

Report

A Forum on the Future of Highway Transportation in America

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A Forum on the Future of Highway Transportation in America

On July 27, 2005, in Washington, DC, the International Bridge, Tunnel and Turnpike Association (IBTTA) held a “Forum on the Future of Highway Transportation in America.” IBTTA assembled 15 experts from different stakeholder groups, all of whom have a keen interest in the future of U.S. highways.

The purpose of this round table was to engage the experts in a robust discussion and debate on current challenges and visions of highway transportation in America. We hope that the discussions from this Forum will generate a stream of ideas and insights that will feed a larger river of knowledge and policy development.

This report presents the highlights of the discussion that took place during this roundtable. We invite you to continue this dialogue and welcome your comments on our web site www.ibtta.org.



THE PARTICIPANTS



MARTIN CAPPER is President of Mark IV's Transportation Technologies Division, a \$250 million revenue division with operations in the US and Europe. He joined MARK IV

IVHS in 1993 and served as its executive vice president from 1997 until 2001 when he was appointed president. MARK IV supplies the majority of electronic toll collection equipment in the Northeastern United States including more than 20 million toll transponders.



DANIEL DORNAN is a Senior Consulting Manager with AECOM Consult based in Naples, FL. He has 30 years consulting experience performing resource management

and transportation planning studies for numerous federal, state, and local government agencies across the nation, including federal and state departments of transportation, toll authorities, transit agencies, airports and ports. He is a Professional Engineer licensed in Florida, New York, Pennsylvania, Texas, and Virginia.



TYLER DUVALL is the Deputy Assistant Secretary for Transportation Policy in the Office of the Secretary at the US Department of Transportation.

Tyler currently works closely with the Under Secretary for Policy, and the Administrators of US DOT's various modal and safety administrations in the development of surface and maritime transportation policies.



JOHN GENTLE is Global Leader for Transportation Affairs with Owens Corning. He is Chairman of the Highway Committee of the National Industrial Transporta-

tion League (NITL), and this year was designated a Distinguished Logistics Professional (DLP) by the American Society of Transportation and Logistics. He is often quoted in *Traffic World*, *Transport Topics*, *Inbound Logistics*, and the *Wall Street Journal*.



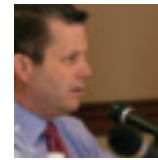
CHERIAN GEORGE is a Senior Director and head of transportation in Fitch Ratings' public finance and project finance groups. He is based in New York and manages ratings

and analysis on transportation and project finance transactions, including the U.S. toll road, airport, transit, parking and GARVEE bond sectors. Chierian brings nearly 20 years of corporate, public sector, and project finance experience to Fitch.



JOSEPH GIGLIO, PH.D., is Professor of Strategic Management, Graduate School of Business, Northeastern University, Boston, MA. His unique background

in business, public policy and finance is rooted in his experience in Wall Street, in management consulting, in government service and in academia. He was recently appointed to the board of the Special Commission on Transportation Finance by Massachusetts Governor Romney.



JACK HARTMAN is the Executive Director of the Illinois Tollway, Illinois' 274-mile toll road system serving more than 1.3 million motorists daily. Mr. Hartman joined the Illinois

Tollway in January 2003 following his appointment by Gov. Rod Blagojevich to reform the Tollway and restore public confidence in the system. He and his reform team are now implementing a 10-year, \$5.3 billion plan to reduce congestion and rebuild the entire Tollway system.



JAYETTA HECKER is Director of Physical Infrastructure Issues at the Government Accountability Office and has been with the GAO for 23 years. Before that, she

served 14 years as a senior policy economist in various executive agencies. She is responsible for directing work on surface transportation programs, aviation financial issues, freight and passenger rail, and telecommunications reform.



KAREN HEDLUND is a partner in the law firm Nossaman Gunther Knox Elliott LLP and specializes in the structuring of public private partnerships and the creative financing

of infrastructure projects. Karen has more than 30 years of experience advising state and local governments, private corporations and financial institutions in the development of highways, transit systems, airports, water and wastewater systems, solid waste facilities, power projects, prisons and other capital facilities.



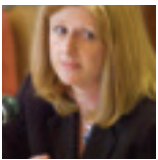
PATRICK JONES (*Moderator*) is Executive Director of the International Bridge, Tunnel and Turnpike Association. Pat has nearly 25 years of experience in association

management, fundraising, strategic planning, grassroots advocacy, marketing, and business development. He previously worked for the Health Insurance Association of America, American Trucking Associations and American Public Transit Association.



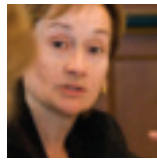
VICTORIA KELLY is Director of Tunnels, Bridges and Terminals for The Port Authority of New York and New Jersey and is responsible for the operations, maintenance,

capital planning, strategic planning and security for the George Washington Bridge, Holland and Lincoln Tunnels, three bridges that connect New Jersey and Staten Island, and the Port Authority Bus Terminal in midtown Manhattan.



KATHLEEN MARVASO is Managing Director of the American Automobile Association's Government Relations office in Washington, D.C. She directs all federal and state

legislative activities for the 47-million-member association, focusing on safety and mobility issues affecting travelers. Since 1993, Kathleen has developed and executed comprehensive public affairs strategies to help the Association achieve its goals of improving the mobility and enhancing the safety of the traveling public.



MARIA MATESANZ is Senior Vice President and Team Leader for the Infrastructure Finance Group (IFG) at Moody's. Maria manages a group of seven IFG analysts

who cover U.S. transportation, public power, water and wastewater and resource recovery sector debt issuers. She is lead analyst for the mass transit and toll road sectors and covers a portfolio of high profile transportation sector issuers.



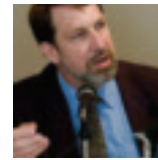
STEPHEN MAYER, P.E., PH.D. (*Moderator*) is the President of the International Bridge, Tunnel and Turnpike Association. Steve represents the Seaway International Bridge

Corporation, Ltd., headquartered in Cornwall, Ontario. He previously served for ten years as the General Manager/Operations and American Officer of the Peace Bridge Authority.



EDWARD REGAN is a Senior Vice President of Wilbur Smith Associates (WSA). Over the last 30 years with WSA, Ed has specialized in traffic and revenue forecasting,

toll facility operations, planning and value pricing studies. Under Ed's leadership, WSA has developed forecasts which have been used in over \$55 billion in toll facility finance and has been involved with virtually every operating managed lane facility in the U.S.



MICHAEL REPLOGLE is Transportation Director for Environmental Defense and President and founder of the Institute for Transportation and Development Policy. He

has 26 years experience in transportation, land use, and environmental planning and policy with a focus on transportation impact analysis and strategies to reduce traffic and pollution through incentives, smart growth, and improved accountability. He has been a consultant or advisor to the World Bank, FHWA, EPA and many governments worldwide.



TED SCOTT is Director of Government Relations for Yellow Roadway Corporation. Ted represents Yellow Transportation, Roadway Express, and US Freightways

at federal, state and local government agencies. Before joining YRC, he was Director of Highway Operations at the American Trucking Associations (ATA), responsible for issues such as truck size and weight, highway legislation, highway finance, highway safety, cost allocation, access and ITS/CVO related programs.

OVERVIEW



TECHNOLOGY



INDUSTRY
CONSULTANT



US DOT



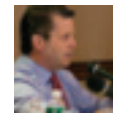
SHIPPER



BOND RATING
AGENCY



ACADEMIA



TOLL AGENCY



CONGRESSIONAL/
FEDERAL WATCHDOG

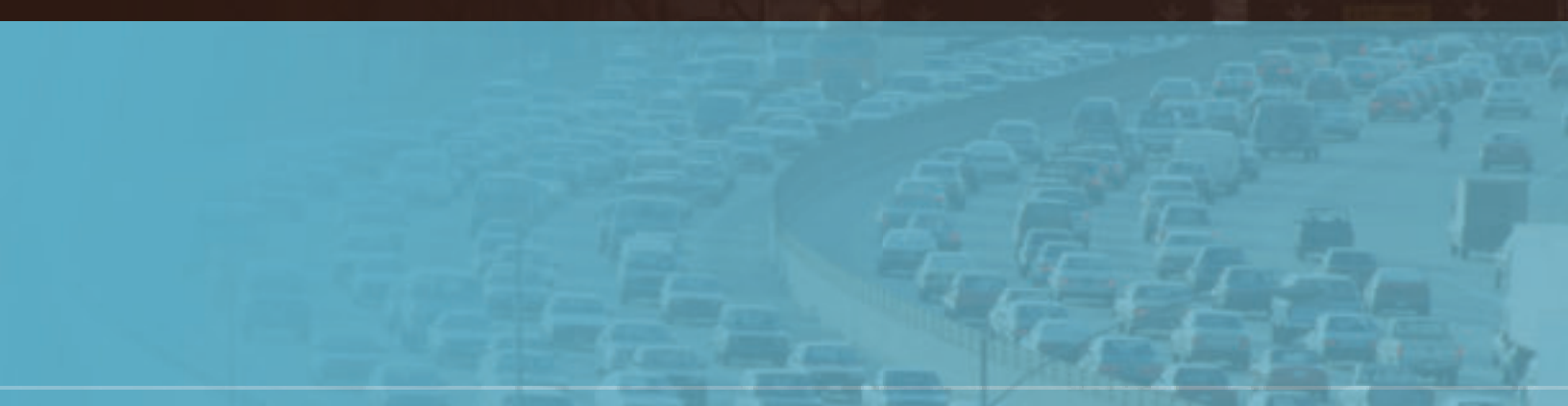


LAW FIRM

CHALLENGES

In the first part of the Future Forum, we asked our experts to talk about the most significant challenges facing highway transportation in America. Here are some of the key issues they discussed:

- ▶ **Finance.** Where will the funds needed to rebuild our infrastructure come from since fuel taxes are no longer enough?
- ▶ **Institutional Inertia.** The latest Transportation bill, SAFETEA-LU, perpetuates a funding scheme that is at least two decades old and is based on a 50-year-old vision for our nation's highways.
- ▶ **Fiscal Imbalance.** Several recent GAO studies suggest that if federal spending continues at the current rate, by the year 2040 there will be no money in the federal budget to pay for anything except interest on the national debt.
- ▶ **Political Will.** The lack of political will and the declining commitment of public officials to invest in transportation.
- ▶ **Market Incentives.** A confused system of incentives that does not allow the marketplace to work effectively. In essence, we have a scarce resource, roads, that are grossly under priced in relation to other products and services in the economy.
- ▶ **Stakeholder Inclusion.** Highway users, customers and other important stakeholders are often not at the table when important transportation decisions are being made.
- ▶ **Performance.** The lack of focus on performance improvements.
- ▶ **National Purpose.** The lack of a clear national purpose or federal program for transportation.



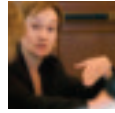
TRADE
ASSOCIATION



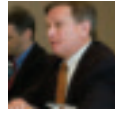
TOLL AGENCY



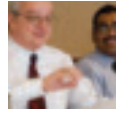
AUTO USERS



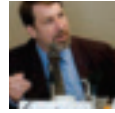
BOND RATING
AGENCY



TOLL AGENCY



INDUSTRY
CONSULTANT



ENVIRONMENTALIST



TRUCKING

FUTURE VISION

In the second part of the Future Forum, we asked the experts to articulate a vision for the future of highway transportation in America — a vision where things are better than they are today. Here are some of the characteristics of that vision.

- ▶ Moving off the gas tax to a per-mile charge to finance and build future highways.
- ▶ Expanded use of road pricing and managed lanes to improve the capacity of our existing highways.
- ▶ Cordon pricing in major cities.
- ▶ Having “economic development” become one of the key motivators for transportation investment.
- ▶ Dedicated truck lanes or truck-only toll lanes.
- ▶ Making our facilities completely secure and grappling with the cost to do that.
- ▶ Smarter growth patterns that concentrate new jobs and housing close to transportation choices other than driving.
- ▶ Movement toward a concession model for infrastructure management.
- ▶ Recognition that our political structures are not very adept at pricing transportation services.

CHALLENGES

MR. MAYER: What are the most significant challenges facing the United States transportation system?

MR. REGAN: For me it comes down to one word: Finance. The biggest problem facing all transportation, but certainly the highway sector, is an inadequate level of funding from existing sources, a situation that I believe is going to get significantly worse.

We have a fundamental problem: the majority of our system is funded primarily through the motor fuel tax, which is based on gallons consumed not miles driven. Fuel tax receipts are declining in real terms because of increased fuel efficiency. If you couple that with the reluctance of elected officials to be branded with “I’m the one who passed the gas tax” when he or she is running for reelection, you really have a situation in which there’s a tremendous resistance to raising gas taxes.

In the long run, we probably need to move off the gas tax to something that’s closer to a per mile of road usage fee rather than a per gallon of consumption. But in the short term there’s a desperate need for supplemental funding sources, either tolls or other user fees. It’s going to take many years, probably two decades, to move off the gas tax to some other funding mechanism.

MS. MARVASO: One of our major concerns is that we’re all talking about these new ideas while the states are skimming off transportation funds for non-transportation purposes. We don’t like talking about new funding ideas until we address the fact that there’s money going out the back door.

MR. DORNAN: I would frame it in two words: institutional inertia. To a large extent our highway system and institutions are a product of our success. After 50 years and one of the world’s greatest achievements, the Interstate highway system, we have created a series of institutional structures that will be very

difficult to unwind. Our challenge is to find a way to paint the picture of the future not as what we’re taking away from all the institutional vested interests, but how we enhance it for all parties as a win-win situation.

MS. HECKER: I think the transportation funding challenges really are a small subset of the government-wide problem. I alluded earlier to the GAO concern about a large and growing fiscal imbalance. Our work has supported that we need a government-wide reexamination of all spending and tax programs, not just transportation programs. So the compelling problems associated with what our Comptroller General has called an unsustainable fiscal path that will gradually erode, if not suddenly damage, our economy and standard of living requires a fundamental reexamination of all policies and priorities.

On transportation, I think the challenges are many. One can raise questions about the merit and wisdom of most of our transportation policies. They are not performance-based. The user pay principle has deteriorated and is getting worse. The unintended effect of federal funding is to create stovepipe mode-based decision making that does not focus on the maximum return.

MR. GIGLIO: The need for net new resources to fill shortfalls approaching \$2 trillion is a serious issue. But I would just ask you to consider that finance is more than just about money. This is not an easy statement to make with a straight face, nor one that most people necessarily would believe. Obviously, money itself is very important, since how much we have determines how much we can build and how well we can manage the assets we have. But how we raise money affects what we do and how well we do it. Put another way, in the best of all worlds we should be able to generate funds in ways that encourage better service and operating efficiencies as well as providing an adequate level of funds.

“The unintended effect of federal funding is decision making that does not focus on the maximum return.”

the fact that transportation needs to be improved?”

—CHERIAN GEORGE

“The biggest problem facing all transportation is an inadequate level of funding.”

— ED REGAN

Again, finance is about more than just money. Finance is about prices. How you raise resources using pricing structures goes to the issue of operating efficiencies, customer service, and generating net new resources. Financing is more than just generating resources through issuing debt. It goes to the issue of pricing.

MR. SCOTT: As the user and the trucker in the room, I get to keep it simple. The challenge is capacity. We're out of it. We've got to have more of it. It's that simple. We have to look at moving freight that's going to grow 70 to 80 percent in the next 15 to 20 years. The other three modes are at maximum capacity right now. The trucking industry is very close to it. So for us the challenge is not finance; we'll find a way to pay for it. We've got to find a way to build it. We have to talk about building a new system, not just improving the old infrastructure. When we begin to do that, I think you're going to find the customer is willing to pay for it. We'd like to see new capacity for the automobile but we also want separation. We want trucking highways out there.

MR. GEORGE: The limitations of the system have serious economic impacts. The Texas Transportation Institute says, for instance, the cost of congestion is \$65 billion a year. But these numbers really mean nothing to the average person. The challenge, really, is how do you sell the fact that transportation needs to be improved. You have to show the impacts on ordinary people because, at the end of the day, that's what matters to politicians and the public.

MS. HEDLUND: I want to address the issue of political will. As Kathleen alluded to, we are seeing a declining commitment to transportation. Some people believe this might be attributable to term limits. In California, for instance, we now have legislators who have, at most, four- or six-year terms in the House and maybe eight-year terms in the Senate. As a result, their political

horizons are very short. To be committed to a transportation project requires you to think ten or twenty years out. We know how long these projects take to get done. And for many of our state legislators, they just don't think ten years out anymore because they're not going to be there in ten years.

MR. DUVALL: I think one of the biggest problems with the current system is that political considerations too often are trumping economics in infrastructure investment and management decisions. We basically have an incentive structure in place that is not allowing the marketplace to work correctly.

We have growing robust demand, but that demand is not translating into a more efficient provision of supply. In other functioning markets and networks, growing demand translates into new and creative ways of supplying whatever product or service that is being demanded. In our little world of transportation, that doesn't happen. The user not being at the table is a fundamental problem. We've talked to highway users. But the user community, in my view, is far too disconnected from the owner of the system. I think the fuel tax is one of the reasons why it's so disconnected.

The accountability for failure is not high enough. And the reward for success is too low. Over time you're going to see the provision of this service start to take on new and very interesting forms; things that we are not even contemplating right now.

MR. REPLOGLE: I think the greatest challenge is how to take a surface transportation system that suffers from market failure and institutional gridlock and use new technologies and pricing to reform how we finance the system so we get better performance for all the stakeholders. Transportation has a profound impact on not just our economy, but on public health, the environment, and equity. We need to challenge the old assumption that it's just a supply problem and focus considerably more attention on system management and demand management.

“When does the argument that

“While there is a cost for private businesses to be open later, it may well be less than the cost of the public sector to provide new capacity.”

—VICTORIA KELLY

MR. GENTLE: Shippers and third party logistics companies are really all about reducing supply chain costs. Speed to the marketplace is essential for us in serving our customers. I think the whole issue of congestion is understated. There’s not enough capacity in the marketplace now. Rail is dumping everything into the marketplace. We’re short of drivers. We’re finding ourselves in a real problem.

MR. SCOTT: And so the question really is, “Is there a model in this world that’s a good one that perhaps we ought to look at? Is somebody doing highway infrastructure right or are we all messing it up?”

MR. DUVALL: One of the big problems is we don’t have agreement as to what “right” is in this context. What we did in this country was have a massive build out of the network called the Interstate system. Other countries just simply didn’t have the financial luxury to do that. But you’re seeing incremental growth in other countries. Private concessionaires are bringing supply to the marketplace under long term tolling contracts. In the long run I think a more pure user financed system is probably where we’re headed. Pricing should be part of infrastructure development. We should be setting in place pricing mechanisms that charge users their true cost. From what I’ve observed, no one in the world has truly put in place a comprehensive road pricing system. There are some good examples, but nothing complete.

MS. KELLY: There’s no question that we have congestion. We have at our facilities a very low toll for midnight hours to encour-

age truckers to use them at a time of day when our facilities are not congested. The problem is that we are only one piece of the whole system. Until warehouses and other pieces in the distribution chain are open in the middle of the night, we get relatively little business. While there is a cost for private businesses to be open later, it may well be less than the cost to the public sector to provide new capacity. The problem is that we don’t look at the total cost; we look at my cost or your cost rather than the total social cost.

I don’t really expect some elected official who has a four or six year time horizon to look long term and strategically. I think the onus is on us to educate the public. Until the public is educated as to what the issues are and what the implications are for the economy and for jobs, I don’t think that they will put the pressure on the elected officials. I don’t think the public really understands today the sort of hidden costs that are built into the current system.

MR. HARTMAN: We sat down with the truckers, because we did impose higher tolls. But we also sold the benefits. We said we’re going to increase capacity; we’re going to have new lanes, and we also gave them overnight and off-peak discounts. We suggested they look at what other people have done to make deliveries overnight. Jewel, our local supermarket chain, started doing nighttime deliveries with Coca Cola. Napa Auto Parts does all their deliveries at night. They do it quietly. Napa is in almost every neighborhood. And I said to the guy from Napa, “What are you doing?” He told me, you just train your drivers really well and you manage it.

So right now we’re starting to work with the suburbs and say will you take a delivery, will you go out on a limb here and let this trucker come in at night? Because nobody wants a truck dieseling outside their house at night. But those are the kinds of things you need politicians to agree to. And it’s not happening at the state level, it’s happening at the local, mayoral level. It’s all lower to the ground and grassroots.

We have to clear the roads. We have to get people on trains and buses. Mass transit is far better at moving people than we are, and yes it does take money out of my pocket. But I can only build so much capacity. The day the cars are off, more trucks

‘we’ve already paid for the road’ go away?’

—ED REGAN

will be on my tollway covering the cost of all. So I think the solution is working together for these nighttime deliveries, as Vicky was talking about.

MR. REGAN: The big challenge for future highways is that the bulk of the money will be needed for reconstruction and rebuilding. This will be a big problem for many states because it costs three to four times more to rebuild a road than it did to build it. Many states are looking at tolls to rebuild. But federal restrictions on the ability of states to put tolls on existing Interstate highways is one of the biggest barriers to that rebuilding process. So the Federal Government, while not supplying solutions in terms of funding, still refuses to get out of the way and allow tolling as an option for the states to use.

So my question is this: when does the argument that “we’ve already paid for the road” go away? When the road is 100 years old, are we allowed to stop saying we already paid for it?

The toll industry has faced this argument forever. We made promises back in the 1950s and 1960s that tolls would be removed when the road is paid for. The reality is that roads are never paid for. They cost more to maintain and rebuild than they did to build.

MS. HECKER: Our work has raised some issues concerning the structure of the current federal program. One of the recent studies we did was on the substitution effect of the federal grant to states. GAO found that between 1982 and 2000, state and local governments used roughly half of the increase in federal

THE ROLE OF FUEL TAXES

For all the discussion in recent years about the failings of the fuel tax as a means of paying for our nation’s transportation system, it certainly played a huge role in the construction of the Interstate highway system, generating nearly \$480 billion in the period 1957-2003.

Since the inception of the Highway Revenue Act of 1956 establishing a “dedicated” fuel tax with the proceeds earmarked specifically for transportation purposes, the United States has been one of the only nations in the world with such a mechanism. In most other countries, fuel tax revenues are considered general fund contributions and have little or no relationship to the financing of highways.

Toll financing was considered an option in planning the original Interstate highway system but a fuel tax was thought more politically acceptable for a nationwide building campaign. Since setting the original federal fuel tax at 3 cents per gallon in 1956, Congress has increased this tax only 5 times in the intervening 49 years, reaching its current rate of 18.4 cents per gallon in 1993.

In addition to the federal motor fuels tax, states levy their own fuel taxes. There is wide variation in both the level of state fuel taxes and the portion that each state dedicates to transportation. The average state fuel tax rate in 2003 was 20.3 cents per gallon, with a high of 28.5 cents per gallon in Wisconsin and a low of 7.5 cents per gallon in Georgia.

Recent fuel price increases underscore both the practical and political limitations of legislating future fuel tax increases. In response to fuel price spikes, some states have temporarily suspended their fuel tax collections, sacrificing the needs of their transportation programs to meet public concerns over fuel prices.



*“If we’re going to
to accept that the*

grants to substitute for state and local highway funds they otherwise would have spent. The result is that the total increase in highway spending was less than the increase in federal spending because increased federal spending changed the level of state spending.

The other concern is the link to performance. The current programs do not have the mechanisms to link funding levels with the accomplishment of specific performance-related goals and outcomes, such as improvements in congestion, safety, and security. Therefore, we do not know if the projects chosen for funding are the most cost-beneficial or whether the expected outcomes of these projects are achieved.

MS. MATESANZ: There are cost recovery models out there that focus on charging the user for what it costs to operate and service the debt associated with the road. That concept is lacking at the federal level. There is no discussion about allocating funds based on where it’s needed most, where the infrastructure is most congested or in the worst state of repair. That is sort of a pie in the sky notion.

MS. HECKER: I don’t think we’ve had a clear national purpose since the Interstate system was completed. We have evolved into a program that’s not sustainable. Despite the new focus on borders and corridors or areas of national significance, I don’t think we have a federal program that is defining needs or dispersing funds on a basis of needs or capacity of recipients or willingness to pay.

MR. DORNAN: Our current system is perfectly designed to produce what we have now—and it will continue to do so unless we change the critical success factors that drive decisions on

transportation. Most state DOTs operate on the basis of two critical success factors: Have we committed and spent all the federal money that was allocated and we have we met our letting schedule? Right now the money trail is geared to support an industry that generates political campaign contributions, spends money in a certain way, and allocates it to a preferred number of contractors and agencies. The whole system is set up to produce what we have.

Let’s create something that’s going to work a lot better. What if we took our whole investment in highways and changed it from merely a capital investment to something that was more of a contractual basis or a franchise. What if we said to government, you can only think so far downstream because your elected officials aren’t there very long. You can’t do asset management. You can’t spend money to keep a road in place 40 years because they’re never going to see the benefits of it. However, if you have a contract with the private sector that says we will pay you or you will get reimbursed with tolls or other sources on a 40-50-90 year basis, my God there’s a lot of built in incentive to not only design it right and build it right, but also maintain it and operate it right.

How do you turn that equation into something that adds capacity and resources in a very efficient way and is accountable for how it’s delivered over a very long period of time? To me there is a way to do that, and it’s the franchise.

MR. GIGLIO: I think the model for the future is all around us. In the private sector, prices reflect the quality of the product sold or the value of the service provided. That is, the amount of revenue a firm books relates to the quality of the service that it provides relative to that of its competition. The model for the future will involve integration of finance, technology, customer service, and the management of the emerging technologies.

“Most state DOTs operate on the basis of two critical success factors: Have we committed and spent all the federal money that was allocated and we have we met our letting schedule?”

—DAN DORNAN

“make improvements to the system, then we’re going to have the status quo is not a long-term winning strategy.”

—TYLER DUVALL

“A successful reauthorization may be, in fact, a hindrance to innovation because it’s the strangling of the system that’s causing people to think outside the box.”

— DAN DORNAN

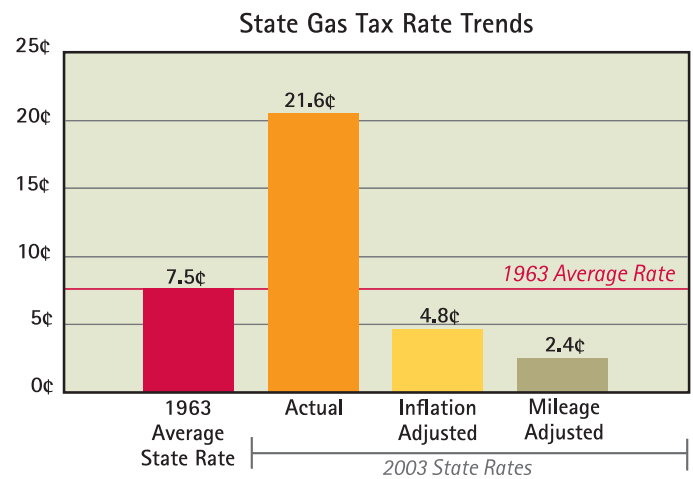
Customers will respond to pricing signals if you reach out and make a compelling proposition for them to buy the product. So I’m going to look to improve service, whether it takes the form of guaranteed levels of performance or money-back guarantees. That is the model to pursue.

Additionally, why shouldn’t all transportation funds be going into a regional or a state pool, not highway funds but all transportation funds? And that region or state decides how much will go into transit, how much will go into highways and other modes.

Toll road folks are in the enviable position of taking the point here. They understand customers, pricing, and technology. They access the capital markets and live within their own financial resources. We now have the technology to start moving in the direction of an integrated transportation network. It seems to me the challenge is to achieve this vision by leveraging off various technologies.

MR. REPLOGLE: One of the real challenges is this: How do we transform this essentially socialist system as Dan described it into one that’s more of a managed public utility that can deliver value for all customers and stakeholders that are effected by the system?

When we design any type of transportation project, whether it be a toll project or some other project, we need to look at system performance, alternative modes, impacts on the environment, impacts on equity, use of revenues, and the distribution of benefits and burdens.



Source: Wilbur Smith Associates

MR. DUVALL: I think we’re getting to agreement here that political problems with the current system are driving many of the problems that everybody’s talking about here. If we’re going to make improvements to the system, then we’re going to have to accept that the status quo is not a long-term winning strategy.

We’ve had many, many conversations with the trucking industry and some of the other big corporate users of the network. They are, in my view, way too tolerant of the failure of the system. We met with Wal-Mart and they were talking about their management of the failure, such as moving distribution facilities around to accommodate congestion. And it dawned on me if their telephone service was being provided in a similar fashion, it would take them about five seconds to demand the supplier make some changes. If it took them 25 minutes to get a dial tone when they picked up the phone, they’d simply switch providers in about 10 seconds.

As concerns the pace of technology deployment, I think that is another symptom of failure. I think road pricing will provide natural incentives to deploy technologies. In our building at DOT people are talking about safety as the driver in technology deployment. I actually am not optimistic about safety being the main reason why people start seeking out new technologies. Once again, in every other network where technology deployment has been rapid, the customer has been the one who demanded that deployment. The model is

“To make your vision a reality you have to sell it.”

— JACK HARTMAN

broken, but it's not irretrievably broken. We're getting close to a tipping point; but the user community must become one of the main proponents of change.

MS. MATESANZ: You say we're at a tipping point in terms of the model. But are we to wait another six years for reauthorization to begin the discussion again? This has been a tortured, pit-filled process to get to where we are now and there's no appreciable change in the model.

MR. DUVALL: Well, I think it's going to be a nonlinear pace of change. It's going to take the political willpower of a single governor or a single mayor who says, "You know what? Failure is no longer acceptable and I'm going to take a significant political risk with a lot of political upside and make a change." And I think once you see one major urban area in the United

States start to embrace something, you will see a ripple effect. A recent article in the *Economist* magazine suggested that people are moving away from places where public entities are failing to provide critical services. For instance, they're fleeing Los Angeles right now and moving to Arizona and Nevada and New Mexico. I think this is the result of the failure of public entities to provide core services to parents and families who want a better standard of living. It's an interesting story worth reading.

MR. DORNAN: Ken Orski wrote recently about the reauthorization process being so tortured that it may have become extinct, if not totally obsolete. I think that a successful reauthorization may be, in fact, a hindrance to innovation because it's the strangling of the system that's causing people to think outside the box.

VISION OF THE FUTURE

MR. JONES: Now let's talk about your vision for the future. If you were in charge what changes would you make, what would be your vision for the future of highway transportation in America?

MR. HARTMAN: I think in order to make your vision a reality you have to sell it. You have to be open and transparent. The public has to understand what you mean. They have to have confidence in what you're saying. You have to include the stakeholders.

We met with the truckers and explained that we were going to triple their rates. But we also listened to them and made immediate changes so that they would see the value in what we were doing. During three meetings in one week we totally revamped what we were doing and gave them back over \$100 million of savings over four years of primary construction. They said, "time is money. Get out of my way. Get your construction out of my way. Get your open road tolling up and running. And we'll let you charge us full rate because we'll get our time back."

Show them something as you're doing it. We put in many extra dedicated ETC lanes for truckers during that time to build up their confidence in the Tollway and their ability to get through. We doubled their capacity through our plazas. We went from 38 percent I-Pass rate up to 72 percent in a year and a half by adding 100 new I-Pass only lanes for a total of 33 percent of all toll lanes.

I think the selling point is the most important thing. Sell them on the benefits and keep explaining it, keep them on board, bring them in and keep talking to them about what you're doing. They may not like everything you do, but at least they understand where you're going.

MS. MARVASO: Our concern is that we not lose sight of the main goal of improving mobility. We support many pric-

ing projects around the country, but we want to make sure the revenue generation goal does not supersede the goal of improving mobility.

I agree with Jack that we have to bring the public along. That's not easy. We know that the awareness and understanding of the current funding system is almost nonexistent. In a recent poll, one of our clubs on the east coast found that less than 12 percent of motorists understand how highways are financed now. And with a lack of understanding goes a significant level of mistrust. There is a sense that there is widespread mismanagement. When you start talking about changing a system, you have to understand where you're starting from.

Public opinion, let's face it, is going to have an impact on the political process. Nothing gets people's attention like raising the local gas tax. You saw what happened in Virginia a little over a year ago. That was a major issue. Again, what it boiled down to in Virginia was that mistrust.

MR. REGAN: The vision I have is moving off a per gallon tax on fuel to a mileage-based fee. Consider a scenario where we don't pay a gasoline tax per gallon, where 20 years from now we've moved to a mileage-based fee and every vehicle in America is equipped with some type of device to be able to do that. We'll probably need to be able to allocate revenue by specific route and all the different things you've heard me talk about before.

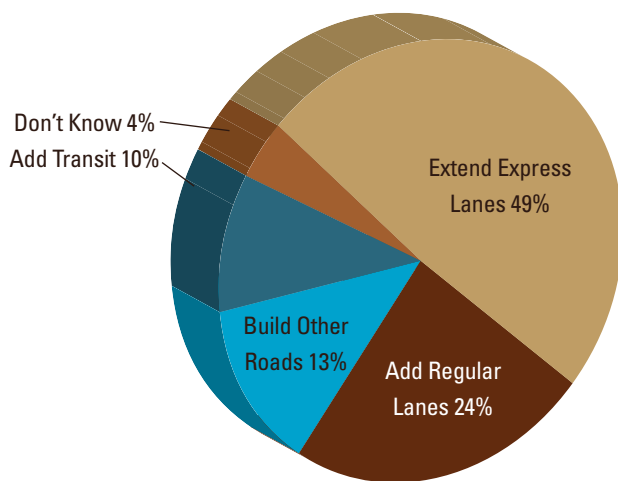
If that's the case, then that decision gives the Intelligent Transportation System community the perfect killer application that they've been looking for over the last five years. The biggest problem with ITS and all the benefits it offers is finding a way to finance it. Well, if the driving force of the technology is the basic foundation for how we pay for highways in America and it gets installed in every vehicle on the assembly line, now all of a sudden the onboard unit is going to be in place to support all kinds of additional services.

"Less than 12 percent of motorists understand how highways are financed now. And with a lack of understanding goes a significant level of mistrust."

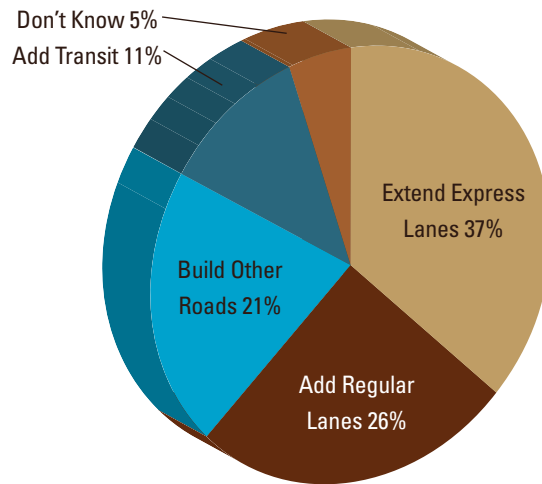
—KATHLEEN MARVASO

“We will be moving more towards a public private partnership that recognizes our political structures aren’t very

What is the Single Most Effective Way to Reduce Congestion on I-15?



FasTrak Customers



Other I-15 Users

Source: Wilbur Smith Associates

It also creates a situation where we now have a direct linkage between the use of this commodity, transportation capacity, and what we pay for it. That is a fundamental requirement for any type of movement toward a performance based investment strategy, the whole idea of being held accountable. If you don't actually pay directly for what you use, then you don't really have the built-in incentive for one road to be operated better than any other.

If we do this, we create a mechanism where we can start to allocate revenue to facilities used, which is exactly in line with the notion of establishing accountability and performance measurement over time.

The next thing is demand management. The gas tax — where everybody is paying the same thing for all fuel consumed — can't really be used to manage demand, time of travel, what roads you use, and what lanes you use. Once you decide to move to demand management, then you're into price variations on the amount you pay per mile to use the facility. And it becomes your choice. It creates all kinds of opportunities.

The last part of the vision relates to the question, "Can we build our way out of congestion?" Planners everywhere have been grappling with this question for decades. The I-15 project is a classic example. It's a managed lane project where single occupant

vehicles are able to buy into car pool lanes. We did extensive polling on that project and ninety percent of the people said they thought it was a good idea to have this time saving alternative on this road.

Then when we asked the public "How should we solve congestion problems on the other parts of I-15?" We gave them a choice of adding free lanes, adding toll lanes, adding transit, etc. The number one response by a two-to-one margin was to extend the toll lanes; two-to-one over adding free lanes, which shocked us. But we suddenly realized what that meant.

The people in California are so accustomed to congestion that they have come to accept the fact that you can't build your way out of congestion. They realize that if you add two free lanes, it's only a matter of time before they too become congested and they have no choice. What they liked about the I-15 Express Lanes is that it provided an escape valve. They could use it when they're really in a hurry to get somewhere.

So if it's true that we can't build our way out of congestion, maybe the new direction in our congested urban areas is to create a network of managed lanes to preserve a portion of capacity through pricing which has managed demand and is available to everyone, not just carpools, so that everyone has the opportunity to get out of congestion when they need to.

concession model for infrastructure management capable of pricing roads.”

—MICHAEL REPLOGLE

The other alternative is to basically give up and say we can't build our way out of congestion so everybody will sit in congestion no matter how big a hurry they're in.

MR. DORNAN: I'd like to paint a picture of what I see as the year 2030. Our Federal Transportation Department will have a surface transportation administration, not a FHWA or an FTA. It would be primarily responsible for standards, safety, security, and accountability issues. There will no longer be a federal gas tax. The opportunity to raise gas taxes will belong to the states and localities. The Interstate system will remain essentially a federal responsibility in terms of standards and Interstate commerce, and it will be funded by tolls. There will be a national toll.

Improvements to the Interstate will be, to some extent, a function of congressional action. Their interest should be focused on the Interstate system and nothing else. If the entire Interstate system is tolled, then there's the basis for a national toll protocol and a national transponder.

The state DOTs will no longer do any design, construction, maintenance or operations. They would primarily serve a contract administration function. They would be responsible for budgeting, for planning and for the establishment of standards within the federal purview, except for state roads and dealing with the localities. Major highways will be operated and managed as a franchise.

Economic development will become one of the key motivators for investments in transportation for both domestic and international trade purposes. We will see the formation of at least ten multibillion-dollar transportation infrastructure investment funds, like a Macquarie, that would be based on banks and interests in this country.

The important thing here is that by 2030 we need to completely replace and rebuild the Interstate highway system. If you design it right, if you build it right, inspect it, then operate, maintain, and preserve it, you can lower the cost by two-thirds. If you let the private sector do that under contract franchises to the states, you have the basis to cut your costs and to establish 50 to 100 year accountability for performance.

So you turn an entire highway system into something that's accountable, much more cost efficient, and responsive to customers. It also forces the accountability at the state and local levels to those that are in charge but maintains a federal role in terms of the higher-level activities such as accountability, safety, security and standardization.

The logistics and trucking industries are going to be major players in this whole equation as motivators, as drivers, as legitimizers of this new system. I believe we will see dedicated truck lanes that occupy the ground portion of all of our Interstates and an elevated portion dedicated strictly to automobiles. In addition, there will be a national size and weight standard for combination vehicles that gets rid of the pockets of less productive vehicles in some states.

That's my vision. I think it's self-supporting and recognizes institutional groups, such as Congress, that won't give up all of the power they have now.

MS. KELLY: I agree with others on a vision of the future that includes not only the user paying the full cost of what he or she is receiving, but also the idea of using pricing to influence choice.

I envision a much higher level of customer service than we are providing today. There's clearly a cost behind all the technologies that we're investing in. And it's a very different cost than the state DOTs and agencies such as mine are used to facing.

When we design a bridge, we understand what a bridge does and how it's going to work. We know that 50 or 100 years from now it's going to work pretty much the same as it did the day we built it. But ITS technologies are entirely different. The technology changes and it's obsolete before we're finished getting it installed. We need to face up to the costs of this new technology because somebody is going to have to pay for that. And that cost is only going to increase.

Another part of my vision includes facilities that are completely secure. I understand that's not possible, but that's part of a vision that we should try to work towards. As we think about what our responsibilities will look like 20 or 30 years hence, we really need to think about the issues of security and terrorism and how we will pay for that.



*“If you look at the introduction of
it never succeeds*

MR. CAPPER: I’ve been listening to Ed’s vision, and I almost said “From your lips to God’s ears!” Someone commented earlier that safety is not going to sell. And Ed referred to the ability of the transponder to perform road pricing as the killer application. I know the killer application is something that all members of the ITS industry have been looking for. I wonder if we have the political will to move towards that vision in a timely fashion.

Some statistics Kathleen mentioned. They have 48 million members. The U.S. parking lot is 240 million vehicles. Detroit generates somewhere between 16 and 18 million new cars a year. How do we deal with the parking lot to get to the vision?

A random thought on privatization. Is privatization of highways necessarily in the national interest because it’s beginning to fragment what we’re doing with the system? Macquarie has investors and is required to give their investors a return on investment. They took an 80 to 90 year view on Chicago Skyway. And they came to the conclusion that they can deliver return on investment to their investors. That tends to suggest you’re absolutely right. You can achieve savings through a long-term view.

MR. SCOTT: From a futures perspective, the trucking industry wants a tax that’s fair, equitable, and noninvasive. That’s the problem we have with weight-distance fees or tolls. That hurdle may be impossible for us to get over. We want the funds we pay to build roads to be non-divertible. We want the product from it — we want roads. We don’t want it for wildflowers or bike paths. I like the idea of the truck only highway. If we could put it on the map and show it to the trucking industry, they’ll put the money in the bank and build it or allow it to be built.

MR. REPLOGLE: As we look out to 2030 one of the biggest challenges we’ll face is how to deal with rapid climate change, a lot of which is driven by growing use of motor vehicles for both person and freight transportation around the world. This will

lead us to face significantly higher costs of energy as we seek to better internalize what are now externalized costs of using fossil fuels.

There will be continuing challenges to our cities brought about by the security environment that we’re in, and continuing global conflicts over limited and increasingly costly petroleum supplies. We’ll face an increasing challenge to our standard of living because of today’s imprudent fiscal policies. All of that will create growing fiscal challenges at various levels of government and in infrastructure finance that will force movement toward a user pay system. We will have widespread road pricing and, in at least a few major cities, cordon charging as we now see in London, Singapore, and Oslo.

Because of these challenges, we’ll also begin to more routinely manage and charge for parking and set motorist insurance based on miles driven, exposing users to now hidden costs of transportation that otherwise end up buried in the general cost of goods and services. This will send clearer price signals to businesses, shippers and individuals so that we can make wiser decisions about consuming energy in transportation and mobility.

We’ll pay more attention to managing passenger travel demand for our scarce road space. We’ll focus on creating smarter growth patterns that concentrate new job and housing growth close to where you can get to good transportation choices other than driving. That will be done, in part, to free up road space for high value trucking services.

I think we will be moving much more towards a public private partnership concession model for infrastructure management that recognizes our political structures aren’t very capable of pricing roads.

MR. GIGLIO: Let me express a cautionary note. If you look at the introduction of innovation and technology into industry and society, it never succeeds when the applications are speci-

“Prescription in the technology arena can be a bad idea. If The Federal government starts to prescribe outcomes, it could have a big market dampening effect.”

—TYLER DUVAL

innovation and technology into industry and society, when the applications are specified in advance.”

—JOSEPH GIGLIO

fied in advance. Where is it written that DSRC — other than the fact that the Feds tout it — is the technology to be used three to five years from now? Look at the rate of technological improvement on Wi-Fi. OnStar is a wireless system. There are competing technologies out there. So before you commit, you have to ask: How will different customers, including state DOTs, toll agencies, and others use these various technologies? Closely related, what is the rate of technological improvement for each technology? While I'm in accord with the wish to implement all these technologies tomorrow, let's just be cautious about how long it takes to introduce the technology and develop successful mobility, safety, and commercial applications reaching the mainstream markets.

MS. HECKER: We need transportation decision-making that is mode neutral and based on cost effectiveness. We need a redefinition of the national role, probably very narrowly focused on performance driven investments. And we should promote advanced and appropriate use of the private sector. I so celebrate your comments. Because we expect the private sector to be most concerned about their investors, the desire to assure appropriate protection of the public interest is the essential challenge of having a vigorous private sector role.

When we deregulated our transportation industries in the 1970s and 1980s there was a national consensus that the system was unsustainable. We didn't have investments in the right places and the system was not signaling the user to incorporate the full costs they were imposing or the benefits they were gaining from use of infrastructure. I've often wondered why it's so much harder to apply this to federal infrastructure investment. We deregulated the business but not the supply part of it.

MR. DUVALL: I think this last point is what propels the deregulation of something big. On the transport side, what we saw was a drumbeat of academic and economics literature documenting the failure over time. Your point about deregulating the service side and not the infrastructure side is one of the fundamental questions that we will have to grapple with. I think we need to start getting the economics community documenting the failure more.

“Is privatization of highways necessarily in the national interest because it's beginning to fragment what we're doing with the system?”

—MARTIN CAPPER

Back to Dan's vision, I think it will not be as clean as that. I think we will see fits and starts. One great thing about this country is we have many opportunities for little pockets of success. So by 2030 I think we will see a couple areas of the country going real radical, which is having competing private sector providers with enough robustness in the network that we overcome some of the regulatory hurdles of price gouging that we talked about.

I think we'll see lots of competition for services. I agree with Joe that prescription in the technology arena can be a bad idea. If The Federal government starts to prescribe outcomes, it could have a big market dampening effect. But if we lay the groundwork for enough competition in technology, you'll see some really cool applications come.

I see some parts of the country still relying on federal aid in many respects. And I think the urban areas, the areas where you see economic growth taking place the most, those are the most important areas we need to start concentrating the new ideas on.

CHICAGO SKYWAY DEAL

Editor's note: In October 2004, the City of Chicago entered into an agreement with a consortium composed of Macquarie and Cintra to lease the Chicago Skyway for 99 years. The lease amount paid to the City of Chicago was \$1.83 billion. This transaction and its implications for the future generated the most robust and passionate discussion during the Future Forum.

MR. MAYER: Let's talk about the Chicago Skyway deal.

MR. GEORGE: I would argue that the Chicago Skyway transaction might not necessarily have created all the right incentives. Some suggest the reason the city did the deal was to get as much money out of the deal as possible. The incentive on their part was to maximize their take home.

Will the Skyway deal improve mobility in the Chicago region? What are the incentives of Macquarie and Cintra, the private sector participants? Does the agreement that's in place create those incentives?

Under the agreement toll rates can grow. If you look at historical data as a guide, toll rates can grow as high as 7.8 to 8 percent a year. If that's the intent, how much traffic is going to be taken off the Skyway to maximize revenue and create more congestion on the Dan Ryan and the Borman Expressway?

I also don't know whether the city of Chicago received fair value in this transaction. I think we'll find that out in good time. And despite the fact that people talk about competition, there was really no competition in that deal.

There was a proposal for \$500 million, which is the amount of debt on the Skyway before the city did the deal. The one proposal for \$500 million ignored the value of a concession from year 30 to year 99. They didn't necessarily understand that there was value there and that the city would be looking for that value. The proposal for \$700 million also did not, in my opinion, necessarily see that. Clearly Macquarie and Cintra saw some value way beyond.

The issue of competition is something to be concerned about so

that when you do privatize a facility like this the public sector gets fair value, whatever that means. In future deals such as this, it is important that public sector value and public policy options are retained for the future.

MS. HEDLUND: Let me give you another example where I think you get a very different answer, and that is the state of Delaware, which is also looking at doing a Skyway type deal on perhaps two or three different assets. There is no question that the deal, if done, will increase mobility because every dollar will go into new transportation assets.

The Chicago Skyway model, the asset sale model, if properly handled, can be an extraordinarily powerful tool for financing new assets by unlocking the value in existing assets. Some of that value is an investment by the Federal Government which is indicating that they are happy to forgive any obligation of the DOT to repay if sale proceeds are put back into transportation.

MR. DORNAN: The Chicago Skyway is one of two major breakthroughs that we've seen in the infrastructure finance arena. The other is the TransTexas Corridor. Both of them have an interesting common characteristic: the investors have provided a lot of money up front.

I think it raises a question about public responsibility and accountability. Some people have raised the question why didn't the city issue the bonds to get the \$1.83 billion. I think the simple answer is the city didn't have the political will to raise the tolls the way this contract allows them to do it.

The other thing about the Skyway deal is it was financed with equity and taxable debt. This deal has blown out the whole argument that you can't use equity and you can't use taxable debt.

The Skyway deal has opened a Pandora's Box for elected officials looking to cash out. My concern is that it's about money generation, not capacity or performance improvement. So long as

The asset sale model can be an extraordinarily powerful tool for financing new assets by unlocking the value in existing assets.

—KAREN HEDLUND

we're only looking at it as a revenue source that's not dedicated back into transportation, it's an awfully tempting thing to see our transportation infrastructure that's largely debt free now sold off at auction with the money going to non-transportation purposes. I think we have huge challenges here. Many of these deals will show up as terrible deals later on. I don't suggest that Chicago is terrible, but it's too tempting not to have abuse. There needs to be some oversight of this thing because right now it's the Wild West out there.

MS. MATESANZ: My concern about this type of financing is that you may be sacrificing long term flexibility for short term gain unless these concession agreements are very carefully crafted to ensure reinvestment in public infrastructure in the area in which these assets are being sold off. On the positive side, use of this model can infuse governments with the necessary capital to do many other projects. But at what cost?

MR. REPLOGLE: I think these deals will be very tempting for a lot of fiscally stressed jurisdictions and officials. There is a great potential for there to be a backlash over badly done deals that sacrifice a lot of sovereignty without setting the right balances and engaging enough stakeholders in the deal to make sure that the deal is sustainable in the long run.

There may be some opportunities to do good things with these kinds of partnerships. I'm convinced that public agencies have a very short-term horizon and have little tolerance for political risk about raising tolls and using tolls to manage the system. The private sector can do that much more effectively. On the other hand, private investors have a more limited capacity for taking on risk in terms of new investments.

MR. GEORGE: Just to clarify something that I said earlier. I don't think there is an issue with privatization. Because the private sector does bring a lot of efficiency to the process. The big issue is with the cherry picking of projects and the arrangements that don't necessarily align all public policy concerns appropriately in the contract.

Macquarie and Cintra are in the business of writing very tight

deals. They did a very good job with Chicago Skyway and with 407 in Toronto. The key issue from a rating standpoint is the impact on credit quality.

In terms of holders of equity and bond holders of the Skyway you can see that they put in 50 percent to get the deal, they already are taking out 25 percent of that. Within three months of doing the deal they've increased their leverage; and that's what this is all about, increasing leverage.

MR. DUVALL: I agree with Dan that the Skyway deal and the TransTexas Corridor are two pillars of reform. The Skyway deal I think is a great deal. I don't think we should care that the city of Chicago is not reinvesting \$1.8 billion in transportation. Our job as transportation people is not simply to beg people to invest in transportation. What we're trying to do is improve the provision of transportation services.

The Skyway has already been converted to an electronic toll facility. They took a sleepy toll road and are going to convert it into a high tech facility. The failure of this deal from a financial standpoint means the city of Chicago retakes the asset and has a toll road, right? I mean, what does failure mean in this context?

MR. GEORGE: The issue that I point out is the fact that the ability to assess fair value is very limited. It's possible that the value of the asset is much greater than \$1.8 billion. It may also be less. The key is there aren't adequate tools to determine fair value and there isn't enough real competition to ensure fair value is received.

MR. REGAN: Under what circumstances would a future evaluation even be an issue on a 99-year lease?

MR. GEORGE: To leverage debt and take out more equity.

MR. REGAN: Yes, but that's not a risk to the current government.

MR. GEORGE: Oh, yes, it is. Because at the end of the day there will be more and more debt on the facility, there will be less and



“We need to be careful about who we say is at risk, from equity holders to bond holders.”

less equity on the project. One of the things we want to think about is political risk. It happens here in the U.S. where politicians make expedient decisions that may be inconsistent with the rights and expectations of bond holders. So at the end of the day bond holders will take it in the chin if in fact that were to happen. That’s something we believe is going to be an issue.

MR. DUVALL: If public agencies run full, fair and open auctions for these facilities, I think the risk that you’re talking about will significantly diminish over time. I don’t buy the notion that we need to be concerned about bilking consumers when the reality is that their system is so dramatically under priced right now. We need to be sending signals to the marketplace that these deals are welcomed, that they’re actually low risk from the public sector side.

My biggest concern is that one of these deals spoils and there’s a huge chilling effect. The marketplace realizes that this is effectively a domain for public agencies and they just throw up their hands and say we’re not competing here anymore. I believe we are in the beginning stages of a very important change in how we pay for and manage these facilities. I think we should be optimistic and hopeful about that change and not be overly concerned that there’s a high amount of risk.

MS. HEDLUND: I think it’s a very important issue as to whether the public agency that is doing the sale of an existing asset or maybe even a concessioning of a greenfields asset should retain some kind of ongoing interest in the facility. Should the public retain some interest in the upside of the toll revenues? Should the public have some continuing interest in these facilities so that if it’s well run they share in the rewards?

MR. DUVALL: I keep hearing it’s a bad deal for the public. I mean, our goal again is not to line the pockets of public agencies. It

should be to improve the transportation system. A bad deal means what? That the road is more successful than it was anticipated to be from the private sector standpoint?

MR. REGAN: I’m not arguing that any of this is bad, nor am I an opponent of privatization. That’s not at all my point. The question is whether the deal reflects good public policy and what is the measuring stick of what the right deal is.

The question has been raised about “why couldn’t the public sector just raise the debt itself with tax-exempt bonds?” Because that would take a commitment to raise toll rates and that’s politically infeasible. That’s really, in my opinion, at the cornerstone of privatization of any type.

If you extend this to the extreme, if the Federal Government would ever get out of the way of allowing tolls on Interstate roads, suppose the states decide to sell all their Interstates and let them become revenue-producing assets. Does that mean that government gets out of the business of ensuring that we have adequate transportation that’s reasonably priced and that the government’s really in the business of just making as much money off the sale of the assets it can and gets out of the way? These are kind of hypothetical questions.

MR. DUVALL: What you’re saying is that there is some assurance now that the public sector will provide a cost effective and correctly priced service. That’s clearly not happening right now. Obviously, there’s some ideal in which the public sector is doing everything correctly, pricing the facility perfectly, maximizing throughput, charging users their true marginal costs. That’s not reality now and so privatization should not be compared to that ideal. It should be compared to public management of these facilities. I just think we have to be honest about what we’re comparing it to.

“The question is whether the [Chicago Skyway] deal reflects good public policy and what is the measuring stick of what the right deal is.”

—ED REGAN

because as time goes on, risk transfers

—CHERIAN GEORGE

MR. GEORGE: I don't have any argument with what you've said, Tyler, before and now. All I'm saying is you have to take a cautious approach. Because at the end of the day this has to be financed. There are bond holders and credit quality issues you can't ignore.

Regarding the Interstate highway system, New Jersey is talking about privatization. Well, if New Jersey decides to privatize, we must realize that maximizing revenue and maximizing throughput are two different things.

MR. DUVALL: They're different, but they're correlated.

MR. GEORGE: They are correlated to some extent. But the issue will be if New Jersey maximizes revenue on the turnpike, if I were New York or Delaware I would have a serious issue with it. Because those decisions might bring New Jersey \$5 billion, but it's going to reduce the amount of business going to Delaware and traffic going through on I-95.

MR. DUVALL: This is why the competition has to be really full, open and fair at the front end and you need good lawyers like Karen negotiating the transaction.

MS. HECKER: With the discussion about the potential for the public to have an interest on the high side, it made me think that the private sector may not really be sharing in the interest on the downside.

MR. DUVALL: Well on the Skyway deal the private investors have massive risks. The private owners of that have enormous redevelopment risk. They're going to have to rebuild that facility at least twice during the years of the concession. They're going to have to get approvals to do it. The private owners do have massive risk. The whole appeal to the public sector is you're shifting large amounts of project risk and financial risk to entities that are willing to bear it.

MR. GEORGE: We need to be careful about who we say is at risk, because as time goes on, risk transfers from equity holders to

bond holders. The alignment of incentives isn't there to dissuade bad decisions from a financing standpoint.

MR. REPLOGLE: I think the environmental community is concerned that public private partnerships might become instruments, in some cases, to do an end run around environmental laws, labor protections, and requirements regarding public involvement in the project review process. If we're going to make public private partnerships successful and effective in the long run to deliver value on their promise, we have to find a way to address those concerns. I'm hopeful that as these deals go forward, we give appropriate attention to these other stakeholders that can be all too easily left in the dust at the sidelines of these deals, which can then later destabilize the whole process. That could be costly to investors.

MR. DUVALL: I do think there are big opportunities to improve environmental protections in the context of these transactions. I would hope the environmental community doesn't fear them, because I think we can put environmental protections in place more rationally in connection with these deals than what we're seeing now.

MR. REPLOGLE: The risk lies in the fact that privatization is a way of rapidly accelerating the pace of project development. Adding a whole lot of private money to the same broken system could create more conflict and potentially taint the public private partnership approach which appears to hold some promise for many around this table.

MR. GENTLE: As far as privatization of highway assets is concerned, shippers would not accept a proposition where the revenue from the sale of a transportation asset would be diverted into anything other than another highway transportation project. The goal would have to be the enhancement of the transportation system. Nothing else would be acceptable.

“Who is going to provide leadership in developing

LEADERSHIP

MR. MAYER: Let's move on to the issue of leadership. Who is going to provide leadership in developing and implementing a vision for our future transportation?

MR. SCOTT: I think if the public sees that the issue of transportation is a national problem, then they're going to look for a national solution. That means Federal Government, and the United States Department of Transportation has to provide the leadership and provide the solution to the problem.

MS. KELLY: The question for us and for IBTTA is really how can we get the word out, how can we continue to educate the public, how can we create a sense of urgency, a sense of crisis if you will, so that a leader or a group of leaders will emerge to help solve all these problems. I don't think it's one person or a group of people or an organization. I think the leader or leaders will evolve. I don't think you can designate somebody as a leader to take on this issue.

MR. DORNAN: Success in change depends on having political champions, as high as possible. If you're talking about toll roads, I would argue if you don't have the governor with you, you're probably not going to succeed. At the national level if you don't have the President and the head of the DOT with you and head of Federal Highways, you're not going to succeed.

MS. MARVASO: We're very committed to trying to educate the public. One way we do that is through our club publications, which reach 28 million households. I have here a series of articles on the issue of transportation funding that were done for AAA's Texas magazine. This reaches a million people. So

AAA certainly is doing what we can to help raise the level of understanding and appreciation for the problem. We want to make the public an informed stakeholder here. I think that's an important part of the political dynamic going forward.

MR. REPLOGLE: Yes, I think having strong political leadership at a top level is very important, as we've seen from the example that Mayor Ken Livingstone provided in London recently with the cordon charging. One mayor can do a lot to transform a system. I think a lot of the best leadership does emerge at the municipal and city level, and occasionally at the state level where we can get these things to happen. That kind of leadership, though, often emerges after a lot of patient work has taken place to create the right environment for a leader to come in and to seize an opportunity. This includes developing the right kinds of technical and public policy analysis to provide the ammunition and the institutional capacity to come in and to quickly make reform.

When reforms happen like this, they tend to be done by leaders who can move decisively and quickly to seize an opportunity and to implement it before it can be dragged down by a thousand bureaucratic forces and forces of opposition.

MR. HARTMAN: I agree with Michael. I think it's more of a local and regional basis. Right now we're working with Illinois DOT, which we never did before. The IDOT Director and I both live in the same neighborhood, the same parish. It takes people sitting down and talking. It takes people from all different levels, because the top people can decide whatever they want but if their planning, engineering, and marketing people aren't working on it, it just doesn't happen. You have to get five mayors to think about what interchange is going to go in along that highway rather than having real estate developers decide.

“If the public sees that the issue of transportation is a national problem, then they're going to look for a national solution.”

—TED SCOTT

and implementing a vision for our future transportation?”

—STEPHEN MAYER

MR. DUVALL: In the long run, the Federal Government is probably not going to be the problem solver here. But I think the Federal Government has got to recognize its current role, how expansive that role is and how the role is or is not limiting improvement opportunities. We're getting consensus in urban areas that's there's a big problem. The next step is clearly much more difficult.

I think we're going to have to keep documenting the cost of congestion. Somebody said earlier that the cost is probably a lot higher than we realize. I think that's right. There are many distortionary impacts of congestion. We need to start getting congestion into the mainstream of the economics discussion

in the United States, and it's a macroeconomic problem, not just a microeconomic problem. It obviously affects the freight sector, but distortions on the commuter side are huge, too.

The Federal Government has a leadership role in getting that discussion elevated. But at the end of the day it's going to take unbelievable political courage at the state and local level. There are some great examples of that starting to happen but it's going to take, as Michael said, an example that's even going beyond what we've seen thus far. Once you see reforms that work in an urban area, it will ripple throughout the country in ways that we can't even predict right now.



CHALLENGES, SOLUTIONS & NEXT STEPS

One participant summed up the discussion on challenges in this way: “We are all about the management of failure.” Another participant said “If we’re going to make improvements to the system, then we have to accept the fact that the status quo is not a long-term winning strategy.” There is a growing consensus that we need to change a system that’s broken.

Building on the ideas of this meeting, IBTTA will host a Transportation Improvement Forum in early spring 2006. The goal of this Forum will be to promote innovative ideas to solve the most critical problems in surface transportation in the U.S. We will also strive to articulate a coherent vision for an effective, productive, well funded surface transportation system across modes. This Forum is designed to drive positive change in surface transportation policy at every level of government by bringing together the best minds from a broad array of stakeholders: government, infrastructure owners and operators, highway users and the financial community.

We invite you to join us in continuing the dialogue started at this Future Forum. Visit the Future Forum comments section of the IBTTA website to express your views and interest in this process.

Moderators — Steve Mayer and Pat Jones

The International Bridge, Tunnel and Turnpike Association is the worldwide alliance of toll operators and associated industries that provides a forum for sharing knowledge and ideas to promote and enhance toll-financed transportation services. IBTTA members include owners and operators of toll roads, bridges, and tunnels and vendor organizations that supply products and services to the toll industry. Located in Washington, DC, IBTTA has more than 250 corporate members in 25 countries on six continents. Visit us at www.ibtta.org.





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