



Rendell pushes turnpike privatization plan

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HARRISBURG (AP) — The Rendell administration took steps Monday toward the potential leasing of the Pennsylvania Turnpike, releasing a report saying it could be the best way to raise money for the state's crumbling highway system and asking the Legislature for permission to seek bids.

However, legislative support for Gov. Ed Rendell's plan has been tepid so far. And Senate Republicans questioned the propriety of Rendell's decision to hire Wall Street investment bank Morgan Stanley & Co. to consult on the prospective lease.

Leasing the Pennsylvania Turnpike to a private company would be the nation's most ambitious effort to privatize an existing highway. The goal is to generate at least some of the \$1.7 billion a year that a study group appointed by Rendell has said is needed to upgrade state highways and local mass-transit systems.

An analysis by Morgan Stanley concluded that leasing the turnpike's 359-mile main stem from Ohio to New Jersey and the northeast extension would generate an upfront payment worth \$12 billion to \$18 billion, depending on the length of the lease. Those figures were based on an analysis of similar arrangements on leases of toll roads in Indiana and Illinois.

The state would then invest that sum and spend the earnings on transportation projects. Assuming a 9 percent return on a payment of \$18 billion, as much as \$1.6 billion a year could be generated for transportation, Morgan Stanley's summary said.

The earnings from a \$12 billion payment with 8 percent returns would bring in the \$965 million that Rendell had said was possible in his original proposal to lease the turnpike.

Morgan Stanley also considered the possibility of turning over the turnpike to a new nonprofit public corporation and a proposal by the Pennsylvania Turnpike Commission to greatly increase existing tolls on the roadway and add tolls to Interstate 80.

A nonprofit corporation, like ones used to run roads in other states, could be expected to contribute up to \$1.4 billion a year for highways by borrowing against toll revenues and hiring private companies to operate the roads, Morgan Stanley said.

The Turnpike Commission could generate \$965 million through a combination of borrowing and adding tolls, it said.

Rendell's deputy chief of staff Roy Kienitz told reporters that the Legislature must first approve the administration's bill, which would essentially authorize it to solicit bids and choose the highest value option from the private and public sectors.

"Now is not the right time to choose, because you're choosing between things you don't know what they're worth," Kienitz said after a public briefing on the Morgan Stanley report.

That bill, a draft of which was just beginning to make its way around House and Senate offices Monday, was already drawing criticism from public-interest groups and legislators because of the wide latitude the administration would have to close a deal.

"I don't see that flying," said state Sen. Roger Madigan, the Bradford County Republican who chairs the Transportation Committee. "I think it's imperative that there be legislative oversight."

Besides, Madigan said, Rendell's focus on the turnpike has overshadowed the potential for adding tolls to other major highways in the state, such as Interstates 80 and 90, and leasing smaller chunks to private companies to operate. Although the new budget year begins July 1, Kienitz said he is confident that a turnpike deal that gets done in the fall can generate money for the budget.

Responding to a letter sent by Senate Republicans to Rendell's staff about Morgan Stanley's contract, Kienitz said the investment bank cannot become a bidder for the turnpike lease, and it cannot advise a bidder.

He also said that Morgan Stanley does not have a financial incentive to play up the benefits of a turnpike lease, although it will get paid one-eighth of one percent of the lease amount — a percentage many times smaller than what Goldman Sachs negotiated with Indiana, Morgan Stanley's consultants said.