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NATIONAL SURFACE TRANSPORTATION POLICY

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AND REVENUE STUDY COMMISSION

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CHICAGO FIELD HEARING

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COMMISSIONER JACK SCHENENDORF, CHAIRMAN

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COMMISSIONER FRANK BUSALACCI

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COMMISSIONER FRANK McARDLE

COMMISSIONER STEVE HEMINGER

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April 18, 2007

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1:00 o'clock p.m.

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James R. Thompson

Center Auditorium

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100 West Randolph

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Chicago, Illinois

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CHAIRMAN SCHENENDORF: If everybody could take
their seat now we'll start with our first panel.

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First let me start by thanking on behalf
of Secretary Peters who is the Chairperson of our
Commission and all of the Commissioners, we want to
thank the people of Chicago for the wonderful
hospitality they've shown us so far and for all of
the arrangements that they have made to help the
Commission during these two days conduct our
hearings.

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11

We want to welcome you to this hearing.
This is a very important hearing. It's our last
hearing in the series of almost ten hearings that
we've had. We are having our last hearings today
and tomorrow in Chicago, and then today we have
another hearing going on in Minneapolis. Then at
that point the Commission's hearings will be over.

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I'd like to especially thank our hosts,
AASHTO, IDOT, WTA and STPP, for hosting this event.
They've put a lot of work and energy into this, and
it really has been very, very apparent, and we look
forward and thank them for their hard work.

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23

We would also like to thank all of the

24 sponsors. There are too many of them to name, but
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1 there have been a number of groups that have
2 contributed financially to this effort, and we would
3 like to thank them all because without their help we
4 wouldn't have been able to come out to Chicago or
5 anywhere else really and have these field hearings
6 which we consider to be very important.

7 I would also like to recognize a couple
8 of people. First, we are very fortunate to have
9 some federal officials here today. We have Rick
10 Capka with us, the Federal Highway Administrator.
11 We have David Hugel who is the Administrator of the
12 Federal Motor Carrier Safety Administration and
13 Sherry Little who is the Deputy FTA Administrator,
14 and so we thank them for coming to Chicago and
15 participating in the hearing.

16 We'd also like to recognize Chris Bonanti
17 and Beth Nachreiner with the Commission staff who
18 are here today helping us.

19 50 years ago the nation faced a
20 transportation crisis, and congress created the Clay
21 Commission to, President Eisenhower created the Clay
22 Commission to help establish a vision for the
23 future, and that Commission came up with the vision
24 of the interstate system.

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1 As a result of that, congress enacted a
2 program to bring that about to fruition and to
3 finance that system, and that has been proven to be
4 one of the wisest decisions this nation made.

5 I think when you look back the impact of
6 the interstate system and what it has meant for our
7 way of life, our economic growth has been virtually
8 phenomenal.

9 And we are unfortunately at another
10 crossroad similar to where we were in 1950. The
11 interstate system has basically reached its design
12 capacity. The interstate system is aging, and we
13 have huge demands on our transportation system, our
14 highways, our transit systems, our railway systems;
15 and this Commission was created to try to point the
16 way for the next 50 years to come up with a vision
17 that is similar to the interstate, and it's going to
18 have to be much more complex. It's going to have to
19 be much more multi-modal, but we're basically, if
20 we're going to have the same kind of economic growth
21 we've had in the past 50 years, if we're going to
22 have the same kind of personal mobility we need to
23 have an effort and a vision as to what that system
24 and what kind of improvements need to be made over

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1 the next 50 years, and that's the job of our
2 Commission.

3 We've been tasked with looking at what is
4 that vision, what should the system look like in 50
5 years, what's the investment that's going to be

6 needed to make that become a reality.

7 We've been tasked with looking at what
8 should the appropriate roles of government be,
9 should the federal government's role basically be
10 over and the states and local governments and the
11 private sector take over or is there still an
12 important role for the federal government as we
13 proceed the next 50 years. Then the third
14 part of our task that we have to complete is the
15 financing -- how should this be financed, what the
16 vision is, what the roles of government are and then
17 how are we going to finance these improvements.

18 The Commission is tasked with completing
19 its work by December 31st, 2007. We are working
20 toward that.

21 As I mentioned before, this is our last
22 hearing, so after this hearing we will really start
23 the deliberative phases of our work and move to
24 preparing a report which will be ready by the end of

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1 the year.

2 We really want to thank everybody who is
3 going to be testifying over these next couple of
4 days. This has been very, very important input to
5 our process, and so we thank you for that and look
6 forward to hearing your testimony.

7 Before we get started with the first
8 panel I'd like to just make a couple of
9 announcements.

10 If there is anybody who is hearing
11 impaired, we have people here who can sign if that
12 is necessary. If there are any hearing impaired
13 people here, if they would let us know, let the
14 staff know, we will make arrangements to have a
15 signer.

16 Then secondly, I would like to announce
17 that we will observe the five-minute rule for
18 testimony, so we ask you to make your oral comments
19 within five minutes. We really do want to have an
20 exchange with you, give and take, and the only way
21 that's going to be possible is if we stick to the
22 five minutes. If I interrupt you at the five minute
23 point, please don't be offended. It's just that
24 we're going to try to keep everyone on schedule.

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1 With that, let me turn to the other
2 Commissioners for any comments they may have.

3 Commissioner Heminger.

4 COMMISSIONER HEMINGER: Thank you,
5 Mr. Chairman.

6 I'll simply second your opening remarks.
7 It's a pleasure to be back here in Chicago.

8 If I could make a personal plea to any of
9 the panelists who might be fellow Chicago Cubs fans.
10 I've been enduring an unending streak of abuse from
11 White Sox fans all morning. So if any of you want
12 to speak up for the north side club, please feel

13 free.

14 CHAIRMAN SCHENENDORF: Commissioner Busalacci.

15 COMMISSIONER BUSALACCI: Thanks, Chairman.

16 It's just good to be here. Chicago is
17 kind of like a second home. You know, people from
18 Wisconsin, people from Illinois, this is all part of
19 the same region, and I'm just really happy to be
20 here.

21 I want to hear the testimony because a
22 lot of your problems are certainly problems in the
23 State of Wisconsin.

24 I also want to congratulate the City on
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1 winning the bid for the Olympics, and hopefully
2 you'll succeed in getting the Olympics. Maybe we
3 can share some transportation issues with you when
4 that happens.

5 Thank you.

6 CHAIRMAN SCHENENDORF: Commissioner McArdle.

7 COMMISSIONER McARDLE: Yes, I want to thank
8 everybody for taking the time for having us here.
9 It has been most informative last evening and this
10 morning.

11 And I would only say as a Red Sox fan for
12 all of you who do support the north side club it's
13 wonderful when they do win eventually as I learned
14 in 2004.

15 CHAIRMAN SCHENENDORF: Thank you. Let's start
16 with our first panel. I'll go in the order in which
17 they are on our list here.

18 We'll start with Mr. Jack Webber.

19 MR. WEBBER: Mr. Chairman, honorable
20 Commissioners, the Illinois Department of
21 Transportation thanks you for the opportunity to
22 address this hearing.

23 From Illinois' perspective the most
24 important transportation problem revolves around the
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1 need for congestion relief in metropolitan areas
2 such as Chicago, and we in Illinois believe that the
3 nation is unlikely able to build its way out of all
4 its congestion problems.

5 To reduce congestion we have to think
6 bigger, dream smarter and plan further ahead than
7 the next road or bridge project as important as that
8 project might be, and we at IDOT believe that one
9 solution to congestion lies in our ability to couple
10 our physical system improvements with the
11 state-of-the-art ability to communicate vital
12 information on travel conditions to motorists and
13 others as they travel, giving us an ability to
14 proactively manage traffic and congestion
15 immediately and spontaneously as conditions warrant.

16 The very same infrastructure that can be
17 put in place to provide such communications can be
18 used to enhance safety and mobility in other ways --
19 for instance, by providing more options for workers

20 whose jobs with improved technologies could be
21 structured to work from any location. The effect
22 would be to take vehicles off the road during prime
23 commuting hours and ease congestion in a very real
24 and valuable way.

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1 With these goals in mind, we want to use
2 the current threat of congestion in Chicago as an
3 opportunity and proving ground for the nation. We
4 want to provide a comprehensive communications
5 network to help travelers make the immediate
6 decisions needed to avert and avoid serious
7 congestion problems, and to complete that network we
8 want to fully utilize IDOT's right-of-way resources
9 which can be used to install and host the
10 infrastructure needed.

11 The key to reducing congestion may lay
12 with a piece of technology the size of a transistor
13 radio that today costs less per vehicle to own than
14 the typical sales tax on the vehicle. We're talking
15 about information delivery embodied by global
16 positioning system or GPS devices.

17 Already available commercially, it is
18 widely expected that these devices within a few
19 years will become standard equipment in all
20 vehicles. As that happens, we need to improve on
21 the quality of information along with the critical
22 networks needed for effective communication.

23 Much as the invention of a light bulb a
24 century ago required new infrastructure to make the

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1 new technology useful to the masses, this technology
2 depends on a seamless 21st century infrastructure
3 that includes wireless networks and fiber optic
4 grids to eliminate dead zones and beam information
5 anywhere such connections exist.

6 Looking to the future, it seems obvious
7 that such devices will become integral to traffic
8 safety. Imagine a system that could alert drivers
9 as they swerve outside traffic lanes before they
10 veer off the road. This technology is available
11 today and puts us within reach of a system that
12 could warn a driver of drowsiness or an impending
13 crash.

14 Illinois has overseen initial steps
15 including fiber optic cable along many interstate
16 routes, wireless access at rest areas and a new
17 study for wireless access on intercity passenger
18 trains.

19 Such advances including e-mail alerts and
20 digital messaging already help provide real-time
21 information to travelers on traffic, travel times,
22 weather and alternate routes.

23 What's more impressive is that the cost
24 of this technology and the problems averted to date

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1 constitute perhaps the greatest transportation

2 bargain in history. IDOT's total spending for such
3 improvements assisting hundreds of thousands of
4 travelers each day has totaled less than 100 million
5 dollars over the past decade. This realization
6 comes at a time when 100 million dollars buys
7 taxpayers less than two miles of fully reconstructed
8 urban freeway in Chicago.

9 The implications are obvious. Through a
10 relatively low cost commitment we can affect the
11 actions of drivers to make roadways immediately
12 safer, to allow traffic to immediately flow more
13 evenly and most important to move people, goods and
14 services much more efficiently.

15 To meet this goal Illinois must increase
16 the capacity of its fiber optic and wireless network
17 and create a comprehensive communication strategy to
18 disseminate the knowledge travelers need often
19 before the travelers themselves realize they need
20 it.

21 The time has never been more right, but
22 this fundamental change in the way we invest in
23 transportation will require a major commitment from
24 the federal government and various states.

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1 The State of Illinois and IDOT stand
2 ready to be the nation's test bed and innovator. We
3 stand ready to work with the federal government to
4 research, install and implement these new
5 technologies, prove their value and ultimately
6 provide them to all who might benefit.

7 The issue is critical. The time is now.
8 Illinois stands ready to lead with your help.

9 Thank you.

10 CHAIRMAN SCHENENDORF: Thank you. Came in
11 under five. That's excellent.

12 MR. WEBBER: I worked on it.

13 CHAIRMAN SCHENENDORF: Our next witness is
14 Cheri Heramb.

15 MS. HERAMB: Thank you. On behalf of Mayor
16 Richard M. Daley and the City of Chicago, welcome.

17 We are so thankful that you're having one
18 of your field hearings here in Chicago, and if
19 there's any way that we can make your travel here
20 within the City as well as your enjoyment of the
21 City increased, we would love to do that.

22 The answer to your question,
23 Commissioner, of -- we do believe that there's an
24 important role for the federal government in setting

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1 a strategic agenda for transportation investment in
2 this nation. Competing in the global economy means
3 that we have to be very careful about our investment
4 of federal dollars as well as local dollars.

5 Having that important agenda set by the
6 federal government in conjunction with the states
7 and cities is absolutely critical in making those
8 best investments.

9 But I also wanted to talk to you about
10 what we think is a model for privatization which was
11 the leasing of the Chicago Skyway.

12 You heard earlier from our chief
13 financial officer and also one of the architects of
14 the Skyway deal Dana Levinson and John Schmidt about
15 some of the details, some of the financial details
16 of the transaction.

17 I'm here to really assure you that this
18 is working well from the perspective of the driving
19 public; that the road is safe; that we have the
20 mechanisms in place to assure its safety and also
21 that traveling on that roadway is just as easy if
22 not more so than when it was in government hands.

23 So we believe that this was a wise
24 investment, a wise case study of privatization, and
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1 really the devil's in the details -- making sure
2 that upfront as part of the transaction you have a
3 variety of mechanisms in place to guarantee that the
4 public entity is receiving adequate information,
5 sufficient information on the condition of the
6 roadway every year, on the operations of the
7 roadway, on the financial status of the roadway and
8 also making sure that as in our case those tolls are
9 controlled; that is, that there's a maximum toll
10 collection allowed under ordinance which increases
11 on an every year or three-year basis depending on
12 the time frame you're looking at with our
13 transaction.

14 We also know that we benefited from
15 having a very lucrative sale of the or lease of this
16 Skyway; that the revenues were wisely invested both
17 in paying down some of our existing debt and
18 improving the City's bond rating which allows us to
19 do many other capital investment projects at a good
20 price and also that we were able to provide the
21 assurances to the drivers, to the driving public in
22 this state and other states who are adjacent to
23 Chicago that we would have a top-notch facility.

24 One of the things that we're very proud
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1 of is that the Skyway concessionaire is making
2 improvements all the time both in terms of capital
3 improvements which were required under our agreement
4 with the concessionaire as well as automating toll
5 collection, really improving the management as only
6 a professional operator of toll facilities can.

7 Really the management of the Skyway is
8 very similar to toll operations across the country
9 and across the world, and having people who
10 specialize in tollway operation operating this
11 facility was a very good decision on our Mayor's
12 part.

13 We also were able to assure that minority
14 and women-owned businesses have a role, that the
15 Skyway concessionaire is paying a living wage and

16 that there are residential preferences; that is, for
17 people living within the City of Chicago to find
18 employment with the Skyway.

19 So I'd say that not all privatizations
20 are equal but rather you have to be smart in the way
21 you design the transaction, in the way you set it up
22 and bid it and also the legal agreements that carry
23 you forward.

24 So I welcome any questions on this topic.

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1 I also want to point out that the City of
2 Chicago, the State of Illinois and the railroads,
3 the freight railroads as well as Metra and Amtrak,
4 have another privatization project that we're
5 working on and that's the CREATE program.

6 So thank you very much for your time.

7 CHAIRMAN SCHENENDORF: Thank you.

8 Mr. Kruesi.

9 MR. KRUESI: Thank you, Chairman, and members
10 of the Commission.

11 I'm Frank Kruesi, President of the
12 Chicago Transit Authority.

13 I submitted a written statement for the
14 record but would like to briefly highlight some of
15 the points in my statement.

16 The CTA is the second largest public
17 transit agency in the nation providing more than 1
18 1/2 million rides in the average weekday, a total of
19 495,000,000 rides last year.

20 The CTA like many transit agencies
21 throughout the nation has significant ongoing needs
22 for both operating and capital funding.

23 I want to emphasize that public/private
24 partnerships such as the one I'm going to discuss

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1 with you today should in no way take away from the
2 need for strong, reliable sources of funding for
3 both operating and capital needs provided at both
4 national and regional levels.

5 Block 37 which I'm going to talk about is
6 just one and a half blocks away from this building
7 and comprises the blocks surrounded by Randolph,
8 State, Dearborn and Washington Streets. If you
9 haven't seen it, I encourage you to take a stroll
10 and see the work that's under way there now, and I
11 certainly hope that you'll come back for the opening
12 of the retail in holiday of 2008.

13 Block 37 brought together a unique
14 opportunity for the developer, the City, the region
15 and the CTA.

16 From the developer's perspective having a
17 transit station that connects to both of the City's
18 airports is an amenity that makes this project stand
19 out. It makes this location potentially the
20 epicenter of the entire region.

21 From the City's perspective, this project
22 presented opportunities to continue to enhance the

23 City's position as a world-class international city
24 by leveraging and complimenting the City's ambitious
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1 modernization programs which also involve private
2 sector participation with the airline industry.

3 As the City prepares to host the 2016
4 Olympics, summer olympics and para-olympics,
5 developments like Block 37 will be critical to
6 maintaining Chicago's competitive standing for this
7 international event.

8 From the region's perspective the O'Hare
9 Modernization Program will reconfigure O'Hare
10 International Airport's intersecting runways into a
11 more modern parallel play out. This 6.6 billion
12 dollar program will substantially reduce delays in
13 all weather conditions and increase capacity at the
14 air field, allowing O'Hare to meet the region's
15 growing aviation needs well into the future.

16 Improved transit access is a critical
17 component for airport access overall and is an
18 important part of what makes this project work so
19 well for the region, for the nation, indeed.

20 Finally, from the CTA's perspective this
21 project represented an opportunity to connect the
22 CTA's two busiest rail lines, the Blue and the Red,
23 at a key location in the central business district
24 allowing the CTA to more effectively serve the rail

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1 customers on its entire system and to move equipment
2 as necessary to balance the needs of the system.

3 Once the new downtown transit terminal
4 tunnel is completed the public/private development
5 agreement allows for additional cost savings of
6 revenue enhancing opportunities to be available
7 including operating and maintenance of common areas
8 surrounding the downtown inter-modal terminal
9 provided by the private developer.

10 Let me caution, however, that these
11 private sector benefits and synergies are not
12 without their own sets of risks. Unlike traditional
13 100 percent publicly funded projects, adding the
14 private sector partner subjects the public sector to
15 the inherent private sector risks such as changes in
16 ownership and access to private capital. Just last
17 Friday, for example, the Block 37 Development
18 Project was sold from the original developer, the
19 Mills Corporation, to a new developer, Free.

20 So in order to take advantage of the
21 benefits of the partnership, the public sector has
22 to be flexible going into the deal. The public
23 sector must be prepared and willing not to have the
24 same level of control over all aspects of project

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1 development to which it is accustomed and vice
2 versa.

3 The budget for this project is
4 \$213,000,000 with funds coming from the following

5 sources: \$130,000,000 from the CTA, \$42,000,000
6 from the City in TIF funds and \$41,000,000 from the
7 developer.

8 This project represents an investment of
9 less than one percent of the CTA's total asset base
10 of \$20,000,000.

11 Thus, as I mentioned at the beginning of
12 my remarks, although public/private partners
13 represent important opportunities for certain
14 projects, it is not a substitute for strong,
15 reliable capital and operating funds from the
16 regional and national levels.

17 With that, I conclude my statement and
18 look forward to any questions you may have.

19 CHAIRMAN SCHENENDORF: Thank you.

20 Maggie Walsh.

21 MS. WALSH: Mr. Chairman and members of the
22 Commission, my name is Maggie Walsh. I'm a senior
23 associate at CTE and the president of WTS Greater
24 Chicago Chapter.

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1 Thank you for the opportunity to present
2 testimony on behalf of WTS, an international
3 organization dedicated to the professional
4 advancement of women in transportation with 41
5 chapters representing more than 4,000 members both
6 men and women.

7 WTS is working to improve the
8 transportation industry. Our testimony today
9 reflects a decade of experience and planning,
10 designing, constructing, operating and perhaps most
11 importantly using the nation's transportation
12 infrastructure. That's right. In addition to
13 creating and managing them, our members are using
14 the transportation system to get to work and to
15 play, to move large shipments and small packages, to
16 access support and opportunity.

17 We have been told that you are
18 particularly interested in innovative and long-term
19 thinking and divided our testimony into four themes
20 -- global competitiveness, mobility, livability in
21 our nation and sustainable finance to meet that
22 goal.

23 Strong, efficient transportation systems
24 are a vital component in global competitiveness.

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1 Federal interests must go beyond local and regional
2 interest to identify global infrastructure
3 priorities that set national policies for today and
4 the future.

5 We support a strong federal role in
6 setting goals for our nation's transportation system
7 to ensure a comprehensive multi-modal and
8 coordinated approach.

9 Our global competitors are already moving
10 beyond the ability to deliver products.

11 Transportation elements that do not work strain our

12 ability to compete.

13 It is critical that we include freight
14 and port programs in transportation planning
15 decisions. Our transportation policy must support
16 efficient integration of modes and work with
17 industry leaders to develop innovative solutions to
18 common problems.

19 83 percent of Americans live in
20 metropolitan areas generating 86 percent of the
21 nation's GDP, and supporting the particular
22 transportation needs of our metropolitan areas will
23 ensure the continued competitiveness of the nation.

24 A system with fully integrated modes will

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1 support innovation and competition. This generation
2 must provide the same type of vision for the entire
3 transportation system including rail and transit
4 that previous generations provided for the
5 interstate highway system.

6 We are a nation of individuals, of
7 explorers and adventurers and we create mobility.
8 Our transportation system provides mobility at the
9 most basic and most complex levels making it
10 possible to access education, healthcare, work and
11 opportunity. It is critical to maintaining the
12 quality of life that Americans expect.

13 A national transportation policy must
14 recognize the changing mobility needs of its
15 citizens throughout their lifelines.

16 The mobility requirements for children,
17 young people starting their careers, working moms
18 and dads, active elders and physically challenged
19 may be different in specifics but remain critical to
20 the quality of life. At a minimum, lifeline public
21 transportation is essential to providing mobility
22 and access.

23 Access is the opportunities presented by
24 the improvement of transportation infrastructure.

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1 It must also be widely and equitably available.

2 We support the continuation of robust
3 programs that offer meaningful work to small
4 businesses, enterprises and those owned by women,
5 minorities, veterans and people with disabilities.
6 It is not only right it is smart. A wide variety of
7 perspectives will help to create a more innovative
8 and accessible system.

9 A national transportation policy must
10 support livability throughout the country. It
11 should expand not limit opportunity and join not
12 divide communities.

13 A good transportation policy should limit
14 harm to our environment and great transportation
15 should enhance the environment in our lives.

16 We must continue to support green field
17 initiatives in transportation as key components in
18 creating a livable and productive nation. We must

19 reward innovation and encourage those activities
20 that limit our energy reliance while maintaining the
21 quality of our environment and reducing greenhouse
22 gases.

23 Sustainable finance is responsible
24 finance. While it is true we cannot build if we

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1 cannot pay, we cannot grow if we cannot improve.

2 Ensuring long-term stable financing for
3 transportation infrastructure is a key requirement
4 for success. To encourage sustainable financing it
5 is important to streamline the regulatory process,
6 to leverage the public/private sector and
7 participation in infrastructure financing such as
8 PPPs and investigate partnerships that move beyond
9 financing.

10 It is also critical to recognize that
11 PPPs in toll financing are not a panacea. They
12 cannot meet system-wide improvement requirements and
13 may serve to limit access.

14 We must also capitalize on new revenue
15 sources and in situations where tolls are
16 appropriate provide incentives for the use of value
17 present to maximize capacity.

18 An integrated transportation system must
19 be supported by integrated financing. Combined
20 transit and railway projects should not have to
21 negotiate among multiple --

22 CHAIRMAN SCHENENDORF: If you could wrap up,
23 please.

24 MS. WALSH: Yes.

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1 -- should not -- thank you. I'll just
2 finish it there.

3 CHAIRMAN SCHENENDORF: Mr. Blakenhorn.

4 MR. BLAKENHORN: Thank you, Mr. Chairman and
5 members of the Commission.

6 My name is Randy Blakenhorn. I'm the
7 Executive Director of the Chicago Metropolitan
8 Agency on Planning.

9 We were a recently merged agency of the
10 Transportation Planning Agency for Northeastern
11 Illinois and the Language Planning Agency for
12 Northeastern Illinois, and while I don't want to
13 focus on that issue, I do want to say that as we
14 look at transportation solutions in the future, it
15 is our belief that this kind of agency that looks at
16 transportation solutions inside of a comprehensive
17 planning mechanism is the way to go.

18 I want to talk about three major things
19 this afternoon. The first is the need for a strong
20 federal program; secondly, the way we move goods in
21 this country and outside of this country, and
22 finally what the role is of regions and how regions
23 impact not only our problems but our solutions in
24 America.

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1 We need to continue to provide strong
2 connectivity within America, and the federal
3 government needs to continue to provide that role.

4 We need to look both within our borders
5 and beyond our borders for how we are moving goods
6 and how we are moving people, and that role has to
7 have a strong federal leadership.

8 We need to re-evaluate some of our
9 funding programs. In the past we had major bridge,
10 major interstate discretionary programs that could
11 solve problems that were not local, that were not
12 regional, that were not state problems, that were
13 truly national problems.

14 When we look at projects like the Dan
15 Ryan Expressway here in Chicago, a new Mississippi
16 River bridge in St. Louis, these are not local
17 problems. They are not state problems. They should
18 be of national concern, and we should have funding
19 mechanisms to deal with these on a national level.

20 The transportation system enables our
21 regional and national economies. It drives
22 interstate and international commerce. A key piece
23 of that is how we move goods in this country.

24 I've changed from using the word freight
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1 because when people think about freight they think
2 about trucks and trains, and we really need to be
3 thinking about what is inside of those trucks and
4 trains, what are the goods that move throughout this
5 country, how they serve our residents, how they
6 serve our communities.

7 Bottlenecks in Chicago in our freight
8 system are not a local problem. They are a national
9 concern. The federal government needs to lead a
10 process that formulates a national freight policy on
11 how we move goods throughout this country and beyond
12 our borders.

13 The policy needs to prioritize national
14 resources in order to ensure the efficient movement
15 of goods while addressing the congestion issues that
16 our major metropolitan regions face.

17 We need to find significant financing for
18 the CREATE project here in northeastern Illinois.
19 We need to figure out a way that Chicago is not the
20 bottleneck in our freight delivery systems.

21 The national program has done a good job
22 of creating connections between communities. What
23 we need to focus on now is the issues within
24 metropolitan areas.

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1 The system needs to be responsive to the
2 needs of our metropolitan regions economically,
3 socially and from a quality of life perspective.

4 Our top 20 metropolitan regions face 75
5 percent of our nation's congestion. Our top 12
6 metropolitan regions are larger than 40 percent of
7 our states. They make up over a third of the U.S.

8 gross domestic product.

9 Regions are driving the economy, and
10 regions need to be part of the solution. Regional
11 agencies need to be given the resources and the
12 authority to address regional problems.

13 These authorities and resources need to
14 be beyond funding. Obviously funding is one of the
15 issues, but we have to have the resources and
16 authorities to look multi-modally, to look at how we
17 address concerns inside the region and how we
18 connect our economic regions together. We need to
19 define what our regions are.

20 As the secretary suggested, Wisconsin is
21 part of this region. The upper midwest is an
22 economic region, and we need to be looking at
23 solutions not only inside a metropolitan Chicago
24 region but inside of larger economic regions, in

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1 this case an upper midwest region.

2 The economic success of our nation, the
3 strength and sustainability of our communities and
4 the quality of life for our residents depends upon
5 an efficient multi-modal transportation system.

6 Transportation needs to be a strategy to
7 realize our national visions and our national goals.
8 These solutions need to be a partnership between the
9 federal government, the states, regional agencies
10 and local governments that will address that
11 strategic vision that we all share.

12 I'd be happy to answer any questions you
13 may have.

14 CHAIRMAN SCHENENDORF: Thank you.

15 We will start the questioning with
16 Commissioner Heminger.

17 COMMISSIONER HEMINGER: Thank you,
18 Mr. Chairman. Maybe I'll just go in reverse order
19 and start with my friend Randy.

20 The piece about the importance of regions
21 I'll just say amen and leave it at that. We've
22 heard a lot about that as a Commission, and it's I
23 don't think any accident that where we are traveling
24 on our field hearings is to the center of major

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1 metropolitan regions in America.

2 The issue of as you called it, you know,
3 projects of national interest or national
4 significance though is a difficult one because it's
5 almost like what Potter Stewart said about
6 pornography, you know, I know it when I see it.

7 The concept has been trivialized in the
8 past. Congress has had several runs at it where,
9 you know, if it was in your district it had national
10 significance.

11 Our local joke in the San Francisco bay
12 area is that somehow the cable cars in San Francisco
13 became a national interest right before the
14 Democratic national convention, so we got a bunch of

15 FTA money to fix it. How do you avoid that
16 trivialization or politicalization? Because I agree
17 with your fundamental thrust, that there are
18 projects that are clearly of national interest.
19 There are many of them that are untended now. How
20 do you distinguish between the true projects of that
21 type and the want-to-bes if you create a program to
22 deal with the true types?

23 MR. BLAKENHORN: I think that is the tough
24 question, but I think that we've done it in the

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1 past.

2 When we had in the '80s significant
3 levels of national revenue for discretionary bridge
4 or discretionary interstate programs, they were
5 designed in the way that you could look at what is
6 the national significance, how does it meet national
7 goals.

8 When we're looking at a project like the
9 Dan Ryan that moves an incredible amount of truck
10 traffic, that serves well beyond the borders of
11 Illinois and the borders of Chicago, should a state
12 be required to fund that out of its formula funds?
13 I think that we need to find a mechanism that
14 evaluates in a reasonable way the impacts of these
15 projects on our national economy, the impacts of
16 these projects on the movements of freight and the
17 movements of people. We need to do it in a way that
18 does suggest that they are truly of national
19 importance.

20 COMMISSIONER HEMINGER: So some kind of
21 performance approach?

22 MR. BLAKENHORN: I believe it has to be a
23 performance approach. These projects have to meet
24 national goals not necessarily regional and local

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1 goals.

2 COMMISSIONER HEMINGER: Thank you.

3 I warned Cheri last night at the
4 reception that if she brought up the Chicago Skyway
5 with this group she's liable to get some questions,
6 so I don't want to disappoint her.

7 CHAIRMAN SCHENENDORF: You won't be the only
8 one.

9 COMMISSIONER HEMINGER: I won't be the only
10 one.

11 I think one of the things that does
12 disturb many in the U.S. transportation profession
13 especially about that transaction was the fact that
14 some of the revenue from the transaction went to
15 non-transportational purposes.

16 You know, I couldn't help noticing that
17 on your page of testimony where you list the 1.8
18 billion in yield from that transaction two
19 paragraphs later there's a 1.5 billion dollar need
20 for CREATE for the freight program. If the
21 transaction had been to take 1.8 from the Skyway and

22 put it into CREATE you might have gotten a
23 completely different reaction. The Mayor might not
24 have ever done that.

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1 But the point I'm making is can you
2 address the issue that has caused a lot of concern
3 about the transaction in terms of using some of the
4 revenue for non-transportation purposes given the
5 huge shortfalls we have in investing in the
6 transportation system in the first place? It almost
7 looks like a negative, like we've lost something.

8 MS. HERAMB: Well, let me say to that because
9 this is a very unique facility that was built in the
10 1950s and was built with municipal bonds, and
11 actually when the Dan Ryan Expressway was built as
12 part of the interstate program, the Dan Ryan
13 competed with the Skyway, and for many years the
14 Skyway was operating at a loss.

15 When the Skyway operated at a loss the
16 City of Chicago had to take up that burden. We were
17 paying all the toll collectors.

18 I mean it was still a valuable
19 transportation link in our system but it just wasn't
20 performing in a way that allowed for payment of bond
21 holders for the original capital improvement as well
22 as funding its operations.

23 So while it was valuable to our region in
24 moving goods and people, it was also a drain on the

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1 City resources for many years.

2 COMMISSIONER HEMINGER: Now if tolls had been
3 raised wouldn't that have been less true if true at
4 all?

5 MS. HERAMB: Well, I think that there was also
6 a concern about the willingness to pay and the
7 ability to pay among the individuals who are setting
8 the rates, and there were toll increases. I can't
9 deny that. There were frequent toll increases, but
10 it still wasn't sufficient to cover all the
11 expenses.

12 The toll facility these days is primarily
13 automated. In the old days you had a lot more
14 manual labor, so it was even more expensive to
15 operate a toll facility than it is today.

16 Also I would say that before the sale of
17 the Skyway or the lease, I should say the lease
18 transaction, we did invest in the Skyway, so the
19 City let general obligation bonds to pay for those
20 Skyway improvements.

21 The Skyway is 7.8 miles, but over a third
22 of that was bridge structure, so it was a very
23 expensive proposition to renew that facility before
24 the lease transaction was done. So that was one of

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1 the priorities for the revenues from the lease
2 transaction was to pay off those bonds from the
3 Skyway's rehabilitation.

4 So you have a variety of funds going to
5 pay back sort of the municipality, pay off the bonds
6 for capital improvements specifically of the Skyway,
7 and also by paying off past bond debt we were able
8 to improve the City's bond rating.

9 And, of course, under Mayor Daley there's
10 been a consistent investment in transportation
11 facilities across the City. Every year between 60
12 and 100,000,000 is invested in local infrastructure
13 improvements, and so while we weren't able to say
14 free up the 1.8 billion from the Skyway transaction
15 to pay for our next project of which significance
16 creates, we were able to address a lot of our
17 long-term infrastructure needs with the proceeds of
18 that sale. It was reinvested to a great degree in
19 infrastructure but not necessarily this project
20 going forward.

21 Again, with the CREATE program, that's
22 really a partnership with the railroads. I mean we
23 -- one of the reasons that there hasn't been the
24 same level of investment in rail freight is because

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1 those railroads are privately owned, and we
2 struggled with how to support that industry at the
3 same time understanding its strategic advantage to
4 us but also acknowledging that it's in private
5 hands.

6 We think that a private/public agreement
7 and project to improve freight rail can really focus
8 public dollars on public benefits, of reducing
9 congestion by grade separations and other types of
10 improvements to improve the roadways that are
11 intersecting with those great railroads, and also
12 that the railroads if they are full partners in this
13 can invest in their own system here in Chicago
14 knowing that they have a partner in the public
15 sector.

16 COMMISSIONER HEMINGER: Mr. Webber, if I can
17 conclude with you, and I would like to commend you
18 for focusing your testimony on the operations agenda
19 which I think has been neglected too much.

20 You mentioned in the written testimony
21 that Illinois is among the few large states
22 currently poised to implement 511 so that means
23 you're not quite there?

24 MR. WEBBER: We have an RFP that's been issued

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1 and we're working through that.

2 COMMISSIONER HEMINGER: I know in my state
3 we've got a few metro areas that have done it but
4 not the whole state.

5 The question is why is it taking us so
6 long on 511 in particular and in operations in
7 general? Is it a question of priority? Is it a
8 question of resources?

9 It seems as you say that we spend more
10 time talking about those interchanges that cost you

11 100,000,000 a mile --

12 MR. WEBBER: Right.

13 COMMISSIONER HEMINGER: -- than the operations
14 strategies that cost that much in total to deliver
15 significant benefits.

16 MR. WEBBER: I think it's a combination of
17 things. Frankly there aren't -- we're into a, kind
18 of an unproven ground with 511. It occurs to me --
19 it's a major investment, and we want to make sure
20 that we get it right the first time because what can
21 happen is, especially with a comprehensive network
22 like this, there are a lot more bad things that can
23 occur if your strategy isn't sound, if your plan
24 isn't as it should be. And frankly there's not a

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1 lot of track record right now on the 511 system.

2 I think one of the things that bothers us
3 in Illinois is still the issue of whether people
4 will confuse this with 911 or other aspects, other
5 toll free-type information systems, and so I think
6 everyone is being very careful.

7 When you deal with a city the size and
8 complexity of Chicago, and then we're dealing also
9 with metro east in the St. Louis area and then rural
10 areas downstate we have a lot of different issues
11 that need to be addressed.

12 Just putting together a request for
13 proposals is a huge endeavor in this because frankly
14 maybe we don't know everything there is to know
15 about the situations that are going to occur. When
16 you're looking at such proposals, it's very
17 difficult because most of these firms don't have a
18 great track record. I think that resources may be a
19 part of it, but I think it's just the fact that we
20 can mess up a whole lot easier than we can get it
21 right, and we want to be careful not to do that.

22 COMMISSIONER HEMINGER: Thank you.

23 CHAIRMAN SCHENENDORF: Commissioner Busalacci.

24 COMMISSIONER BUSALACCI: Any of the panelists

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1 can answer this question that I have. Getting off
2 of the highway side just for a second, let's talk
3 about mass transit, moving people, moving people
4 around. As I said earlier, Wisconsin, Illinois, we
5 have a lot in common. We can move people.

6 In your view how do we get to the point
7 where we can really enhance intercity passenger rail
8 and at the same time do the right thing that we need
9 to do for freight rail because obviously we operate
10 on the track, your right of way? And to get to the
11 finish line, how do we get there? Do you think that
12 this should be an issue that the federal government
13 needs to come in and tackle?

14 This Commission has been dealing with
15 needs ever since we started. Obviously I feel this
16 is one of those needs right at the top of the list.
17 But how do you think this, in your view this should

18 work? Should the federal government get involved?
19 Should they not get involved?

20 We find out around the world that
21 countries that have succeeded in mass transit, in
22 moving people around, have had a significant backing
23 of their government.

24 I just want to hear from you if you think

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1 that that's the direction we should be going.
2 Should we have a bill, a six-year bill for mass
3 transit, freight rail? Should this be part of the
4 plan? Should this be part of our recommendation to
5 congress? What do you think? Let's start right
6 here.

7 MS. HERAMB: Yes, I'd like to start if that's
8 all right.

9 We think that it's vital to improve
10 inter-city rail because our roadways particularly,
11 you know, a good example is between Illinois and
12 Wisconsin, are very congested at all times of the
13 day, and we need to have an alternate system
14 available to us.

15 Of course, traditionally the passenger
16 rail has used the freight rail alignments, and by
17 being very strategic and figuring out where our
18 bottlenecks are on the freight rail system and on
19 the passenger rail system we can intercede at those
20 locations and provide the additional capacity to
21 allow both the freight and the passenger rail
22 service to be enhanced.

23 So I don't think it has to be a situation
24 where one is taking away from the other which is

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1 what we find currently, that either passenger rail
2 or freight rail is getting priority in a given
3 region and the other train has to sit on the side
4 lines, but rather by building the kinds of grade
5 separations that we're talking about doing and
6 creating we can really facilitate Metra in our
7 region, Amtrak throughout the country as well as
8 alleviate the congestion on the rail side.

9 What we've done is identify places where
10 the freight and passenger rail are actually crossing
11 each other. Those are our bottlenecks within our
12 region, and by building those grade separations we
13 can eliminate that problem and add increased
14 capacity to both systems. I think that's the type
15 of analysis that needs to be done across the country
16 but particularly in some of the more heavily
17 populated regions, the east coast, the region around
18 Chicago, Illinois; Wisconsin; Indiana; Michigan;
19 Minnesota; Missouri, you know, working together to
20 identify where our capacity constraints are and then
21 banding together with, for example, the west coast
22 cities who face the same challenges along the
23 pacific corridor and banding together with the east
24 coast cities, New York, New Jersey and some of the

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1 other states, who have these same sorts of issues of
2 moving both passenger and freight between cities.

3 I think we can form a coalition that can
4 help us focus on these bottlenecks and eliminate
5 them and that would be a much more strategic use of
6 our dollars than just throwing money at the system
7 as a whole.

8 COMMISSIONER BUSALACCI: Who pays for it?

9 MS. HERAMB: Well, I think it has to be a
10 partnership again. I think the federal interest is
11 certainly at stake here, particularly with goods
12 movement but also the environment, the quality of
13 the air. The federal government has to be a partner
14 as well as the private railroads that will benefit
15 as well as the commuters and the passenger transport
16 riders. I think we all have a role in this.

17 And in Chicago our Mayor has often
18 stepped up and provided local funding as part of the
19 match for doing these transactions. For our
20 lakefront busway that was built along the lakefront
21 adjacent to the Metra line and the old Illinois
22 Central Freight line the City of Chicago and
23 McCormick Place put the resources together to fund
24 that busway, and that was without federal funding.

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1 We work with the State frequently also to
2 partner with them on projects, so I think it's
3 really looking at the beneficiaries and identifying
4 who benefits by how much and assessing their costs
5 based on that.

6 COMMISSIONER BUSALACCI: Anybody else?

7 MR. BLAKENHORN: Just very briefly. I think
8 when I talked about the federal government has done
9 a good job of connecting communities, they've done
10 that on highways. They have not done that in rail,
11 and I think this is a part of the federal role.

12 I do believe that where we are here in
13 Illinois the State has put significant resources
14 into including the frequency of trains between our
15 hubs here in Chicago and other cities, but we need
16 to find other ways to connect our communities. Rail
17 has to be one of them, passenger rail has to be one
18 of those ways, and I think there has to be a federal
19 role.

20 MR. WEBBER: Just to follow up, I'm no expert
21 on rail by any means, but I can tell you that
22 intercity rail and our commitment to it in Illinois
23 has never been greater.

24 As Randy mentioned, the government made a
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1 large commitment to expanding frequency and the
2 number of trains available in the past year and a
3 half, and that was driven by demand, passenger
4 demand.

5 There were two basic events, if you look
6 at the growth in ridership, there are two basic

7 events that we believe or I believe at least
8 affected that. In 2001 the 9/11 situation really I
9 think was kind of the beginning and changed the way
10 people were looking at transportation, and then the
11 price of gasoline in recent years has made a huge
12 difference. You could almost track ridership
13 increases against increases in the price of a gallon
14 of gasoline and so we reached capacity but the
15 problem is, increased that capacity and actually
16 doubled the capacity. We will wind up -- I think
17 three years ago the Amtrak lines in Illinois, the
18 four lines hosted about 650,000 passengers, and
19 right now for 2007 we're on track somewhere between
20 a million and a million and a half. That's in three
21 to four years.

22 But when you think about it in terms of
23 that million to a million and a half in terms of the
24 hundreds of thousands of people who are using the

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1 freeways and so on, it's really not a large number
2 of people that are using intercity rail. It's a
3 cultural situation, cultural problem. We're not
4 like Europe. We don't depend on rail the same way.

5 And then there is that problem that Cheri
6 pointed out of the priorities and the movement of
7 freight as opposed to the movement of passengers.
8 It's difficult to argue those kind of priorities.
9 It makes a big difference. It takes an overall
10 strategy.

11 This is more difficult because it is not
12 just a public sector function, public and private,
13 and you have to work out agreements.

14 We've been removing more rail in recent
15 years than laying it, so the resources are less
16 extensive than they used to be as well. There are a
17 lot of problems involved.

18 CHAIRMAN SCHENENDORF: Commissioner McArdle.

19 COMMISSIONER McARDLE: Yes, we have, somebody
20 new has come to our table, and I would hate to put
21 you on the spot, but I was one like several of the
22 panelists who rode in yesterday from O'Hare Airport
23 on the CTA, and there were a number of places where
24 you have 15 mile speed limits. The system was much

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1 slower than I would have thought.

2 You have had the dubious distinction of
3 both making the New York Times and the Economist,
4 not achieved by many local units, and the question
5 occurs to me as I listen to Cheri talk about the
6 Skyway proposal why not extend that to the CTA and
7 basically take the CTA out of the public sector and
8 franchise that out giving the operator two things --
9 the existing revenue streams, whatever they are, and
10 the right to, in fact, impose a tax on parking
11 within Chicago such that there will not be an easy
12 diversion to the automobile as they raise fares to
13 cover their costs of whatever service levels you

14 impose on them? Have you examined that and what
15 argues for and against that?

16 MS. COMMUTO: If I may, for the record, my
17 name is Cecelia Commuto, chief of staff to the CTA.

18 We have looked at right of options.
19 Although one thing that you need to, when the
20 discussion of privatizing the CTA comes up, one of
21 the things that we always have to remind people is
22 that the CTA was created because prior to that time
23 there were a variety of private sector transit
24 companies that were running in the City of Chicago

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1 and in the region, and they presented a lot of
2 problems and in order to -- at that point many of
3 them were going bankrupt and having financial
4 issues, and the legislature essentially created the
5 CTA as being a single entity to bring together all
6 those transportation resources.

7 We do look at opportunities for
8 privatization where it makes sense and where it is
9 something that brings something to the private
10 sector and something to the public sector.

11 However, it's important to remember that
12 assets like the Chicago Transit Authority with our
13 light rail system and our bus system are public
14 assets and that we have a variety of people who need
15 and rely on and depend on the CTA every day and who
16 are very price sensitive. So that although there
17 are certain corridors where perhaps you might be
18 able to raise the fares such that the folks who live
19 along those corridors would be willing to pay and
20 have the ability to pay, there are other corridors
21 in which we are required to serve in which they do
22 not have the ability to pay but they very
23 desperately need the transportation services that
24 are being offered.

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1 CTA right now has a very high by statute
2 recovery ratio. For the region the recovery ratio
3 for CTA, Metra and Pace is 50 percent, and the CTA
4 does have a recovery ratio around 50 percent, and
5 that has been something that the CTA has continued
6 to maintain and has been able to maintain without
7 having to do dramatic increases in fares.

8 But we are facing a crisis right now in
9 terms of our operational dollars. As you noted, I
10 apologize for the slow zones on the Blue Line from
11 O'Hare. That is one of the challenges that we face.
12 We have 5.8 billion dollars in unfunded, unmet
13 needs, capital needs to bring us to a state of good
14 repair.

15 The Blue Line is a part of those unfunded
16 needs and one of the challenges that we face and
17 that we're going to be looking to the national and
18 to the region to address those issues.

19 In terms of, right now if you're aware
20 our legislature is addressing and hopefully will

21 address in this session the issues facing transit
22 funding for the region because it is a, right now
23 the funding stream is not adequate to meet the needs
24 of the CTA, of Metra and of Pace, and the

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1 legislators are looking at a variety of options, and
2 I hope among those options are things like parking
3 taxes and other creative ways because transit is
4 absolutely vital and critical to the continued
5 viability and survival of regional metropolitan
6 areas like the City of Chicago and the Chicago
7 region and the six county region as it continues to
8 grow and develop.

9 For example, the Kennedy Expressway, 48
10 percent of the folks being carried down the Kennedy
11 Expressway from O'Hare into the city are riding on
12 the CTA. If you did not take the CTA in from the
13 airport, if you took an automobile, you know what
14 that would mean if those folks suddenly, if we
15 didn't have a CTA and they were on the roads? So
16 it's going to be a continued balancing act in
17 looking at opportunities like Block 37 where we can
18 leverage a private/public partnership where it makes
19 sense, where we can look at developing premium
20 services that would be available for folks who would
21 want to pay and who could pay for those premium
22 services but yet still maintain the integrity and
23 the structure of our hard core main line services
24 that serve such an important need for the region.

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1 COMMISSIONER McARDLE: Do you expect the State
2 legislature to give you the 6.6 billion you need for
3 now?

4 MS. COMMUTO: I don't expect the State
5 legislature to give us all of the 6.6 billion
6 dollars that we need now in unfunded capital needs,
7 but we are looking at the State legislature and
8 we're hoping that they will do something like they
9 did several years ago with the Illinois First
10 Program where we were able to provide the
11 non-federal match to be able to leverage the federal
12 dollars that have come into the region and that I
13 hope will continue to come into the region so that
14 we can continue to bring the system to a state of
15 good repair.

16 The Regional Transportation Authority
17 which is the oversight agency for the CTA, Metra and
18 Pace is working very diligently with the legislators
19 in Springfield in helping to craft a solution that
20 will bring those capital dollars here because we
21 need them.

22 MS. HERAMB: I should also point out that CTA
23 was an innovator years ago when doing a sale-lease
24 back of the Green Line after it was renovated also

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1 in partnership with the City of Chicago who built
2 the Orange Line for the CTA. We did a sale-lease

3 back transaction there and were able to plow all of
4 those profits into capital investment in the rail
5 system and I believe also your vehicle fleet. Some
6 of those were sale-lease back transactions --

7 MS. COMMUTO: Yes.

8 MS. HERAMB: -- so I think they've been doing
9 everything they possibly can in the City of Chicago
10 as well.

11 The City of Chicago has invested TIF
12 dollars not only in Block 37 but also in other
13 station projects.

14 We feel like we've tried to pursue every
15 avenue locally to provide these additional funds for
16 transit, but there is a role for the State and the
17 federal government as well.

18 CHAIRMAN SCHENENDORF: Well, first of all,
19 thank you again for your testimony. But one of the
20 things that we have heard every place that we have
21 gone is this tremendous gap between what's really
22 going to be needed in the way of investment as we go
23 forward if we're going to be able to have the
24 freight movements, the economic growth that we need

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1 and the personal mobility that we need and the gap
2 between those needs and the level of funding that
3 currently exists at all levels of government.

4 One of the issues that the Commission is
5 grappling with is what should the federal role in
6 this be. As you look forward and you look at the
7 needed investment, can that investment be made
8 entirely by state, local and private sector with the
9 federal government quintessentially keeping its
10 current level of commitment or even reduce its
11 current level of commitment or alternatively does
12 the federal government need to be part of the
13 solution and increase its financial commitment along
14 with state, local and private sector.

15 I'd like each of you to just briefly say
16 whether or not you think the federal government
17 needs to increase its financial commitment as we go
18 forward to meet these needs or whether you can do it
19 with state, local and private without the federal
20 help.

21 MR. WEBBER: Certainly a combination of things
22 that are needed, but the federal program is
23 absolutely essential to leveraging those other funds
24 that you're talking about.

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1 There's no question that the federal
2 government needs or that the federal program needs
3 to be strengthened and that somehow additional
4 monies have to be provided. Maybe there are other
5 stipulations that could be put on that, but there's
6 no question of the importance of the federal
7 commitment.

8 CHAIRMAN SCHENENDORF: Ms. Heramb.

9 MS. HERAMB: Yes, I'd make two comments.

10 One is I believe we should be indexing
11 the gas tax to either inflation, general consumer
12 price index or the construction price index.

13 One of the frustrations we have at CDOT
14 is we build a lot of the major transportation
15 facilities for the city both on the roadway and on
16 the transit side and we see the ever-increasing
17 escalation of construction costs. With other
18 products people expect to see an increase in the
19 cost due to inflation.

20 Certainly the price of gas varies a great
21 deal and has been rising overall. People accept
22 that. I think they would also accept an increase in
23 the gasoline tax, and I think rather than having to
24 pass special legislation at the federal or at the

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1 state level every time we are finding ourselves
2 stressed to handle the construction needs that we
3 should put this indexing in place so that it happens
4 as a matter of course and so that we're providing
5 the dollars for the future.

6 I think by doing that we provide the
7 funds for consistent investment that in the long run
8 will reduce deterioration of our system and make
9 sure that nothing falls into serious disrepair.

10 Then also I would say that by working to
11 reduce the amount of delay in implementing our
12 projects that we could save a great deal of money,
13 and there are some frustrations that I've noticed
14 that are being experienced by our private sector
15 partners when they're working with us, particularly
16 when there's federal or state funds as part of the
17 project. They don't understand the delay. Once
18 legislation is passed providing funding for a
19 project they don't understand why it takes so long
20 for those dollars to materialize and also that if
21 they're providing, for example, the local match why
22 their investment has to be held up if it's going to
23 be the local match.

24 Also I think that we could save a great

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1 deal by protecting our existing transportation
2 rights of way, particularly in states like Illinois
3 and Wisconsin. I think the east coast also has a
4 lot of former rail rights of way that could be
5 converted to transportation facilities.

6 We've turned them, here in Chicago we've
7 turned those abandoned rail lines into transit
8 facilities, both the Orange Line rail line as well
9 as a lakefront busway. We've turned it into rails
10 to trails, bike and pedestrian projects, and I think
11 protecting those alignments for future
12 transportation instead of allowing them to be sold
13 off parcel by parcel for housing or retail would be
14 a way of really maximizing our dollars.

15 CHAIRMAN SCHENENDORF: But I gather the bottom
16 line response is that the federal government does

17 need to do more in the way of financial commitment?

18 MS. HERAMB: Yes, sir.

19 MS. COMMUTO: I would agree that the federal
20 government needs to continue doing what it's doing
21 and to do more to help transit and transportation
22 throughout the country.

23 Transportation, particularly from my
24 perspective with mass transit, one of the things

0058

1 that we've struggled with with mass transit has been
2 continuing to keep the infrastructure in a state of
3 good repair and moving those projects along.

4 As Cheri mentioned, it's the lack of a
5 consistent investment, so that the money that comes
6 to transit comes very sporadically in fits and
7 starts, and I think that's been one of the
8 challenges that we have faced and I think our other
9 major transit agencies in the country have faced is
10 that there's not, unlike with highways where there's
11 a very steady stream of money that comes through,
12 transit doesn't have that same level of constant
13 stream of federal dollars and non-federal dollars
14 coming through to help them particularly in the
15 capital area.

16 CHAIRMAN SCHENENDORF: Thank you.

17 Ms. Walsh.

18 MS. WALSH: Yes, I think it's the entity that
19 can set true national policy, and I do believe that
20 the federal government should stay involved and
21 continue to create a stronger multi-modal system.

22 CHAIRMAN SCHENENDORF: Mr. Blakenhorn.

23 MR. BLAKENHORN: While we need to continue to
24 expand our funding options for transportation, I

0059

1 think that there has to be a strong federal role.
2 There has to be increased funding from the federal
3 government for transportation and mainly because
4 when we look at innovative financing mechanisms,
5 whatever they may be, they work well with new
6 facilities.

7 We have an old, aging transportation
8 system here in Illinois. We need to be able to
9 maintain that, and the federal government has to be
10 a partner in that.

11 CHAIRMAN SCHENENDORF: Thank you.

12 My second question I'd like to ask you,
13 Ms. Heramb, I've got to get back to the Chicago
14 Skyway. I'd like you to tell me, one of the
15 bedrocks of transportation has been the user A
16 principle and in projects financing like the Skyway
17 the concession payment is not free money. That is
18 money that the private sector is going to recoup
19 with interest over the life of that lease. Why
20 should the drivers on the Chicago Skyway be paying
21 for these non-transportation activities? I
22 understand that we're home heating oil subsidies,
23 whatever else a locality wants to spend concession

24 money on. Why should the users of the Chicago

0060

1 Skyway support those activities as opposed to the
2 general taxpayers?

3 MS. HERAMB: Well, I'd say that the answer in
4 part is in the history of where those dollars came
5 from to construct the facility and where the dollars
6 came from to subsidize the operation of that
7 facility for decades before the concession agreement
8 was undertaken, so the fact that this facility was
9 built with municipal bonds; that those dollars came
10 from the general revenue fund and property taxes;
11 that you had property tax revenue also subsidizing
12 the operation of the Skyway during many of its lean
13 years; that this is a much different situation than
14 when you have, for example, the Orange Line which
15 the City of Chicago built with federal and State
16 grants; and when that was the subject of a
17 sale-lease back transaction we plowed all of those
18 revenues back into transit. So I think that given
19 where the funds originally came from there's a
20 difference.

21 CHAIRMAN SCHENENDORF: But transportation is
22 often funded by the general public, the general fund
23 or sales taxes alike because there is a benefit to
24 all of society. Whereas here you're asking the

0061

1 users of the Skyway to pay for a general benefit to
2 a class of people that don't have anything to do
3 with transportation, and there is a difference.

4 I mean just take what you're doing and
5 just expand it. Let's say that every jurisdiction
6 decided to sell off which is in effect what a
7 long-term lease is or a long-term lease and a
8 concession payment and then spend it on whatever
9 they wanted so the jurisdiction right next to you
10 might use the money for education. Another
11 jurisdiction might use it for healthcare, and then
12 you would have the interstate traveler as they
13 passed through each of these jurisdictions paying
14 different levels of fees, much of which might not
15 have anything to do with transportation but
16 essentially would be funding whatever that local
17 jurisdiction thought was important. So you'd have a
18 balkanizing of the transportation financing along
19 the major thoroughfares. Is that a concern?

20 MS. HERAMB: I would say that this is a unique
21 facility because of how it was paid for and how the
22 operation was funded initially and that it differs
23 from the typical transportation facility that was
24 paid for from dedicated tax revenue like motor fuel

0062

1 taxes, that there is a difference there.

2 CHAIRMAN SCHENENDORF: So I gather from that
3 you wouldn't think it would necessarily be
4 appropriate to do elsewhere what you did in this
5 particular facility?

6 MS. HERAMB: Well, I think privatization
7 transactions are often a good thing.
8 CHAIRMAN SCHENENDORF: I'm not talking about
9 privatization. I'm talking about how the funds are
10 used, the concession funds are used, whether they're
11 used on that facility or they're used on
12 transportation as opposed to being used for
13 non-transportation.

14 MS. HERAMB: I think you have to always look
15 at the context. For example, with the Orange Line
16 we made a different decision. We put all of the
17 proceeds there into transit, so I think that it does
18 depend on the context.

19 CHAIRMAN SCHENENDORF: Thank you. We thank
20 the first panel, and I would ask the second panel to
21 come forward please.

22 I failed to note the first panel was the
23 Metropolitan Surface Transportation Solutions panel.

24 Our second panel is Moving Products and

0063

1 Freight Across the Nation Now and in the Future.

2 I'd like to start with our first witness
3 Kirk Steudle who is the Director of the Michigan
4 Department of Transportation. Did I pronounce that
5 correctly?

6 MR. STEUDLE: Steudle.

7 CHAIRMAN SCHENENDORF: Steudle?

8 MR. STEUDLE: Yes.

9 Commissioners, thank you for the
10 opportunity to testify with you today.

11 As you said, I'm Kirk Steudle, Director
12 of the Michigan Department of Transportation. I'm
13 here representing not only Michigan but also the ten
14 states in the Mississippi Valley conference of the
15 American Association of State Highway and
16 Transportation Officials.

17 These states have formed in partnership
18 with the National Center for Freight and
19 Infrastructure Research and Education at the
20 University of Wisconsin a coalition to cooperate in
21 improving the movement of freight throughout our
22 region. We have done this because we've recognized
23 the importance of freight to our economy and our
24 region and the challenges that we face in keeping

0064

1 freight flowing.

2 Others have described the challenges in
3 the hearings, and you made reference to what you've
4 heard in other places.

5 As freight movement increases faster than
6 passenger movements and as congestion accelerates, I
7 think the phrase in the Wall Street Journal was
8 commuter congestion is braking influenza.

9 This congestion is a problem for the
10 entire nation, but it's a particular problem for
11 those of us here in the Mississippi Valley region.
12 Our economy is more heavily based on manufacturing

13 than the nation as a whole. The seven state upper
14 midwest region accounts for roughly one-third of the
15 total freight activities that occur within the U.S.
16 and 27 percent of manufacturing employment.

17 This region is also heavily reliant on
18 agriculture. It contains seven of the top ten corn
19 producing states and five of the top soybean
20 producers.

21 With so much at stake, these economic
22 sectors can ill-afford transportation delays and
23 inconsistencies.

24 The actions of individual states and

0065

1 regional coalitions such as we have formed in the
2 Mississippi Valley region are not enough to solve
3 the nation's freight problems. We need strong
4 leadership from the federal government in the form
5 of strategies and tools.

6 A national strategy must include these
7 elements: First and foremost a commitment to
8 preserve our existing transportation system. It is
9 the single most important investment that we can
10 make.

11 Second, the national strategy must
12 include a commitment to provide adequate capacity.
13 Current estimates show that by 2020 the nation's
14 highways will carry a 62 percent increase in freight
15 traffic, and rail will carry a 44 percent increase
16 in traffic as well.

17 Capacity improvements will need to be
18 added and should take the following forms: Such as
19 improving operations to squeeze every bit of
20 efficiency from the existing infrastructure. This
21 involves using ITS technology that is interoperable
22 and consistently implemented over wide regions.

23 It should systematically reduce
24 bottlenecks of regional and national significance.

0066

1 Constraint at border crossings, substandard
2 interchanges, loop drops or lane drops and
3 persistent weather-related roadway impairment are
4 all examples of bottlenecks that can and should be
5 addressed.

6 The federal government might also
7 consider steps and incentives to encourage states to
8 pool resources to address regional bottlenecks.

9 I should also add that there needs to be
10 added main line capacity across the nation
11 appropriate to the type of congestion and location.
12 More general highways or truck lanes or high
13 occupancy toll lanes are some of the examples that
14 have been floated.

15 It's important that any of these
16 solutions be implemented with the national system in
17 mind and with consideration that impacts across the
18 modes. The federal government should take a
19 leadership role in engaging the states and the

20 industry to identify a national freight system and
21 reach agreement on a national strategy or strategies
22 for preserving and linking the system and addressing
23 the capacity.

24 Any national strategy must include a

0067

1 corollary commitment to national finance, financial
2 resources for implementing that strategy as well.

3 The federal government should take a lead
4 in identifying and providing funding for investments
5 that have national economic consequences.

6 As the Mississippi Valley region, we
7 continue to believe that user fees are the most
8 appropriate way to raise revenue for transportation,
9 but existing user fees may no longer be adequate or
10 appropriate for future investments.

11 Other options have been discussed
12 including VMT taxes, weight distance taxes, bill of
13 lading and tolls. We have no new ideas to offer
14 here, but these options and others should be
15 considered to ensure that revenues available from
16 the federal government for transportation are
17 adequate, sustainable and reliable.

18 There must be predictable, sustained
19 investment, and we must be, it must be adequate in
20 size and breadth to cover all modes. More revenue
21 collected from all modes is needed to fund freight
22 transportation into the future.

23 As funding is provided, an effort must be
24 made to find the balance between flexibility for

0068

1 rational state decision making and alignment to
2 funding for national priorities.

3 The first point on the balance --

4 CHAIRMAN SCHENENDORF: If you could wrap up.

5 MR. STEUDLE: Yes, sir.

6 The final point of flexibility, the
7 states over time had, with alignment to the national
8 goals had developed the interstate system where
9 there was 90 percent federal money attached to it.
10 The states all developed that system under that
11 guidance and with those incentives in place were
12 able to put the interstate system together, and we
13 feel something similar to that can and should be
14 done for freight, a national freight system.

15 Thank you.

16 CHAIRMAN SCHENENDORF: Thank you.

17 Mr. Jensen, vice-president of public
18 affairs for the UPS company.

19 MR. JENSEN: Thank you, Mr. Vice-Chairman.
20 Good afternoon, gentlemen.

21 I'm going to skip some of the
22 pleasantries and formalities and jump right in.

23 Number one, we appreciate very sincerely
24 the work the Commission is doing. We see it as much

0069

1 as anyone on a daily basis around the country. It's

2 what we're up against, and we know the issues, the
3 litany of problems, and we're well aware of them. I
4 want to talk about some of the potential solutions
5 we see from our perspective.

6 We also appreciate you taking some of
7 your morning to spend some time at UPS, walk a mile
8 in our shoes, so to speak, and see just a small
9 slice of what UPS is all about.

10 Interestingly enough, the company
11 celebrates 100 years this year. What started as a
12 small messenger company in Seattle, Washington is
13 now today a multi-modal, highly integrated,
14 sophisticated worldwide transportation network that
15 delivers 50 1/2 million packages to 200 countries
16 around the world.

17 We use all modes very clearly. So was
18 this to be an aviation infrastructure hearing, we'd
19 be here. Was this to be an Ameritime aviation
20 hearing, we'd be here.

21 The good news is we use all modes. The
22 bad news is we use all modes that need a strong
23 system.

24 UPS supports a strong federal program, a
0070
1 federal system to move the economy forward, to move
2 our economic goods and services.

3 We believe that not only our domestic
4 economic competitiveness is at stake but our
5 international competitiveness.

6 I say freight matters. Our colleague
7 Mr. Blakenhorn called it the good movement but
8 freight does matter.

9 Every package you saw today, gentlemen,
10 on one end was a shipper and on the other end a
11 consignee. It's not a UPS package necessarily. We
12 are the tender, you know, we are the caretaker of
13 the package and moving it, whether it be one
14 overnight letter to all kinds of truckloads of
15 freight and all kinds of large things today. More
16 than ever before we are involved in highly
17 integrated, complex transportation solutions for our
18 customers.

19 So on the highways we've got significant
20 issues. We are clearly congested, lack of fluidity,
21 increased time in transit, no new lay miles being
22 built. We've noticed that.

23 Folks, if half of the people are half
24 correct on freight forecasts, whether it be AASHTO,
0071
1 Federal Highway Administration, academics, if
2 they're halfway correct, we're in a world of hurt;
3 and we need a first-class system to move again our
4 freight to satisfy our customers.

5 As far as public/private partnerships are
6 concerned, I would strongly agree with the comments
7 that Commissioner Heminger and the Vice-Chairman
8 indicated.

9 UPS is very concerned. If funds are
10 siphoned off for transportation projects to service
11 other, while valuable, other government services, we
12 are very concerned about that notion.

13 All public/private partnerships may not
14 be bad but they're not a cure-all. I'll give you a
15 good example. The CREATE project may very well be a
16 good deal. That's something UPS could support. We
17 have significant rail bottlenecks. The bottleneck
18 around Chicago is one of them. That's something we
19 could get behind.

20 If we're talking about long-term leases
21 for existing toll roads and using the money
22 elsewhere non-transportation or not in that
23 individual transportation project, we are adamantly
24 opposed to that.

0072

1 Congested pricing, value pricing, well,
2 again, if I'm Tom Jensen, the consumer, and I can
3 change my behavior and decide what time I want to go
4 down the highway and if I value my time and pay a
5 different toll on that time, so be it.

6 But when we're trying to service our
7 customers we have limited options. We need to
8 deliver the bundles as we like to say because
9 they're time sensitive. There's a commitment to the
10 customer, and on the other end there's a consignee
11 waiting for that package as well as someone who paid
12 for the shipping.

13 So new capacity, productivity are things
14 we are in favor of versus some of the other issues
15 we discussed earlier today. We have to look at the
16 capacity again on the highway side. Size and weight
17 of commercial vehicles needs to be in the equation.

18 As far as the rails are concerned, we
19 understand service transportation means more than
20 just highways. We've got significant service
21 problems on the railroads.

22 I would say the same thing if
23 Commissioner Rose was here. We talk to class one
24 CEOs and their senior folks all the time -- lack of

0073

1 fluidity, lack of the rail's ability to recover once
2 there's an accident or a problem, increased time of
3 transit, congestion, no new capacity.

4 Yes, they're spending records on capital
5 expenditures. However, it's not enough. Yes, the
6 notion of invest tax credit 25 percent might be
7 sound conceptually but it's not enough.

8 We've talked about more government, to an
9 extent limited government, additional government,
10 regulation of the railroads as it relates to a
11 railroad trust fund. We're all intimately familiar
12 with the Highway Trust Fund, the Aviation Trust
13 Fund. Perhaps a railroad trust fund makes sense.
14 We've talked about that and it's fallen on deaf
15 ears.

16 Greater inter-modal coordination needs to
17 be held between the two modes in terms of
18 transportation. We need that to move the bundles.

19 Solutions. I stand here before you this
20 afternoon and say we are not opposed to increasing
21 fuel tax. Some folks would say that's crazy. We're
22 not opposed to that.

23 Indexing to inflation makes sense as long
24 as it's plowed back into the very system we use and

0074

1 directed to freight corridors.

2 Tolls, no tolls unless they're for new
3 capacity that are optional for commercial vehicles.
4 Tolling for tolling sake -- you already gave once on
5 the fuel tax. Tolling for tolling sake does not
6 make sense.

7 So in essence and to recap in short here,
8 we strongly support the federal program. It
9 shouldn't be diminished. If anything, it should be
10 strengthened. User fees directed back into the
11 network we're in favor of. The railroads need more
12 than just investment tax credit. We need greater
13 inter-modal coordination on both modes, and truly
14 our economic competitiveness is at stake.

15 Thank you very much.

16 CHAIRMAN SCHENENDORF: Thank you very much.

17 The next witness is Steve Ruh -- is that
18 the correct pronunciation?

19 MR. RUH: Yes.

20 CHAIRMAN SCHENENDORF: -- of the Illinois Corn
21 Growers Association.

22 MR. RUH: Yes, and good afternoon. I
23 appreciate being here, and not only am I
24 representing the Illinois Corn Growers this

0075

1 afternoon but growers throughout the midwest and the
2 whole United States.

3 Agriculture is an industry characterized
4 by constant change and uncertainty. Crops and farm
5 income are dependent like no other industry on
6 weather, politics and market trends beyond our
7 control or ability to estimate.

8 One thing we know for sure is that we
9 must have a reliable, cost effective and efficient
10 transportation network to receive farm inputs and
11 deliver crops.

12 I guarantee that the cost to plant,
13 husband and harvest this year's crop is on the minds
14 of all corn growers, and we face record demand and
15 potentially record production.

16 Consequently, we appreciate the National
17 Surface Transportation Policy and Revenue Study
18 Commission for this opportunity to discuss
19 transportation issues facing grain producers in our
20 dynamic industry.

21 Briefly on the U.S. corn industry, higher
22 corn yields have created back to back record or near

23 record harvests, and the prospective planning
24 reports recently released by the USDA indicate corn
0076

1 farmers are responding to market demands by
2 intending to plant 90.5 million acres in 2007. Last
3 year we planted 78.6 million acres. These
4 intentions would indicate 83.5 harvested acres. If
5 average trends stay true to 152 bushels per acre are
6 realized, corn producers will be on track to produce
7 12.6 billion bushels of corn in '07, the largest
8 crop in history.

9 If corn farmers carry through on these
10 intentions, it will be the largest corn acreage
11 since 1944 when producers planted 95.5 million
12 acres. Illinois farmers intend to plant a record
13 12.9 million acres this spring, up 1.6 million acres
14 from '06.

15 A handful of states, Iowa, Illinois,
16 Minnesota, Wisconsin, Indiana, Ohio and Nebraska,
17 produce most of the U.S. corn crop and outproduce
18 Argentina's crop by ten-fold. Collectively these
19 states also outproduce Argentina, Brazil and China.

20 The ability to transport and service
21 domestic and export demand for this abundance of
22 corn and corn products efficiently and in a timely
23 manner is a key to the grain prices, the industry's
24 success and the overall strength of rural economies.
0077

1 The growing demand for transportation.
2 The Department of Transportation Federal Highway
3 Administration Office of Freight and Management
4 projects a 69 percent increase in freight traffic
5 from 1998 to 2020 for rail carriers. This is being
6 driven in part by a new wrinkle in the industry in
7 the form of increasing popularity of the container
8 shipment.

9 In many agriculture regions of the
10 country trucks and barges compete with rail keeping
11 prices in check. However, barge transportation is
12 not available to producers in the western corn belt,
13 and truck transportation is cost prohibitive for
14 longer hauls to market.

15 For agriculture producers located away
16 from the barge transportation effective competition
17 including rail-to-rail competition must be preserved
18 and promoted. Rail transportation demand has been
19 strong and has set records for several years
20 running, a trend that will likely continue due to
21 several factors including increased demand for
22 commodities due to economic expansion, increasing
23 inter-modal demand, expansion of the international
24 trade, increased demand for coal due to high natural
0078

1 gas prices, high fuel prices and new hours of
2 service regulations on the trucking industry.

3 Railroads also have internal operation
4 issues -- congestion, labor and retirement of their

5 work force in substantial portions.
6 Total shipped grain tonnage increased 63
7 percent in 26 years from 242,000,000 tons in 1978 to
8 394,000,000 tons in 2004. Of that total 61 percent
9 of it was corn. Corn has the highest transportation
10 requirements due to volume. While the average
11 annual harvested acreage of corn and soybeans is
12 comparable, the total production of corn is about 3
13 1/2 times that of soybeans.

14 In recent years railroads have handled
15 about 30 percent of the exported corn and about 31
16 percent of corn moved within the United States.

17 During the week ending October 14th, 2006
18 U.S. railroads originated 25,274,000 carloads of
19 grain. This is a 4 percent increase over a previous
20 week and a 14 percent increase from the same week
21 one year ago. As you can see, we all know where
22 this industry is going.

23 Capacity limits have led to poor service.
24 In 1998 USDA reported that for the first time in a
0079

1 century there is too little rail capacity available
2 to satisfy the demands of shipments.

3 CHAIRMAN SCHENENDORF: Mr. Ruh, if you could
4 wrap up.

5 MR. RUH: Okay. Another issue that we'd like
6 to bring up today certainly is the container
7 industry, and to take some of the stress off the
8 rail and the highways certainly we would like the
9 expansion of the container industry and certainly on
10 the rivers. We deem the Illinois and Mississippi
11 Rivers as a viable transportation system, and it is
12 badly needed to be updated with locks and dams.

13 With that I conclude. Thank you.

14 CHAIRMAN SCHENENDORF: Thank you very much. I
15 thank all of the panelists.

16 We will start the questioning with
17 Commissioner Busalacci.

18 COMMISSIONER BUSALACCI: Thank you very much.

19 I've got a couple questions for a couple
20 of the panelists. I'll start with Kirk.

21 Being on the front lines on a daily basis
22 and what's going on with DOT we hear a lot about
23 delivery, delivery of the program and how we can
24 streamline the delivery. We need to see a
0080

1 significant amount of dollars. We deal with that on
2 a regular basis. I want to hear your comments on
3 that.

4 The other thing I'd like to hear your
5 comments on, there's a concept out there because we
6 know that this, the recommendations that this
7 Commission is going to make are going to be a heavy
8 lift for congress. We know there's going to be a
9 political solution.

10 I know AASHTO will call it the
11 (inaudible) Commission, a concept that's out there

12 that talks in terms of having a group like the BRAC
13 Commission or the Postal Commission hopefully
14 deflect some of the problems that there would be for
15 congress in making the right decisions because, you
16 know, we know, I think we all know that the decision
17 is going to take a significant amount of revenue,
18 and so I'd like to hear your points on that
19 question.

20 MR. STEUDLE: The first one on program
21 delivery, I'm assuming you're referring to like big
22 major projects?

23 COMMISSIONER BUSALACCI: Yes.

24 MR. STEUDLE: I think we all, and I won't

0081

1 speak for every other state, but I surmise that all
2 states have difficulties moving through that
3 federally required process. I know one of the prior
4 panelists talked about the frustration from our
5 private partners on why, if funding is approved how
6 come we just can't move forward, and they don't
7 understand necessarily the federal regulations that
8 have been put in place over years and years of
9 experience, 50 years of building interstates, that
10 we need to look at certain environmental components
11 along the way and look at the pros and cons.

12 I would say every state struggles with
13 that to try to find a balance to make sure that
14 everybody is involved in the process so that we
15 don't run over individual's rights but I think there
16 are -- anything that we can do to streamline those
17 that force people to come to the table early and
18 have those discussions and state what their issues
19 are with the project so that they can be looked at,
20 mitigated if possible or worked through at any rate,
21 I think anything that the Commission can do that can
22 suggest streamlining of that process would be
23 beneficial to I would say every state.

24 I think the national average is probably

0082

1 closer to 10 or 12 years to get one of those
2 through, and there's always opponents on every side
3 of those that are going to shoot holes in whatever
4 you have to put up there, and they cost a ton of
5 financial resources to move through that process
6 that are drained away from building the actual
7 product and projects upfront.

8 On your second piece, on some form of
9 Commission I heard you asking, my thoughts on is
10 that a good thing, is that a bad thing or --

11 COMMISSIONER BUSALACCI: Well, I'd like to hear
12 what your thoughts are on it. I think the concept
13 is out there. It's been kicked around. It's been
14 tried. Like I said, a couple of areas, the BRAC
15 Commission, you know, the Postal, and this is a way
16 of, is this a way in your mind of solving this
17 problem that we're going to have with congressional
18 approval?

19 MR. STEUDLE: I think some form of commission
20 or separate body that's appointed by the political
21 structure within the country is going to be needed
22 to help balance some of the politics that's going to
23 happen.

24 There has to be a commission that looks
0083

1 at what needs to happen and what happens if we
2 don't, so I would support some form of commission
3 that does that, and I don't know the exact format of
4 that, but I do know that if you just look at the
5 last highway bill and look at the projects that were
6 included in it imagine what's going to happen with
7 anything like the results of this study coming out
8 that says yeah we're going to raise or we're going
9 to significantly change the way transportation is
10 funded. It looks to me as if it would be a feeding
11 frenzy.

12 I think any way to help minimize that to
13 where you can get to the true economic impact of
14 what's important to the country as a whole I think
15 would be very good.

16 COMMISSIONER BUSALACCI: Tom, with UPS being
17 the innovator that it is there's another concept
18 that's out there, you know, because we know that
19 there's always an issue with trucks and cars. They
20 don't get along. There's a lot of congestion. It
21 just creates a lot of problems.

22 Obviously I think your company would like
23 to haul longer trailers, double trailers, triple
24 trailers, things like that. Of course, there's
0084

1 certain states where you have this problem because
2 there's different laws in different states. You
3 have to break the units down.

4 The concept that's out there that we've
5 heard about is having a truck corridor, truck only
6 corridors. You know, the interstate system took a
7 long time to get done. It cost a lot of money to
8 get done, but in the end as my friend the
9 Vice-Chairman likes to say, it's probably the
10 greatest economic toll in the history of this
11 country.

12 Should a concept like this be thought
13 about? Our understanding is is that the industry,
14 your industry, the trucking industry, is not opposed
15 to paying more if they're going to benefit from it,
16 if it's going to make it more efficient. What are
17 your thoughts on that?

18 MR. JENSEN: Well, Mr. Secretary, I think it's
19 fair to say that UPS will pay for value. Value is
20 hard to define until we know what the proposition
21 is.

22 Truck only toll corridors on existing
23 highways, that's a different scenario than new
24 capacity. Obviously it's easier. Capacity is going
0085

1 to be, you know, construction, so on and so forth.
2 It's a much bigger fish to fry.

3 If there's an opportunity for us to move
4 between points A and B quicker, there's value in
5 that for UPS, no question, because there's a cost to
6 congestion. As you know, it's been quantified in
7 various academics, but there's a cost of congestion
8 which we feel and we see every day, and ultimately
9 we're going to choose the mode where we can get it
10 there quickest. If that means moving freight off
11 the rails to the highways, maybe from a holistic
12 approach that's not a good deal, but we have to do
13 it. We're going to have to do it.

14 Let me digress a second. A year ago in
15 March we took 500,000 packages a day from the rails
16 and put them back on the highways, 600 commercial
17 vehicles. It was a year ago March, 13 months ago.
18 Certain cities (inaudible) because we couldn't get
19 there in time on the railroad, number one, and,
20 number two, in all fairness to the railroads, we had
21 to meet the competition, our competition, some of
22 which don't use rail operations, but we made the
23 determination, and it was referenced this morning I
24 believe when you were out at our facility in Willow

0086

1 Grove, that we need to get the products there, to
2 move the boxes, so to speak; and if we have to pay a
3 little bit more, so be it, but we really feel
4 strongly that new capacity initiatives are something
5 we're going to feel better about paying for than to
6 pay again for current capacity.

7 COMMISSIONER BUSALACCI: Thank you.

8 CHAIRMAN SCHENENDORF: Commissioner McArdle.

9 COMMISSIONER McARDLE: Yes, I want to thank
10 all of you for coming because this has been a
11 central theme for the Commission hearings
12 throughout, the focus on freight.

13 It strikes me that, you know, one of the
14 questions is going to be competition. Actually in
15 some respect competition between you and you. You
16 might want to just kind of flip coins here because
17 it strikes me that if Matt Rose were sitting here he
18 would talk as he has talked to me and others about
19 the whole notion of destination ethanol as he calls
20 it which clearly is hauling the corn much closer to
21 the end user of the ethanol given the
22 characteristics of the product that results. You
23 need to be very close to the end operations.

24 And one of the questions I would ask each
0087

1 of you is how do you perhaps with Missouri Valley,
2 Mississippi Valley folks integrate your thinking
3 about what this is going to mean for this country
4 this year and in the future because it seems to me
5 that you are going to be competing for rail
6 resources. If you can't get the rail resources,
7 you're going to be competing for highway resources

8 that are going to be extraordinary for both of you
9 come the fall. I mean because harvest does impact
10 kind of at the same time, particularly the end with
11 where their package volumes start peaking. Are you
12 guys talking to one another? Are you talking to the
13 state highway folks about how this is all going to
14 work out this year but presumably if we stay with
15 ethanol and it's corn-based ethanol this is
16 something that's a ten-year problem.

17 MR. RUH: Well, certainly ethanol is here and
18 it's here to stay this time. We've been working on
19 this for a long, long time. It's going to be here
20 to stay. With that, of course, is going to come
21 problems. Problems is transportation.

22 But we feel as the Corn Growers
23 Association what has really intrigued us lately is
24 the containerization which, of course, unbeknownst

0088

1 to me until about two years ago I didn't realize or
2 two-thirds of the containers got shipped back, you
3 know, overseas empty. Well, that turned on the
4 light for us.

5 We had a lot of customers inquire about
6 putting not only whole grains but distiller grains
7 which is a co-product of the ethanol plant in these
8 containers and shipped back to China, Japan, Korea
9 and Vietnam which are two of our larger customers;
10 and they like the product being handled that way
11 instead of --

12 COMMISSIONER McARDLE: An isolated tract?

13 MR. RUH: Yes. So talk about customer
14 friendly. That is very positive for our industry.
15 Also there's products going on the rail now that we
16 traditionally would send via water.

17 But that brings up, that's where this is
18 really starting to come in, and we feel we hopefully
19 can play along with the rail to relieve some of the
20 rail pressure to more utilize the water. They are
21 starting to -- in fact, yesterday there was an
22 announcement in Beardstown, Illinois that they are
23 going to load containers on the river and start that
24 transportation mode.

0089

1 You know, there is a lot of work to be
2 done, but there is other possibilities out there.
3 Certainly we would like, you know, to get WORDA
4 passed finally. We've been working on WORDA for 15
5 years too. We're not, we don't have the capacity as
6 a corn grower's association for political activities
7 like we do, but we certainly try. If we can get the
8 locks upgraded and where that becomes more
9 efficient, I really think that's going to take off
10 some of the pressure certainly on the rails and the
11 highways.

12 MR. JENSEN: There's not a lot of discussion
13 among segments of the rail industry, rail customers
14 I believe priorities and coordination.

15 Our peak season is frankly really short
16 in nature. It's November, December, traditional
17 holiday, Christmas holiday peak season, and we know
18 some of the rails can do it. Norfolk Southern 2006
19 went 83 days in a row which is broader than that
20 time, basically the fourth quarter, without a
21 service failure. It's remarkable. That's
22 tremendous service to us. It helps us move. Again
23 we put about 3.4 million packages a day on the
24 railroad, about 3100 tractor-trailers on the

0090

1 roadways.

2 All this said, we think there's things
3 the railroads can do that may help on coordination
4 between customers. Mr. Bonanti is an alumnus of the
5 National Transportation Safety Board. The NTSB has
6 called on, puts on its list of most wanted safety
7 improvements. Since 1990 they've had positive train
8 control on that list every single year.

9 Frankly, from our perspective the
10 railroads have not done enough as it relates to
11 positive train control, which those systems as
12 you've heard about over the course of your
13 deliberations would in theory help spacing of
14 trains, would help close fluidity in the network.
15 Fluidity of the network with a franchise is critical
16 on the rail side. I'm not sure that's completely
17 instructive, Commissioner. However, there's not a
18 lot of dialogue to your point about where the
19 various segments of the industry come out with the
20 rails.

 Frankly, some say the
21 inter-modal guys are part of the problem because
22 they're trying to get their grain to market or their
23 commodity, but we work very closely on trying to
24 help the rails accommodate and everyone to the fact

0091

1 they can provide service for us as well as other
2 customers.

3 COMMISSIONER McARDLE: Again, how do you
4 integrate for the whole area these two competing
5 needs because at the end of the day the ethanol is
6 going to be largely consumed in the same places to
7 which the packages go, population centers, and you
8 need to move that corn which is now going to be
9 10,000,000, you know, bushels or more or what have
10 you. Bargaining notwithstanding, that's north/south,
11 but most of your population centers are going to be
12 east/west.

13 How do you bring these parties together
14 now to kind of lay out and understand what their
15 needs are going to be in your state or any of the
16 other states here? At the end of the day they
17 generate a lot of what impacts your decisions both
18 at the state level, regional and local.

19 MR. STEUDLE: Let me give you this perspective
20 primarily from Michigan. All I can tell you is I'm
21 assuming that my counterparts, commissioners and

22 secretaries and DOTs in the other states are having
23 similar conversations. I recently had this
24 conversation with one of the major railroads in

0092

1 Michigan. We talked specifically about corn moving
2 from the fields into the ethanol plants. Michigan
3 has an explosion of ethanol plants being produced,
4 and actually the railroads, they expected a decrease
5 of trains leaving Michigan because they were all
6 going to be staying closer to where the plants are
7 from where they're growing. That was a major
8 concern for them because that was a big portion of
9 their market.

10 From a very Michigan perspective, UPS
11 will have a little more room because there will be
12 less corn moving out of Michigan on those freight
13 lines.

14 I think it's going to be different when
15 you look at state to state and where are the ethanol
16 plants. I think this is probably one that really
17 fits more into a national role or even a regional
18 role that says where is the commodity moving.

19 My primary objective is to say how do we
20 move within Michigan but how do I connect with
21 Commissioner Busalacci in Wisconsin is part of the
22 conversation that we can begin to have. I will tell
23 you that up to this point we've probably not had
24 many of those.

0093

1 COMMISSIONER McARDLE: If I could, at some
2 point after this if you are going to be here I'd
3 like to really talk to you about the divisible load
4 permitting because one of the issues nationally
5 certainly for the construction industry, and it's
6 going to be an impact with train movements and
7 everything else, there are going to be divisible
8 loads, and we need to sort that out as well.

9 MR. STEUDLE: We've had significant discussion
10 in Michigan about divisible loads. About anything
11 you can handle or carry in any other state you can
12 bring into Michigan. We'll take that weight.

13 COMMISSIONER McARDLE: We need to talk a
14 little bit about that.

15 MR. STEUDLE: Certainly.

16 CHAIRMAN SCHENENDORF: I will not ask my
17 standard question of whether or not you think the
18 federal role needs to be expanded with more
19 resources because I think all three of you made it
20 pretty clear in your testimony that you thought the
21 answer to that was yes.

22 What I would like to ask you is: I think
23 you talked, especially Tom, about the idea of
24 receiving value and that you're willing to pay if

0094

1 the money is invested in a way that makes it,
2 improves the congestion and makes it easier for you
3 and cheaper for you to conduct your business.

4 With the interstate that was a pretty
5 clear thing. Collected the money and you built the
6 interstate, and I think it produced those results.
7 But I think as we look forward it's pretty clear
8 that we're going to need a multi-modal solution. It
9 isn't going to be as simple as just building more
10 lanes. That's part of the solution, but we also
11 need to build more transit, intercity rail and the
12 like.

13 If an area has a comprehensive plan and
14 part of the plan of dealing with highway congestion
15 is to improve the operation, expand capacity some
16 but also part of it is to make mass transit a mode
17 of choice, maybe have intercity rail, things that
18 take people out of their cars so that there are
19 fewer cars on the highway, is that something you can
20 support as part of the use of the motor fuels tax to
21 pay for those kinds of improvements if they're
22 intended to have a direct benefit on the highway
23 congestion?

24 MR. JENSEN: Mr. Vice-Chairman, I think it's
0095

1 fair to say if we can see that linkage from
2 siphoning all those funds, you know, for starters
3 essentially we're not crazy about that, but we
4 recognize the valuable role of mass transit. We
5 recognize the challenging cost structure that all
6 the mass transit agencies face, and to an extent we
7 recognize a long history on what we've done for the
8 nation to help that.

9 That being said, if we can see the relief
10 or the payoff or the diversion or siphoning off of
11 funds we can sleep at night a lot better than if we
12 just see money that is taken from gas taxes, user
13 fees. We're happy to pay our fair share. Again, we
14 consumed 340,000,000 gallons of gasoline in the last
15 year.

16 If we see it going out the window, we're
17 not going to be on board to support an initiative
18 like that but if we can see that linkage, and that's
19 what I think is difficult potentially but not
20 insurmountable.

21 CHAIRMAN SCHENENDORF: I understand what
22 you're saying completely, but I do think that if you
23 look at Chicago, you look at any of these major
24 metropolitan areas it really isn't feasible to solve
0096

1 the congestion problem without having a significant
2 increase in transit ridership, intercity rail to a
3 degree. Freight rail is the same thing.

4 The CREATE project will benefit people
5 who are driving on the roads in Chicago because it
6 will take a lot of the congestion out of the system.
7 One could argue that's a very good use of highway
8 trust fund dollars potentially to pay for a portion
9 of that cost of CREATE because it is going to help
10 the movement of vehicles in the City of Chicago.

11 So I think, you know, we talked about
12 where there is a direct link. Obviously if it's
13 just money that's being thrown away. But it's
14 something that you would be willing to look at?

15 MR. JENSEN: Yes, Mr. Commissioner,
16 absolutely, because, again, moving vehicles off the
17 road clearly helps in the congestion picture. It
18 clearly helps the freight movement organizations.

19 CHAIRMAN SCHENENDORF: I ask the other
20 panelists the same question.

21 MR. STEUDLE: I would, from a State DOT
22 perspective I think whatever flexibility we can add
23 to that so that we can manage it as a system. I
24 think we have to utilize and recognize that it's --

0097

1 you can't do something to one piece without
2 affecting the other part.

3 I think from, from hearing Tom's
4 comments, if there's some way that you can show
5 there's a savings to the shipper, I think you then
6 get them into this discussion, but clearly, and you
7 heard it from the couple panelists and the panel
8 before, we don't fund the transit systems adequately
9 to be able to even turn them over to make them a
10 private concession agreement because there's not
11 enough money from revenues coming back in.

12 I would say that that would be a
13 legitimate use if you can show that they're, by
14 doing so you've freed up more capacity and that
15 capacity is dedicated to trucks.

16 CHAIRMAN SCHENENDORF: Do you see any way to
17 solve the problems of transportation without using
18 all the modes, providing intercity rail?

19 MR. STEUDLE: No, and I think across the
20 country we have to use all the modes. We have been,
21 we've been in those modal silos where we've just
22 been thinking about our little piece and how can I
23 make the rail system best and how can I make the
24 highway system best and how can I make the transit

0098

1 system best. Frankly, those are old thoughts. We
2 can't do that anymore. We have to think about how
3 to use all of them. We can't build one mode to
4 handle everything.

5 MR. RUH: It's probably one thing the ethanol
6 industry definitely has encouraged is, you know, we
7 do not think locally anymore. We are in this
8 business and we are in this business from western
9 Nebraska to eastern Ohio, and it's forced us to work
10 together on transportation issues not just in our
11 backyard but to see how this, you know, we can make
12 it work because there's only X amount of cars out
13 there. One thing we're short of is tankers for
14 cars. We just can't get enough.

15 One thing the rail industry does like now
16 is that we built the industry big enough that they
17 can use the 110 car trains instead of piecing

18 together 5, 10, 12 cars here and there. The
19 industry has gotten big enough to run unit trains,
20 so that is making it more efficient, but that's, you
21 know, just for today.

22 Now the industry is going to double again
23 in another four years, so I guess we'll see where
24 we're at in four years. Invite me back and we'll

0099

1 give you an update.

2 I guess maybe if we, Tom and I saw one
3 thing. If we distributed our distiller grains in
4 UPS packages, that would help out UPS a little bit.

5 CHAIRMAN SCHENENDORF: Tom, you had mentioned
6 about a rail trust fund and that is something that
7 has not been supported to a great extent up to this
8 point.

9 I do agree with your assessment though
10 that even with the record levels of investment, even
11 with the investment tax credit that those levels of
12 investment are still not sufficient for railroads to
13 even hold the current market share of what's coming
14 in the future much less increase their market share
15 as some people think will be necessary for a variety
16 of reasons.

17 Has UPS given any thought, are there any
18 other ways that you think that we can increase
19 investment in the rail system short of a rail trust
20 fund?

21 MR. JENSEN: We have given a lot of thought to
22 this question, Mr. Vice-Chairman, and we've spent a
23 lot of time talking to our rail service partners,
24 and we truly consider them rail service partners on

0100

1 the matter, and we recognize the delicate situation
2 they're in with such a capital insensitive nature
3 and the fact that the more they put in it tends to
4 hurt them in the equity markets at a certain point.
5 We get all that.

6 Their absolute reluctance to say yes
7 we'll work with some sort of public funding
8 mechanism but no strings attached, that to us has
9 been difficult to swallow because, again, I think
10 they're looking for some help. Yet if you don't
11 attach some strings to it we don't know how you get
12 there.

13 Again, we'd be willing, we will pay for
14 value. If there's some sort of a fund, I know
15 you're looking for other suggestions, we'd be
16 willing to potentially pay through a user fee to
17 help that. It's a difficult situation.

18 They're concerned about it being
19 politicized and money, you know, given out to every
20 pet project. We've seen this movie before. We know
21 all the arguments. We've talked about it.

22 We think, as you encapsulized yourself,
23 Mr. Chairman, more needs to be done. Even with
24 investment tax credits more needs to be done to face

0101

1 the challenges that we've discussed this afternoon
2 with different segments of the shipping community,
3 rail shippers.

4 CHAIRMAN SCHENENDORF: Thank you. Any other
5 questions?

6 COMMISSIONER HEMINGER: Thank you,
7 Mr. Chairman. By the way, I think it was --

8 CHAIRMAN SCHENENDORF: Did I skip over you?

9 COMMISSIONER HEMINGER: You did.

10 CHAIRMAN SCHENENDORF: Oh, I apologize.

11 COMMISSIONER HEMINGER: I was out doing
12 interviews, so I'm the one who owes Mr. Jensen an
13 apology because I missed your testimony. I found
14 your written statement fascinating, so I hope you
15 said something remotely like what you wrote down.

16 MR. JENSEN: It was actually completely
17 unrelated.

18 COMMISSIONER HEMINGER: Well, that's too bad.
19 I'm going to ask you about what you wrote down.

20 I am interested as Commissioner
21 Schenendorf is in this question of how do we get
22 more public investment in rail infrastructure. You
23 know, the AASHTO report that we were given today has
24 an indication of like a billion dollars per year

0102

1 from this tax credit. I mean they don't have enough
2 taxes to credit to make the kind of investment we
3 need to make.

4 I certainly welcome, you know, your
5 leadership and the leadership of shippers to try to
6 get -- there's got to be a win win in there
7 somewhere if enough of us can get over some of our
8 preconceived notions about how many cooties the
9 federal government has.

10 The other thing I wanted to ask you in
11 your testimony, and this piece of it, it didn't
12 surprise me, but I did want to press you about it,
13 you have some pretty sharp words for congestion
14 pricing as a scheme. I think you referred to it
15 just a minute ago in your answer that, you know, you
16 don't want to pay for something twice.

17 It would seem to me though that when your
18 trucks are stuck in traffic they're paying with
19 time. They're just not paying with money. But time
20 is money to you. So why is it a problem if they
21 were able to pay a fee to get through that
22 congestion faster and the calculation might work out
23 to save you money? Why is that a bad idea?

24 MR. JENSEN: Well, Commissioner Heminger, I

0103

1 think you hit the nail on the head to an extent.
2 There comes a thought process or a calculation in
3 our operations where it would pay, it would be a
4 value for us to pay additional money to move that
5 freight, but as a general rule, we don't think
6 that's the case, and we think that fuel taxes are

7 more efficient.
8 They are collected, more fuel tax goes to
9 the actual, back into the network than building
10 another administrative body to collect and remit and
11 other bureaucracy frankly, but there is clearly some
12 instances in the country or times of the operational
13 day where it would make sense for us to do that.

14 COMMISSIONER HEMINGER: So it's not an
15 objection in principle, it's an objection perhaps
16 depending upon the circumstance; that if the fee is
17 somehow extortionate and you're not getting value
18 for it, to use your word, then you're not for it but
19 if it might end up saving money even if you're
20 paying a little more to get through faster it's not
21 a bad deal?

22 MR. JENSEN: That's a fair assessment, yes.

23 COMMISSIONER HEMINGER: Okay. Thank you.

24 I think that's it. Thank you,

0104

1 Mr. Chairman.

2 Well, the one thing I did want to say,
3 despite the fact you skipped me I'll pay you a
4 compliment, I think the first person I heard this
5 notion of a rate setting commission from is you, so
6 maybe it ought to be the Schenendorf Commission. I
7 don't know. First come, first serve.

8 CHAIRMAN SCHENENDORF: Okay. Well, thank you
9 very much.

10 Anybody else?

11 COMMISSIONER McARDLE: Yes, one last question.
12 It's really something prompted by you, Steve.

13 Is there something we need to consider
14 about the rail equipment industry in all of this?
15 You've touched on what is a significant issue which
16 is the availability of tank cars, and the lead time
17 between buyer and trinity is, you know, beyond
18 measure at this point. If they doubled their
19 capacity for production they would still have a
20 backlog of a number of years.

21 Again, is there something we need to hear
22 about that because the whole rail car industry has
23 been such feast or famine? Particularly, you know,
24 as you respond much faster than the capital

0105

1 investment. You know where the grain to ethanol
2 market has come in less than two years, and we
3 simply cannot keep up on the rail car side.

4 MR. RUH: No, and I mean certainly, it's been
5 a blessing to American agriculture certainly in the
6 last year and a half. With that growth I guess --
7 the other industries, I don't think they were, they
8 didn't quite see the growth the way it's really
9 taken place, and it's not their fault. Politically,
10 socially there's a lot of factors that added up to
11 this growth.

12 I know they're doing all they can and the
13 best they can, but as far as a fix for them, more

14 welders and more steel.

15 One thing down the future though this is
16 not going to be a forever thing on the rail.
17 Technology will hopefully come sooner than later
18 that we can pipe, pipe our ethanol in a pipeline,
19 and that would certainly alleviate a lot of the
20 stress on, you know, doing it by rail and/or truck.
21 Right now that's your only two options, but there is
22 some technology out there with DuPont and British
23 Petroleum have a junction going in British Columbia
24 right now or, I'm sorry, Great Britain and trying to

0106

1 figure out how to pipe ethanol.

2 That would -- because right now the way
3 we're situated in Chicago we can pipe it to the east
4 coast if we could get ethanol in the pipe and not --
5 it attracts moisture. By the time it would get to
6 New York it would be half water. Technology
7 hopefully will come down the line and help alleviate
8 that. For the here and now there's two options --
9 one is rail and the other is road.

10 COMMISSIONER McARDLE: It's also fairly
11 corrosive, so its impact on the pine line itself is
12 of great significance to a lot of urban areas as you
13 know.

14 Thank you.

15 CHAIRMAN SCHENENDORF: I'd like to thank the
16 panel very much.

17 We'd ask the third panel to come forward
18 please.

19 Thank you. Our third panel and final
20 panel for the day. We will have public comment
21 after this panel, but this is our third and final
22 scheduled panel for the day.

23 This panel is entitled Regional Surface
24 Transportation Issues and the Impact on a Global

0107

1 Economy.

2 Our first witness is John Clark who is
3 the Chair of the Northwest Indiana Regional
4 Development Authority and Tim Sanders who is the
5 executive director. I guess it's Mr. Sanders who
6 will deliver the testimony.

7 MR. CLARK: I'll do a brief opening statement
8 and then I'll hand it over to Tim and we'll both be
9 available for questions.

10 CHAIRMAN SCHENENDORF: Sounds good. Please
11 proceed.

12 MR. CLARK: My name is John Clark. Thank you
13 very much. It's a pleasure to be with you this
14 morning or this afternoon actually.

15 In Indiana we have our challenges as to
16 what time of day it is with our daylight savings
17 time issue.

18 I am also -- Tim is the full-time
19 executive director of the Regional Development
20 Authority. I am one of, I'm the chair of the board

21 but my full-time position is senior advisor to the
22 Governor of Indiana. I'm also Director of Energy
23 Defense Development for the State of Indiana, so I
24 have a state-wide perspective in addition to the

0108

1 role that I'm very honored to play at what we think
2 is a very creative and what has been so far a very
3 successful regional and state and local
4 collaboration to best leverage our funds in the
5 State of Indiana for maximum effect in Washington in
6 being able to attract leveraged federal funding for
7 transportation needs.

8 Where we have been we think particularly
9 innovative in two major areas -- one very much
10 rooted in having gone to school on what the City of
11 Chicago did here with the Skyway. Our lease for 75
12 years of the Indiana toll road that runs along the
13 entire northern border of our state to a Spanish
14 Australian consortium for 3.85 billion dollars has
15 enabled us to fully fund the next ten years of a
16 very aggressive highway construction program. That
17 had been as is I'm sure typical in many states
18 hobbled by funding constraints that now have been
19 solved at least for the next ten years by the lease
20 we were able to do of our toll road.

21 That transaction has engendered a lot of
22 interest around the country as others are looking
23 at, again, what began here in Illinois as a good way
24 to solve this problem.

0109

1 We're very proud of that. It's going
2 very well. The name of our, of the effort to pull
3 all that together was called Major Moves, and, in
4 fact, part of that funding, the 3.85 billion, is
5 what is going to fund the state's contribution to
6 the Northwest Indiana Regional Development
7 Authority.

8 The RDA which is what I will now defer to
9 Tim to explain in some detail is a very creative, I
10 don't know how unique it is, it's unique in our
11 state, collaboration between the state and local
12 communities and counties to pull together to
13 leverage funding that we would otherwise be unable
14 to do each acting separately.

15 I'll ask Tim to explain a little bit more
16 about that. We're anxious to answer whatever
17 questions you may have.

18 MR. SANDERS: Thank you, John.

19 Mr. Chairman, thank you, and first,
20 Commissioner Heminger, my grandparents were the
21 original political junkies, and in 1952 they bought
22 a black and white Sears television so that they
23 could watch the conventions. A year or two later I
24 remember the first thing in my life was watching

0110

1 Hank Sauer hit three home-runs off Kurt Simmons and
2 the Cardinals in a Cubs game, so my Cub competitor

3 goes back a number of years as well. With regard to
4 the White Sox fans --

5 COMMISSIONER HEMINGER: See we're at panel
6 three before we get somebody to talk about the Cubs.
7 You are very slow on the uptake around here.

8 MR. SANDERS: I also remember 1959 when the
9 White Sox won the World Series and people who didn't
10 know the difference between a baseball and a
11 tangerine became White Sox fans. That is the case
12 now. They will go away in a couple of years but
13 it's just something that --

14 The State of Indiana is the crossroads of
15 America.

16 MR. CLARK: I just can't resist. We're not
17 going to talk football here.

18 MR. SANDERS: John is from Indianapolis. He
19 doesn't want to talk about it.

20 Indiana is the crossroads of America.
21 The commerce of middle America criss-crosses our
22 state and impacts our economy to an extraordinary
23 degree, and as the commerce becomes increasingly
24 global, such investments as we're talking about

0111

1 today are more critical, and we anticipate that
2 there will be major arterial improvements that will
3 benefit our global position improving job
4 opportunities and economic growth.

5 The Major Moves initiative that John
6 mentioned impacts many of the major highways
7 throughout Indiana including Interstate 69 that runs
8 from Evansville to Fort Wayne across our state and a
9 number of major projects that have been unfunded for
10 many years.

11 The second funding opportunity has a
12 direct impact on the Chicago area. The Indiana
13 General Assembly enacted in 2005 legislation that
14 created the Northwest Indiana Regional Development
15 Authority. This unique authority has several
16 important characteristics.

17 CHAIRMAN SCHENENDORF: Five-minute period is
18 up. Since there are two witnesses here please take
19 another two or three minutes and wrap it up in that
20 time.

21 MR. SANDERS: I will absolutely do so.

22 As the P3 activity engages, the private
23 sector becomes more interested in significant
24 important economic development projects. The

0112

1 Development Authority involves local units of
2 government and brings them to the table. Funded
3 with local revenues from casino boats and through an
4 economic development income tax in Lake and Porter
5 Counties, the RDA has approximately 27 1/2 million
6 dollars annually to spend. Over their ten year life
7 they'll have about \$275,000,000.

8 The General Assembly gave the RDA a list
9 of projects, and these go directly to the heart of

10 multi-modalism. Those projects are to extend the
11 South Shore Railroad, bring about the development of
12 the Gary Airport, create a regional bus system in
13 Lake County and recreate and regenerate the Lake
14 Michigan shoreline for public access.

15 This multi-modalism is a part of what all
16 of the projects that come before the RDA are
17 considered, and the board looks very, very carefully
18 to make sure that one project benefits other
19 projects as we attract federal money through the
20 local mass that we can generate.

21 It should be pointed out that the
22 legislation attempted to keep the RDA out of
23 politics. By law the appointments cannot be elected
24 officials. We have leading citizens throughout Lake

0113

1 and Porter Counties who serve on the board, and they
2 engage in the principles of being modal,
3 collaborative, transparent, non-partisan, efficient
4 and accountable.

5 The opportunities for the federal
6 government to participate in collaborative regional
7 approaches to funding further surface transportation
8 initiatives is significant, and encouraging the kind
9 of cooperation and efficiency demonstrated by the
10 RDA could further stretch limited federal resources.

11 I will be pleased along with John to
12 respond to any questions after the panel is
13 completed.

14 CHAIRMAN SCHENENDORF: Thank you very much.
15 Our next witness will be Doug -- is it
16 Whitley?

17 MR. WHITLEY: Whitley.

18 CHAIRMAN SCHENENDORF: -- Whitley, who is the
19 president and CEO of the Illinois State Chamber of
20 Commerce.

21 MR. WHITLEY: I am. I'm also here today in
22 another role. Back in 2002 we organized a group
23 called the Transportation of Illinois Coalition.

24 We think it's perhaps unique around the

0114

1 country. Over 70 trade organizations, regional
2 planning organizations, some governments, local
3 chambers of commerce and unions have worked
4 together.

5 We lobbied Washington for the last
6 highway bill. We lobbied on behalf of the Word
7 Bill. All public works transportation needs in the
8 State of Illinois fall under this coalition's
9 umbrella.

10 The president of the AFL-CIO Mike
11 Kerrigan who was to be on the previous panel and I
12 co-chair the organization, and we think it's a very
13 effective organization. We're pleased to be here
14 today.

15 We've submitted remarks which I think
16 cover the topic pretty well. I'd like to verbally

17 touch upon five or six topics that I think are very
18 critical.

19 First thing I say is money. We were
20 greatly disappointed that in the last highway act
21 the congress did not increase funds. We now know
22 that this current fund is probably going to run out
23 before the next highway act is passed.

24 We also found ourselves very frustrated
0115

1 having to wait for the congress to pass a bill which
2 I believe was at least two, maybe three years
3 overdue by the time we got it.

4 We need to have an increase in the motor
5 fuel tax or other revenue sources from the congress
6 in order to fund the infrastructure the country
7 needs.

8 Number two, in the last bill you did
9 create a new element which I think is highly
10 praiseworthy and should be focused on more and
11 that's the projects of national significance. We in
12 Illinois have a couple of those that touch us, one
13 being the CREATE project which was referenced a
14 little earlier.

15 Because of the rail congestion in this
16 state, it is significant. The other one is the
17 Mississippi River Bridge between St. Louis and
18 Illinois.

19 My colleague here from Indiana, but I
20 would like to point out to you that Illinois is
21 crossed by, criss-crossed or fed by 13 interstate
22 highways. We have one of the largest interstate
23 highway systems in the country. Two-thirds of all
24 the container cargo that passes through the United

0116
1 States passes through the Chicago area either by
2 train or truck.

3 International trade is critical. One of
4 the few industries that has actually grown in
5 Illinois in the last decade is warehousing and
6 logistics.

7 Part of Illinois' economic cornerstone is
8 our location in the country and the ability to
9 engage in trade, so, therefore, congestion is a
10 critical issue.

11 I would like to speak about the
12 interstate highway system. As we know, we just
13 celebrated the 50th anniversary last summer.

14 I'm not sure the current congress would
15 have passed an interstate highway system if it had
16 been brought to them as President Eisenhower brought
17 it to the congress back 50 years ago. That kind of
18 vision, that kind of investment, that kind of
19 long-term view is sorely lacking today.

20 I am constantly frustrated by the
21 inability of our government officials to do anything
22 with a 10- or 20-year horizon, and yet that's
23 exactly what we have to talk about.

24 We know that in a global economy that we
0117

1 now experience in the United States, specifically as
2 we see it here in the greater Chicago area, movement
3 of cargo is fundamental to this economic vitality.
4 One reason why the United States is still doing well
5 in the global market is we have the infrastructure
6 capabilities to handle the cargo ships that are
7 moving across the waters.

8 A word about -- the interstate highway
9 system needs to be rebuilt not just resurfaced.
10 There are many miles of interstate highway system
11 that are long overdue for total rebuild, and that's
12 an expensive proposition that I frankly think only
13 the congress can move on.

14 I'd like to speak about earmarks. I also
15 think the earmarks piece has gotten too far afield,
16 and we suggest that we talk about trying to put some
17 kind of limitation on earmarks.

18 I think the projects of national
19 significance should be excluded from earmarks
20 because the vision of the nation is what needs to
21 come first.

22 Secondly, I'd suggest that earmarks be
23 limited to reflect state or local projects that have
24 already been authorized and are already approved in
0118

1 terms of proceeding with the projects. Putting
2 money on an earmark that isn't going to be produced
3 or actually invested in in the short term is
4 probably not worthwhile.

5 I would suggest some limitation, a
6 percentage perhaps of the total amount of money that
7 would flow to the state under a normal formula,
8 maybe, you pick a number, I don't care, 10, 20, 25,
9 whatever, but some percent of limitation per state.

10 Fourth or fifth, there will be no transit
11 expansion, public transit expansion in the United
12 States without federal funds. Local governments
13 can't do it by themselves. We have to have a
14 partnership with the congress in order to put the
15 kinds of billions of dollars and multi-year planning
16 that is necessary for transit expansion, and transit
17 expansion is critical as you spoke about earlier
18 dealing with fuel, dealing with clean air, dealing
19 with congestion.

20 Lastly, a word about 3P. I think 3P
21 public/private partnerships, is likely to be in the
22 long term a major component of the future of
23 transportation, but as we sit here today it's too
24 early to really know how this is going to be worked
0119

1 out. It's foreign to the nation as a whole.

2 We've always looked to our governments to
3 provide those basic fundamental services that we're
4 looking for. However, the price tag on so many of
5 these projects is going to become so big that

6 they're politically unacceptable.
7 So the 3P program begins to be an
8 alternative to the government pulling up their belt
9 and going into the true investment that needs to
10 occur. My time is almost up.

11 Thank you very much.
12 CHAIRMAN SCHENENDORF: Thank you. Appreciate
13 it.

14 Our next witness is Michael McLaughlin
15 who is the Transportation Director for the
16 Metropolitan Planning Council.

17 MR. McLAUGHLIN: I apologize to the Commission
18 today for John Gates' absence. He wanted to testify
19 on behalf of MPC, but his health wouldn't allow him
20 to, so he asked me to testify.

21 As you said, I'm Michael McLaughlin with
22 the Transportation Land Use Metropolitan Planning
23 Council.

24 Founded in 1934, the MPC is a non-profit,
0120
1 nonpartisan group of business and civic leaders that
2 pursue sensible planning and development policies
3 necessary for an economically competitive Chicago
4 region.

5 Thank you for allowing me to testify here
6 today in John's absence. The Commission wants to
7 hear ideas on the future composition of revenues for
8 the highway trust fund. In the spirit of ideas,
9 here are eight ideas that should be given serious
10 consideration, the first three being strategies for
11 raising revenue for the highway trust fund.

12 One, federal gas taxes should be
13 increased to restore the purchasing power to 1993
14 levels, the last time the gas tax was increased.
15 After the gas tax increase is implemented the gas
16 tax should be increased every year to track
17 inflation.

18 Two, congress should decrease reliance on
19 the gas tax and phase in use of an alternative form
20 of user fee. In the next two decades as we all know
21 gasoline only cars may likely become a small
22 percentage of the automotive market. For example,
23 Toyota aims to sell 300,000 gas electric hybrids in
24 2007 alone.

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1 A new type of user fee should not only
2 seek to increase funding to meet the needs of our
3 nation's ground transportation system but should
4 also be designed to help curb congestion. For
5 instance, a variable vehicle mileage tax would
6 charge road users higher prices in congested urban
7 areas during rush hour. Collecting a fee without
8 raising big brother concerns would need to be
9 addressed before implementation.

10 I believe Oregon is one state that has
11 conducted a mileage-based user fee pilot program and
12 is currently studying its results.

13 Three, this next suggestion was not in
14 the written testimony, but in the spirit of ideas is
15 a brain child of John Gates who is a freight expert
16 and founder of one of the largest inter-modal
17 developers in the country -- Center Point
18 Properties. Since much of the increase in
19 congestion is due to international trade, since
20 there is a need to inspect the containers entering
21 the U.S., a federal port usage and homeland security
22 fee should be imposed on all containers entering the
23 U.S.

24 International trade -- imports and

0122

1 exports increased 168 percent from 1990 to 2004.
2 This is projected to continue to increase in years
3 ahead.

4 Infrastructure needs to be modernized and
5 expanded, and our homeland security needs to be
6 adequately staffed to account for current and future
7 international freight traffic.

8 Four, authorization on funding should be
9 expanded for public/private partnerships and
10 congestion pricing.

11 As a global city, Chicago is the
12 transportation crossroads of America. However, due
13 to the inability of the federal gas tax revenue to
14 keep pace on inflation as Mr. Whitely just mentioned
15 and adequately fund the ground transportation
16 network, Chicago like other cities is facing a
17 transportation crisis. Highways are crumbling.
18 Transit is slowing to a near halt, and the century
19 old rail infrastructure has created one large rail
20 and road bottleneck in the Chicago area.

21 Public/private partnerships and
22 competitive pricing are two innovative ways of
23 making up for the scarce funding.

24 For example, O'Hare Airport is the global

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1 gateway for the region, but there's no access to
2 O'Hare from the west where millions of residents and
3 thousands of businesses are located. A
4 public/private partnership could help construct the
5 western access route, but start-up funding and
6 expanded authorization from congress is needed.

7 Five, congress should increase trust fund
8 revenues dedicated to transit. Population
9 projections show a clear trend in increased
10 migration to urban and suburban areas.

11 Transit historically receives one-quarter
12 of the funding that highways receive. Mr. Whitley
13 just covered this as well. To meet the future
14 transit needs in metropolitan areas, transit fares
15 should be increased.

16 Funding should also be available, number
17 six, funding available to regionally determined
18 priorities should be expanded. Regions such as
19 Chicago region and regions downstate should have a

20 greater say in planning for funding regional
21 projects. For example, the Peoria Metropolitan
22 Planning Organization only receives 1.5 million
23 dollars a year in discretionary funds.

24 Regional government planning

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1 organizations put a higher priority on people
2 firming projects such as sidewalks and bike lanes.
3 Increasing money to these regions would spur more
4 community oriented development.

5 Seven, railroad projects should receive
6 increased funding. As previously mentioned, the
7 real problem in Chicago and other areas are
8 hampering the ability to move goods and people both
9 regionally and nationally. This pushes more freight
10 to the already congested highways. Rail
11 infrastructure needs to be modernized and
12 decongested.

13 I'm sure you've heard today about the 1.5
14 billion dollar CREATE program has a one billion
15 dollar shortfall. That is needed to unclog transit,
16 Amtrak, freight, rail and road traffic in the area.

17 Last, eight, efficient land use should be
18 rewarded. We should authorize underutilized areas
19 in urban/suburban areas before turning inexpensive
20 green fields into highways that will only add more
21 vehicles to the already congested roads and require
22 additional money to maintain more infrastructure.

23 In closing, thank you for allowing me to
24 testify today.

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1 We pride ourselves here in Chicago on
2 being a transportation hub. With consistent funding
3 and a little luck, Chicago hopes to show the world
4 its premiere transportation network at the 2016
5 Summer Olympics.

6 Thank you.

7 CHAIRMAN SCHENENDORF: Thank you very much.

8 We'll start this time with Commissioner
9 McArdle.

10 COMMISSIONER McARDLE: Yes. I guess I'll be
11 the third to go after the Indiana toll road
12 question.

13 Major Moves. We've heard some people
14 talk about Major Moves really means major move of
15 money from northwest Indiana down to the rest of the
16 state. Okay.

17 You're getting 275,000,000 in total from
18 all these resources. 3.8 billion dollars is coming
19 out of the users of that road. How is that ratio
20 kind of determined? What do the people in Lake and
21 Porter County get out of the sale? Because at the
22 end of the day they will still have the traffic, and
23 yet they and the people who use the road are going
24 to be expected to generate the money to raise the

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1 3.8 billion because that's not a gift. That's going

2 to be recovered from tolls and everything else
3 imposed in that area. So I think we'd all like some
4 dialect because it goes right to the heart of the
5 question of what people say is a real diversion from
6 the whole user fee principle.

7 The second part of that question if you
8 could address is what are you planning to do for the
9 last, you know, 65 years when you've run out of the
10 money for the program?

11 MR. CLARK: Well, let me say that there are
12 additional projects within that 3.85 billion dollar
13 envelope that will directly benefit northwest
14 Indiana.

15 COMMISSIONER McARDLE: How much is that?

16 MR. CLARK: The ratio -- I have to look. I'd
17 have to reconfirm exactly how much of that it was.
18 It is an appropriate and proportionate amount of the
19 total funding raised.

20 And, of course, in addition to the local
21 projects, US 30, other roads in the area, the
22 funding that enabled the state contribution to the
23 Northwest Indiana Regional Development Authority
24 that is going to substantially expand the South

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1 Shore rail service, the Gary Airport. The Lake
2 Shore and bus services are going to directly benefit
3 and impact residents of northwest Indiana more than
4 some, many argue any impairment, and we don't expect
5 there to be frankly any impairment on the ongoing
6 use of the toll road by the residents of northwest
7 Indiana in addition to all of the people that use
8 the road primarily to transit from Ohio and Michigan
9 into Illinois.

10 It was a spirited debate. There was some
11 sense by some in northwest Indiana that there was an
12 ownership of that toll road that was exclusionary to
13 the rest of the state which was not persuasive to
14 the rest of the state frankly. We had a spirited
15 debate about it.

16 We're satisfied that the benefits to the
17 residents in the area of the toll road are
18 substantial, and any impairment to their ongoing use
19 of that road and benefit from it is minimal.

20 We're also -- we continue to explore P3
21 or 3P possibilities for funding opportunities in the
22 area. Most recent, the most current example of
23 direct relevance here is the Illiana Expressway.
24 That's been a project that has been discussed for

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1 the last 30 years as I understand it and is still
2 being actively discussed now as our legislature is
3 completing the last two weeks of a four-month budget
4 session in which, what to do about the Illiana
5 Expressway with a 3P possibility as aiming at
6 funding a comprehensive link as opposed to a smaller
7 one from just I-65 to I-57 I believe.

8 So all these are -- this is still very

9 much a live issue. Other witnesses have identified
10 almost the inevitability of active consideration of
11 these public/private partnerships and collaborations
12 as a way to bridge the funding gap.

13 They're not, they have been successful.
14 They are controversial. They will continue to need
15 to be studied very closely on a case-by-case basis.

16 Tim, as a resident have you --

17 MR. SANDERS: Well, after Major Moves have
18 passed the counties of Stuben, LaGrange, Elkhart,
19 St. Joe and LaPorte which are five of the seven
20 counties all received checks for \$40,000,000 which
21 was calculated at that time as roughly the amount of
22 money that all the residents of those counties had
23 put into the toll road during the entire existence
24 of the road, and essentially they got their money

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1 back.

2 Furthermore, the investment, to go to the
3 second part of your question, what happens after the
4 ten years, the Governor considers these roads across
5 Indiana to be major investments that are going to
6 lead to jobs and growth for all the citizens of the
7 state.

8 And I've attended in my previous
9 existence ribbon cuttings forever for roads for
10 which there was no funding possible but somebody
11 would go out and cut a ribbon announcing a road and
12 all the jobs that were going to come to the state
13 because of this nonexistent road. Well, those roads
14 are now going to be built. In the construction of
15 those roads it's going to lead to the kinds of jobs
16 and economic growth across the state that we need,
17 so it really is an investment.

18 Once the money for Major Moves runs out
19 there will be other money generated through these
20 jobs that will be created through the growth of our
21 economy as a result of the highway, so these are
22 really significant investments that Indiana is going
23 to be able to make now.

24 MR. CLARK: I guess the only other thing, and

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1 I don't want to belabor it, that I'd say is we were
2 very careful in the business arrangements of the
3 lease; that there will be clearly a reversion, a
4 two-state ownership. At any point in this long-term
5 business relationship with the private consortium if
6 they do not satisfy an exhausted list of Akins
7 requirements, certain safeguards on certain collars
8 on the tolls, other very important issues that we
9 thought were important protections to have to ensure
10 that Indiana will continue to get the full benefit
11 well beyond the ten-year period of the initial
12 payout.

13 CHAIRMAN SCHENENDORF: Commissioner Heminger.

14 COMMISSIONER HEMINGER: Thank you,

15 Mr. Chairman.

16 I'm afraid I want to keep talking about
17 this subject. Look, I think there's a reason that
18 these two transactions here in the midwest have
19 struck a chord in the country. It's not just
20 because they're new and unusual, but in my opinion
21 it has a lot to do with the fact of the debate that
22 we've had ongoing in the United States since
23 President Reagan took office about what's the proper
24 role of government.

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1 In many respects these transactions sort
2 of represent the culmination perhaps or the tenent
3 that says government doesn't have much of a role to
4 play even in some of the more traditional and
5 fundamental provisions of services that we have come
6 to think it has and that there are other models that
7 are more appropriate.

8 You know, trying to get past the
9 rhetoric, it does seem to me that there are a couple
10 of very important distinctions that I'd like the
11 whole panel to address because I know, Mr. Whitley,
12 your testimony had 15 issues that you've raised with
13 some of these approaches, and the two issues to me
14 are, first of all, the issue of a private borrowing
15 versus a public borrowing and what these
16 transactions are. They're loans. They're taking
17 out a loan, selling debt. Whether you do it from a
18 private banker or you do it through a public toll
19 authority, the cost of capital for a public toll
20 agency, and I run one, is much less than the cost of
21 capital for private bankers. We have no profit
22 margin and they do and that's the way it should be.
23 They're private enterprises.

24 The issue it seems to me comes down to

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1 the question of who is willing to raise the tolls,
2 and it appears that neither the City of Chicago nor
3 the Governor of Indiana wanted to raise tolls and
4 would have preferred somebody else do it, and in
5 that case the private sector won and the
6 transactions got done, so that's one issue.

7 The second issue is I think this question
8 of existing versus new capacity, and I'm persuaded
9 that these approaches have some value in the
10 provision of new capacity.

11 Frankly, I think in terms of risk that
12 the private capital is taking on, new capacity
13 involves some risk because sometimes you build a
14 road and not enough drivers show up or at least not
15 in the initial stages.

16 Some of these roads have gone bankrupt,
17 so there is clearly risk involved. That kind of
18 risk in our society has traditionally been
19 associated with private capital not public capital.

20 It strikes me that in these two
21 transactions at least there does not appear to be a
22 great risk that the private capital is taking, and,

23 in fact, if you look at the details of the
24 transactions where they are able to raise tolls at

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1 the greater of several indices, and one of them is
2 GDP growth, I think it's quite clear that they will
3 more than make their return and potentially very
4 early in the tenure of that leasehold.

5 What I'd like the panel to address if you
6 could are those two issues -- whether or not you
7 draw a distinction or find some greater value in a
8 public borrowing versus a private one because with
9 the public one the revenue streams stays in public
10 hands. Whereas in these transactions the revenue
11 stream is gone for essentially a lifetime if not one
12 lifetime maybe more and, secondly, whether you would
13 draw a distinction between these existing so-called
14 brown field transactions versus green field risk
15 taking new capacity investments.

16 MR. CLARK: I would say to your point about a
17 reluctance to raise tolls by public authorities,
18 political entities, that's certainly been true.

19 One of the pressing issues we had to face
20 on what to do about the toll road was a disturbing
21 backlog in maintenance that was not happening
22 because the tolls on that toll road had not been
23 raised for 20 years, and that was a political
24 decision that politicians and public entities made

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1 that, no, we'll have to defer maintenance and get to
2 that as we can get to that rather than incur a
3 program that would happen instantly whenever tolls
4 were raised.

5 So the removal of that institutional
6 constraint against measured collared formulating
7 increases in tolls tied to badly deferred
8 maintenance that would be maintained on an ongoing
9 basis was a real benefit. We think of moving that
10 responsibility from public entities that had a clear
11 track record of a reluctance to step up to what was
12 necessary to adequately maintain that road to
13 private authorities that with oversight clearly will
14 do that.

15 The point about a robust revenue stream
16 for ten years and then that all staying somewhere
17 else, Tim addressed some of the benefits of that, we
18 think there's a very substantial time value of money
19 for that upfront ten-year payment, that as we are
20 able to complete long deferred and well-known by and
21 large not green field but expansion, extension,
22 maintenance of existing arbors that were vital to
23 the ongoing interstate commerce of our state will
24 have a substantial economic benefit far beyond just

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1 that.

2 COMMISSIONER HEMINGER: Again, I don't dispute
3 that. I think the real issue is if you're going to
4 borrow money which is what is often appropriate in

5 infrastructure how do you borrow it. Do you borrow
6 it privately and give up a 99-year revenue stream to
7 do so or do you borrow it publicly by selling tax
8 exempt debt for 30 or 40 years and then in 30 or 40
9 years you've got a revenue stream again that you can
10 bond against additionally and you don't have to make
11 some of these 12 or 15 percent returns? That's the
12 real question to me. It's not that it doesn't make
13 sense to bring forward money to build infrastructure
14 especially when construction costs are going up ten
15 percent a year. That makes a lot of sense.

16 MR. CLARK: I suspect the answer --

17 COMMISSIONER HEMINGER: I think we're back to
18 raising tolls. I think that's what we're back to.

19 MR. CLARK: I suspect the answer is -- I think
20 raising tolls is the answer, but I suspect the
21 overall answer is that both have their place. Both
22 options have their place.

23 We have a robust Indiana Financing
24 Authority that's very active. All the bonding we do

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1 through the northwest RDA is through the Indiana
2 Finance Authority for the very reasons you
3 identified. It's simply good business to do it that
4 way. We get the best rates, the most leverage.
5 Where you can do that and that works, that's what we
6 should do. It's less controversial. Everyone
7 understands it. Where you can't an infrastructure
8 has to happen. I think it's appropriate for people
9 to seriously examine alternate ways to do it.

10 COMMISSIONER HEMINGER: Mr. Whitley.

11 MR. WHITLEY: I think what Indiana did was a
12 bold roll of the dice, and it gave them money right
13 now. Part of our concern is the long term -- what's
14 75, what's 99, what's 60, I mean how are these
15 things structured.

16 In Illinois we've been wrestling with the
17 public/private partnership. Legislation, we've had
18 some legislation introduced, and we believe the jury
19 is still out. We think there's a lot of serious
20 questions that have to be asked.

21 We do think it might be a solution for
22 finite projects, for example, the reference to the
23 western access to O'Hare or the Illiana Tollway or
24 could be a tollway and it could be done through

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1 private resources.

2 COMMISSIONER HEMINGER: Those are both new
3 roads, new capacities.

4 MR. WHITLEY: New projects, new capacities and
5 they're finite as to what they would, how they would
6 operate and where they would operate, but we haven't
7 worked through this yet. I think there's a lot of
8 reservation on the part of Illinois policy makers.

9 One of the concerns quite frankly is when
10 you're talking about magnitude of projects, and
11 we're talking about multi-billion dollar projects,

12 local construction firms are very much concerned
13 that the only people who can bid on these are Hollow
14 Burton and Effectele and what happens to the local
15 industry that has long been the construction
16 industry for our state, so lots of factors come into
17 play.

18 I do think that we need to accept
19 stewardship of the public investment, and
20 stewardship means that from time to time you have to
21 raise the revenues to make sure that you're
22 maintaining the system that you already have.

23 The Chicago Transit Authority is a good
24 example of a system that is 100 years old and is

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1 falling apart. We've got trains down to ten miles
2 an hour because of repair needs, and that is
3 inefficient.

4 Likewise, we have highways in Illinois
5 right now which we're doing, we are falling severely
6 behind in the resurfacing and the building of
7 bridges, maintenance of what we've already got.

8 I think that this issue of public/private
9 partnership has a role, but it is not going to be a
10 panacea to satisfy all the modal needs that we have.

11 MR. McLAUGHLIN: I think a question a lot of
12 people in Illinois have, and there's been talk about
13 selling the toll roads or selling Midway Airport,
14 for example, is what is the government going to do
15 with the money. Do they trust the government
16 leaders to use that, put that money back in
17 transportation. We believe that money should go
18 back into transportation, possibly even in that mode
19 of transportation.

20 If we were to sell Midway Airport, a lot
21 of that money, most of that money should not go to
22 fill a budget gap. It should go to aviation or
23 aviation-type or at least transit-type improvements
24 for the area. The same as the toll road. It should

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1 not go to fill a one time pension hole or something
2 of that nature. It should be seed money. It could
3 be seed money for future new roads such as the
4 Illiana Expressway.

5 If they use the money wisely that way,
6 they meaning the government, then it will be a wise
7 use of federal, local, state funds.

8 COMMISSIONER HEMINGER: Thank you,
9 Mr. Chairman.

10 CHAIRMAN SCHENENDORF: Commissioner Busalacci.

11 COMMISSIONER BUSALACCI: Well, I just have a
12 quick question. When you're talking about toll
13 roads in Illinois, the couple of roads that, you're
14 talking about building new roads, how would you
15 build a road, bond? If you did a PPP, would you
16 bond it?

17 MR. McLAUGHLIN: Yeah. I guess it depends if
18 it's a private entity that helps build it or public.

19 We bond things here in Illinois.
20 COMMISSIONER BUSALACCI: So are you saying that
21 these roads would be toll roads?

22 MR. McLAUGHLIN: Most likely, yes.

23 COMMISSIONER BUSALACCI: Would the Governor
24 approve that?

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1 MR. McLAUGHLIN: For a new road?

2 COMMISSIONER BUSALACCI: Yes.

3 MR. McLAUGHLIN: I believe so.

4 COMMISSIONER BUSALACCI: I think it's a
5 legitimate question.

6 MR. McLAUGHLIN: Yes, I believe for a new road
7 I believe they would. I think the labor unions have
8 a different stance on new roads versus sale of
9 existing roads because new roads would have a lot of
10 new jobs put out there that otherwise might not
11 exist.

12 COMMISSIONER BUSALACCI: I understand that.
13 My point is that you build, if you're building a
14 substantial size road and it's going to cost a lot
15 of money so you're talking about bonding. Obviously
16 the only way you're going to pay for it is if you
17 toll a road. My question goes back to -- it's my
18 understanding that your governor is opposed to
19 adding new toll roads. That's my understanding.

20 MR. McLAUGHLIN: I could be wrong, but I
21 believe he's opposed to adding new toll roads to
22 roads that already exist. I believe he's opposed to
23 say adding tolls to I-55.

24 COMMISSIONER BUSALACCI: No, that's not what I
0141

1 heard.

2 MR. McLAUGHLIN: I shouldn't speak for the
3 Governor, so I'm not going to.

4 MR. WHITLEY: I would not either, but I would
5 remind the panel that we did just increase tolls on
6 the Illinois toll road. I think, I'm not all that
7 up to it, but I think we have about 300 miles of
8 toll roads, all of which is in the Chicago
9 metropolitan area. A couple of years ago we
10 increased tolls significantly, and that money is
11 going into the toll roads.

12 Quite frankly I think that most people
13 see the response and they recognize what's needed.
14 It was long overdue. We should have increased the
15 tolls long before we did.

16 Now the issue of westward expansion or
17 western O'Hare access or the Illiana Expressway
18 would be extensions of the existing toll road
19 system, so the choice gets to be does the existing
20 system absorb these new projects, because right now
21 there's only one major new project which is an
22 extension of Route 355 to Interstate 80, or should
23 those kinds of new additions to the system, new
24 capacity, if you will, should those be 3P projects,

0142

1 and that's very much up in the air.
2 MR. McLAUGHLIN: 355 just did open. It's
3 scheduled to open I think --
4 MR. WHITLEY: Next fall.
5 MR. McLAUGHLIN: -- in the next few months.
6 That's an extension of 355 south of 55 I believe
7 from 80 to 55.
8 MR. WHITLEY: We went many years without a
9 toll increase, but I think that the driving public
10 recognizes that it has been an improvement to the
11 system, and I haven't heard that much objection once
12 it went into effect.
13 I mean there was some objection initially
14 because quite frankly a lot of our drivers think the
15 tollway should have been paid off and there should
16 be free roads, and there's always going to be that
17 position, but the reality is the maintenance and
18 continued expansion of that system does, in fact,
19 require the tollway.
20 CHAIRMAN SCHENENDORF: I guess, again, I don't
21 think there's a need to ask this Panel whether or
22 not you think there's a need for additional federal
23 money as we go forward. I think you've all
24 indicated the answer to that is yes.

0143

1 I would like to move on to the issue of
2 raising gas -- you were talking about the need to
3 raise taxes through the president of the state
4 chamber of commerce. This has been obviously a
5 tough political issue at the federal level, at the
6 state level.
7 You know, back in the '50s a very
8 conservative president raised the motor fuel tax in
9 order to pay for the interstate. President Reagan
10 increased the gas tax, and the last time it was
11 actually increased it was put directly into the
12 Highway Trust Fund and it was basically a user fee.
13 I do think it's going to be very important for
14 groups to take this message to their legislators and
15 really make this politically acceptable because in
16 today's climate it is very, very difficult.
17 The Administration has a pretty clear
18 position that they consider it a tax and they're not
19 going to increase taxes, and it's gotten caught up
20 in the whole issue of what the role of government is
21 and whether or not we're going to raise taxes or
22 not, when in reality this is much, much closer to a
23 user fee.

24
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1 supported all sorts of security fees, all sorts of
2 other user fees saying that's okay because it's a
3 user fee but the gas tax isn't a user fee. It's a
4 tax. In reality, I think it's much closer to a
5 user's fee.
6 I think it's going to be important to
7 really build political support and talk to your

8 state legislators, your federal legislators and
9 really educate them on the importance of making
10 these investments because you've got to basically,
11 you know, make it politically acceptable to address
12 these issues if we're going to really change things
13 as we go forward.

14 My one question I've got to get back to
15 is this Indiana Turnpike. I see it in all different
16 ways. I agree with Commissioner Heminger. I see a
17 big difference between green field projects and
18 brown field projects, roads that already exist such
19 as is the case with the Indiana Turnpike.

20 With respect to the Indiana Turnpike, the
21 basic decision, if the proceeds had been used on the
22 turnpike itself or in the turnpike corridor then the
23 users of the turnpike are benefited, but the way the
24 money was used by funding projects throughout the

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1 state, you're asking the turnpike users to fund not
2 only the improvements that the company will be
3 making to the turnpike but they're also being asked
4 to pay a toll that's going to cover the repayment of
5 that concession fee with interest over the life of
6 the lease that went for other projects that they may
7 never use, and those other projects downstate, the
8 users of those projects will not have paid for them.
9 It seems to me that that is a break in the user fee
10 principle.

11 The motor fuel tax is based on the
12 premise that you have a federal, a network of
13 federally eligible roads. You have the interstate
14 system, national highway system, other federal roads
15 that everybody that uses the system benefits from
16 improvements to it, so every project that's funded
17 at the federal level or at the state level within a
18 state that pays into that, it's because it's for an
19 improvement to the system that they benefit.
20 Everybody is making a little sliver of a
21 contribution to that project that pays the motor
22 fueling tax.

23 Whereas here you break that mold, and
24 you're asking people who are traveling the

0146

1 interstate in many cases through northern Illinois
2 to Indiana to pay for projects in other parts of the
3 state, and yet the very people who are using those
4 facilities aren't going to be paying for it.

5 MR. CLARK: Well, Commissioner, the argument,
6 the basic argument we made aside from what we've
7 already discussed as to the economic necessity and
8 opportunity that seem to be here step up to some
9 financial issues our state frankly had not been
10 stepping up to for a long time.

11 All that aside, I believe I'm right in
12 saying -- and I apologize. I'm not the secretary of
13 transportation. I'm not the expert. I wasn't
14 personally involved in the toll road transaction per

15 se. I was very much engaged because of the interest
16 of the northwest Indiana RDA in satisfying the
17 requirement for a state funding source, and that was
18 to be, the Major Moves transaction was to be and, in
19 fact, has become the funding source for the
20 northwest Indiana RDA which again we argued at the
21 time was between the RDA, the funding to all the
22 other toll road counties directly for their own
23 projects in addition to that portion of the total
24 major mode, Major Moves funding for projects along

0147

1 that northern tier corridor.

2 The basic argument was that those who
3 live in the area and use the toll roads regularly
4 would receive a commensurate benefit from the
5 overall revenues received from this transaction
6 through these various sources that we've described.

7 The other argument we made --

8 CHAIRMAN SCHENENDORF: But 60 percent of the
9 people driving that toll road are from out of state.

10 MR. CLARK: Precisely, and the argument we
11 made to our residents in the State of Indiana is
12 this is an opportunity to ask those users of the
13 toll road who by and large were not residents of
14 Indiana to help those of us in Indiana maintain that
15 toll road and other amenities along that corridor in
16 addition to achieving some benefits for the rest of
17 us in the State of Indiana. It went down well in
18 Indiana.

19 (Laughter.)

20 CHAIRMAN SCHENENDORF: I'm sure it went down
21 very well in Indiana because basically what you're
22 saying is, I don't want to say this is, you're
23 gouging the interstate users of that facility to get
24 them to pay for other projects down in other parts

0148

1 of the state.

2 MR. CLARK: I don't feel I'm gouged,
3 Commissioner, when I pay a toll in Illinois or Ohio.

4 CHAIRMAN SCHENENDORF: There's a huge
5 difference between when you're paying a toll for the
6 use of that facility and for the maintenance of that
7 facility because you're using the facility. There's
8 a big difference between that and you're paying a
9 toll where part of the toll that you're paying is
10 funding projects elsewhere in the state that aren't
11 being, you know, paid for by any of the actual users
12 of the facility. Those are two different things.

13 I think that's one of the issues, you
14 know, that we will be looking at obviously as we try
15 to see what kind of role these projects can play.
16 You know, it's the conditions, it's the terms of
17 these kinds of deals.

18 The other thing I find very interesting
19 with this deal is people have heard time and time
20 again and it's the case here where the public sector
21 just couldn't get the political will to raise the

22 tolls and, therefore, we need some private
23 organization to come in because they will raise the
24 tolls.

0149

1 Well, in this particular case if this
2 private entity raises the tolls as they're allowed
3 to do under the agreement which is two percent or
4 CPI or GDP, whichever is higher, they're going to
5 maximize the revenue stream off of that facility.
6 All of the increases are going in their pocket.
7 There's no sharing of any of that revenue with the
8 state. If that entity over the next -- how long is
9 this lease, 99?

10 MR. CLARK: 75.

11 CHAIRMAN SCHENENDORF: Over that 75-year
12 period all of the increases that that private sector
13 entity puts into place beyond what needs to maintain
14 the facility in accordance with the agreement, all
15 of that is just going to be profit.

16 MR. CLARK: But, sir, you just made a very
17 important point. All of, over and above those
18 revenues that will be needed to adequately maintain
19 that toll road, that was not being done. That will
20 now be done or else it will revert to the State of
21 Indiana.

22 CHAIRMAN SCHENENDORF: Right.

23 MR. CLARK: That's a very real accomplishment
24 of this agreement.

0150

1 CHAIRMAN SCHENENDORF: You're charging the
2 users of the system more than is needed to maintain
3 the system. They will be charging them whatever
4 they can to maximize the revenue flow because that's
5 what, they have stockholders, and that's what
6 they're going to try to do, and they're going to
7 charge and that would maximize the revenue flow.
8 All of that profit, whatever that may be over and
9 above what's needed to care for the road, is going
10 to go into their pockets.

11 I think there are a number of other
12 states and areas that have put these agreements in
13 place where there's a profit sharing where, whatever
14 excess revenues, the state would get back a
15 significant chunk of those revenues.

16 In this particular deal, you know, that
17 was not included. These are very, very complicated,
18 you know, arrangements, and the idea of allowing the
19 entire interstate system to basically be leased off
20 section by section with whatever kind of deal is
21 being agreed to by the state or local officials it
22 just seems to me is something that should be thought
23 through long and hard before you go down that path.

24 COMMISSIONER HEMINGER: Mr. Chairman, if I

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1 could.

2 CHAIRMAN SCHENENDORF: Sure.

3 COMMISSIONER HEMINGER: Again, I think this is

4 the reason that these transactions are so
5 interesting to us and are so provocative nationally
6 because you just said, and you're right, that one of
7 the products of this transaction is that maintenance
8 of those expenditures will occur which haven't been
9 occurring, but the question for me is at what price.
10 What's ironic potentially about this transaction,
11 we'll know when we live 75 years, right, is that the
12 users of that facility could end up paying much
13 higher tolls than they otherwise would in the name
14 of avoiding a toll hike.

15 It's sort of the culmination of the
16 anti-tax movement may result in much higher taxes,
17 but the good news is the government didn't have to
18 impose them, and I think that is the crux of the
19 issue.

20 I'll just mention for your benefit
21 because we have been around the country Harris
22 County, Texas was going through this same sort of
23 thought process and, in fact, commissioned a series
24 of bankers to give them three proposals. One

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1 proposal was sell your toll road. A second was
2 lease it, and a third was keep it and raise the
3 tolls yourself.

4 They opted for the third one, and what
5 they enacted is a series of cost of living
6 adjustments on the toll.

7 We've been talking today about the
8 importance of indexing the fuel tax. We need to
9 index all these fees.

10 My transit system in the bay area, the
11 Bart system, has indexed their fares. We need to
12 get out of this whole notion, and I'll get off the
13 soapbox in a second, that we've got a free lunch out
14 there and that toll roads can be, you know, once the
15 bonds are paid off they can be free. Well, there's
16 no free road because you have to maintain it.

17 So if we can it seems to me get back in
18 the public sector to the notion that infrastructure
19 costs money to build, to maintain and to expand, and
20 we ought to have a regular way of increasing rates
21 to take care of that, at the very least to take care
22 of inflation and that it shouldn't be some big shock
23 that it has to occur. The longer you let these
24 things go the bigger the shock to the system there

0153

1 is. If you haven't raised tolls for 20 years, that
2 first toll hike is a doozie.

3 MR. CLARK: Yes, that's right.

4 CHAIRMAN SCHENENDORF: I think, as I
5 understand it from the concession fees, for a number
6 of years the concession fees were paying the private
7 operator in order to avoid the users having to
8 increase the tolls but at some point 2011, 2012
9 somewhere in that range, all of a sudden it will be
10 that big step increase to get up to where it is. As

11 Commissioner McArdle pointed out, right after the
12 governor's term is over.

13 COMMISSIONER McARDLE: John, could I ask --

14 CHAIRMAN SCHENENDORF: Sure.

15 COMMISSIONER McARDLE: A couple of questions
16 occur to me.

17 It's something again about P3 as you
18 might have thought about. It occurred to me what
19 happens to all of these deals when they fall into
20 the hands of a bankruptcy judge? You basically have
21 a commercial agreement. A bankruptcy judge is going
22 to protect the creditors, not you or your users or
23 anybody else. Has anybody thought through the
24 implications of that in these circumstances?

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1 The second question I would ask, again,
2 getting to the point that Steve makes, if you're
3 talking a new facility, how far do you have to take
4 it to get anyone willing to take the risk because
5 our discussions have indicated that Carlisle or
6 Prairie or any of these people are not willing to
7 take a permanent risk. In essence, they're willing
8 to take it if you can deliver them a fully permitted
9 and lawsuit-proof project, but that's all they're
10 going to do.

11 Then the question I ask you is if you're
12 going to take it to that point what do they bring to
13 the table that you can't find yourself in some
14 mechanism. You know, I suggested to your
15 commissioner of transportation, secretary of
16 transportation that you might have raised that same
17 amount of money with the preferred share offer, you
18 know, with a guaranteed payout. You'd find out you
19 have a flexible market and you could get your,
20 whatever the number is, but you didn't have to give
21 it up for the length of timing we're talking about
22 out of your control.

23 Have you guys thought about these issues
24 and how we ought to react to them?

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1 MR. WHITLEY: Transportation for Illinois,
2 first of all, the 3P project is really only a couple
3 of years old. We sold the bridge and Indiana did
4 the tollway.

5 Our coalition actually did a paper which
6 I'd be happy to share with you. We didn't come down
7 to a conclusion about whether we were for or against
8 3P. What we did was we went to great lengths to say
9 here is all the issues that we're going to have to
10 think through. One of them was what happens if the
11 entity walks away and goes into bankruptcy, there's
12 not enough use to pay for it. We did -- I think
13 we've given a lot of thought to those elements.
14 Like I said, I will submit that to you afterwards.

15 COMMISSIONER McARDLE: By the way, it may not
16 be that there's not enough use. They could steal
17 the money or themselves divert it and suddenly

18 they're in the hands of a bankruptcy judge. There's
19 plenty of traffic and plenty of ability to raise
20 tolls but suddenly it's in the hands of the
21 creditors not in your hands, and they could
22 invalidate whatever protections you think you've
23 got.

24 As I, you know, take as my text what
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1 happened to the FCC over the Spectrum sale.
2 Suddenly a bankruptcy judge and the Supreme Court
3 says, bankruptcy court, not you, FCC controls that.
4 We've got a precedent that people should look at
5 very carefully.

6 MR. CLARK: Commissioner, similarly I would
7 really like the opportunity to be able to have our
8 expert, the head of our Indiana Finance Authority,
9 who was actually the person negotiating this
10 transaction along with our secretary of
11 transportation respond to those concerns.

12 I think there is a general level of
13 satisfaction. It may not be accurate. We have done
14 a good job protecting ourselves from every -- there
15 was good due diligence done on this transaction.
16 I'm just not the person who can explain it to you
17 well, and I'd like for you to have that explanation.
18 I think we are all looking for this to be a tool,
19 not the tool, not the panacea for this public
20 finance challenge or the public/private finance and
21 public infrastructure challenge.

22 It's a massive task, and it's an all
23 hands on deck operation. We have not found the
24 silver bullet, but we think we have found a good

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1 transaction for this instance, and I'd like to, in
2 the spirit of furthering our collective knowledge as
3 to how much sense this makes as a public policy,
4 better respond to that question than I'd be able to
5 do here.

6 CHAIRMAN SCHENENDORF: Please, if you'd both
7 submit those papers. We'll include them in the
8 record.

9 I think the gentleman did testify to that
10 in Washington, but it would still be good to get
11 that material into the record.

12 MR. CLARK: Excellent.

13 CHAIRMAN SCHENENDORF: Are there any other
14 questions from the Commissioners?

15 (No response.)

16 Well, thank you very much.

17 At this point if anybody in the general
18 public would like to come down to testify, feel free
19 to do so. You're supposed to have filled out a
20 form.

21 Do we have any takers?

22 MR. SPACEK: Yes, I'm one.

23 CHAIRMAN SCHENENDORF: Okay. In this phase of
24 the event we'd like to ask you to please limit your

0158

1 comments to two minutes.

2 We'll start with you, David.

3 MR. SPACEK: Commissioners, thank you very
4 much for the opportunity to provide some public
5 comment. I'm actually here on behalf of myself as a
6 public transportation professional.

7 I have two comments for the Commission to
8 consider regarding the role of public transportation
9 as a mobility partner. If I'm duplicating some
10 comments you've heard elsewhere, I apologize in
11 advance.

12 The first one is that the country, the
13 federal government and the industry has not been
14 able to decide the proper role of public
15 transportation; in other words, should it be
16 operated like a business or as a social service.

17 My experience has seen that the arrow has
18 fluctuated over time depending upon the
19 administration and local officials.

20 I believe determining where this arrow is
21 placed is critical in the development of future
22 funding programs for public transportation and the
23 performance expectations of this modal choice.

24 The second point is that the growth of

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1 communities for the most part are done with little
2 or no thought given to public transportation, so
3 this really addresses kind of the land use issue,
4 and this is true of residential as well as mega mall
5 shopping centers.

6 To me certain land use incentives should
7 be built into the funding program to encourage these
8 new construction, new builds to be transit oriented
9 and certainly friendly to public transportation.

10 CHAIRMAN SCHENENDORF: Thank you.

11 MR. SPACEK: Thank you.

12 CHAIRMAN SCHENENDORF: Chuck Knight?

13 MR. KNIGHT: Yes.

14 CHAIRMAN SCHENENDORF: Please proceed for two
15 minutes.

16 MR. KNIGHT: Good afternoon, gentlemen. My
17 name is Chuck Knight. I'm here as a citizen
18 volunteer representing the Sierra Club. My time is
19 brief so I'll be short.

20 I'm going to address two subjects.

21 First, highway congestion pricing principles and,
22 second, freight, particularly freight rail
23 transportation principles.

24 The Sierra Club supports the concept of

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1 high occupancy vehicle and high occupancy vehicle
2 toll lanes, but we believe that they should come at
3 least first from converting existing highway lanes,
4 thereby using existing highway capacity more
5 efficiently and not limiting, eliminating or
6 forestalling the need to add highway capacity. This

7 avoids constructing new lanes which are mixed flow
8 much of the day and are later converted to full-time
9 mixed flow after construction.

10 Toll rates on high occupancy vehicle toll
11 lanes should vary by time of day. Revenues above
12 operating expenses should be used to improve
13 transportation opportunities for low income
14 travelers and to operate public transit.

15 Second is the Club's freight rail policy.
16 The Club believes that freight railroads
17 particularly electrified railroads are preferable to
18 highway or air freight to save energy and land and
19 to cut noise and pollutant emissions.

20 The Sierra Club recommends the following
21 principles to guide public policy on freight
22 transportation: First, move freight by the most
23 energy efficient mode that meets the need.

24 Second, plan for rail electrification in
0161
1 the long term. Specifically the Club recommends the
2 federal government establish a project with the
3 nation's electric, utility and railroad companies to
4 begin a program of rail electrification or
5 re-electrification in some cases in the United
6 States.

7 Third, reduce the quantity of freight
8 that needs to be moved, particularly moved long
9 distances because of transportation subsidies. The
10 Club believes that many locally produced items are
11 at a cost disadvantage to profits from more distant
12 sources, and we believe that encourages waste of
13 energy.

14 Third or fourth rather, promote
15 inter-modalism so that traffic moves via the most
16 efficient modes. There should be nothing new here.
17 But 15 years ago congress created an inter-modal
18 office within the Department of Transportation. It
19 had no authority and was eventually abolished. We
20 recommend that that issue be revisited with
21 something that encourages an entity with power that
22 encourages inter-modalism as a top priority in
23 transportation issues.

24 Finally, we believe that the government
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1 should provide public financing for rail capacity
2 expansion specifically in terminals. Subsidizing
3 individual railroad lines is problematic at best for
4 a number of reasons.

5 However, major terminals, often called
6 joint facilities, are used by two or more carriers
7 and often passenger travelers as well as freight.

8 We believe that there are sound reasons
9 why public policy should increase public funding,
10 these projects like the Chicago CREATE program which
11 you've heard several times this afternoon.

12 In short, we believe it's in the national
13 interest to have an efficient, effective freight

14 rail system that helps relieve freight traffic on
15 our streets and highways.

16 Thank you.

17 CHAIRMAN SCHENENDORF: Could you expand upon
18 the third point? Just explain that a little. I
19 didn't quite catch that.

20 MR. KNIGHT: Reduce the quantity of freight
21 that needs to be moved. Perhaps I should have said
22 reduce the length or the distance that freight has
23 to be moved.

24 The Club believes that in many cases

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1 freight transportation pricing in the United States
2 is held artificially low because of subsidies or at
3 least it is perceived to be cheaper to transport
4 certain commodities long distances, that either
5 because of indirect subsidies such as that aren't
6 directly received by the motoring public or freight
7 moving public or because of so-called externalities
8 caused by transportation, a classic example being
9 carbon emissions.

10 When transfer freights are artificially
11 low, more freight is shipped long distances and this
12 can put locally produced items at a cost
13 disadvantage to products for more distant sources.
14 We think there are other, many other societal and
15 environmental reasons why there should be a national
16 preference to avoid the cost of transporting items
17 over long distances. But certainly one of those is
18 that the more stuff you have to move long distances
19 the more energy you're expending, and we believe
20 that conservation is probably easiest and the
21 cheapest first step in solving questions of
22 congestion as well as many other adverse
23 environmental impacts.

24 CHAIRMAN SCHENENDORF: So much of what we've

0164

1 heard about in the global economy, how much is
2 coming in from other countries and the distributing
3 of all of that material throughout the United States
4 is one of the issues. I'm trying to figure out how
5 that relates to --

6 MR. KNIGHT: Certainly we're not suggesting
7 that we put up barriers to entry so to speak. We
8 think that to the extent that certain modes of
9 transportation receive subsidies from the
10 government, that not only does it distort, create
11 distortions within the modes of transportation that
12 shippers use, for example, cheaper by water than by
13 highway, for example, but it also creates a
14 disadvantage for those local products as well,
15 agricultural goods, for example, that can and should
16 be avoided.

17 CHAIRMAN SCHENENDORF: Any other questions?

18 COMMISSIONER BUSALACCI: Did I --

19 CHAIRMAN SCHENENDORF: Go ahead.

20 COMMISSIONER BUSALACCI: I'm sorry, Frank.

21 COMMISSIONER McARDLE: Go ahead.
22 COMMISSIONER BUSALACCI: So where does the
23 organization fit in with passenger rail? You've
24 been talking about moving freight but what's your

0165

1 philosophy on passenger rail?

2 MR. KNIGHT: Well, I'll tell you that I was
3 kind of given a script here because we've got our
4 own national bureaucracy to deal with.

5 COMMISSIONER BUSALACCI: So tell me what you
6 think.

7 MR. KNIGHT: I'm a great steam locomotive fan
8 myself, but that's only my personal opinion. I'm
9 sure the carbon emission from those babies would be
10 terrible. I meet every day on Metra which is a far
11 better train to drive in this area, I'll tell you
12 that for sure.

13 The problem with the congestion and the
14 bottlenecks is real, at least that's what Metra
15 tells me. Whenever I'm sitting there for 10 or 15
16 minutes behind schedule they're always blaming it on
17 the freight traffic. To the extent that those sorts
18 of simple bottlenecks can be avoided, that would be
19 a really good thing.

20 Although I cannot speak to the details,
21 and there is the name of Clyde Anderson that is in
22 the written materials that I gave you who is kind of
23 the Club's resident expert on the subject, the Club
24 does strongly encourage return to intercity rail

0166

1 traffic as well as simply something that can be
2 cheap and efficient.

3 It's not exactly built into the auto
4 culture as it's evolved in the United States, but
5 mile for mile energy expended it's the most
6 efficient mode of travel that we have right now.

7 COMMISSIONER BUSALACCI: Well, I would just
8 like to finish by saying that I think it would be
9 very important for your organization to issue a
10 written stance on intercity passenger rail to this
11 Committee.

12 MR. KNIGHT: I'm sure they probably have one.

13 COMMISSIONER BUSALACCI: Well, I think it's
14 very important that we get the information from all
15 walks of life.

16 MR. KNIGHT: Sure.

17 COMMISSIONER BUSALACCI: So I think it would
18 be important that you submit that to this
19 Commission.

20 MR. KNIGHT: I'll be happy to track that down
21 and submit something.

22 CHAIRMAN SCHENENDORF: Commissioner McArdle.

23 COMMISSIONER McARDLE: Yes, it's very
24 interesting because you raise the questions about

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1 electrification and re-electrification. I asked the
2 question about roads, what he thought it would take

3 to get to that point, and he thought \$6 a gallon
4 diesel fuel gets him right there where the economics
5 are, but it occurs to me to ask you a question, and
6 again you may have to go back to the national
7 organization, as to whether or not you've looked at
8 kind of what a least carbon impact transportation
9 budget would be for freight, what is, in fact, the
10 least impact we can have.

11 As a piece of that I'm well aware that
12 the United States has exported a lot of businesses,
13 I think of the foundry business as one, because of
14 the environmental constraints here that we never
15 impose when we buy that product offshore, and
16 there's a certain irony in the fact that most of the
17 casting used on the streets in the City of New York
18 can't be made in America because there are no
19 foundries able to comply with America's limits on
20 pollution, but we're quite happy to buy them from
21 India just closing our eyes to the quality of the
22 air people are breathing there to produce those
23 things that we put here.

24 MR. KNIGHT: Well, I'd have to correct myself
0168

1 a little bit to say the Club isn't proposing that we
2 put up barriers to the extent that the Club does
3 have positions on so-called free trade agreements
4 which would require that when we do enter into these
5 agreements with foreign countries that they meet
6 certain minimum standards, not only labor standards
7 but also environmental standards as well to avoid
8 just that problem.

9 COMMISSIONER McARDLE: I'm also told that the
10 shipping, China to the west coast, produces a very
11 substantial amount of pollution given the current
12 level of fuel, bunker fuel that's used.

13 MR. KNIGHT: I wouldn't be surprised.

14 COMMISSIONER McARDLE: Extraordinarily large
15 percentage of what's going into the atmosphere
16 anywhere in the world. If you could give us some
17 thoughts on that and how that relates to what we
18 need to do I think it would be very much
19 appreciated.

20 MR. KNIGHT: Well, I'm not going to give you
21 our China policy, but I will look at that issue as
22 well.

23 COMMISSIONER McARDLE: Thank you.

24 MR. KNIGHT: Thank you.

0169

1 CHAIRMAN SCHENENDORF: A lot of things you
2 talk about would cost money to put these systems
3 into place. Does the Club support increasing the
4 motor fuel tax so that it would discourage the use
5 of fuel but it would also, if it's used in the
6 proper way based on your positions? Where do you
7 stand on that?

8 MR. KNIGHT: Our first position is that we
9 should increase the efficiency of the motor vehicle

10 fleet.

11 I do not know whether the Club has a
12 position on the motor fuel tax. I think that they
13 would probably support it as part of a broader
14 effort to tax carbon emissions in general.

15 CHAIRMAN SCHENENDORF: Okay.

16 Well, thank you very much everyone for
17 the hearing today. We very much appreciate it.

18 We will be meeting in this room tomorrow
19 morning to start the hearing at 8:30 a.m., and I
20 understand that at least some of us have to stay for
21 a press availability. Is that going to happen or
22 not happen? It is going to happen. So we will stay
23 right here.

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0170

1 Thank you, everyone.
2 (Which were all of the
3 proceedings had in the
4 above-entitled cause this
5 date.)
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1 STATE OF ILLINOIS)
2) SS.
3 COUNTY OF C O O K)
4 KELLY A. BRICHETTO, being first duly sworn,
5 on oath says that she is a Certified Shorthand
6 Reporter doing business in the City of Chicago,
7 County of Cook and the State of Illinois;

8 That she reported in shorthand the
9 proceedings had at the hearing of the above-entitled
10 cause;

11 And that the foregoing is a true and
12 correct transcript of her shorthand notes so taken
13 as aforesaid and contains all the proceedings had at
14 said hearing.

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KELLY A. BRICHETTO

SUBSCRIBED AND SWORN TO
before me this day
of April, A.D. 2007.

NOTARY PUBLIC