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Speech

TRANSPORTATION INFRASTRUCTURE AND THE PRIVATE SECTOR

Remarks of
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I am very grateful for the opportunity to be with you today. TRF is to be congratulated on its choice of themes for this 46th Annual Forum. The financing of transportation in fiscally constrained times, freight transportation, public-private partnerships, security – all of these issues loom large at the Department of Transportation these days. And they furnish a nice backdrop for some ideas that I want to share with you today.

The future I want to talk about today is one in which the private sector would play a much more prominent role in the construction, finance and management of our Nation's transportation infrastructure.

The deregulation of trucking, freight rail, and airlines has produced enormous welfare benefits for U.S. consumers. Vigorous competition in these industries has lowered prices and increased innovation. While each mode faces important long-run challenges, they remain unmatched in efficiency and productivity – particularly when compared to their more regulated international counterparts.

Unfortunately, we have not seen the same levels of innovation in the provision of the underlying infrastructure on which vital transportation services ultimately depend. In other words, we shouldn't simply conclude that our job is done because we took some bold steps a quarter of a century ago. The fact is that our job is far from done. Now, more than ever, we need re-evaluate the case for public infrastructure monopolies. Certainly, when compared to other deregulated network services such as telecommunications, the arguments for 100 percent public control of transportation infrastructure seem increasingly weak.

The current state of the transportation sector must also be considered against a backdrop of surging demand for transportation services across all modes and a global economy in which businesses are ever more reliant on logistics to meet their cost-reduction targets. Global trade now accounts for nearly a third of our Nation's GDP, with goods coming in from Asia at a particularly breathtaking pace. The fact is that transportation is embedded in the global economy in a new, fundamental, and irreversible way. Transportation isn't merely a service to manufacturers; it is an essential part of the manufacturing process. It isn't merely a service to retailing; it is the way retailers maintain inventory. That's why congestion, if left unaddressed, will have far more serious economic consequences in the future than ever before in our history.

So why, one might ask, has there hasn't there been more private sector involvement in transportation infrastructure in the United States? Let me offer two big reasons: First, not many investors have the fortitude or, indeed, the audacity to compete with our huge public sector programs for financing transportation infrastructure. Second, and even more daunting, a great many legal roadblocks effectively discourage private sector investment in our transportation infrastructure. The current ban on the use of pricing to reduce congestion on our Nation's Interstate highways is a perfect example of the kind of problem we face.

In a very recent report focusing on *21st Century Challenges*, the Government Accountability Office noted that –

> The use of tolls, congestion pricing, and user fees holds promise for helping to solve congestion and mobility problems and provide new revenues for infrastructure improvements. However, the availability of competing federal grant funds and federal restrictions on tolling, pricing and fees can work at cross purposes by dissuading state and local governments and transportation service providers from adopting these tools.

I certainly agree with that assessment. Clearly, there is much more we can do to unleash the energy of the market across all modes of transportation and to encourage private sector investment in transportation infrastructure. In fact, as GAO suggests in its report, we need to re-examine the role of government and the role of the private sector in the provision of transportation infrastructure to determine whether our current, government-centric model is as relevant to this century as it was to the last. As you can probably guess by now, I think the answer is no.

A Historical Perspective: Limiting Private Sector Investment

Over the last thirty years, a broad consensus gradually developed on the major features of federal transportation policy. While there were occasional differences along the way, both political parties have basically agreed on the economic deregulation in the airline, trucking and rail industries and on the federal government's role in transportation infrastructure financing. The basic premise has been to eliminate federal operating subsidies for transportation and focus government efforts on infrastructure. The upshot of this approach has been that government – federal, state and local – and not the private sector – has shouldered primary responsibility for the financing of transportation infrastructure.

Another report issued by the GAO last year looked at private sector sponsorship of some major highway and transit projects in some detail. They found that private sector investment has been used only to a limited extent, and that, again, the private sector faces many challenges to becoming more actively involved in highway and transit projects because of limited opportunities and barriers to financial success. In particular, their research showed that:

- Only 23 states permitted private sector involvement in transportation projects, and only 20 of those states permitted private sector involvement in highway projects.

- Where state and local governments have solicited such participation, it occurred on mostly lower priority projects, such as toll roads built in anticipation of future growth.

- State and local governments traditionally build and finance highway and transit projects through their capital improvement programs using Federal grant funds that reimburse about 80 percent of the costs.

Recent Developments

There are some signs out there, however, that we may be moving towards an important inflection point in transportation policy. If these indications are in fact a harbinger of things to come, we may be closing in on a new consensus that would call for a substantially increased role for private sector financing of transportation infrastructure.

It's not hard to understand the motivation – a combination of increasing congestion and uncertainty about the sustainability of traditional sources of funding. As a result, state and local governments have been actively searching for new ways to fund infrastructure expansion in an effort to meet rising demand without having to raise taxes. There aren't very many examples, but the ones we have seen have enjoyed real success. These projects follow a model used widely in other countries whereby the government awards a concession to a private sector firm to build or improve a highway, bridge, transit, or railway line. The private sector firm pays the government for the concession and gets to keep the revenues.

There are a number of examples:

The Trans Texas Corridor. Last December 16th, the State of Texas announced a deal with Cintra, an international group of engineering, financial and consulting firms headquartered in Madrid, to develop the Trans Texas Corridor. Cintra will invest $6 billion to build a toll road between Dallas and San Antonio by 2010, and has agreed to pay the State $1.2 billion for the concession. In return for building the new transportation corridor, Cintra proposes to negotiate a 50-year contract to maintain and operate the new highway as a toll road.

<u>The Chicago Skyway</u>. In January, the City of Chicago announced that it had leased the 7.8-mile Chicago Skyway Toll Bridge System to a Cintra-Macquarie consortium for 99 years. Cintra-Macquarie paid the City of Chicago $1.83 billion for the concession. Cintra-Macquarie will operate the facility and keep the toll revenues. The Chicago Skyway deal has aroused interest in other parts of the country, leading states like New York, Indiana and New Jersey to look more closely at the possible privatization of their toll roads.

<u>Go California</u>. Just a couple of weeks ago the Schwarzenegger administration announced its "Go California" proposal, which would allow private firms to build new toll roads and High Occupancy Toll (HOT) lanes. The proposal is intended to reduce congestion and produce new toll lanes without the need for any additional state funds because private companies would pay for the construction costs in return for keeping the toll revenue stream.

<u>Virginia</u>. Finally, the Virginia Department of Transportation has received unsolicited private sector proposals to widen the Capital Beltway from Springfield to Tysons Corner and to widen the HOV lanes on I-95 south of the Beltway.

As I said, this is a familiar pattern in other countries. Italy, for example, privatized its largest state toll business, Autostrade, a few years ago. In Canada, a toll road near Toronto – the 407 – was privatized after being constructed by the Province of Ontario. Japan also has committed to privatizing its government-owned toll facilities, which are the largest toll revenue generators in the world. Most new toll facilities under construction around the world in fact are being built by investors under government-administered concessions. These include new tollroads in 23 countries in Europe, Asia, South America, and the Caribbean.

Government Must Rise to the Challenge

It is time to ask what the federal government can do to help accelerate this trend and ensure that we maximize the benefits of private sector participation in our transportation system. Quite frankly, one of the most critical things the Federal government can do is to simply get out of the way. The Administration's surface reauthorization proposal – called the Safe, Accountable, Flexible and Efficient Transportation Equity Act, or SAFETEA -- takes some important first steps toward accomplishing that goal.

For example, SAFETEA would allow all states to use tolling on any highway, including Interstates, so long as the aim is to reduce congestion. Road pricing is a proven congestion buster, and the time has come to allow *all* states to experiment in this area, not just the 15 that happened to be participants in FHWA's pricing pilot program. Priced lanes can give drivers a choice they don't currently have when they need a quicker, less congested route for driving to work, home, or the day care center.

Our proposal for private activity bonds would change federal tax rules that now strongly discourage the world's most vibrant private sector from investing in surface transportation facilities that benefit the public. SAFETEA proposes allowing state and local governments to turn over bond proceeds from a tax-exempt issuance to private entities willing to construct highways or intermodal freight facilities. This prohibition has long been cited as a primary reason the United States lags behind the rest of the world when it comes to attracting large amounts of private capital to transportation infrastructure. The private sector can bring innovation, greater efficiency and cost savings to the table, resulting in transportation projects that are completed faster and at less expense to taxpayers.

Finally, our bill also has provisions that encourage greater use of private infrastructure financing by enhancing the effectiveness of State Infrastructure Banks, expanding eligibility for the TIFIA innovative financing program, and emphasizing greater use of public-private partnerships.

As Secretary Mineta often points out, while spending levels are a critical part of any reauthorization proposal – and money has been the subject of endless debate in relation to this piece of legislation – federal investments must go hand-in-hand with sound policies in order to attract new resources. Passage of SAFETEA will allow us to start thinking seriously about the more far-reaching policy changes that we will have to look at in the future.

This can be done in the context of defining the federal role more broadly in terms of financing infrastructure for all modes of transportation. While that is a debate for another day, it should be clear that government should not shut out private sector investment at a time when it holds the promise of a far more robust and dynamic transportation system in the future.

Conclusion

Let me stop there. I know I have only scratched the surface, but I hope these remarks have given you an indication of the state of our thinking in this important area. We certainly look forward to working with all of you in the years ahead to advance our transportation policy objectives.

Thank you for allowing me to share these thoughts with you today.

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