

# Leasing the Pennsylvania Turnpike

# Costs and Benefits of Privatization

## ■ Why Privatize?

- Potential efficiency improvements (lower labor & maintenance costs, flexible pricing)
- Exposure to risk
- Liquidity constraints

## ■ Why Provide Publicly?

- Quality
- Negative externalities (side roads, wellbeing of turnpike employees)

# Long-term Downward Pressure on Traffic Flows

- **Economy: Slower population and employment growth**
- **Higher fuel prices**
- **Toll increases**

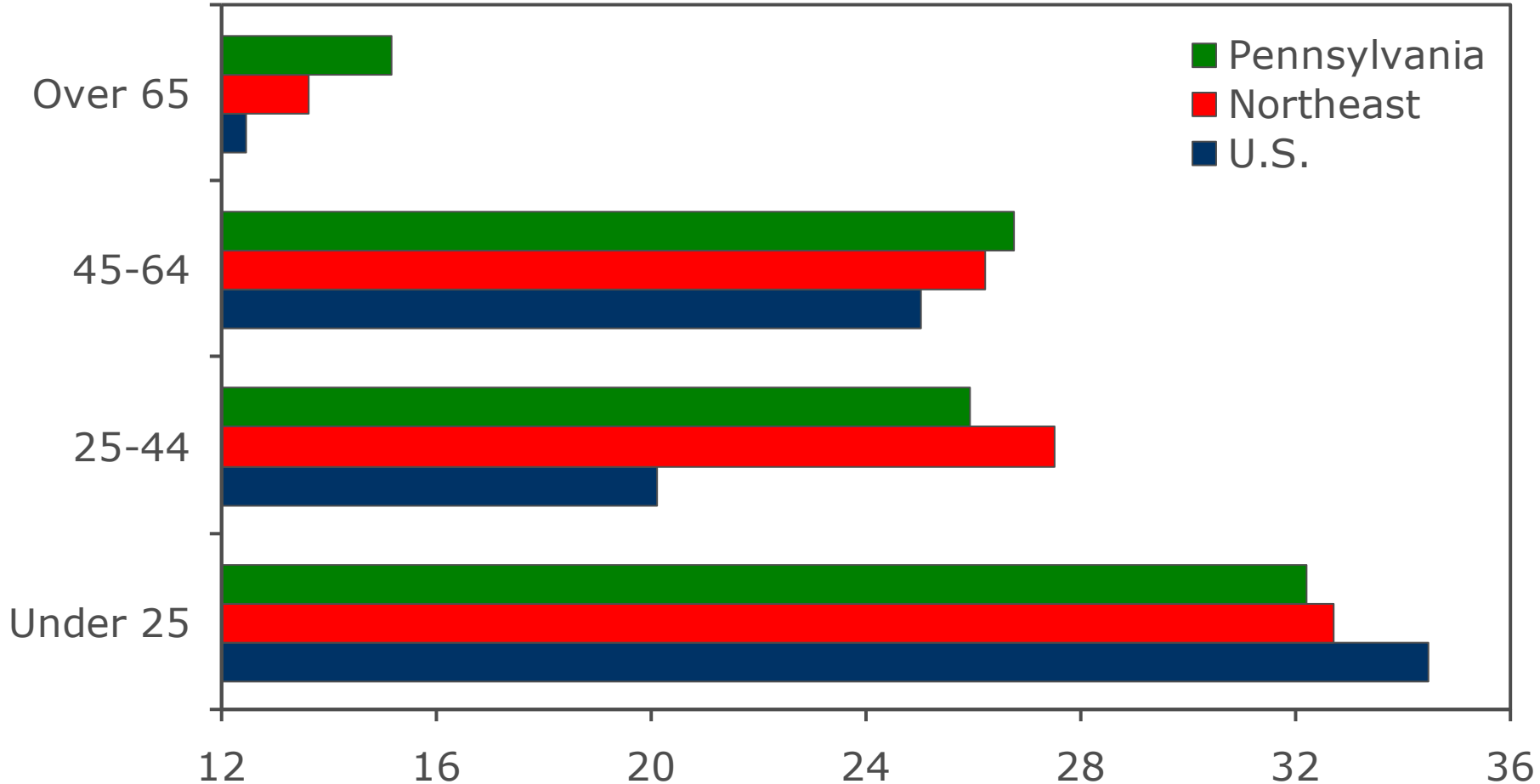
# Pennsylvania's Economic Outlook

# How Does Pennsylvania Stack Up?

Indicator	Relative to:	
	Region	Nation
Population Growth	↑	↓
Job Growth	↓	↓
Business Costs	↑	↓
Income Growth	↓	↓
Labor Quality	↓	↓
Global Connections	↓	↓
Living Costs	↑	↑

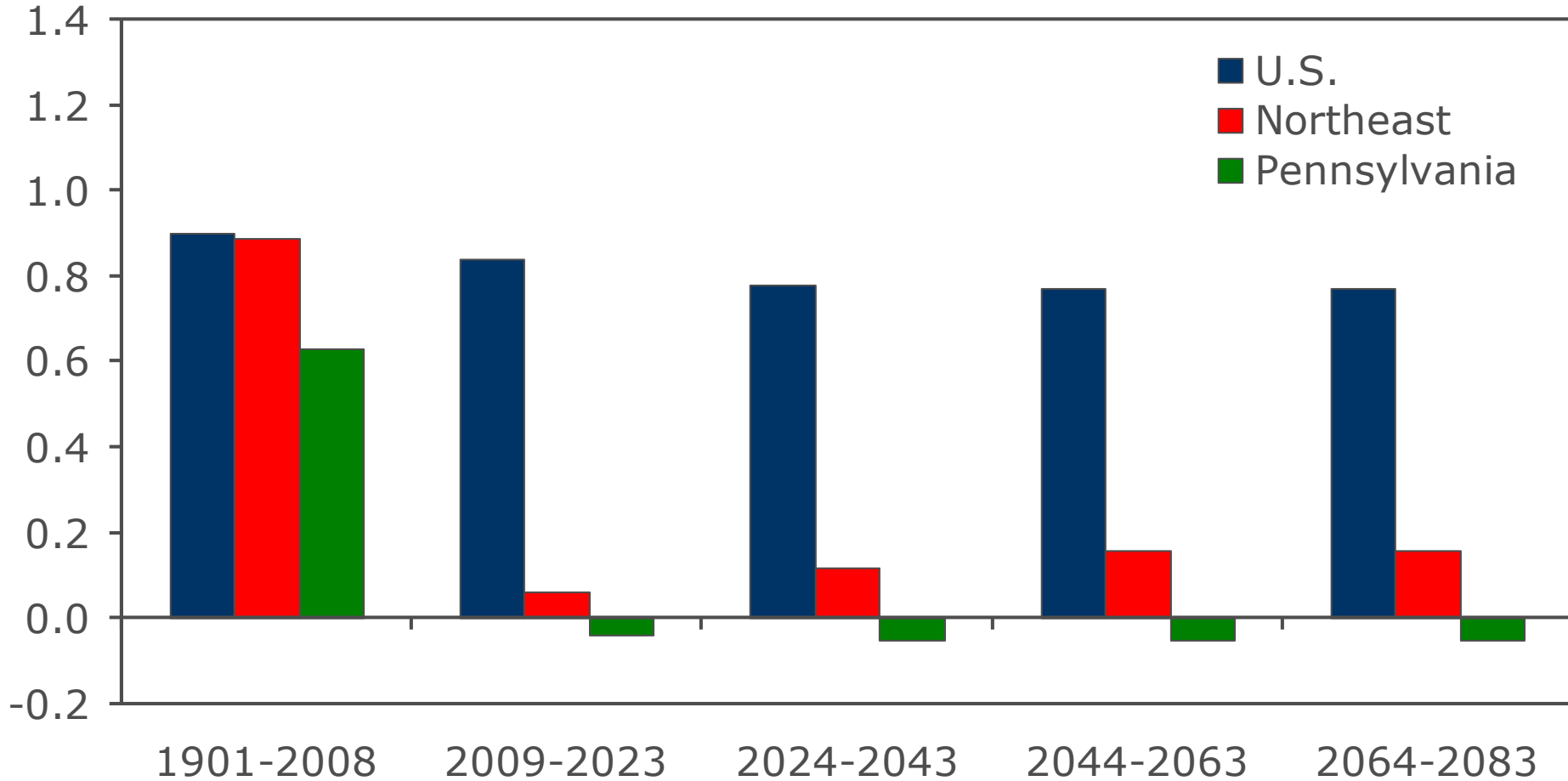
# Baby Boomers: Double Edged Sword For Pennsylvania

Share of state population, %, 2006



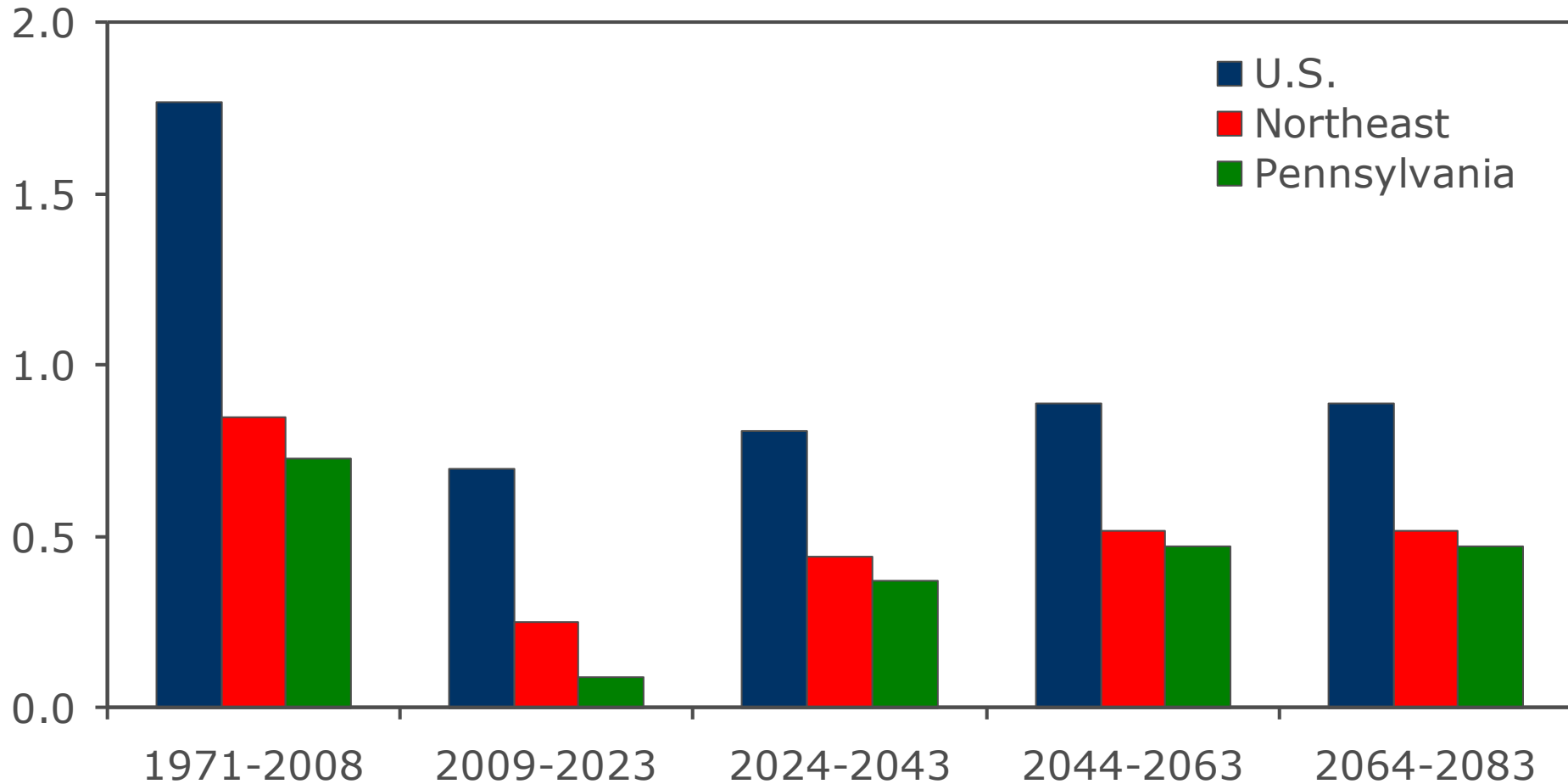
# Population Across Northeast Will Slow to a Crawl

## Population, average annual growth, %



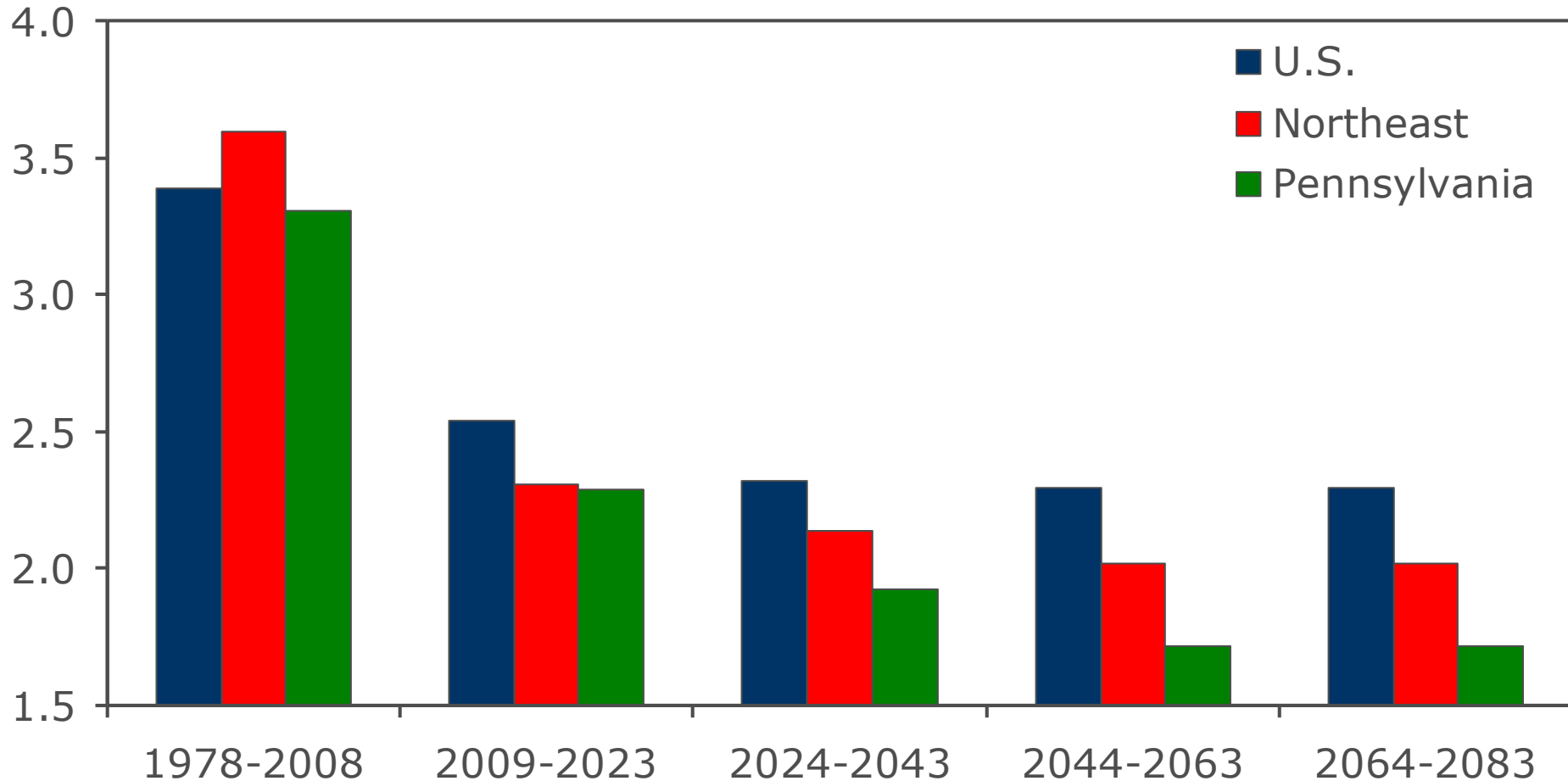
# Pennsylvania Will Remain a Laggard

## Employment, average annual growth, %



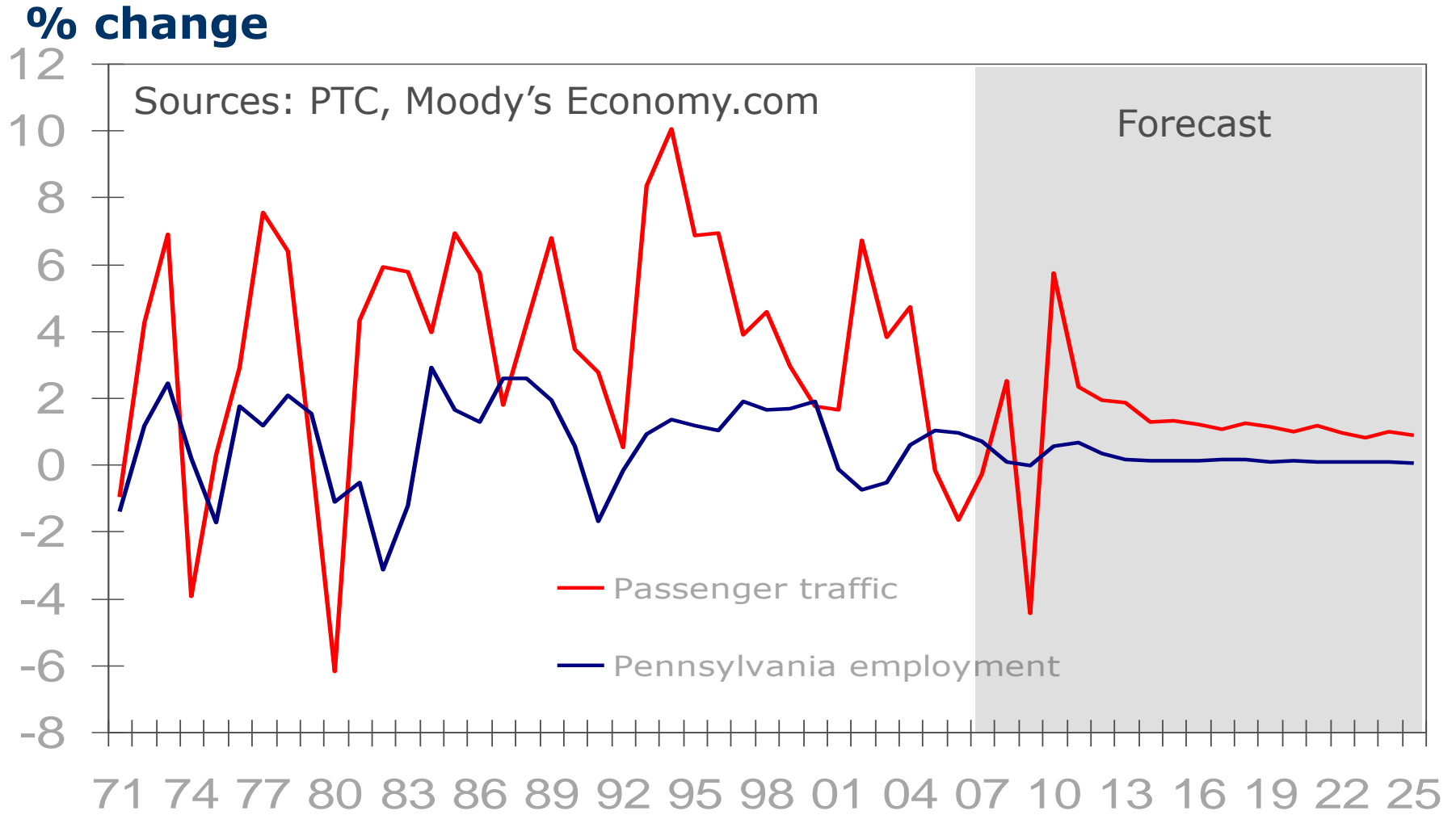
# Lack of Global Connections Will Hurt

Real gross product, average annual growth, %



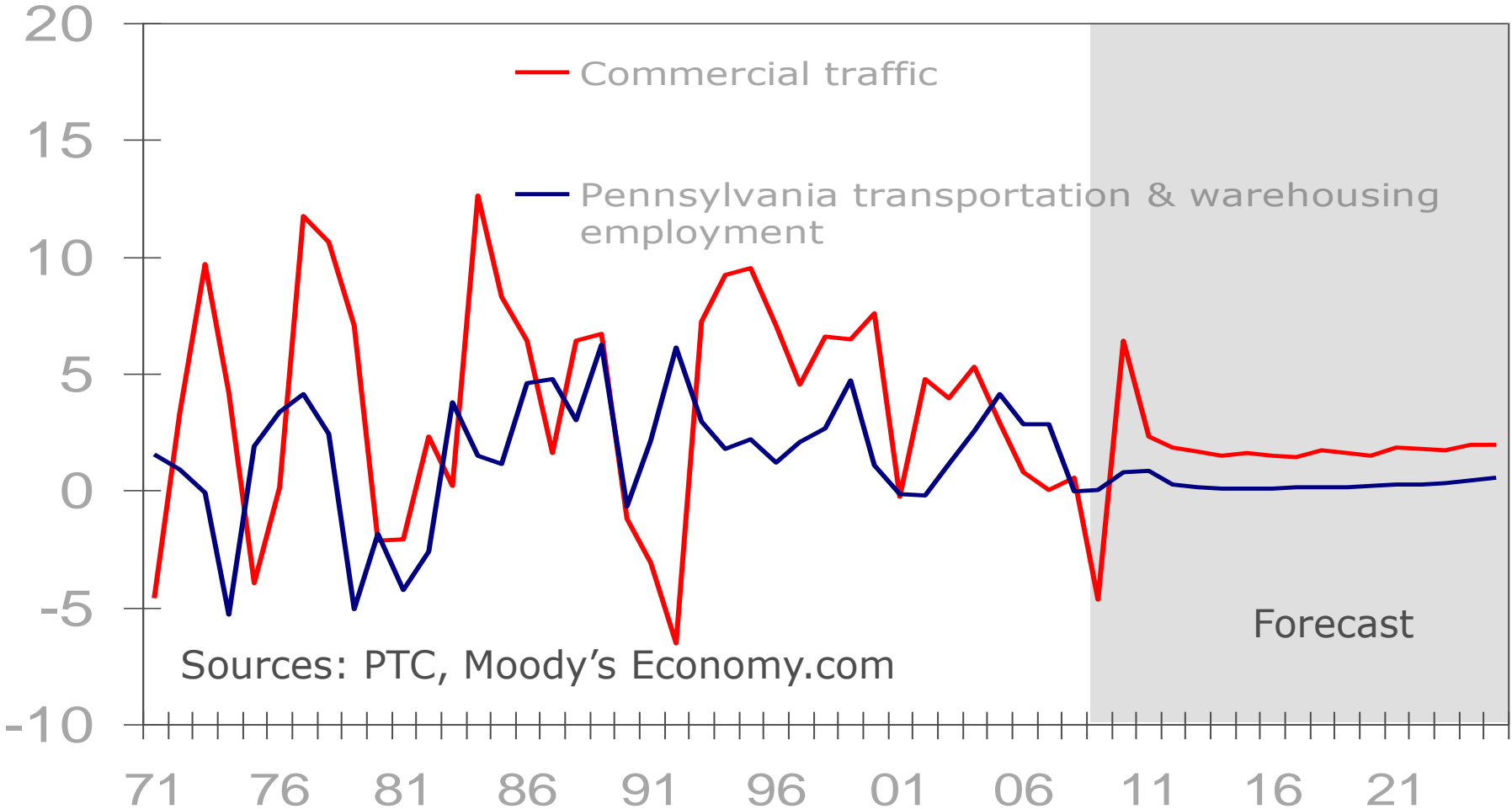
# Outlook for Traffic and Tolls

# Employment and Traffic Move in Tandem

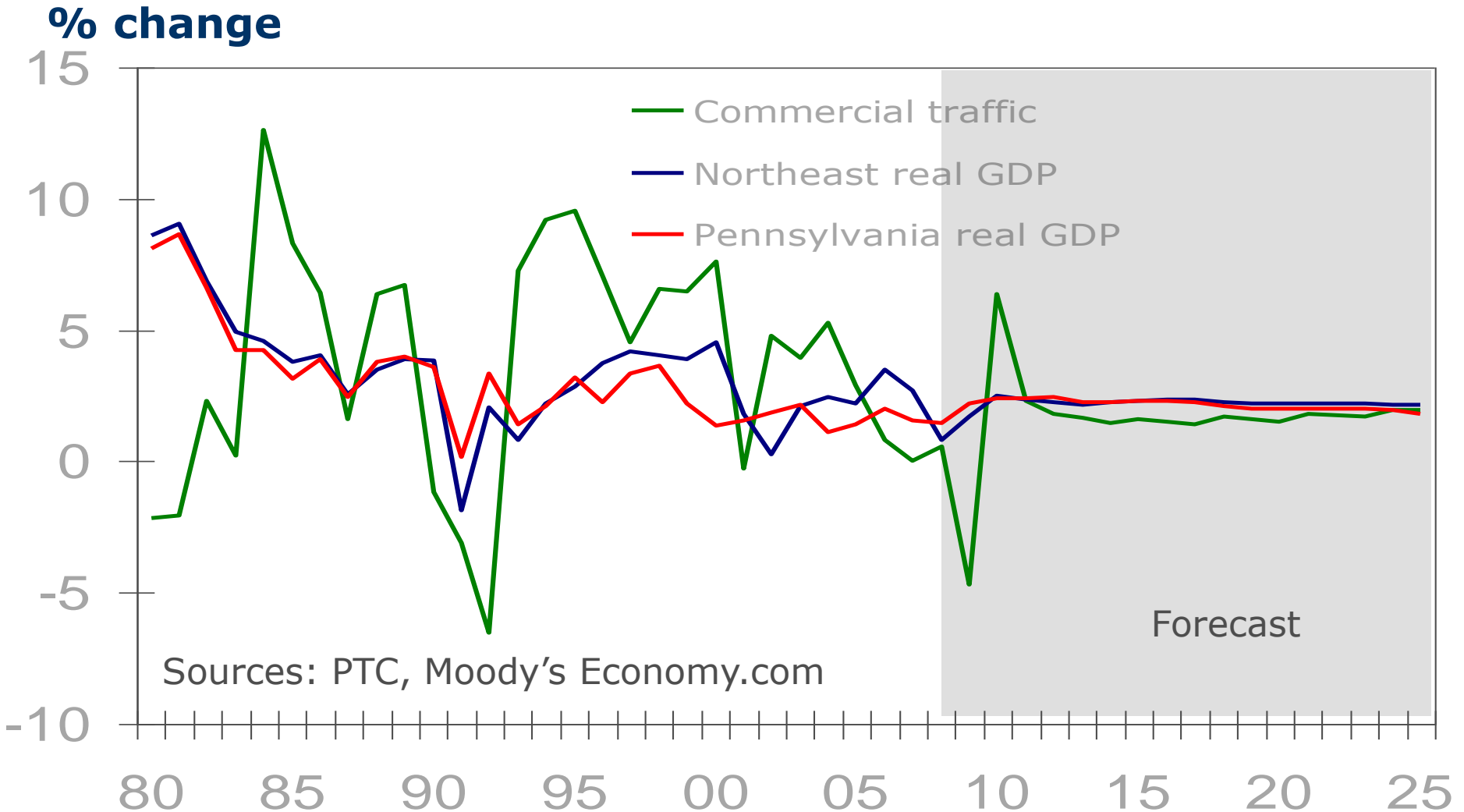


# Pennsylvania Is Home to Many Distributors

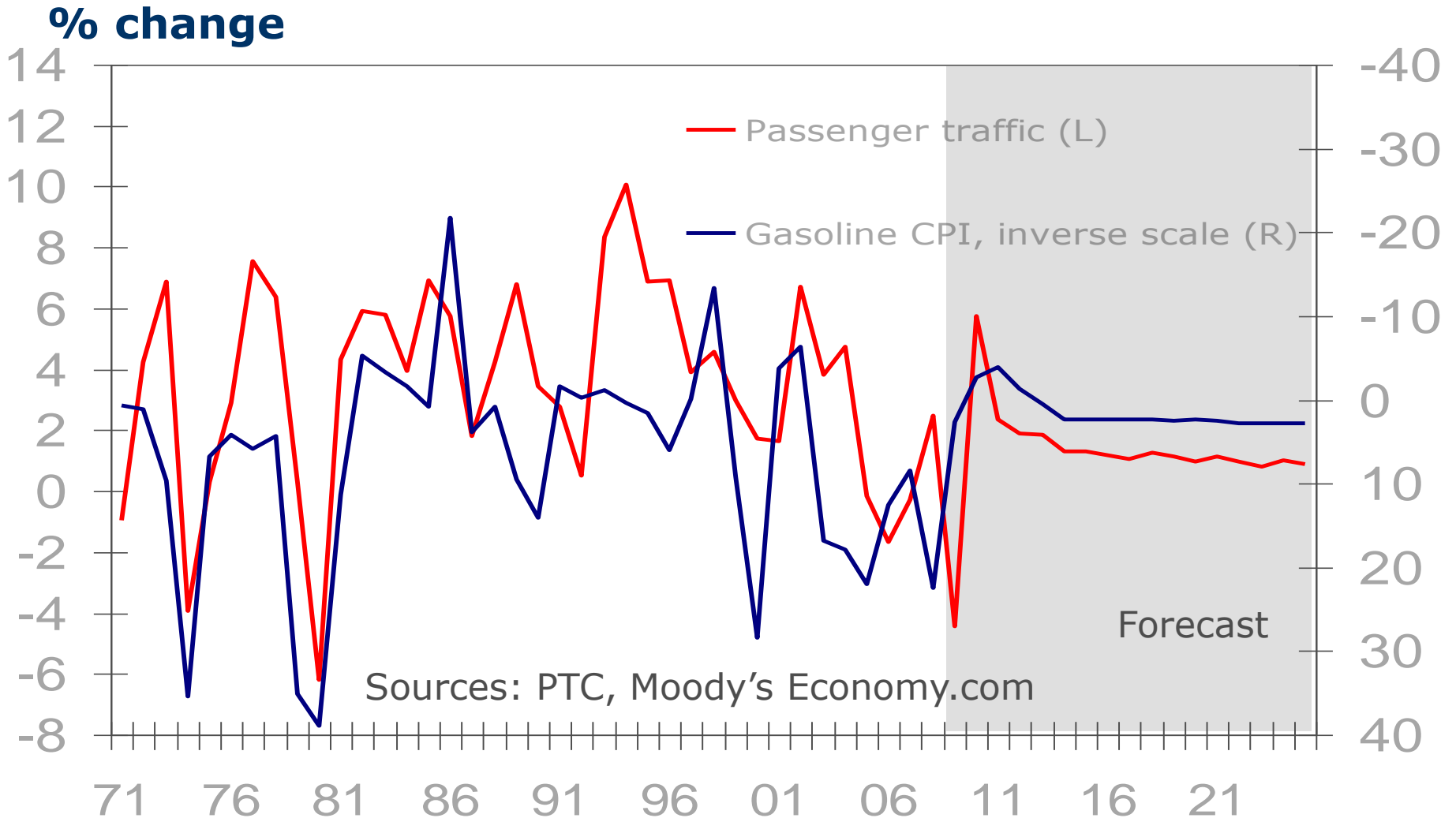
% change



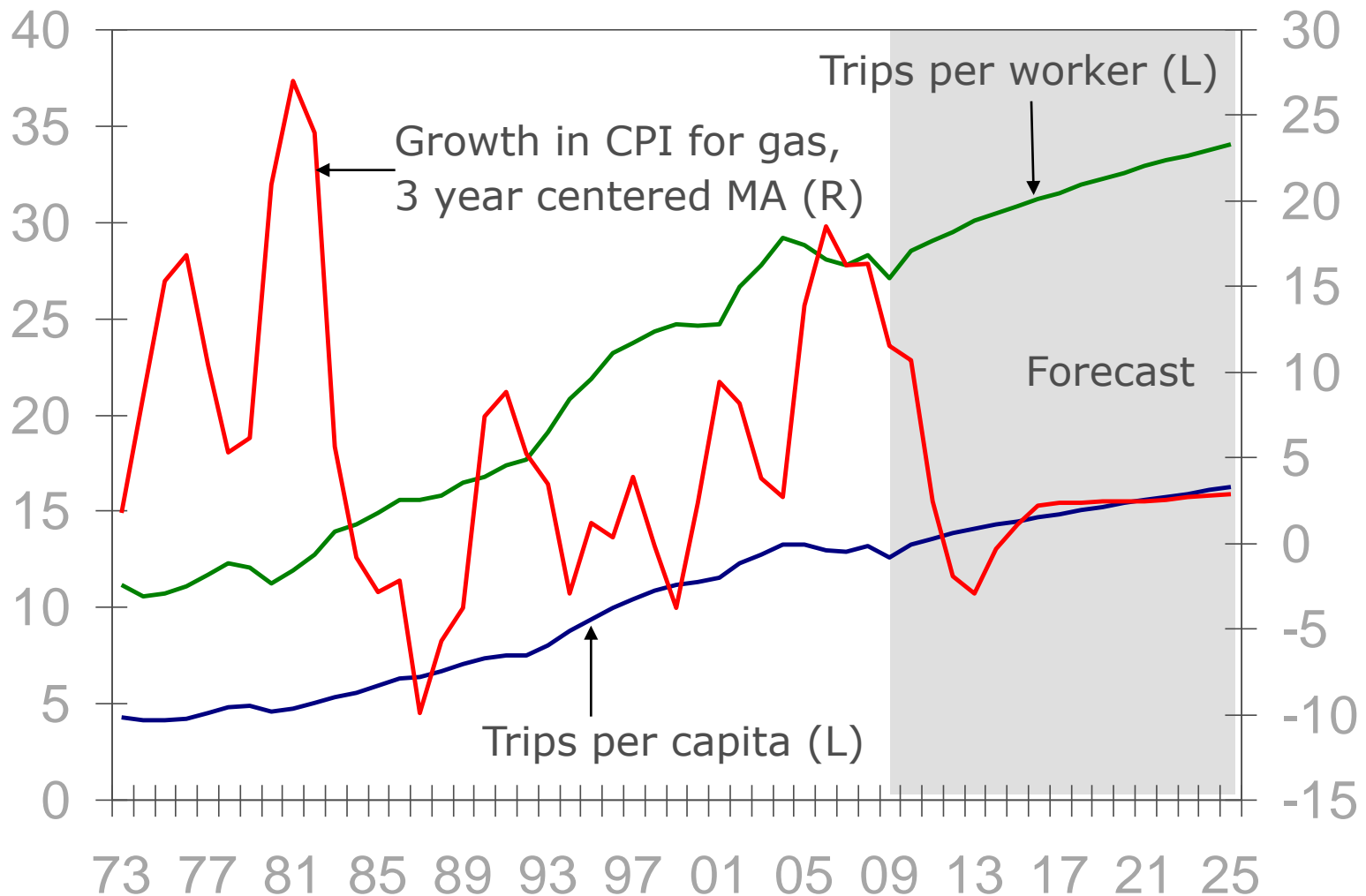
# Slower Growth Will Take Its Toll



# Commuters Feel the Pain at the Pump

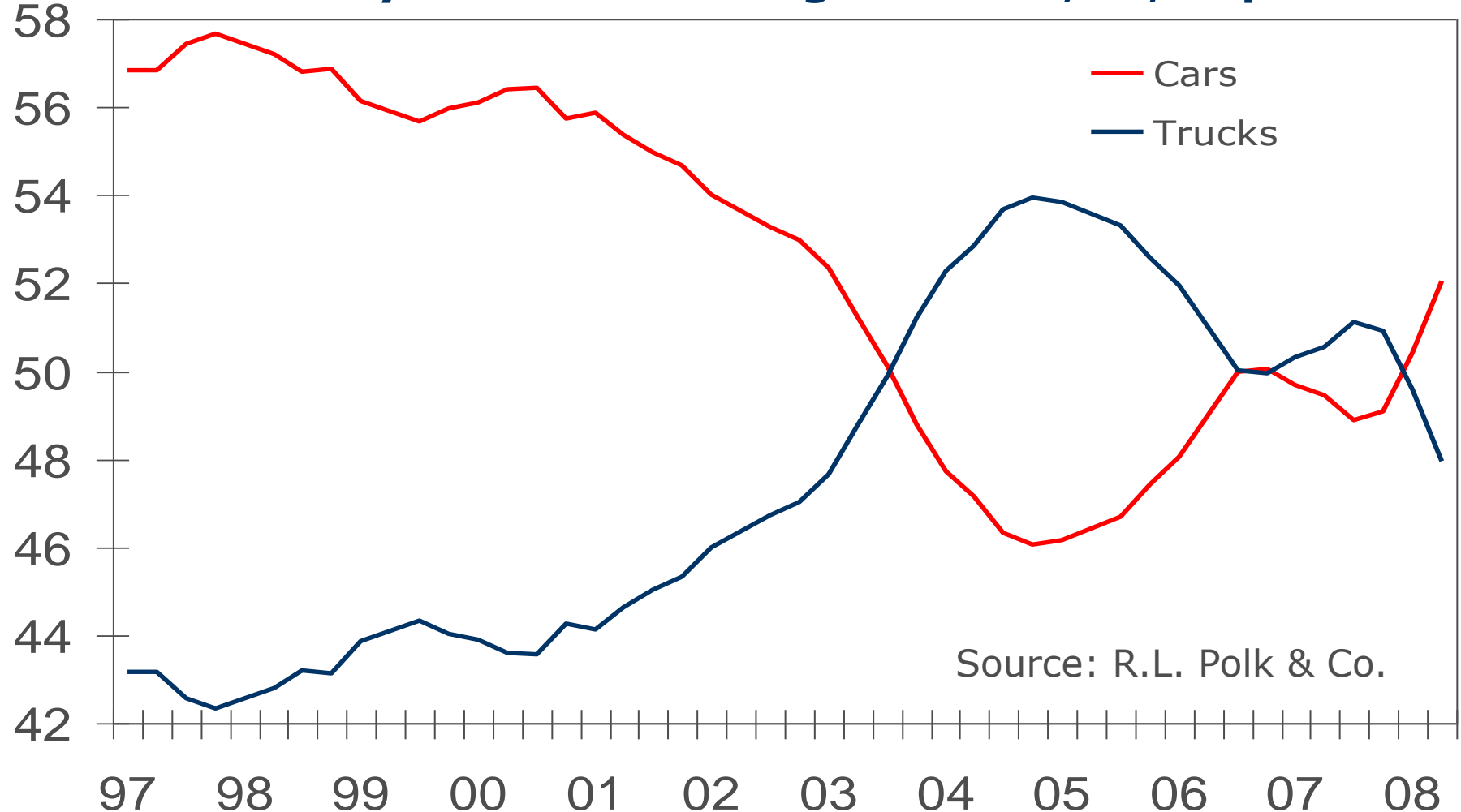


# Will Recent Record Gas Prices Force Change?



# Gas Guzzlers Lose Their Appeal

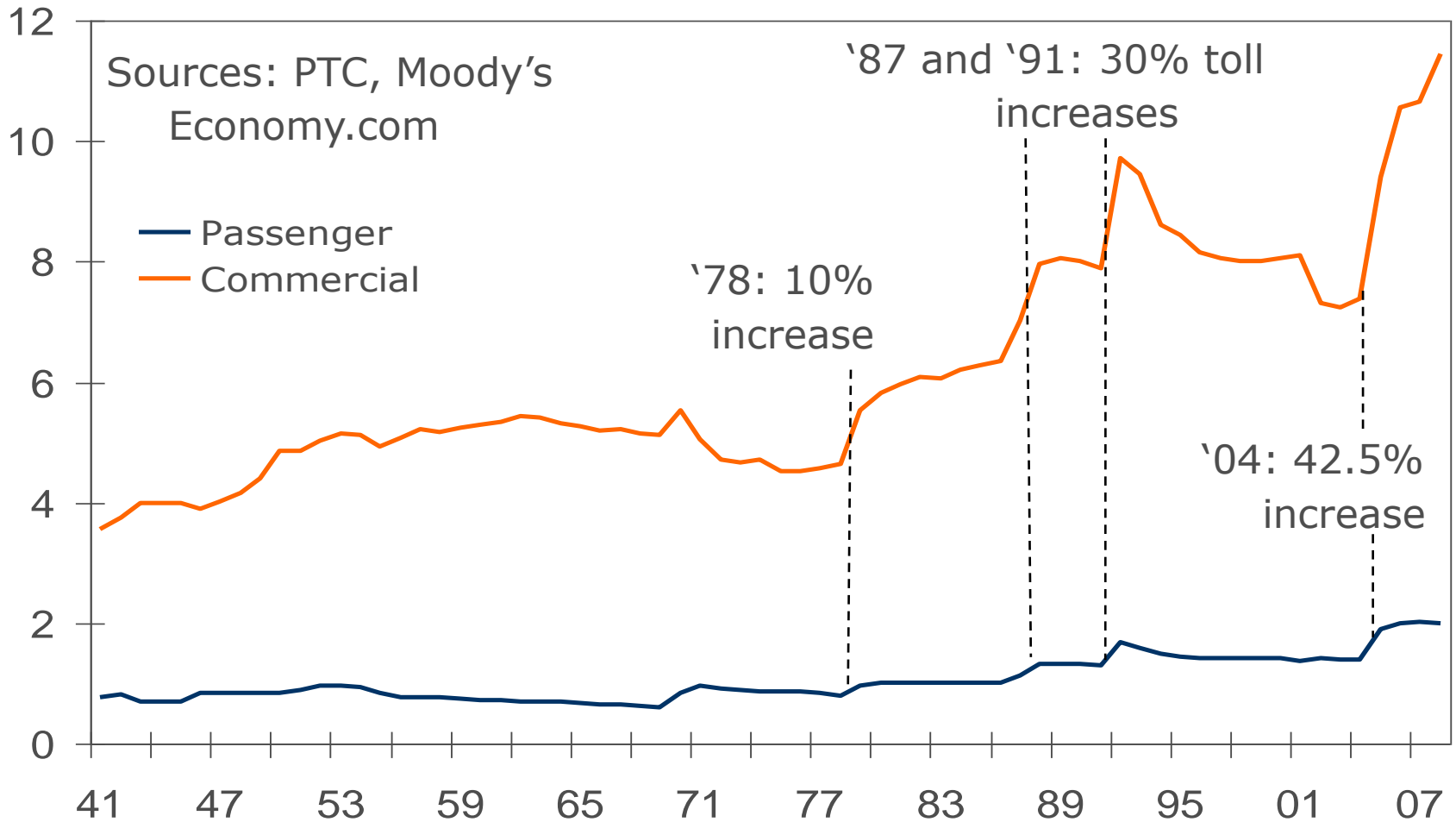
## Share of Pennsylvania vehicle registrations, %, 4 qtr. MA



Source: R.L. Polk & Co.

# Turnpike Drivers Subject to Few Toll Hikes

## Toll revenue per vehicle, \$



# Snapshot of Current Traffic

Traffic & Gross Fare Revenue August 2008			
Total PTC	Actual	Prev. Year	% change
Traffic, ths			
Passenger	8,186	8,648	-5.3
Passenger—ETC	7,048	6,711	5.0
Commercial	627	737	-14.9
Commercial—ETC	1,583	1,649	-4.0
Total Volume	17,444	17,744	-1.7
Revenues, mil \$			
Passenger	18.48	19.50	-5.2
Passenger—ETC	14.15	14.04	0.8
Commercial	6.44	6.96	-7.5
Commercial—ETC	17.82	19.83	-10.1
Total Revenue	56.89	60.33	-5.7
<b>Total PTC (Summary)</b>			
Traffic, ths			
Passenger	15,234	15,359	-0.01
Commercial	2,210	2,385	-0.07
Total Volume	17,444	17,744	-0.02
Revenues, mil \$			
Passenger	32.64	33.54	-0.03
Commercial	24.25	26.79	-0.09
Total Gross Fare Revenue	56.89	60.33	-0.06
<i>Source: Pennsylvania Turnpike Commission</i>			

# The Bottom Line

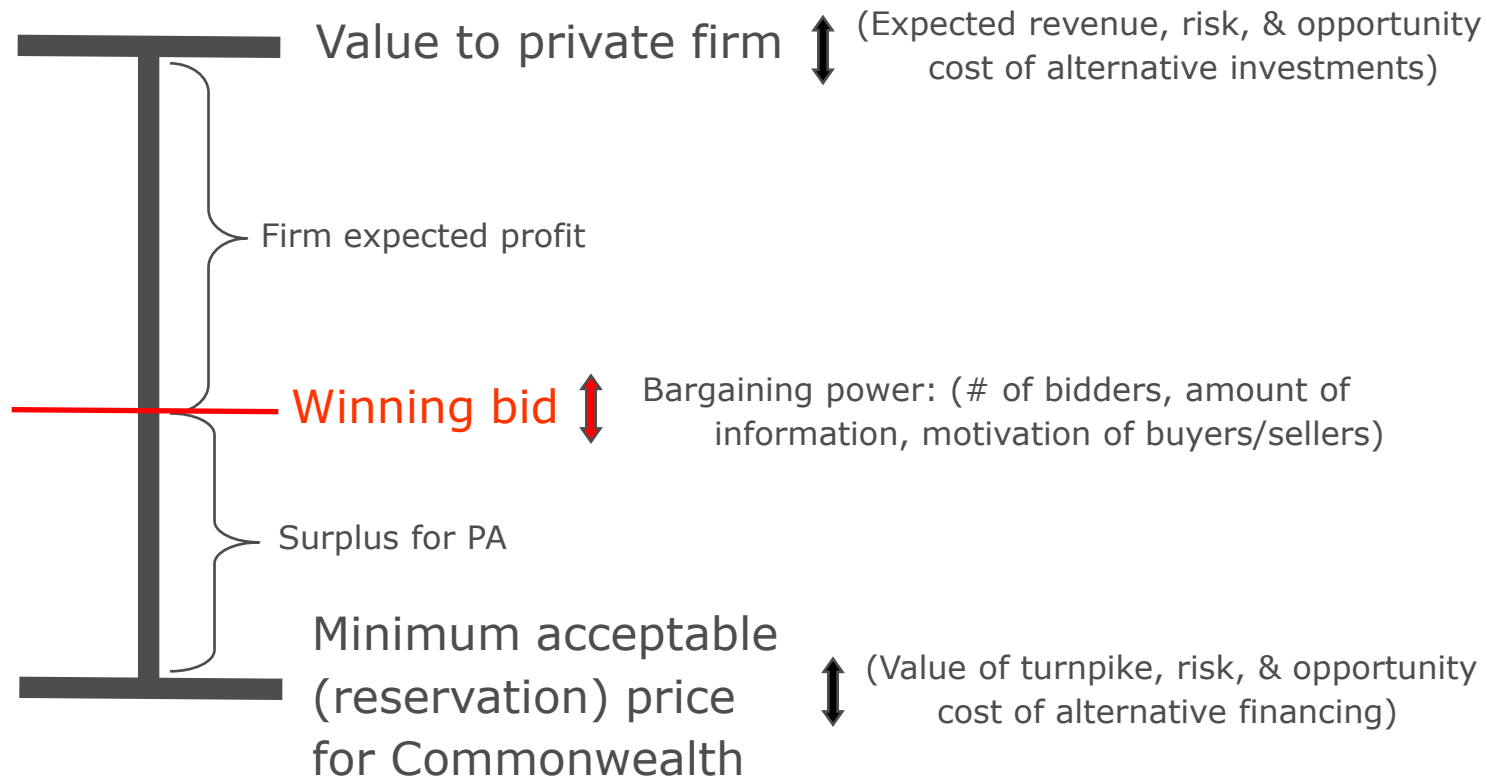
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- Nominal profits – **\$186.23 billion**
- Real profits - **\$33.16 billion**
- Adjusted for real interest rates - **\$16.55 billion**

# Financial Overview

# The Bargaining Environment

## Determinants of the winning bid

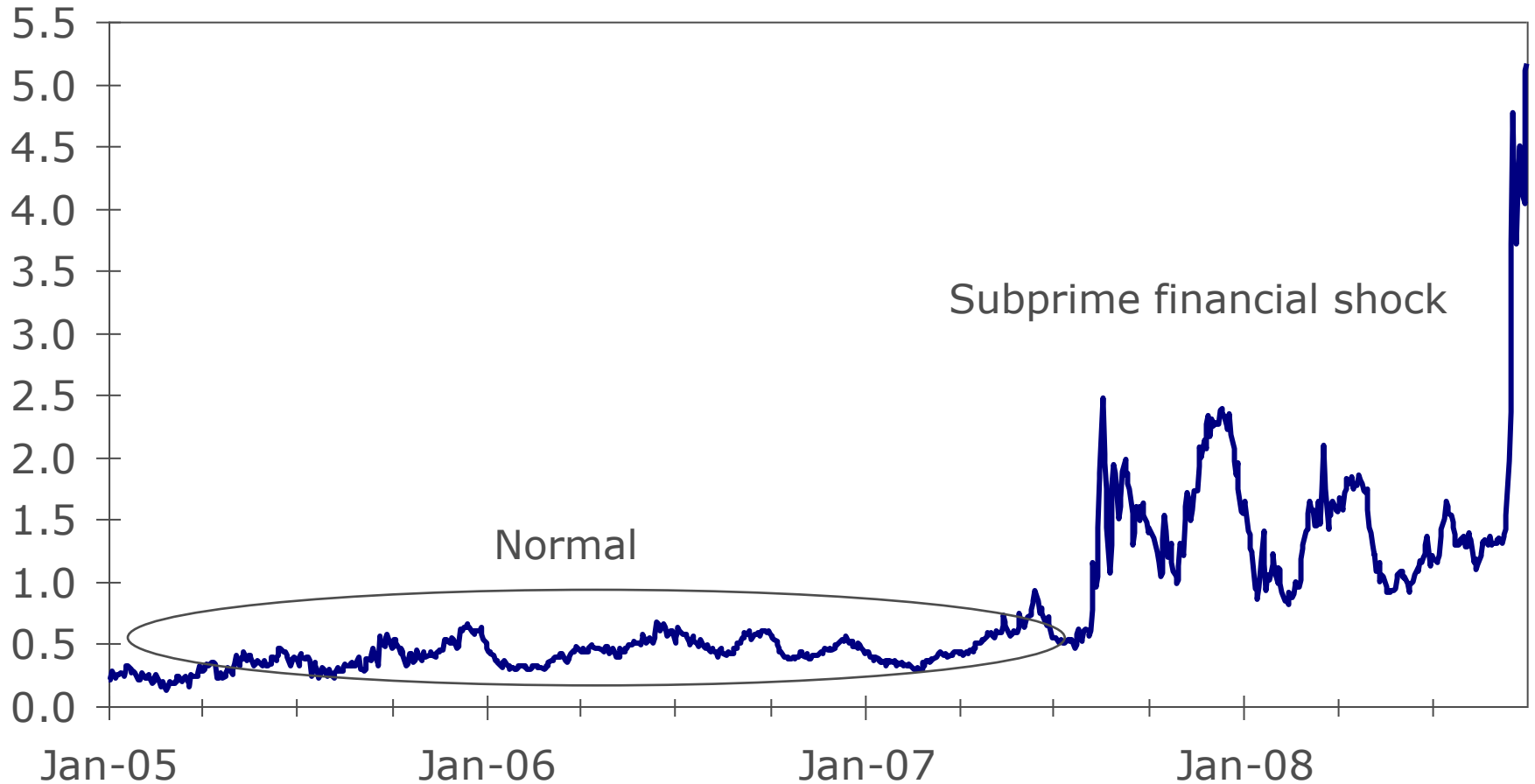


# Bidding Environment in Spring/Summer 2008

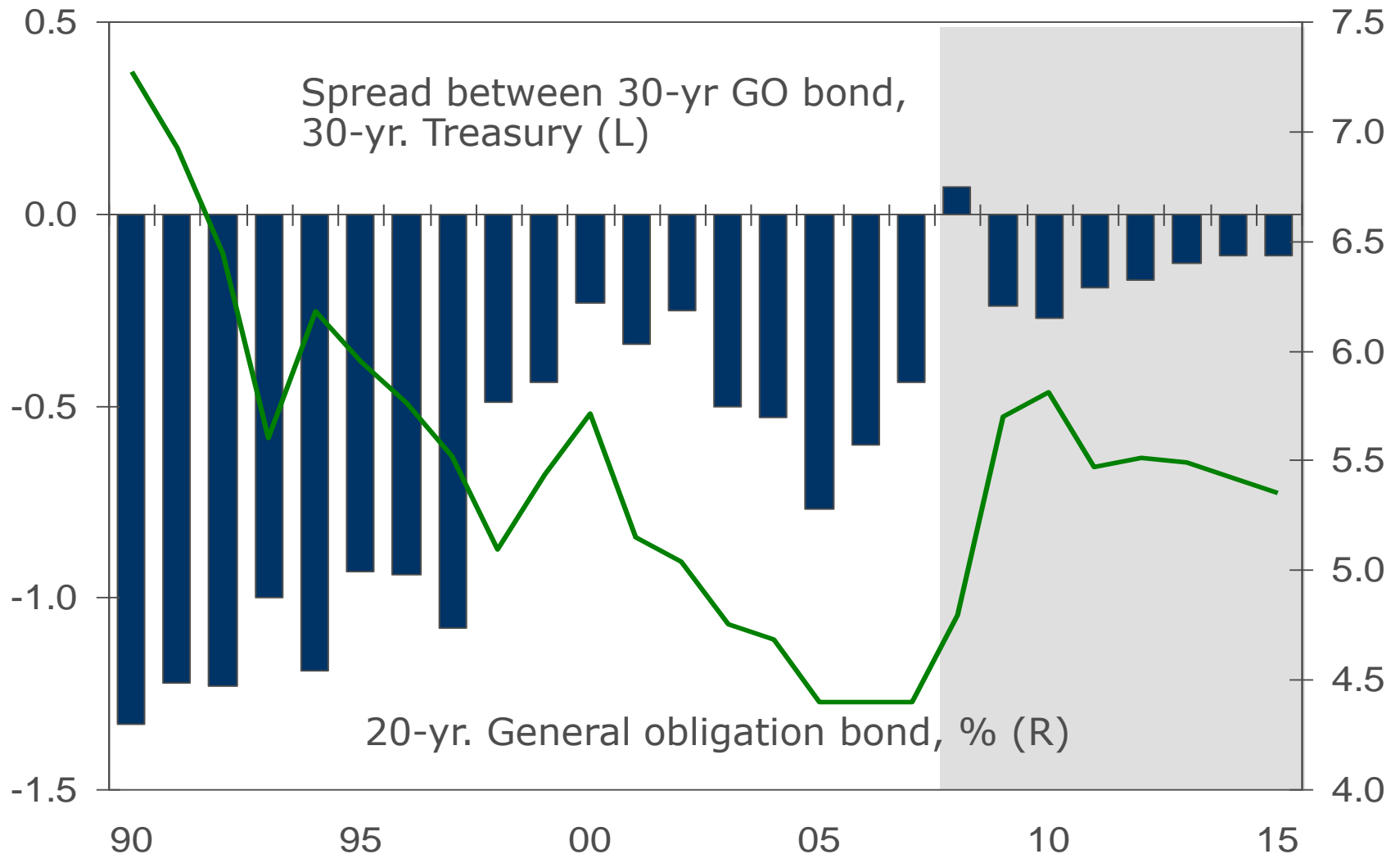
- **High degree of perceived risk (gas prices, financial industry shocks, U.S. recession)**
- **Low long-run interest rates (Determine opportunity cost for PA and private firm)**
- **Credit crunch among state & local governments**

# Subprime Financial Shock Still Reverberates

## TED spread, difference between 3 Libor and T-bill

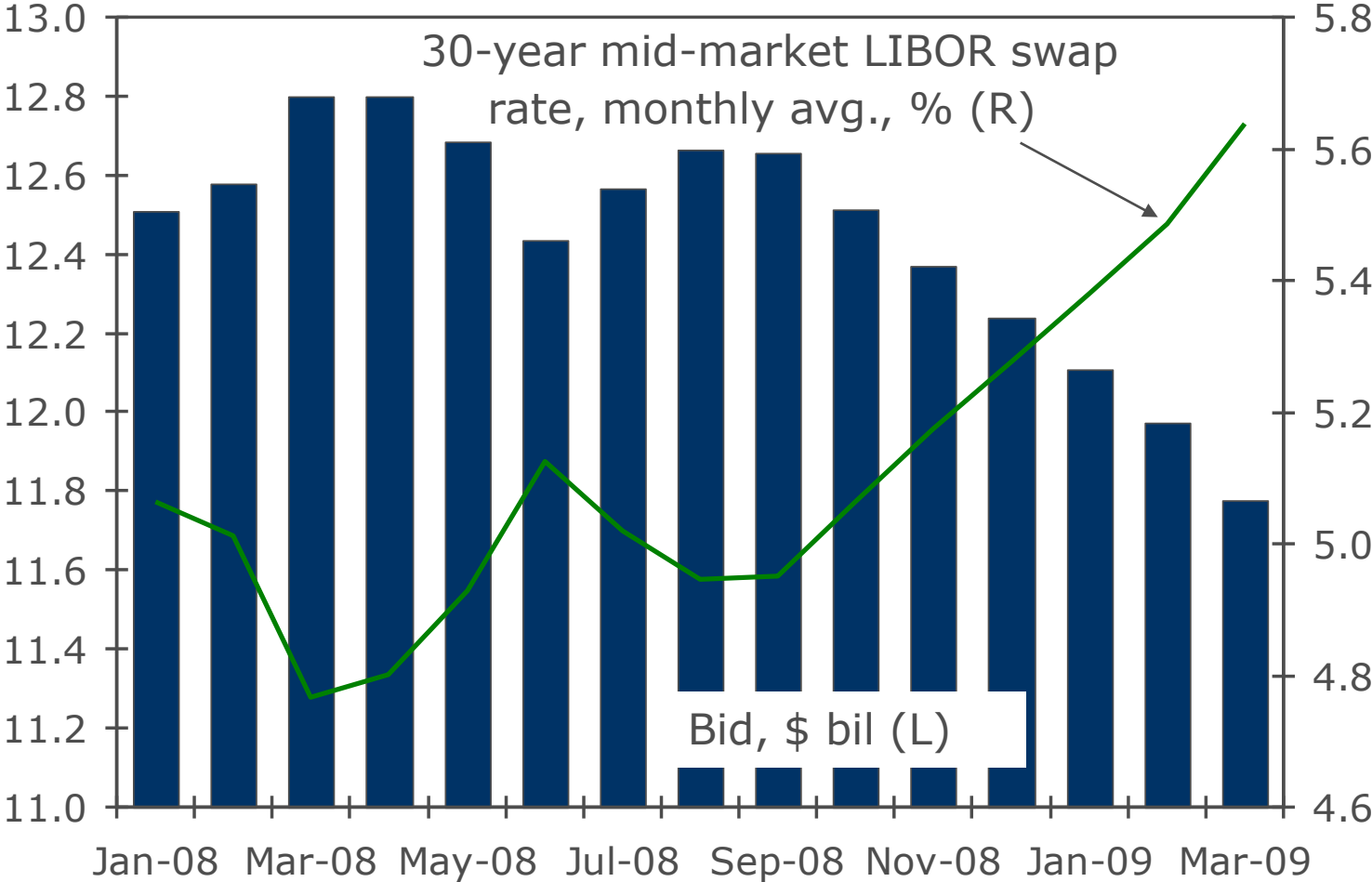


# State Borrowing Costs Out of Line



# Bid Can Adjust Based on Interest Rates

## Bid based on 30-year mid-market LIBOR swap rate



# SERS Expected Returns

SERS Expected Returns		
Scenario	Avg. Weighted Return %	Available funding per annum bil \$
High growth	6.43	0.67
<b>Baseline: 2007 SERS allocation</b>	5.46	0.59
Low growth	4.64	0.51
High growth	6.17	0.65
<b>Double U.S. stock position, increase international by 50%, cut illiquid assets</b>	5.34	0.58
Low growth	4.65	0.51
High growth	6.29	0.63
<b>Increase cash holdings, reduce stocks</b>	5.18	0.55
Low growth	4.20	0.48
High growth	5.86	0.59
<b>Reduce risk</b>	4.77	0.52
Low growth	3.80	0.45

Source: Moody's Economy.com

## Concluding Remarks

- **Given the Commonwealth's exposure to risk and current need for infrastructure improvements, it is likely that a mutually beneficial leasing agreement is feasible.**
- **The current winning bid leases the turnpike at a significant discount (around 25% off).**
- **The bidding environment has likely improved since earlier in the year and will continue to do so in the near term.**
- **The current winning bid will not be able to cover all of the nearly \$1 billion of required annual infrastructure improvements on its own.**

# Detailed Forecast Tables

# U.S. and Regional Outlook

Macro Drivers			
Average annual growth, %			
Demographics	1989 to 2008*	2009 to 2018	2019 to 2083
Total Population			
Pennsylvania	0.26	0.01	-0.08
Northeast	0.41	0.09	0.13
U.S.	1.10	0.85	0.76
Household formations			
Pennsylvania	0.47	0.30	-0.12
Northeast	0.56	0.34	0.08
U.S.	1.22	1.00	0.47
<b>Employment</b>			
Total employment			
Pennsylvania	0.78	0.11	0.44
Northeast	0.52	0.28	0.52
U.S.	1.45	0.76	0.86
<b>Output</b>			
Real GDP			
Pennsylvania	2.24	2.23	1.63
Northeast	2.55	2.25	2.00
U.S.	2.91	2.63	2.30
<b>Income</b>			
Per capita income			
Pennsylvania	4.47	2.85	1.88
Northeast	4.23	3.10	2.03
U.S.	4.38	3.45	2.85
<b>Prices</b>			
Consumer price index			
Headline CPI	3.06	2.11	1.89
Core CPI	2.90	2.05	1.79
<i>Note: Dates are for Pennsylvania Turnpike Commission's fiscal years</i>			
<i>* Includes Moody's Economy.com forecast for 2008</i>			
<i>Source: Moody's Economy.com</i>			

# Operating Expense Forecast

Operating Expenses		
Average annual expenditure, ths \$		
	2009 to 2018	2019 to 2083
<b>Maintenance</b>	111,744	546,916
<b>Administrative</b>	34,807	133,831
<b>Fare collection</b>	110,533	500,685
<b>All other</b>	188,588	532,156
<b>Total</b>	445,672	1,713,589

*Source: Moody's Economy.com*

# Traffic and Revenues

Traffic			
	1999 to 2008	2009 to 2018	2019 to 2083
Average annual number of passenger vehicles, ths			
High growth**		188,589	320,050
<b>Passenger</b>	153,463	175,513	260,458
Low growth		160,945	176,542
Average annual number of commercial vehicles, ths			
High growth		28,135	87,759
<b>Commercial</b>	23,353	27,368	55,941
Low growth		26,155	38,824
Revenues			
	1993 to 2008*	2009 to 2018	2019 to 2083
Average annual passenger toll revenue, ths \$			
High growth**		505,668	1,708,119
<b>Passenger</b>	252,188	467,924	1,361,011
Low growth		426,973	851,798
Average annual commercial toll revenue, ths \$			
High growth		459,260	5,549,570
<b>Commercial</b>	207,923	444,004	3,145,954
Low growth		422,177	1,961,170
Average annual total toll revenue, ths \$			
High growth**		964,928	7,257,690
<b>Total</b>	460,111	911,928	4,506,966
Low growth		849,150	2,812,969

\* Includes forecast for 2008  
 \*\* Passenger traffic capped at 352,000 beginning in 2046  
 Dates are for Pennsylvania Turnpike Commission's fiscal years  
 Source: Moody's Economy.com

# Bid Scenarios

Trust Fund Investment Scenario	Current Bid Scenarios			
	Abertis Gross Bid	Abertis Net Bid	Average weighted return during lease	Available funding per annum
	<i>bil \$</i>	<i>bil \$</i>	%	<i>bil \$</i>
High growth	12.80	10.18	6.43	0.67
<b>Baseline: 2007 SERS allocation</b>	12.80	10.18	5.46	0.59
Low growth	12.80	10.18	4.64	0.51
High growth	12.80	10.18	6.17	0.65
<b>Double U.S. stock position and increase international by 50%, cut illiquid assets</b>	12.80	10.18	5.34	0.58
Low growth	12.80	10.18	4.65	0.51
High growth	12.80	10.18	6.29	0.63
<b>Increase cash holdings, reduce stocks</b>	12.80	10.18	5.18	0.55
Low growth	12.80	10.18	4.20	0.48
High growth	12.80	10.18	5.86	0.59
<b>Reduce risk</b>	12.80	10.18	4.77	0.52
Low growth	12.80	10.18	3.80	0.45
<b>Extreme scenarios</b>				
High growth	12.80	10.18	3.54	0.37
<b>Risk averse: 100% in TIPS</b>	12.80	10.18	2.63	0.32
Low growth	12.80	10.18	1.79	0.28
High growth	12.80	10.81	7.53	0.79
<b>Risk taker: 100% in risky asset classes</b>	12.80	10.81	6.58	0.70
Low growth	12.80	10.81	5.82	0.61
Average				

\* Bid before deductions for retirement of PTC debt, payments on interest and cash reserves

\*\* Investable proceeds, bid less deductions

Source: Moody's Economy.com

# Bid Scenarios

## Moody's Economy.com Scenarios

Trust Fund Investment Scenario	Gross Bid Producing \$1 Billion Annual Return	Net Bid Producing \$1 Billion Annual Return*	Average weighted return during lease	Breakeven rate return	Average state subsidy per annum	Available funding per annum
	<i>bil \$</i>	<i>bil \$</i>	<i>%</i>	<i>%</i>	<i>bil \$</i>	<i>bil \$</i>
High growth	17.93	15.32	6.43	9.81	0.34	1.00
<b>Baseline: 2007 SERS allocation</b>	20.02	17.41	5.46	9.81	0.44	1.00
Low growth	22.43	19.82	4.64	9.81	0.53	1.00
High growth	18.24	15.62	6.17	9.81	0.37	1.00
<b>Double U.S. stock position and increase international by 50%, cut illiquid assets</b>	20.30	17.69	5.34	9.81	0.46	1.00
Low growth	22.66	20.05	4.65	9.81	0.53	1.00
High growth	18.69	16.07	6.29	9.81	0.36	1.00
<b>Increase cash holdings, reduce stocks</b>	21.00	18.39	5.18	9.81	0.47	1.00
Low growth	23.66	21.05	4.20	9.81	0.57	1.00
High growth	19.78	17.17	5.86	9.81	0.40	1.00
<b>Reduce risk</b>	22.30	19.69	4.77	9.81	0.51	1.00
Low growth	25.17	22.56	3.80	9.81	0.61	1.00
	AVG Gross Bid					
	21.01					
High growth	30.23	27.62	3.54	9.81	0.64	1.00
<b>Risk averse: 100% in TIPS</b>	34.44	31.83	2.63	9.81	0.73	1.00
Low growth	39.28	36.67	1.79	9.81	0.82	1.00
High growth	15.51	12.90	7.53	9.81	0.23	1.00
<b>Risk taker: 100% in risky asset classes</b>	17.23	14.62	6.58	9.81	0.33	1.00
Low growth	19.29	16.68	5.82	9.81	0.41	1.00
	Average	22.59				

\* Bid before deductions for retirement of PTC debt, payments on interest and cash reserves

\*\* Investable proceeds, bid less deductions

Source: Moody's Economy.com

[www.economy.com](http://www.economy.com)