you feel that this proposal under -- is it -- that was  
23 a female.

24 MR. CHASE: Karen Hedlund.

25 REPRESENTATIVE HUTCHINSON: Yes, thank you.

1 Do you feel that she will give this a thorough  
2 objective, we're asking for objectivity obviously, and  
3 follow the letter of the law when she looks at this  
4 application this time around? You know, we're very  
5 afraid of political influence playing a part in this  
6 decision. And I just want your opinion on this.

7 MR. CHASE: I should first make it clear  
8 that, you know, I'm not having any discussions with  
9 Karen or anyone else at the U.S. Department of  
10 Transportation --

11 REPRESENTATIVE HUTCHINSON: Sure,  
12 absolutely.

13 MR. CHASE: -- about I-80 or the tolling and  
14 trying to influence their decision in any way.

15 REPRESENTATIVE HUTCHINSON: Absolutely.

16 MR. CHASE: But what I can say with having  
17 worked very closely for Karen Hedlund for three years  
18 when I was at Nossaman, is that she probably knows  
19 more about public/private partnerships than anyone  
20 else that's currently in the administration. She will  
21 follow the law very closely and will not be influenced  
22 by any political groups that may have an opinion one  
23 way or the other.

24 So I think you can be confident that  
25 she'll -- she'll be very fair. And, you know, the one

1 thing, if I could speak with her, I would just suggest  
2 that she has her own independent valuation done to  
3 see, you know, to see whether or not the level of the  
4 rent payments is really fair. And the second thing I  
5 would just say is why I'm concerned about I-80 being  
6 approved for tolling by the Federal Highway  
7 Administration is I think it will be so controversial  
8 and will ultimately fail and it will make it that much  
9 more difficult for other governors to consider tolling  
10 their interstate systems where it makes more sense to  
11 do so.

12 REPRESENTATIVE HUTCHINSON: Thank you. And  
13 you started to get into what my follow-up question  
14 was. And that is, do you believe that the Federal  
15 Highway Administration will, without prompting, or are  
16 they required to have an independent analysis that  
17 you're referring to? Do you think they will do that  
18 as a matter of course or will they just accept what  
19 they got, or is it going to take a lot of people  
20 beating on their -- on their door saying, you know,  
21 please get a third-party financial analysis of this?

22 MR. CHASE: I think it's going to take some  
23 active engagement on the part of the Policy Committee.  
24 From what I've reviewed in the valuation committee --  
25 in the valuation opinion that was prepared is it has a

1 section talking about the methodology was agreed in  
2 advance with the Federal Highway Administration. What  
3 isn't clear to me, though, from what I read in the  
4 Provident Capital Advisor's valuation is whether or  
5 not the identity of who would be issuing the opinion  
6 was really fully disclosed. I would find it hard for  
7 the Federal Highway Administration to have much  
8 confidence in an entity that really only came into  
9 existence a few days before it issued the opinion.

10 So I would just encourage you to send them a  
11 letter and explain to them why it, under these  
12 circumstances, will help the public feel better that a  
13 fair valuation was done by hiring an independent  
14 valuation expert.

15 REPRESENTATIVE HUTCHINSON: And you feel  
16 that that -- any cost of that would be -- should be  
17 born by those applying, right, in this case the  
18 Turnpike Commission?

19 MR. CHASE: Absolutely.

20 REPRESENTATIVE HUTCHINSON: Thank you. You  
21 know, many of us are extremely disappointed that the  
22 Turnpike Commission decided to apply again. And even  
23 though several months ago the Governor said it's a  
24 waste of time, then all the sudden he decided that  
25 it's not a waste of time anymore. So that makes many

1 of us very suspect of what's going on. And, you know,  
2 we intend to fight this to the end. So thank you for  
3 your sharing your expertise today.

4 MR. CHASE: One other quick point on that is  
5 I just would encourage the members of the policy  
6 committee to speak with some of their colleagues in  
7 Georgia to better understand what their experience was  
8 in their attempt to toll State Route 316 and listen to  
9 them about the -- you know, the public opposition and  
10 why that proposal failed.

11 REPRESENTATIVE HUTCHINSON: Thank you.  
12 Great idea.

13 CHAIRMAN SAYLOR: Representative Dick  
14 Stevenson.

15 REPRESENTATIVE STEVENSON: Thank you,  
16 Mr. Chairman. And thank you, Mr. Chase, for your time  
17 and your testimony today. Those of us who oppose this  
18 move on behalf of the administration and the Turnpike  
19 Commission need information. And you've been very  
20 helpful in that regard today.

21 One of the concerns you mentioned in your  
22 testimony, I believe, or one of the issues you  
23 mentioned was that to date no interstate highway has  
24 been converted to a toll road. Did I understand that  
25 correctly?

1           MR. CHASE: That's correct, to the best of  
2 my knowledge. And I follow pretty closely.

3           REPRESENTATIVE STEVENSON: So there's been  
4 no conversion of an existing interstate to a toll  
5 road; this is a trial balloon that we're working with  
6 here?

7           MR. CHASE: That's right. It's the program  
8 that allows for conversion has been around now for  
9 more than a decade, but no -- no particular interstate  
10 system has gone all the way through the approval  
11 process.

12           REPRESENTATIVE STEVENSON: And I think in  
13 addition to that comment you also indicated that I-80  
14 would be a very poor candidate for the first  
15 conversion; is that correct?

16           MR. CHASE: Yes, it is.

17           REPRESENTATIVE STEVENSON: And are you  
18 speaking about the structure of the road, the  
19 logistics, or how it could be converted? Are those  
20 the items that you're concerned about, or the other  
21 items that you talked about today?

22           MR. CHASE: It's primarily the policy  
23 framework in which the attempt is going forward makes  
24 it much less likely that public support will be  
25 obtained to convert it into a toll facility. And so

1 it's primarily for that reason, I think it will create  
2 unnecessary controversy, just like some of these asset  
3 modernization lease deals have done, and will make it  
4 more difficult to -- for governors to use that as a  
5 tool where it's appropriate.

6 REPRESENTATIVE STEVENSON: And does that  
7 also take into account the economic hardship that this  
8 change would place on the communities that host I-80?

9 MR. CHASE: Absolutely. That should be part  
10 of the cost benefit analysis. So in certain -- in  
11 certain countries, for example, where I'm working,  
12 it's important to upgrade a highway and convert it  
13 into a toll facility in order to improve passenger and  
14 freight mobility. And so in some circumstances I  
15 really do believe it's a viable option. But I don't  
16 see that that analysis has been done here for  
17 Interstate 80. And I think that makes it less likely  
18 to be successful.

19 REPRESENTATIVE STEVENSON: Thank you. Thank  
20 you very much for your testimony. Thank you,  
21 Mr. Chairman.

22 CHAIRMAN SAYLOR: Representative Mario  
23 Scavello.

24 REPRESENTATIVE SCAVELLO: Thank you,  
25 Mr. Chairman. Good morning. Good morning, Mr. Chase.

1 Thank you for your testimony.

2 I'm one of those that believes, you know, we  
3 do have a transportation, a dollar problem fixing our  
4 roads; however, tolling I-80 is a regional solution to  
5 a statewide problem. And it's on the backs of the  
6 citizenry that uses that I-80 corridor.

7 I want to go back to that economic issue  
8 that Representative Stevenson talked about earlier,  
9 because I have a trucking company that the  
10 announcement of tolling I-80, he was thinking of  
11 either growing there or growing somewhere else.  
12 700-some-odd jobs, and cut right in half with just the  
13 announcement. And now he's just pulled out totally.  
14 I've lost 700 jobs in my area from a trucking company.

15 Another company that we attracted was J&J  
16 Distribution Center. And if they had any inkling that  
17 I-80 would be tolled, they already told me they  
18 wouldn't have been here.

19 And my concern is, and for any of the  
20 legislators in that I-80 corridor, anyone looking at  
21 our area for, you know, transportation, for any  
22 warehousing, whatever, is not going to put their  
23 plants in our community. So those are possible jobs  
24 that we're going to lose. But how about the ones that  
25 are there that we might lose?

1                   MR. CHASE: I'm sorry. I didn't understand  
2 the --

3                   REPRESENTATIVE SCAVELLO: Well, I just  
4 talked about the possibilities of companies look out  
5 in our area off that corridor to attract because of  
6 the interstate and the availability and everything.  
7 And how about the businesses already that are existing  
8 in that corridor? I just talked about an example in  
9 my area. But how about these other legislative areas  
10 where if I-80 gets tolled, it's going to have an  
11 impact on them, and the impact on -- the economic  
12 impact in those communities as well?

13                   MR. CHASE: If I understand your question  
14 correctly, it's very important to consult with the  
15 local businesses to better understand what impact  
16 tolling could have on their businesses, both existing  
17 businesses and businesses that may never come to the  
18 region or leave the region.

19                   In some areas, if the program is handled  
20 properly, for example congestion pricing in some of  
21 the urban areas on new toll facilities, Fed-Ex and  
22 some of the other local businesses actually support  
23 the tolling effort because it helps make their drivers  
24 more efficient and able to do, say, 30 percent more  
25 deliveries than they otherwise would be, so they're

1 happy to pay the toll under those circumstances.

2 In this case, I don't -- I don't understand  
3 whether or not that has actually been done, that kind  
4 of analysis. And it seems to me from what I've been  
5 reading and following and talking to people that there  
6 isn't local support because they don't see any benefit  
7 for their businesses.

8 REPRESENTATIVE SCAVELLO: In my area, we use  
9 I-80 as a local road, we'll jump on for an entrance,  
10 exit, jump off again. And if there's a local toll,  
11 the local roads, which are already burdened -- we have  
12 no new roads to speak of since I-80 was built. What  
13 we're going to do is we're going to take those highway  
14 drivers and put them onto the local roads. And we've  
15 got congestion as it is. Our population doubled. And  
16 I see that in the Bloomsburg area and I see that in  
17 others where we use it as a local road. It just  
18 wasn't built for this.

19 And I just thank the Chairman for having  
20 this hearing. And hopefully we can open up some eyes  
21 in D.C. that this is not the thing to do, to put a  
22 toll on the back -- you know, even if you don't drive  
23 that highway, you say, well, it's not going to bother  
24 me, but if any service that you receive either in your  
25 home or any trucks deliver to any community delivering

1 groceries or whatever else, that toll is going to be  
2 seen in the pricing that you get for a service in your  
3 home or a price at the supermarket or whatever else.

4 We've got one trucking company, a  
5 supermarket company that said it's going to cost them  
6 a couple million dollars in tolls because they're  
7 pretty much all that business in that I-80 corridor.  
8 That is going to come right out of their bottom line.  
9 Those are the effects. It's absolutely scary that  
10 we're talking about 20 tolls and it originally was 10  
11 on each side. It's just the wrong thing to do at the  
12 wrong time. Thank you.

13 CHAIRMAN SAYLOR: I want to recognize  
14 Representative Karen Beyer who has joined us, and  
15 Representative Marguerite Quinn as well.

16 Next for questioning is Representative Rick  
17 Geist.

18 REPRESENTATIVE GEIST: Thank you very much,  
19 Brian. It's really something for a person of your  
20 stature to come before this committee. And we really  
21 appreciate it. You're one of the experts in the  
22 world. And I consider it very fortunate for us to be  
23 able to hear you.

24 One of the problems that we have with this  
25 whole process is credibility. And we've had that

1 credibility problem since the very beginning. And we  
2 were fed so much misinformation for so long that Joe  
3 Brimmeier who runs the turnpike had a press conference  
4 in Europe and announced that the Federal Highway had  
5 approved the deal, which sent shock waves to a lot of  
6 us, because the Turnpike hadn't been communicating  
7 with us at all.

8           So we went down to Washington and met with  
9 Jim Ray and Marcus Lemon, and to find out really what  
10 was going on, which was they hadn't even considered it  
11 yet. The decision wasn't even, you know, it was --  
12 they were working on it. They were doing the due  
13 diligence within the department.

14           Since then I've had the pleasure of reading  
15 Jim Ray's comments and Marcus Lemon's, and having  
16 Marcus Lemon come in and discuss this in my office.  
17 To now go through this process again without really  
18 doing, I call it, a socioeconomic impact statement, I  
19 think that that's the necessity that should have been  
20 made there and wasn't from what we read now.

21           How did he get that kind of credibility  
22 back? What do you do in a body like this to get the  
23 credibility with the members of the House? How do you  
24 do that? How do you recover that? How do you do the  
25 work that's necessary, because we've been working with

1 P3s now for eight years. We need a good P3 built in  
2 Pennsylvania. And this -- this dance has gone on,  
3 whether it was the whole spin on foreign ownership or  
4 that the highway was going to be moved, everything  
5 that we heard, there was so much misinformation and  
6 true spin put out there.

7 What do we need to do and what do we need to  
8 do as a policy committee to make sure that we have  
9 accurate, bulletproof information that we can put out?

10 MR. CHASE: That's an excellent question.  
11 Just to get -- just to give a little more background,  
12 the way public/private partnerships first came up on a  
13 national level in the United States was through asset  
14 modernization deals in Chicago and also Indiana, which  
15 were basically these large upfront deals I was talking  
16 about. And that isn't the way that projects have  
17 proceeded in most other countries.

18 Typically how they -- they don't just sort  
19 of randomly suggest an asset for a public/private  
20 partnership. They have much more of a programmatic  
21 approach. And they really analyze all the potential  
22 projects and see which ones really make sense in terms  
23 of maximizing cost benefit and maximizing the value  
24 for money of public dollars.

25 So in order to have that kind of credibility

1 in Pennsylvania, I think the P3 legislation would have  
2 to have a similar programmatic approach and really not  
3 have an ideological bias in favor or against trying to  
4 do public/private partnerships for particular  
5 projects, but just using experts to really figure out  
6 where -- help the representatives figure out where it  
7 makes sense and where it doesn't.

8 For tolling I-80, for example, if there had  
9 been a commission at the state level that looked at  
10 all the potential elements of the interstate highway  
11 system within Pennsylvania and had done a cost benefit  
12 analysis, tried to figure out what the socioeconomic  
13 impact would be on the particular region, how  
14 improving freight mobility and passenger mobility  
15 would add to economic development of those areas, I  
16 think that would be a much stronger basis from which  
17 to proceed with an application to the federal  
18 government to toll the -- toll the facility and that  
19 would help to build public support, because the  
20 benefits of doing so would be much clearer than they  
21 are in this case.

22 CHAIRMAN SAYLOR: Representative Rapp.

23 REPRESENTATIVE RAPP: Thank you,  
24 Mr. Chairman. Thank you, Mr. Chase, for being here.  
25 It's been very informative. I'm sure this is going to

1 kind of dovetail a little bit on how you responded to  
2 Representative Geist. I was extremely curious to see  
3 that Provident Capital Advisors manages a facility in  
4 my district in Marionville, Pennsylvania, a juvenile  
5 facility, before they did this analysis.

6 You mentioned another company, corporation,  
7 I'm not sure how to end their name here, Houlihan  
8 Lokey. How -- what could we have expected from an  
9 analysis from them in comparison to what we have from  
10 Provident Capital Advisors?

11 Just to let you know, I live near or on or  
12 just above Route 6 and then 1786 in New York State.  
13 Some of my truckers have said to me that they would  
14 use those routes if 80 was tolled, which Route 6  
15 would -- I just can't imagine that traffic being  
16 diverted to Route 6. And then obviously the -- it  
17 would take the business away from Pennsylvania if  
18 those truckers moved up to 1786.

19 Kind of two questions there, but if you can  
20 give me a comparison of what we could have expected  
21 from the other firm compared to what we have, and then  
22 some -- expand a little bit on the diversion.

23 MR. CHASE: Sure. And I probably should  
24 make clear that, you know, I'm not receiving any kind  
25 of benefit from recommending Houlihan Lokey.

1           REPRESENTATIVE RAPP: Or any firm.

2           MR. CHASE: Or any firm. They're just an  
3 example of a firm that's well-known for providing  
4 these types of valuations, and which I don't believe  
5 was involved in any of the turnpike lease process.

6           So I guess what's more important is, in  
7 addition to being an independent firm with experience  
8 is who's directing their analysis. And I think you  
9 would have seen -- in their opinion you would have  
10 seen a much more robust discussion of some of the more  
11 recent public/private partnership transactions that  
12 were done. And as a result, that would have improved  
13 the credibility and the value of the opinion. So  
14 that's one of the main benefits. And I think they  
15 would have done a little more careful analysis into  
16 the timing of the capital expenditures and also what  
17 the projected traffic growth is in connection with  
18 those capital expenditures.

19           On the -- on the diversion issue, I'm not  
20 aware of what the -- I know there's been some work by  
21 the Turnpike Commission on dealing with potential  
22 diversion issues, but I believe that they -- they've  
23 concluded that there won't be significant traffic  
24 diversion issues. And I'm just not enough into the  
25 technical details to understand what the merits are.

1 But I don't believe that's covered in the valuation  
2 opinion.

3 REPRESENTATIVE RAPP: Thank you. Thank you,  
4 Mr. Chairman.

5 CHAIRMAN SAYLOR: Representative Tallman.

6 REPRESENTATIVE TALLMAN: Thank you,  
7 Mr. Chairman. Thank you, Mr. Chase, for being here.  
8 Just a couple, and you may not have the expertise.  
9 It's going to tailor in with what Representative  
10 Scavello and Representative Rapp were speaking.

11 Currently I live in Adams County. And if  
12 I'm going west and I don't -- not time pressed, I'm  
13 going to jump on 322, either take 144 up through  
14 Centre Hall, get on 80 there or I'm going to take 322  
15 all the way to Clearfield and get on 80 there because  
16 I don't want to pay the exorbitant tolls that our  
17 turnpike is currently charging.

18 But my question is, I'm an independent  
19 owner-operator and I am picking up a load in  
20 Wellsboro, Pennsylvania. Economics 101 is going to  
21 say that I am going to go north to pay the post and  
22 grab 17 if I'm going to head west to Cleveland.  
23 There's a short stretch in there where it goes through  
24 the Indian reservation, but basically it's a four-lane  
25 highway. And 17 I guess isn't considered, but

1 that's -- you're -- any of those northern tier  
2 counties, that's right there. And I think 322 is  
3 going to receive increased traffic. And I don't know  
4 if you can address those.

5 I mean, I remember as a boy travelling from  
6 Lock haven, you know, we would head west to  
7 Pittsburgh. You know, Chairman Geist up there, we'd  
8 take 22 up through Ebensburg. But there's all kinds  
9 of ways that you can bypass a toll road, including the  
10 Pennsylvania Turnpike.

11 So I think the diversion issue has to be a  
12 huge economic player, especially when you got a  
13 four-lane highway just north of the New York State  
14 line.

15 MR. CHASE: I agree. And I'm not familiar  
16 with the details of what the -- what the expected  
17 traffic diversion is, but traffic diversion off of a  
18 interstate system onto the local roads can raise  
19 serious safety issues, in addition to the economic  
20 issues. So that's something that has to be very  
21 carefully considered as part of any effort to toll an  
22 existing facility.

23 CHAIRMAN SAYLOR: Representative Jerry  
24 Knowles.

25 REPRESENTATIVE KNOWLES: Thank you,

1 Mr. Chairman. And, Brian, thank you for taking time  
2 out of your busy schedule to join us.

3 There was discussion about the lack of  
4 relevant qualifications and background in this arena.  
5 And I would be curious. Do you think that the FHWA  
6 will take that into consideration when they do this  
7 analysis?

8 MR. CHASE: I don't know whether or not they  
9 will or even if they have. But I think they should.  
10 And I guess it just -- the way that -- the way this  
11 has gone forward with this particular Provident  
12 Capital Advisors and the name change just days before  
13 they were hired, it just undermines the public support  
14 for any effort to toll. So I think that they should  
15 be very concerned about it.

16 REPRESENTATIVE KNOWLES: Thank you very  
17 much.

18 CHAIRMAN SAYLOR: Representative Matt  
19 Gabler.

20 REPRESENTATIVE GABLER: Thank you very much,  
21 Mr. Chairman. And thank you for your testimony, and  
22 this is an issue that is very near and dear to my  
23 heart. In fact, I can hear the rumbling of the  
24 vehicles going on Interstate 80 from my back porch.

25 I wanted to go and address a couple of the

1 issues that have been brought up through the course of  
2 the questions here. I want to start with the  
3 credibility issue. And I thought you brought up a  
4 great point that there's a real deficiency of  
5 credibility in this whole process. But one that's  
6 really struck me is I think back especially to the  
7 summer of 2007 when this whole thing was first  
8 percolating, and the Turnpike Commission took a very  
9 active advocacy role in trying to build public support  
10 because they wanted to expand their scope of influence  
11 in the state. And there were actually radio ads  
12 running in my local area saying this is going to  
13 benefit Interstate 80, this is going to be an infusion  
14 of funds, and don't believe what -- what the opponents  
15 are telling you; we're not going to be putting a dime  
16 into mass transit in Pittsburgh and Philadelphia.

17 Now this sounds like a bit of doublespeak to  
18 me because I've seen numerous applications, in fact,  
19 I've had -- I've had a gentleman from the Port  
20 Authority of Allegheny County come to me and say, boy,  
21 if this Act 44 thing doesn't work out, I don't know  
22 how we're going to make next year's budget work.

23 And I said, Wait a minute. The Turnpike  
24 Commission ran radio ads in my area spending, I would  
25 assume, toll money from people who are currently

1 running 70, 76, and 476, spending their money in an  
2 advocacy role to try and build their power and build  
3 their influence in this state to try to convince us of  
4 something that seems to me to be an outright lie.

5 Would you agree with that analysis?

6 MR. CHASE: I mean, I wouldn't agree exactly  
7 with that, but I think the general point is correct.  
8 I also think that what's really going on here is  
9 there's a battle behind the scenes of municipal bond  
10 advisors who work very closely with the Turnpike  
11 Commission now and they see public/private  
12 partnerships or, you know, Governor Rendell's process  
13 as disruptive of these existing economic relationships  
14 that are in place. So they've been very anxious to  
15 prevent public/private partnerships from being  
16 considered as an option on kind of a fair  
17 apples-to-apples basis.

18 And that's one of the reasons why this  
19 particular firm, Provident Capital Advisors, I  
20 believe, was hired, because they have that same bias  
21 in favor of only using public finance for upgrades.

22 REPRESENTATIVE GABLER: And I think that's a  
23 great insight there. The other thing is just it  
24 occurs to me that if you had mentioned about a way to  
25 build credibility on this issue would be if we had a

1 board without a preset bias that could look at  
2 transportation routes all over the state and come up  
3 with unbiased determination, what would be the best  
4 place to go to. But instead we just ended up with a  
5 piece of legislation that went right for Interstate  
6 80.

7           And what I suspect is that there was a  
8 political math problem, arithmetic problem that was  
9 done in there. When you add it up, I mean, this  
10 becomes a geographic question around the state that  
11 certainly there's a lot more elected officials that do  
12 not live on the I-80 corridor than do. And I think  
13 that kind of adds to some of the difficulty in having  
14 this discussion openly.

15           And, you know, there's -- there's great  
16 people all over this state. And I don't question the  
17 integrity of anybody, but there is -- you know,  
18 everybody is thinking about their own backyard first.  
19 I mean, that certainly comes to pass. But that's why  
20 I think it's important to have this discussion in a  
21 way that really analyzes what is the best way forward  
22 for this state as a whole.

23           And I just like to offer in kind of going  
24 back to Representative Scavello's offering of the  
25 concern about his 700 jobs, I've had a number of

1 companies economically that are taxpayers to the state  
2 of Pennsylvania, not just in my backyard, but they  
3 have signalled some severe concerns about what it  
4 could do to their operations.

5 One, I have a paper factory in my district  
6 that has run some numbers. And there's both a mill in  
7 Johnsonburg and a converting facility in DuBois. And  
8 taken together, they estimate that the toll -- the  
9 tolling plan would cost them or add to their costs  
10 \$880,000 a year. And that's a huge number of jobs in  
11 my area. That's -- when you've got a company that has  
12 facilities all over the country, now all the sudden  
13 our area doesn't look competitive to be located there.  
14 And I don't want -- I don't think that as a state,  
15 whether you live in Philadelphia or whether you live  
16 in Pittsburgh or whether you live in Elk County, we  
17 would want to put ourselves in that position.

18 And there's been a number of them. I have a  
19 uniform rental facility in my district that they run  
20 all over the state, that they located there because  
21 they can get on I-80 and go. And to be able to have  
22 to add -- I guess what I'm building up to and is the  
23 fact that to change the rules on somebody after  
24 they've already located there seems to be a pretty  
25 difficult thing to do. And this goes back to your

1 point about converting from a free road to a toll  
2 road.

3 And even looking at a contrast, what is the  
4 difference between a road like I-80 and a road like  
5 Interstate 70, 76, is that there is -- when the  
6 turnpike was built, you still had Route 30. And any  
7 business that was there, if they found it wasn't -- if  
8 it wasn't economically feasible for them to pay tolls  
9 to run an east-west road, they still had the old  
10 east-west road that they could continue running and it  
11 wouldn't impact their business at all. But if they  
12 decided it was more profitable, they could make their  
13 own cost benefit analysis.

14 So maybe I just wanted to ask if you could  
15 give me a little bit of your thoughts about the  
16 difference economically between building a brand new  
17 toll road and converting a road from free to toll.

18 MR. CHASE: Sure. It's my experience that  
19 no highway user likes to pay a toll, but they are  
20 willing to do so if they see some kind of value for  
21 their money. So being able to demonstrate that value  
22 for the toll that's being paid is really the key  
23 element to build public support. That can be easier  
24 to do on a green field facility, a new interstate  
25 system that didn't exist before. In some ways that's

1 more logical because it's something new and people  
2 realize the benefit.

3 But even for existing corridors where  
4 additional lanes are added and they're tolled  
5 sometimes at very high level -- in California, for  
6 example, the variable toll at the highest can be a  
7 dollar per mile. And they're willing -- they're  
8 willing to pay that because they have both a certainty  
9 about what they're -- what their travel time will be  
10 and there's even a money back guarantee that if they  
11 experience congestion and their speed drops below a  
12 certain level that they'll get their toll back. So  
13 that's a real value for their money. And to be able  
14 to toll I-80 successfully you'd have to be able to  
15 demonstrate that same type of benefit for the direct  
16 users of the facility. And I don't believe that's  
17 been done in this case.

18 REPRESENTATIVE GABLER: Thank you very much.  
19 The other thing, just in order to toll Interstate 80  
20 there would be a significant amount of investment that  
21 would need to be made in facility, toll plazas in  
22 order to convert it to the proper format to have  
23 tolls.

24 Have you had any ability to look at the  
25 numbers to see -- because there need to be a number of

1 millions of dollars invested into getting the  
2 facilities up and running before toll money could be  
3 collected. Do you have any insight into how long it  
4 might take to break even on this proposal?

5 MR. CHASE: I don't. I'm not familiar  
6 enough with the details of where the toll gantries  
7 would be placed and what the plan is. I would say,  
8 however, that the initial projections that were made  
9 about traffic and revenue from the leasing of I-80  
10 seemed to have been incorrect. And I don't -- I'm not  
11 aware of any reason to think that the most recent  
12 estimates are any more accurate than what had been  
13 prepared at the time when Act 44 was entered into.

14 REPRESENTATIVE GABLER: Thank you very much.  
15 Thank you for your kind indulgence on the questions  
16 and appreciate your input.

17 CHAIRMAN SAYLOR: Representative Fairchild.

18 REPRESENTATIVE FAIRCHILD: Thank you very  
19 much. Thank you for coming here today. First I'd  
20 like to say I'm extremely disappointed that PennDOT,  
21 Provident. And the turnpike refused to appear at this  
22 public hearing.

23 REPRESENTATIVE GEIST: Amen.

24 REPRESENTATIVE FAIRCHILD: I think we're at  
25 the stage in this process where rumors are rampant

1 that this decision is going to be made very quickly in  
2 Washington, D.C., and given -- if no other reason,  
3 given that reason, we should certainly expect those  
4 that will play a role to be open and be able to attend  
5 or send people to attend hearings such as this.

6 Mr. Chase, I'm getting back to the original  
7 concept of this hearing, on the qualifications, et  
8 cetera, of Provident, I'm trying to put it together in  
9 my head what transpired here. And I go back to the  
10 premise that once the hearing -- or once the  
11 application was sent back as denied or incomplete by  
12 the Federal Highway Administration under a republican  
13 administration, there were those that in a very short  
14 period of time -- both legislators, turnpike  
15 officials, administration officials -- publicly  
16 stated, well, we'll wait until the next  
17 administration, if the next administration is Obama  
18 administration takes over in Washington, D.C.

19 You stated that you kind of believe that  
20 politics are not going to play a role in this  
21 decision. It seems to me that there's a plethora of  
22 evidence out there that many, many people think that  
23 politics, indeed, will play a role in this decision.

24 And I'd just like, my first question is I'd  
25 like a comment, you know, your experience. Do the

1 political players play a role in any of these  
2 decisions?

3 MR. CHASE: I guess I'm not so naive as to  
4 believe that no political pressure will be brought to  
5 bear on the consideration of this. But in terms of  
6 actually reviewing the proposal on its merits, I have  
7 a lot of confidence in the people that I know on the  
8 Department of Transportation staff that they'll review  
9 it very fairly.

10 I guess one other point I didn't make  
11 earlier, so I've been involved for at least 10 years  
12 in tolling of highways and public/private partnerships  
13 in the United States. And during those 10 years, I've  
14 never come across Provident Capital Advisors or  
15 Provident Resources Group.

16 So I just don't think they play any role  
17 that I'm aware of in the industry and are not  
18 attending conferences, they're not involved in any of  
19 the transactions or the PPP programs that have been  
20 developed over the last 10 years. So that's in  
21 addition to your point.

22 I'm sure there will be some preliminary  
23 consideration, but I think it would be unfortunate if  
24 that was what the deciding factor was on whether or  
25 not to proceed with the tolling of I-80.

1           REPRESENTATIVE FAIRCHILD: Are you aware  
2 that one of the board members of Provident served on  
3 the national democratic finance committee campaign?

4           MR. CHASE: I'm not aware of that. But I am  
5 aware of other advisors to the Turnpike Commission  
6 that are former Department of Transportation staff  
7 members and have their own network of relationships  
8 within -- within the department. And I'm sure they'll  
9 be -- have been using those to try and influence what  
10 the outcome is.

11           REPRESENTATIVE FAIRCHILD: Thank you. Just  
12 a brief statement. Again, this is a troubling  
13 situation, especially given what is happening not only  
14 here in the capital, but with Auditor General Wagner's  
15 audit of different departments, what is happening with  
16 the Attorney General's and the FBI's investigation of  
17 the turnpike. I believe that we have to err on the  
18 side of public disclosure. We don't want to embarrass  
19 the Governor, the Turnpike Commission, the Department  
20 of Transportation, or the General Assembly.

21           And I believe -- and I caution the federal  
22 government to look into all aspects of allegations and  
23 political ties on both the higher levels and the lower  
24 levels, the lobbyists that walk throughout this  
25 Commonwealth. Thank you very much, Mr. Chairman.

1           CHAIRMAN SAYLOR: Thank you. Representative  
2 Michele Brooks.

3           REPRESENTATIVE BROOKS: Those who support  
4 this concept, and this kind of builds on an earlier  
5 question, but those who support this concept are  
6 falling back on the idea that, well, the turnpike has  
7 been -- we've been paying and our businesses have been  
8 paying for the turnpike for years. Why shouldn't the  
9 people from out 80, along Route 80 do the same? Could  
10 you talk a little bit about the impact and really the  
11 ill-conceived notion or excuse of using that, since  
12 one was built as a toll way and one was built as a  
13 freeway, and what the difference in that logic really  
14 is and what it means to the families and the  
15 businesses and the farmers along the I-80 corridor?

16           MR. CHASE: That's a difficult and hard  
17 question. But basically I think it comes down to when  
18 you start off with a facility that's been built  
19 primarily with federal and state gas taxes and then  
20 you decide that you're going to convert it into a  
21 tolled facility, you really have to be able to show  
22 what the benefits are for the local users of that  
23 road, including residents and businesses. And if  
24 you're not able to do that, I just believe, from my  
25 experience -- that you'll be unable to successfully

1 convert that facility into a tolled facility.

2 For a facility that's always existed or was  
3 built through the use of tolls, it's a little bit more  
4 difficult for the general public to see exactly what  
5 they're getting for -- for their money, because  
6 they're used to paying the tolls. And it's usually  
7 only when there's a dramatic increase in the tolls  
8 that they begin to look at what they're actually  
9 receiving in return for paying those tolls.

10 REPRESENTATIVE BROOKS: In your years of  
11 experience, there are people that are pushing this  
12 that are saying, well, the legislators and the  
13 businesses and the farmers and the families are  
14 exaggerating the consequences and the hardships that  
15 are going to occur when this happens.

16 In your experience over the years, the  
17 people that are living along that corridor and that  
18 are in the trenches and are creating the jobs, have  
19 you had experience that they overexaggerate the  
20 hardships that something like this will bring to them,  
21 or are you open to or I understand and hearing that  
22 really maybe they do know what they're talking about,  
23 those businesses, farmers, and families, and that the  
24 people that are pushing this maybe aren't hearing  
25 that?

1           MR. CHASE:  Honestly, I don't have much  
2           direct experience in interacting with the specific  
3           users for a -- for a facility that's trying to be  
4           converted from nontolled to tolled.  But I just think  
5           it's very difficult, if you don't have their support,  
6           the local public support along that corridor, and you  
7           can't -- you can't explain to them very clearly what  
8           the improvements are that they're going to benefit  
9           from, then your effort, whether or not it's to convert  
10          nontolled to a tolled facility or even to increase  
11          tolls on an existing tolled facility, that effort's  
12          likely to fail.

13           REPRESENTATIVE BROOKS:  In your expert  
14          opinion, does this resubmitted application meet the  
15          criteria to toll this road?

16           MR. CHASE:  I don't believe it does because  
17          there was not a competitive process to -- to figure  
18          out what the fair value of the lease of I-80 would be.  
19          And even if there was not going to be a competitive  
20          process, there wasn't an independent valuation  
21          conducted by an experienced firm that's active in the  
22          area.  So no, I don't believe it does.

23           REPRESENTATIVE BROOKS:  Thank you,  
24          Mr. Chase.  I hope that this decision is purely made  
25          on the facts and that politics at its worst does not

1 interfere in this decision that's going to affect  
2 many, many working families and struggling businesses  
3 and family-owned farms across the I-80 corridor.  
4 Thank you very much.

5 CHAIRMAN SAYLOR: The last questioner,  
6 Representative Dave Millard.

7 REPRESENTATIVE MILLARD: Thank you,  
8 Mr. Chairman. Thank you, Mr. Chase, for being here  
9 today. A lot of our comments today that we have heard  
10 from the panel has been concerning the confidence, the  
11 confidence in Provident Capital Advisors as being a  
12 new entity supposedly coming out of nowhere to, you  
13 know, conduct a study on behalf of the support from  
14 the tolling of 80.

15 Well, let's take a minute and talk about the  
16 negative effects. And I have Ed Edwards here from our  
17 chamber back in Columbia County. And when this act  
18 was passed a couple years ago, we had one of the first  
19 hearings in Columbia County. And, again, many of the  
20 members alluded to the negative effects that it will  
21 have on businesses that are in their area. My area's  
22 no different. But I want to focus on cause and effect  
23 here, Mr. Chase.

24 For every dollar that the tolling of 80 will  
25 bring in for the intended purpose outlined by the

1 Turnpike Commission, is it your belief -- it certainly  
2 is mine, but I'm curious to know what you feel -- is  
3 it your belief that it will cause an equal amount of  
4 damage on secondary roads that are not capable of  
5 handling the loads that will be diverting off of 80  
6 that do not want to pay those tolls?

7 In other words, is it going to -- the bottom  
8 line here -- erase the intended benefit? You're going  
9 to benefit one situation somewhere else and create an  
10 equal or greater damage in another area? And I'm  
11 interested in knowing, this is a two-part question, in  
12 your feeling, with your vast experience, the weight  
13 that a study along that vein would have with the  
14 Federal Highway Administration.

15 MR. CHASE: I think it would be very  
16 important to -- the type of study you're describing is  
17 what we call in the industry a cost benefit analysis.  
18 And I'm not aware that any type of -- that type of  
19 analysis has been done. But my gut instinct would  
20 tell me that the benefits of tolling I-80 are probably  
21 outweighed by the economic costs on the local  
22 community, and that the majority of the benefits will  
23 actually be transferred to urban areas for transit  
24 systems.

25 So I can't really give you a specific

1 opinion other than tell you my instincts and my  
2 experience telling me that I-80 is not an appropriate  
3 facility to be tolled and certainly not as a first  
4 facility for Pennsylvania to try and move forward  
5 with.

6 REPRESENTATIVE MILLARD: And you believe  
7 that the highway administration will try and take some  
8 of this into account? I know it's been pointed out by  
9 many of the members.

10 MR. CHASE: I think they will consider it.  
11 I don't recall offhand, though, whether or not they  
12 have any legal obligation to consider the cost -- cost  
13 benefit analysis or any input into how that's  
14 prepared. So I believe there is competing studies  
15 right now, some of which that were prepared for the  
16 Turnpike Commission, show that the benefits exceed the  
17 cost; and then some other -- other ones that were  
18 prepared by local academics that indicate that they --  
19 the cost would exceed the benefits.

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

22 CHAIRMAN SAYLOR: The final question from me  
23 as chairman of the policy committee is, Mr. Chase,  
24 you've had a lot of associations with different  
25 groups, a lot of financial groups in particular and

1 investment groups.

2 Can you tell me what you've been hearing out  
3 there as far as has there been any discussion among  
4 those financial groups and the industry as to this  
5 tolling of I-80?

6 MR. CHASE: I'd say the general -- general  
7 opinion right now of the investment community, at  
8 least among public pension funds and other private  
9 investors, is there's a big red flag over Pennsylvania  
10 right now because of the previous attempts to lease --  
11 lease the Turnpike system without having enabling  
12 legislation in place and many millions of dollars were  
13 spent trying to develop a proposal that made sense for  
14 Pennsylvania.

15 And the way Act 44 has gone forward and the  
16 way that the lease of I-80 was structured between  
17 PennDOT and the Turnpike Commission, I'd say there's  
18 generally a soured -- soured impression of  
19 Pennsylvania's not a good destination for this  
20 public/pension funds to be invested, at least in the  
21 transportation system.

22 CHAIRMAN SAYLOR: Thank you. I'm going to  
23 ask Representative Geist to make some comments and  
24 then I'll close our hearing.

25 REPRESENTATIVE GEIST: Thank you very much.

1 Brian, thank you so much. It's wonderful to have a  
2 person of your stature come before us. I think that  
3 what you had to say today was magnificent and probably  
4 an education for a lot of us. I thought you did an  
5 excellent job.

6 I also would like to say, Stanley, that I'm  
7 really disappointed that the turnpike and especially  
8 the Secretary of Transportation did not appear today.  
9 The Secretary of Transportation is also chairman of  
10 the commissioners of the Pennsylvania Turnpike and  
11 could have brought enlightenment to those people who  
12 are responsible for funding transportation in  
13 Pennsylvania, the House of Representatives.

14 And this is the second time that he's been  
15 invited in front of Stanley's committee and refuses to  
16 come here. And that's just -- just not right. But  
17 we'll worry about that another day.

18 I just want to praise you for doing an  
19 absolutely fantastic job. And I want to thank all the  
20 members for their wonderful questions and comments.  
21 Thank you.

22 CHAIRMAN SAYLOR: I want to thank the  
23 democratic chairman of the Transportation Committee  
24 for joining us today, Joe Markosek. I really  
25 appreciate you coming and listening and hearing the

1 concerns the republican members of the policy  
2 committee.

3           And Mr. Chase, I really appreciate your  
4 taking your time to come here to Pennsylvania and  
5 giving us your best counsel. I, too, want to join in  
6 with Representative Fairchild and Representative Geist  
7 in my disappointment that I think that with what's  
8 been going on in Pennsylvania recently, that's been in  
9 the press, it is very important that the process that  
10 we have is more open and more sunshine is shining in  
11 on the things that we do. And as long as we continue  
12 to operate the way things are currently with this  
13 particular project, I-80, there will be more questions  
14 among taxpayers.

15           I think it's now long past due that  
16 Pennsylvania has to restore its integrity and trust in  
17 government. And it's time to start now. And I think  
18 the Governor, I think the Turnpike Commission, and the  
19 Department of Transportation need to come forward and  
20 answer the questions that the members today here  
21 asked, and I think members of both sides of the aisle  
22 have as to where we're going. Thank you again and  
23 this hearing is adjourned.

24           (Proceedings concluded at 11:31 a.m.)

25

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

Heather L. Artz, RMR, CRR