

**NATIONAL SURFACE TRANSPORTATION COMMISSION
NEW YORK CITY FIELD HEARING**

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PANEL III: CONDITION AND NEEDS OF THE NATIONAL AND NORTHEAST TRANSPORTATION SYSTEM

STEVE L. MASSIE, CEO, Jack Massie Constructor Inc., Senior Vice President, Associated General Contractors of America

MATTHEW A. COOGAN, Director, New England Transportation Institute

NEIL PEDERSEN, Administrator, Maryland State Highway Administration

KEN ANDREWS, Dow Corporation

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PANEL IV: MEETING THE NEEDS

DR. C. MICHAEL WALTON, Chairman, American Road and Transportation Builders Association, and Professor at University of Texas, Austin

JAMES T. TAYLOR, II, Principal, Mercator Advisors LLC

THOMAS J. MADISON, JR., Commissioner, New York State Department of Transportation

ROSS PEPE, President, Construction Industry Council of Westchester & Hudson Valley, Inc.

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PANEL V: TRADE AND FREIGHT GATEWAYS TO THE NORTHEAST AND TO THE NATION

RICHARD LARRABEE, Director, Port Commerce Department, The Port Authority of New York and New Jersey

SAM CRANE, Maher Terminals

WILLIAM GOETZ, Resident Vice President, CSX Transportation

ANTHONY HATCH, Consultant and Analyst on finance and railroads

GLENN WEISBROD, President, Economic Development Research Group

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PANEL VI: THE ROLE OF PUBLIC INSTITUTIONS IN PROVIDING TRANSPORTATION INFRASTRUCTURE IN 2056

CHRISTOPHER P. BOYLAN, Deputy Executive Director/Corporate and Community Affairs Metropolitan Transportation Authority, State of New York

VICTOR CROSS KELLY, Director, Tunnels, Bridges and Terminals, The Port Authority of New York and New Jersey

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Thursday, November 16, 2006 - 8:30 a.m.

MTA Offices, 2 Broadway, New York, New York

COMMISSIONERS:

JACK SCHENENDORF

FRANK McARDLE

STEVE HEMINGER

FRANK BUSALACCHI

1 MR. SCHENENDORF: Thank you all. We'd
2 like to welcome you back to day two of this
3 hearing of the National Surface Transportation
4 Policy and Revenue Study Commission.

5 Again I want to thank all of the host
6 organizations and their staffs for having
7 sponsored this hearing in New York and thank
8 them yesterday for the tours they took us on.
9 Everybody did a really fabulous job. We very
10 much appreciate it.

11 I would like to single out two people for
12 special recognition and that's Ann Stubbs [ph.]
13 with the Coalition of Northeastern Governors
14 and Chris Bernardy [ph.] with the Department of
15 Transportation who handled much of the
16 logistics and made this whole hearing run as
17 smoothly as it's gone so far.

18 Yesterday we heard from a number of
19 witnesses who called for a bold vision for the
20 federal surface transportation programs, and I
21 think that message really resonated with a
22 number of the commissioners and it's something
23 that we will be really pursuing as we go
24 forward. Many of us have thought that that

1 vision is really essential, as the vision of
2 the interstate was, for providing the political
3 impetus to come up with the financing that will
4 be needed as we go forward.

5 Before turning to our first panel of
6 witnesses, do any of the other commissioners
7 want to have an opening statement? Okay.

8 Our first panel will consist of Steve
9 Massie, who's CEO of Jack Massie Constructor
10 and Senior Vice President, Associated General
11 Contractors of America; Matthew Coogan, who is
12 the New England Transportation Institute; Neil
13 Pedersen, Administrator of Maryland State
14 Highway Administration; and Ken Andrews of the
15 Dow Corporation.

16 We are asking our witnesses to keep their
17 comments to five minutes so we have time for
18 questions and answers. If you go over a couple
19 of minutes don't worry, nothing drastic is
20 going to happen, and so we'll start with Mr.
21 Massie.

22 MR. MASSIE: Good morning, thank you,
23 Vice Chairman Schenendorf and other members of
24 the commission for this opportunity.

1 Today we are at a critical juncture. The
2 United States relies on its transportation
3 system more than ever. The buying power of our
4 trust fund dollars has been significantly
5 eroded by inflation, the Highway Trust Fund is
6 in a precarious financial shape and just when
7 we need the support of the public for a major
8 overhaul of this system we find the current
9 system is failing the people that use it.
10 Pavement conditions are deteriorating and the
11 complexity of projects continue to increase.

12 According to an FHWA survey the single
13 largest source of motorist dissatisfaction is
14 traffic flow. Absent real success in
15 addressing congestion you significantly reduce
16 the respect that the public has for decisions
17 made by the federal government.

18 As you can see on the screen the C and P
19 report indicates the large sums needed to
20 maintain and improve our transportation system.
21 Unfortunately, AGC's economists believe this
22 is the best case scenario. AGC believes the C
23 and P report fails to recognize unstable
24 construction material prices.

1 The cost of construction is unstable and
2 is increasing at a rate higher than inflation.
3 The cumulative change from September of 2003 to
4 September 2006 was 35.9 percent; nearly
5 quadruple the general rate of inflation over
6 the past three years.

7 A prudent escalation factor for highway
8 construction inflation would be between eight
9 to 11 percent per year. Applying this inflater
10 to the current estimates would produce the
11 following: Cost to maintain would increase by
12 \$40 billion per year from 73 to 113 billion.
13 Maximum economic investment would increase by
14 more than 30 billion per year from 119 to 149
15 billion per year.

16 Therefore, based on recent past history
17 construction material inflation has consumed
18 more than 30 cents of every dollar in just the
19 past four years and has become a fact of life
20 in our industry.

21 In addition, as the labor market tightens
22 there is a growing threat of labor cost
23 increases. I've seen this already in our area
24 and when I talk to other members around the

1 country they are already starting to see those
2 effects also.

3 Together, all of these items are
4 converging to increase the magnitude of the
5 challenge that faces this commission and the
6 country.

7 There are no easy answers. We have an
8 aging system. It needs maintenance,
9 reconstruction, expansion, and the construction
10 of components not contemplated in 1956. The
11 federal government should continue to have a
12 strong role in surface transportation to ensure
13 the efficient function of the system. No
14 option should be left on the table. We need to
15 shore up the trust fund in the short term and,
16 ultimately, augment the motor fuel tax in the
17 long-term.

18 This commission should look to new ideas
19 to create a politician-friendly way to
20 adequately address the needs. One method that
21 worked for the base realignment process and for
22 the postal rates increase is an independent
23 commission that makes recommendations based on
24 research. If a model like this is applied to

1 our road infrastructure they could adjust the
2 user fees associated with driving or identify
3 new options that may be more appropriate for
4 the nature of our transportation network.

5 Additionally, AGC believes, excuse me --
6 additionally AGC believes Congress should
7 encourage states to increase and guarantee
8 their funding levels. States should be allowed
9 and encouraged to purchase and preserve as much
10 future right-of-way as possible. This will
11 accommodate the anticipated long-term
12 transportation growth. Based on the growing
13 need and shrinking resources to address them,
14 if the commission does not recommend increased
15 funding, it must recommend limiting federal aid
16 eligibility to only key elements of the federal
17 system.

18 No matter what metric is used the needs
19 are growing. Absent bold leadership,
20 satisfaction with the system will continue to
21 decrease and the government's credibility to
22 deal with this basic responsibility will
23 disappear.

24 The Clay Commission reported in 1955 that

1 the existing system is inadequate for both
2 current and future needs. We are at that point
3 again, now is the time to act. This commission
4 must chart a bold strategy for the future. AGC
5 testified before the Clay Commission in October
6 of 1954 and we are honored to be here again
7 today before, what we expect to be, an equally
8 visionary commission. Thank you.

9 MR. SCHENENDORF: Thank you.

10 Mr. Coogan.

11 MR. COOGAN: Thank you, Mr. Chairman. I
12 have the pleasure of speaking to you on the
13 subject of rural and micropolitan areas, and
14 I'll learn how to pronounce both, I promise
15 you.

16 I have the pleasure of serving as the
17 director of a research organization that is
18 starting a three-year program to explore
19 elements concerning rural transportation in
20 these areas. The three elements are rural
21 mobility, rural safety, and issues of
22 connectivity in the system for its residents.

23 In the interest of time I'm going to jump
24 directly to rural mobility and if we want to

1 chat about the others we can do it at the later
2 time.

3 My background is in -- was originally in
4 urban and metropolitan transportation planning.
5 And in traditional transportation planning we
6 have some well established rules. Congestion
7 is bad and very often investment in additional
8 capacity is an important part of a strategy to
9 deal with that. We have good ways to measure
10 congestion and anybody knows the difference
11 between level of service C and level of service
12 F.

13 But when we shift the subject to the
14 evaluation of transportation in rural areas, we
15 have a big problem. The problem is that the
16 measures of performance in the metropolitan
17 areas may simply not be the right measures to
18 apply in the rural areas.

19 In many cases we are asking the wrong
20 questions and as a result, in many cases, we're
21 not asking questions at all.

22 For much of America the failure of the
23 transportation system is not so much about
24 congestion as it is about isolation, and there

1 may be some major funding implications
2 describing the phenomenon we're about to talk
3 about.

4 In many ways isolation is the opposite of
5 mobility. Isolation results from many factors.
6 Isolation occurs when the local store closes
7 down because of the opening of a regional store
8 15 miles away. Isolation occurs when the local
9 doctor gets replaced by a regional medical
10 center, maybe 30 miles away.

11 In many cases, the support function of
12 the small New England town has simply
13 disappeared and, as a result, basic urban --
14 basic rural trips are longer than they used to
15 be.

16 Now, the commission has asked me to
17 provide a northeast point of view and what I'm
18 going to say may not be true of Montana or
19 Wyoming but it is true of Maine, New Hampshire
20 and Vermont. And that is, we are sitting on a
21 demographic time bomb.

22 In our rural areas we are experiencing
23 two demographic changes at once. In many
24 places our young people are leaving to find

1 work elsewhere. And many of the same areas are
2 attracting ex-urban folks who already lived in
3 the urban areas and are fleeing therefrom. So
4 on the one hand our population is aging
5 naturally, and in addition, we see the exodus
6 of the younger people and the influx of the
7 older people.

8 When you are 40 and when you are 50 the
9 problem of isolation is solved by a few more
10 dollars at the gas pump and a few more hours at
11 the wheel. When you are 75 there may soon come
12 a time when you cannot, or just should not,
13 drive at all.

14 Now, within the major urban areas like
15 the Bay area, the infrastructure to deal with
16 this has been put in place over decades and
17 decades. Systems for transit and para-transit
18 and community based services are already there.
19 The van owned by the church-based hospital may
20 have to pick up a few more people on a route it
21 already covers but this is incremental and it
22 can be dealt with incrementally.

23 By contrast the rural institutions needed
24 to deal with the change in the baby-boomer

1 generation either do not exist or simply not
2 scaled for the challenge that is coming.

3 Millions of rural Americans are isolated
4 from services that you and I take for granted.
5 Over the next 20 years the number of rural
6 Americans who become more functionally isolated
7 will be akin to a tidal wave on our national
8 psyche.

9 On a recent survey in New Hampshire of
10 all age groups, fully ten percent of the people
11 responded they were worried about their ability
12 to continue driving in the next few years, and
13 a somewhat startling almost seven percent said
14 that they had missed or chosen not even to
15 schedule a medical appointment because they did
16 not know that they could get a ride.

17 In conclusion, I am arguing that we must
18 approach the issue of rural isolation first as
19 a policy issue, something we need to
20 understand. Then, with a better understanding
21 of what the problem is, we can figure out if
22 the need is for more capacity or perhaps for a
23 total redefinition of how we help people to
24 attain mobility under conditions of sudden,

1 rapid, demographic change.

2 One thing is certain: the problem will
3 appear on the rural frontier first.

4 Thank you, Mr. Chairman.

5 MR. SCHENENDORF: Thank you. Mr.
6 Pedersen.

7 MR. PEDERSEN: Thank you, Mr. Chairman,
8 Commissioners.

9 Just as background, I am the
10 administrator of the Maryland State Highway
11 Administration. I've been in that position for
12 four years. I've worked with agencies for 24
13 years. I also chair the I-95 Corridor
14 Coalition, which is a coalition of all the
15 states along the eastern seaboard, District of
16 Columbia and two Canadian providences, looking
17 at issues of joint interest particularly from
18 an operational perspective. I also chaired one
19 of the policy communities in the interstates,
20 so my perspective really comes from all three
21 of those positions.

22 I grew up in Massachusetts and have lived
23 in Maryland for the last 30 years and commute
24 quite frequently between the two, so I'm a

1 frequent user of the transportation system in
2 this corridor.

3 I want to talk about an issue that I
4 don't believe really has been focused on thus
5 far in our discussion with the commission and
6 that is system preservation and asset
7 management.

8 We have an aging infrastructure in the
9 country but particularly in the northeast.
10 Much of it has been constructed in the last 50
11 years although particularly in the northeast
12 much of it is even older than that.

13 We are starting to realize in Maryland
14 and as we started to look at this particularly
15 through the AASHTO committee that we are really
16 facing an impending crisis when we start
17 looking out, -- the 50, over the next 50 years
18 in terms of the degree to which we really are
19 going to need to invest much more significantly
20 in system preservation than we have in the past
21 50 years or than is called for in the condition
22 in the performance report.

23 In Maryland as well as in some other
24 states we are taking an asset management

1 approach, recognizing that we need to
2 understand the seriousness of the need, what is
3 the most intelligent way of trying to invest in
4 system preservation, and something that from a
5 policy perspective I would argue ought to be
6 done at the national level as well. I also do
7 serve as the vice chair to AASHTO asset
8 management subcommittee as well.

9 One of the issues we are facing in
10 Maryland as well as throughout the northeast is
11 some of the system preservation issues are very
12 costly facilities that are going to cost a
13 great deal to reconstruct or to replace.

14 In my paper I talk about the Woodrow
15 Wilson Bridge and I can get into more details
16 later on that. But these are replacements that
17 -- or facilities that end up benefiting many
18 states but the cost ends up accruing to the
19 state in which it is located and costs that the
20 state in which it is located often cannot
21 handle.

22 Second issue I want to address is the
23 need to address major highway bottlenecks and
24 rail choke points.

1 In the I-95 Corridor Coalition we have
2 done a number of studies associated with
3 bottlenecks and choke points. Looking at what
4 the economic effects are, looking what the
5 needs are in terms of addressing this, and the
6 basic efficiency of the system, particularly as
7 it is related to economic efficiency, is very
8 much tied to our needing to address these
9 bottlenecks. And again, in many instances
10 these bottlenecks end up affecting interstate
11 commerce. End up -- the benefits of addressing
12 them end up accruing to many different states
13 but cost ends up accruing to the state in which
14 it is located. And because, in many instances,
15 there are very high cost issues they end up not
16 being addressed because the state by itself
17 cannot be addressing them.

18 I remind myself every once in a while in
19 terms of the Constitution, one of the basic
20 responsibilities of thorough government is
21 interstate commerce and we need to be
22 remembering that as we address the bottlenecks.

23 In the paper I did provide you with
24 examples of the Woodrow Wilson Bridge facility

1 that, from both the bottle neck standpoint and
2 system preservation standpoint, was reaching
3 failure. It could have ended up creating a
4 major, major economic impact if we'd had to
5 post it for trucks which our engineers were
6 suggesting would be the case within ten years
7 if we did not fund it. It ended up being
8 bailed out by Congress but that's a somewhat
9 unique circumstance and the facility was owned
10 by the federal government. That's not the case
11 in many other instances.

12 I also cited the Baltimore rail tunnels
13 which were addressed as part of a broader study
14 on bottleneck and choke points in the rail
15 system within the mid Atlantic region.
16 Significant needs, again, that accrue -- the
17 benefits accrue all up and down the east coast
18 and, in fact, the entire nation; something we
19 need to be looking at.

20 So we need to be thinking about financing
21 issues associated with mega projects both from
22 a system preservation standpoint and from a
23 bottle neck standpoint.

24 SAFETEA-LU's program to fund projects of

1 national regional significance, I think was a
2 start. The intent was right; it was severely
3 under funded and, unfortunately, because all
4 the money was earmarked in many instances to
5 projects that really had more local benefits,
6 national and regional benefits, it ended up
7 failing us.

8 The final role that I played was as chair
9 of AASHTO's policy regarding the future of the
10 interstate system, and again, I have laid out
11 some of the issues associated with the AASHTO
12 policy that was just passed. From a system
13 preservation standpoint there are major needs.
14 The conditions and performance report does not
15 adequately address those from my perspective,
16 particularly for interchanges, for replacements
17 of facilities, need for ITS technologies and
18 the need to be an expanding system.

19 Looking out 50 years, based on surveys
20 that we have done in the states, we believe
21 that we could be looking at needing to add
22 10,000 new miles in new locations, upgrading
23 20,000 miles of NHS groups and adding lane
24 miles to 20,000 miles of existing systems.

1 I want to also jump on the bandwagon and
2 endorse a national vision. That national
3 vision really needs to focus on the role of
4 freight, from my perspective, and long distance
5 travel. The vision needs to recognize
6 tremendous costs associated with these mega
7 projects. There needs to be a very strong
8 national role.

9 We in I-95 Corridor Coalition have
10 addressed this issue, larger projects that
11 benefit many states. There are some thoughts
12 we have in terms of approaches that I can talk
13 about more during the question and answer
14 period.

15 And I'm also going to jump on the
16 bandwagon that we heard yesterday about the
17 need for trying to support multi state
18 coalitions similar to the Interstate 95
19 Coalition. Thank you very much.

20 MR. SCHENENDORF: Thank you.

21 Mr. Andrews.

22 MR. ANDREWS: Thank you, Mr. Chairman. I
23 greatly appreciate the opportunity to address
24 the commission and present a shipper's

1 perspective on the nation's transportation
2 needs and issues.

3 A national transportation infrastructure
4 is the life blood of the American economy and
5 is critical to manufacturing competitiveness in
6 the United States. Our transportation system
7 is facing unprecedented challenges. The
8 mobility we enjoy as individuals today, plus
9 the availability and timely movement of goods
10 and services we take for granted, is under
11 threat.

12 There is fundamentally a growing
13 imbalance of transportation demand versus
14 available supply. We are facing increasing
15 transportation capacity constraints and
16 insufficient investment in replacement and
17 expanded infrastructure to meet future needs.

18 Fueled by a buoyant economy and an
19 increasing population, demand for
20 transportation services is growing rapidly.
21 Demand mix patterns are also shifting. For
22 example witness the significantly growing
23 intermodal traffic volume.

24 There are inadequate mechanisms and

1 sources of finance today to fund necessary
2 infrastructure and maintenance and expansion on
3 a large scale across all regions.

4 We also lack an integrated holistic
5 freight policy and strategy to address our
6 critical infrastructure needs. Without the
7 transportation infrastructure our
8 transportation partners, Dow Chemical, a \$46
9 billion company employing 42,000 people, simply
10 would not exist in the United States. We are
11 dependent on this infrastructure for raw
12 materials coming into our plants and for our
13 products going out to our customers in all
14 parts of the world.

15 We currently spend over \$2 billion a year
16 on freight globally. So why is safe and
17 secure, reliable and cost-competitive
18 transportation of the products that we and our
19 industry use so important to our customers and
20 all Americans? Over 95 percent of things that
21 touch our lives every day; from a glass of
22 water to a tube of tooth paste, to the clothes
23 we wear, the food we eat, the computers and
24 telephones we work with, the cars we drive, the

1 airplanes we fly in, the medicines we take, the
2 houses we live in, the emergency services we
3 call and the hospitals we visit in times of
4 need, all of these things are made possible by
5 the science of chemistry and the products that
6 derive from my company and our industry.

7 The Department of Homeland Security has
8 designated both my industry and the
9 transportation industry as critical
10 infrastructure. We therefore have a shared
11 responsibility with the public sector to ensure
12 there is a fair commerce system and a national
13 investment policy and strategy for
14 transportation infrastructure that keeps
15 America a secure and competitive place to
16 manufacture products, deliver services and to
17 work and live.

18 In so doing we believe we have an
19 outstanding opportunity to positively impact
20 long-term American competitiveness and
21 sustainability, allowing both shippers and
22 carriers to grow and prosper now and in the
23 future while contributing to a better America.

24 In 2003, the President's National

1 Strategy for the Physical Protection of
2 Critical Infrastructure and Key Assets
3 contained these words: When we flip a switch
4 we expect light; when we pick up a phone we
5 expect a dial tone; when we turn a tap we
6 expect drinkable water.

7 Electricity, clean water and
8 telecommunications are only a few of the
9 critical infrastructure services that we tend
10 to take for granted. They've become so basic
11 in our daily lives that we notice them only
12 when, for some reason, service is disrupted.
13 When disruption does occur we expect reasonable
14 explanations and speedy restoration of service.

15 Albert Einstein once said reality is
16 merely an illusion, albeit a very persistent
17 one. Unfortunately the illusion that there are
18 simple and speedy restoration of service
19 options to our major transportation
20 infrastructure and capacity issues is not real
21 reality.

22 So what needs to be done? We propose
23 engaging [unclear] [thought readers] from
24 across the board to develop a compelling vision

1 of what our next generation transportation
2 infrastructure should look like, based on a
3 model that analyzes trade flows, demand
4 patterns and infrastructure capacity options.
5 Through this effort we can develop a clear
6 strategy and investment plan to realize it in a
7 timely manner.

8 Let's take solutions, not problems to
9 Capitol Hill. Let's favor market solutions
10 versus government intervention wherever
11 possible, and let's make public policy
12 proposals that will materially build a better
13 transportation infrastructure.

14 Why should we bring multiple industries
15 and public sector together to participate in a
16 national debate on transportation
17 infrastructure? I believe there are several
18 important reasons.

19 We all participate in this great economy.
20 We all depend on our transportation
21 infrastructure to enable our business success
22 and quality of life. We all have much to offer
23 and between us we bring the knowledge of the
24 products and services that move through our

1 transportation network as well as the network
2 itself and political and legislative framework
3 in which we live and work. Let's harness that
4 collective knowledge.

5 In closing, our transportation
6 infrastructure can either enable competitive
7 commerce or stifle it. Let's focus on
8 enablement. It was a tenacious pioneering
9 spirit that built the United States into the
10 economic powerhouse that it is today. Let's
11 rekindle that same spirit and leadership to
12 create the next generation transportation
13 infrastructure that will help assure American
14 competitiveness and sustainability through the
15 21st century and well beyond. Thank you.

16 MR. SCHENENDORF: Thank you. With that
17 we'll start the questioning. I'd like to --
18 we're very fortunate on the commission to have
19 an actual secretary of transportation from the
20 great state of Wisconsin, and we'll start with
21 Commissioner Busalacchi.

22 MR. BUSALACCHI: Thank you, Mr. Chairman.
23 Neil, maintenance, it's not a real sexy
24 subject, as you know, but it's one of my

1 favorite topics because, obviously, it's what's
2 going on around the country right now,
3 construction costs, as Mr. Massie [inaudible].

4 Is it your view, and I guess the other
5 panelists can jump in here, I mean, do you feel
6 that the federal role should be less, the
7 federal role should, you know, be what it is or
8 the federal role should be more?

9 And the reason I say this, obviously, is
10 because you talk about the Woodrow Wilson
11 Bridge and, of course, all the states, we're
12 all running into these infrastructure issues
13 with these roads that have been put down for so
14 many years and now what we're facing is that
15 because of construction costs they're all mega
16 projects now. And so should the federal role
17 be where it's at; it should be less? I mean
18 there's talk federal government thinks that
19 maybe they're doing too much. What's your
20 feeling as a state?

21 MR. PEDERSEN: I think first we need to
22 think about the broader federal role in terms
23 of what system it is -- the system that the
24 federal government should be focusing on. And

1 it really should be a system that primarily is
2 serving longer distance interstate travel, at
3 least on the highway side. On the transit side
4 we probably argue differently and also on the
5 rail side. We then need to look at what is the
6 cost of failure if we don't maintain that
7 system from a federal interest perspective.

8 Just two days ago since I prepared my
9 remarks, the CSX bridge across the [unclear]
10 river, which is the main line for the entire
11 Interstate 95 Corridor was shut down for a
12 month because of maintenance reasons. The
13 entire rail network, CSX rail network, for the
14 east coast now has to be routed through
15 Cincinnati as a result. That is an issue of
16 national interest. That is a maintenance issue
17 on the rail side as an example.

18 Woodrow Wilson Bridge in 19 -- in 1995,
19 our bridge engineers were saying if we did not
20 have it replaced by 2004 they could not assure
21 us that we wouldn't have to be posting the
22 bridge for trucks.

23 Can you imagine if we had to post in the
24 middle of the I-95 corridor the bridge, the key

1 bridge that has been carrying traffic. 22,000
2 trucks a day cross that; over 50 percent of
3 which do not have either an origin or a
4 destination anywhere in the
5 Baltimore/Washington metropolitan area.

6 That is a federal interest, and the
7 federal government has not just a
8 responsibility, but I think if we look at the
9 cost of failure, it is going to be a disaster
10 from a federal perspective if the federal
11 government is not adequately investing in
12 maintenance for those facilities of a national
13 interest.

14 MR. BUSALACCHI: Steve, you got anything
15 to say about that?

16 MR. MASSIE: To add to it? No, sir.
17 You're not allowing -- being the contractor
18 goes out and does the work. We are doing more
19 and more of the maintenance. We are doing more
20 and more of the upgrading of the system to
21 widen and increase the shoulders, increase
22 safety factors in the roadways. And when you
23 do that you go about renewing the pavements
24 that are there and upgrading them to the

1 current standards versus what they were on and
2 it's -- more and more money is being tied to
3 the maintenance side of the program, in fact.

4 MR. BUSALACCHI: Do you feel, Steve, that
5 there should be a lesser role for the federal
6 government or should the federal government
7 step up and do the right thing? I mean --

8 MR. MASSIE: I don't see the federal role
9 decreasing on anything in the transportation
10 field. If anything it's going to increase,
11 anywhere in there.

12 MR. BUSALACCHI: Anybody else?

13 MR. COOGAN: I'll try. I have been asked
14 to give a rural perspective and that's what
15 I'll try to do. I would just like to make a
16 comment that when you're in the business of
17 explaining the expenditure of dollars to
18 citizens, it is often very difficult to say,
19 well, that interstate up there is getting
20 rebuilt so that rocks may be 100 feet and trees
21 100 feet from the right-of-way are taken away
22 to change the landscaping, and the local bridge
23 that I use to get to my town center is
24 dangerous. You respond, the way you have to

1 respond. Oh, there are different funding
2 systems; you have a dumb question. To many
3 citizens that's the wrong answer.

4 I would very briefly state that states
5 are probably in a better position to make
6 judgments about the allocation of these
7 dollars, some of these dollars, not all of
8 them, over these various systems than are the
9 feds. But I know that's controversial. But
10 when we're in the business of explaining to
11 somebody that their county bridge can't get
12 fixed because money is being spent on something
13 else, on a different system, I understand it's
14 a bookkeeping reality but it's hard to explain.

15 MR. SCHENENDORF: Commissioner McArdle.

16 MR. McARDLE: You've all raised some
17 interesting questions for us this morning, and
18 you've laid out for us, kind of an affirmation
19 of the need for a vision, and I was struck in
20 Mr. Andrews'S statement by the last paragraph
21 on the second page because it is very much the
22 dialogue that the commissioners have had in our
23 meetings. You know, the need for a vision,
24 focus on the flows, focus on the growth, what

1 you need to do.

2 But there are so many different, you
3 know, aspects to this that are affected by the
4 financing, as Mat Coogan suggested in the
5 location of responsibility and the like. The
6 CSX bridge that's out for a month, which forces
7 flows to Cincinnati, is clearly going to have
8 two impacts, one of which is on the shippers,
9 because if the shippers have been using that
10 railroad with an expectation of reliability and
11 timeliness, they're not going to have that.
12 And if they've been using it as it's been
13 suggested to us, it's kind of a rolling
14 inventory system, suddenly that gets totally
15 dislocated, so they have a different cost and
16 timely structure as they wait for whatever it
17 is that's moving. But equally, that shipper is
18 not going to wait and not produce anything.
19 They're going to ship to a truck flow that
20 impacts 81 and everything else, that's the
21 workaround. But yet this is, in fact, a bridge
22 owned by a private sector operator.

23 How do we, in fact, balance the interests
24 and leave the railroad free as it would want to

1 be free, to, in fact, operate freely but yet
2 ensure that that maintenance level is achieved?
3 Get some kind of bonus points for it and the
4 like, so that the shippers are not affected,
5 and everyone else who's using the traffic
6 everywhere else.

7 It just seems to me we need to create a
8 structure that does not now exist to integrate
9 the interest above the private sector,
10 operators, you know, shippers and the like, as
11 well as the public sector without kind of
12 constraining either.

13 MR. PEDERSEN: I think we're getting
14 better and better as time goes by in our
15 analytical capabilities, a better understanding
16 of beneficiaries, different issues associated
17 with the transportation system, whether it be
18 investments or whether it be failures in the
19 system.

20 The I-95 Corridor Coalition did really
21 ground breaking work in Mid-Atlantic Rail
22 Operations Study and similar studies are being
23 done in the northeast and southeast now as
24 well. It identified six billion dollars' worth

1 of improvements that needed to be addressed,
2 primarily choke points in the rail system in
3 the Mid-Atlantic States.

4 It also did an analysis of the
5 beneficiaries of those investments and
6 estimated just within the Mid-Atlantic States
7 12 billion dollars' worth of benefits. That's
8 not to speak of the benefits south and north of
9 the Mid-Atlantic States as well.

10 Interestingly, if you look at the
11 beneficiaries or the benefits, the majority of
12 the benefits are actually to users of the
13 highway system. So that would argue that if
14 we're thinking about investments that will
15 benefit the highway system we have to be
16 thinking about more than just the highway
17 system itself.

18 Ultimately, to address your issue, how do
19 we try to allocate funding that would go to a
20 rail system and is privately owned we
21 ultimately have to do it based upon thinking
22 about who is benefiting as a result of it and
23 allocating funding based upon benefits that
24 would be accruing that are national benefits,

1 not just local benefits or benefits to a single
2 company.

3 MR. McARDLE: I have a second question if
4 I could. A similar kind of -- what I think is
5 probably a funding discontinuity for Mr. Coogan
6 because your issue of rural isolation sounds
7 very much like what we heard yesterday
8 afternoon from the gentleman that runs the
9 Greater Bridgeport Transportation Authority
10 speaking about low income isolation. That in
11 fact people are isolated, unable to get to the
12 things, particularly jobs and the like.

13 And it occurs to me, based on a little
14 experience I've had that this issue is little
15 different than in rural America as it is in the
16 west of Ireland where they have exactly the
17 same phenomena of rural isolation and community
18 isolation. And it has become a safety issue as
19 well, both to the individual and others, and
20 the like. And one of the proposals that is --

21 MR. COOGAN: And a health issue in
22 addition.

23 MR. McARDLE: Yes, but one of the issues
24 that suddenly is cropping up in Ireland, and

1 it's not something I heard about but suddenly
2 thought, hey, why not? People are saying hey,
3 you've got all of the school buses that only
4 run twice a day and they're sitting there
5 unused for the balance of the time. Different
6 funding stream; different set of people
7 operating. Why can't they be integrated to be
8 the off peak -- I would never put people in
9 there with the school children -- to be used as
10 a community resource? To, in fact, do exactly
11 for everyone else what they do for children
12 every morning.

13 MR. COOGAN: Let me give you two answers.
14 The first answer and yes, I did hear that
15 testimony yesterday, and I had a similar
16 thought except for one difference. The
17 difference between the northeast kingdom of
18 Vermont and the Bridgeport Transit Agency is
19 that there's a Bridgeport Transit Agency, and
20 that's a very big difference.

21 What I've said in my comments is that
22 incrementally as this baby boom phenomena of
23 aging and poverty, I understand that, as it
24 absolutely comes, there's no question that the

1 demographic change is going to come, the areas
2 like the MTC area are ready for it. They have
3 been building up their mechanisms and their
4 systems the para-transit, community based
5 transit, and they are ready to deal with the
6 demographic phenomena that are going to come.

7 In the northeastern kingdom of Vermont,
8 there are no agencies set up to do that. And
9 so for the second part of your question, I
10 would like to take your vision even further and
11 say not only there are yellow school buses
12 which are underutilized, there are lots and
13 lots and lots of vehicles that are
14 underutilized.

15 You can almost conceptualize the problem;
16 have lots and lots of institutions from a
17 transit agency to a -- to a cab company, to
18 those school buses, to a para-transit, to the
19 dominant form of medical support in the United
20 States, which is your cousin Harry or your
21 brother-in-law or your sister-in-law or
22 somebody. All of these are sources of
23 transportation services to a hospital. And
24 there are millions of people who need to get to

1 the hospitals. Someone has to bring them
2 together.

3 MR. McARDLE: Institutional problem --

4 MR. SCHENENDORF: Mr. Busalacchi, do you
5 have another question?

6 MR. BUSALACCHI: Yes, I wanted to ask
7 Steve.

8 In your presentation you talked about the
9 commission may be making a recommendation on a
10 commission. An entity that would -- and I
11 think the direction we're headed is taking this
12 out of the political arena and put it in the
13 hands of a group. Why don't you just kind of
14 talk about that a little bit? Give us your
15 idea. It's an interesting idea. I just want
16 to get more of it out.

17 MR. MASSIE: Personally, after going
18 through about three different or four different
19 reauthorizations now, and testifying before
20 Congress three different times, I personally am
21 a little taken back by the process and the need
22 is there but it does get involved into the
23 politics of the situation. And the
24 infrastructure in our country -- everything we

1 have is based on getting goods and people from
2 point A to point B.

3 You know at one time I testified before a
4 sub committee and they were talking about just
5 shut -- allowing the program just to shut down
6 so that they could do the job they were
7 required to do. And didn't happen, okay, but
8 that was -- it was a statement that was made.

9 So what do we need to do to come up with
10 a way to remove this process from the political
11 arena? What we'd really like to have is just
12 the infrastructures of capital improvement
13 program that comes off the unified budget and
14 is just sitting out there as its own capital
15 expenditure, but that's not going to happen
16 either.

17 So this is -- is -- the commission is a
18 way to remove the politics from it as much as
19 possible, and you have -- the politicians can
20 get this recommendation from an independent
21 board. It has been studied, it has been looked
22 at; this is their recommendation on what should
23 happen. And then there is a vote either up or
24 down, period. No in between. It's just they

1 approve it or they don't approve it; much like
2 the BRAC.

3 Where I come from in Williamsburg,
4 Virginia, BRAC is a big deal because we're
5 surrounded by every branch of the service and
6 we were hit by that this last time and we'll
7 accommodate what the decision was.

8 But it's a way to remove politics and
9 you've got to get it out from under the
10 politics of the situation to where the needs
11 can truly be addressed and you can look at
12 transportation for what it is and that's the
13 back bone of the economy of this country. It's
14 a means.

15 MR. SCHENENDORF: Commissioner Heminger.

16 MR. HEMINGER: Thank you. Good morning
17 to the panel. You know just -- I think about
18 every witness we've heard from has responded
19 positively to the question should the federal
20 role be greater, and I'd like to sort of test
21 the limits of that a little bit, maybe with
22 you, Mr. Pedersen. It's a subject we talked
23 about before.

24 On the issue of maintenance, as an

1 example, I recall it was Senator Moynihan, I
2 believe, who said the interstate was not a
3 federal program, it was a federal expense.
4 Meaning the states were largely in charge of
5 the routing and the big decisions and Uncle Sam
6 just paid the bill. Would you support a
7 requirement that said -- if we could agree on
8 some rational system of routes, you know,
9 highways, transit routes, et cetera, that there
10 was a federal interest -- would you support a
11 requirement that said the states may not spend
12 any funds on expansion until those routes are
13 adequately maintained?

14 MR. PEDERSEN: I need to caveat my
15 response by saying that I speak personally as
16 opposed to any of the agencies.

17 MR. SCHENENDORF: We've already heard
18 AASHTO's response.

19 MR. PEDERSEN: No, I think, Mel, your
20 [unclear] perspective may be closer to my
21 personal perspective than AASHTO's perspective.

22 We do have, within Maryland, a, really a
23 system preservation is first priority; safety
24 is first priority, system preservation second,

1 and expansion third, and until we are satisfied
2 that we have adequately funded system
3 preservation we don't talk about expansion
4 projects.

5 We are still learning a lot about how to
6 do asset management for assets other than
7 pavements and bridges. I think pavements and
8 bridges we do a fairly decent job. But we have
9 a lot of other assets that we still have a lot
10 to learn about preserving adequately,
11 especially drainage systems in a state that has
12 Chesapeake Bay, that ends up being a very, very
13 significant issue.

14 To say that you can't spend any money on
15 any expansion until you have met a certain
16 standard of maintenance, I think may be going a
17 little bit too far. To require that you have
18 to do an asset management analysis of what your
19 needs are, and what approaches should be taken
20 in order to assure that you are most wisely
21 investing your system preservation money from
22 the long-term investment standpoint. I would
23 argue it should be federal policy.

24 It has become policy for us, and I can

1 tell you for some of our assets, particularly
2 pavements and bridges, I'm convinced that we
3 are saving tens of millions of dollars each
4 year just as a result of taking an asset
5 management approach rather than a worst first
6 fix-it approach.

7 It's tricky, though, in terms of what
8 ends up being the most significant needs within
9 a state. It was very interesting chairing the
10 policy committee that I did for AASHTO on the
11 interstate and having Iowa and South Dakota on
12 the same committee with Arizona and Georgia,
13 and hearing their difference in perspective in
14 terms of what their needs were and where, from
15 a policy perspective, it was most important for
16 them to be investing their money.

17 And in a state that is growing as fast as
18 Arizona, system preservation investments are
19 going to have a different priority than in a
20 system like South Dakota or Iowa where it's not
21 growing nearly as fast. But they have some
22 very large, very expensive system preservation
23 needs looming in the future that they have to
24 make sure are getting adequately addressed

1 where there's going to be a huge implication on
2 the national economy.

3 I do think, from a federal perspective,
4 we should be requiring states to be looking at
5 how much longer term the typical assets
6 management is looking out in terms of what is
7 looming in front of us in terms of investments
8 that we need to be making and doing adequate
9 planning on.

10 We have just started to understand what
11 the asset management requirements over the next
12 20 years are going to be for capital beltway.
13 We have 42 miles in the State of Maryland on
14 the capital beltway.

15 Not taking maintenance and traffic costs
16 into account we're facing a billion dollars
17 worth of system preservation investments we
18 need to make just in the next 20 years. That's
19 not even looking out 50 years. That's just 20
20 years on that 42 mile stretch.

21 How we are going to fund that, I don't
22 know at this point. I mean I'm trying to put
23 that out in front of our policymakers as
24 something we have to be thinking about and

1 that's just one facility. That type of issue,
2 I think, is going to be facing the interstate
3 system within the metropolitan areas all across
4 the country and as a nation, as a profession,
5 we are not spending enough time thinking about
6 that.

7 MR. SCHENENDORF: Could I just ask one
8 question on that? Is the billion dollars that
9 you just talked about; does that show up in the
10 needs report that DOT does or is it different
11 from what would be in there?

12 MR. PEDERSEN: No, and there's some
13 question right now how much the conditions in
14 [unclear] report is under-forecasting these
15 long-term system preservations. One thing I
16 think everyone is convinced of is it's
17 seriously under predicting anything that's
18 needed to do associated with interchanges but
19 it's basically based on what the current trends
20 are in terms of rehabilitation versus
21 reconstruction versus replacement.

22 As bridges and pavement structures start
23 to reach the critical 70 to 80 years of life,
24 we're going to be looking at a much larger

1 proportion of the system having to be replaced
2 rather than just rehabilitated. And I am
3 convinced that it is going to be much, much
4 higher proportions of investment that actually
5 have to go into either replacement or major
6 reconstruction.

7 I'm also on AASHTO's standing committee
8 on research and we have just allocated some
9 money to try to look at the methodological
10 issues associated with that variation because
11 we're very concerned about the degree to which
12 we think conditions and performance is under
13 forecast.

14 MR. SCHENENDORF: You know, I am
15 sympathetic to this challenge that a lot of
16 places face. I mean my own region has, you
17 know, aging pains and growing pains at the same
18 time.

19 But we talk about the next vision we
20 need. I think we've got a pretty serious
21 obligation to take care of the last vision we
22 had, which was the interstate system. And as
23 you say, the math is sort of inexorable,
24 whether it's in Phoenix or in Virginia. If you

1 let the road go too far, you know, the costs
2 that you're making yourself liable for just
3 explode on you if you don't catch it soon
4 enough.

5 I know the commission is interested,
6 really, in a whole series of issues in trying
7 to approach them from a performance-based point
8 of view and trying to target outcomes instead
9 of just inputs, which is how we tend to measure
10 things now.

11 And I do think it will raise the
12 question, you know, that's sort of at the heart
13 of federalism. How much -- how many strings
14 come with the check? And I would encourage you
15 and AASHTO and others to help us think through
16 those questions.

17 Personally, I believe that one of the
18 reasons that we are having such difficulty with
19 Congress and with the consensus is that we're
20 not promising enough results and accountability
21 if we ask for more revenue.

22 Mr. Massie, I wanted to get in with you
23 if I could on the construction costs, which --
24 I received this report when I spoke at your

1 meeting in San Francisco, and it's almost as if
2 we've put the nation's college presidents in
3 charge of highway construction because that's
4 about the only other sector that's seen this
5 kind of price inflation.

6 You know, over history, as far as I'm
7 aware, construction costs and general inflation
8 have pretty much tracked each other until
9 recently, and I wonder if you could just give
10 us your thinking about whether this is the
11 phenomenon that will correct itself as the
12 materials industry, the steel industry is able
13 to respond or whether we're in a new era.

14 If we are, I mean the indications in your
15 testimony about the numbers we have from U.S.
16 DOT, you know we're off by a significant factor
17 just on inflation alone; and then we throw in
18 Mr. Pedersen's interchange and a lot of other
19 issues that we've learned about and we're going
20 to have to take that report and multiply it by
21 two or three.

22 MR. MASSIE: That's correct.

23 MR. HEMINGER: What's going on there?

24 What is going on with prices and our -- can

1 they sustain these kinds of ten, 15 percent
2 annual increases?

3 MR. MASSIE: I don't know about being
4 able to sustain them. I think we are going to
5 have to address them. I think they are real.
6 And this has been going on now for several
7 years, you know, in my market. And, literally,
8 when we bid a job we'll get prices now to where
9 every 30 days or every two weeks the price is
10 different than what we had before, whether it's
11 concrete pipe structures, the asphalts, PVC
12 pipe for water. Everything is based on what
13 happened to the resin plant, what happened to
14 the [unclear] [Delta iron] plant.

15 We've had ships coming across the ocean
16 with cement that we, you know, we get our
17 notice that we're on allocation for cement. So
18 we'll schedule our work based on what we know
19 the allocation is. We'll get -- tell an owner
20 here's what we're going to do and then we get a
21 call from the cement people that the ship was
22 turned around in the middle of the Atlantic and
23 has gone to another customer who paid more
24 money.

1 And this is becoming common now. It's
2 not the exception any longer and when we get a
3 job we now look at the materials that we have
4 priced out there. Our prices are good for a
5 very short term now; they're not good for the
6 project. So we buy down all the material we
7 can possibly buy.

8 When we bid our work we schedule the job
9 in the process of the bidding, and we try to
10 factor in what we think the prices will be out
11 one year from now or two years from now
12 depending on the kind of job that it is.
13 Because the subcontractors are no longer giving
14 us prices that are good for the job. And, sad
15 to say, but the subcontractors and the
16 suppliers have figured out that we can figure
17 it out. So, I don't know that we'll get back
18 to giving a price that is good for the job.

19 And what is happening, and it's good for
20 the owner in that now we are the huge pusher of
21 the schedule. We want jobs built now and we
22 need them built now because we don't -- we may
23 get all your asphalt, your concrete poured in
24 place; well, you can't buy that out early. It

1 is when it is in the schedule.

2 And as I've traveled the country in the
3 position that I'm in for AGC, it's not just
4 Williamsburg, Virginia; it's anywhere.

5 I went to a meeting in Utah where I
6 talked to contractors from Utah, Wyoming and
7 Dakotas, and they were in a position this past
8 year on their asphalt -- it wasn't a matter of
9 the asphalt being priced at \$200 a ton anymore;
10 it was being priced at \$500 a ton, if they
11 could get it.

12 They had a lot of instances where it just
13 plain wasn't there, and they could not pave
14 because they couldn't get the material.
15 Period. I believe it is here to stay. And
16 it's because the world as a whole is changing.
17 We are literally in a global commode- --
18 economic community now. Mr. Shaheen said that
19 yesterday from Caterpillar. And we are no
20 longer competing with ourselves. We're
21 competing with the world, and the world is
22 changing. China in its growth is just
23 unbelievable. You know they're going to build
24 our interstate system in ten years, not 50.

1 And they are going to connect and they are
2 going to compete. And our materials are going
3 to different markets now.

4 MR. HEMINGER: Yeah, but at these prices,
5 I mean, you know, the typical response you'd
6 expect is there's money to be made and so
7 someone is going to build more steel plants and
8 find a way to produce more concrete. Are we
9 just in a lag period where that's going to
10 catch up?

11 MR. MASSIE: If we're allowed to build
12 the plants, yes. We could catch up but current
13 -- you know, in the past we haven't been able
14 to build them because of the environmental
15 reasons or the finance, the money available to
16 do it.

17 MR. HEMINGER: They're not being built
18 here.

19 MR. MASSIE: You're right, but it's, you
20 know, you also have, when you get into that
21 statement, then you look at the buy America
22 portion of our product; where can we get our
23 materials from?

24 The cement issue was helped when we

1 helped with the Mexican cement plants and we
2 were able to bring in cement from Mexico. That
3 has helped tremendously from the availability
4 of the material. The price has come down a
5 little bit but this past summer we still had
6 our notice of allocation and all indications
7 are this coming summer we'll still get a notice
8 of allocation on our cement.

9 So, and again, prices are up and down but
10 in general the down never gets back down to
11 what it was. The down is just a little bit
12 lower than the high that it was at and then it
13 peaks again. So I still think you're going to
14 see the increases. Will more plants be built
15 around the world that we can get the material?
16 Hopefully yes, but we have to be allowed to buy
17 it, to put it into the product that we're
18 building in the highway and infrastructure
19 system in the United States.

20 MR. HEMINGER: Mr. Chairman, if I could,
21 just one last comment on Mr. Coogan's subject
22 and really to follow up on Commissioner
23 McArdle's suggestion. You know, we've been
24 working with a lot of folks for several years

1 now, pretty much unsuccessfully, on this notion
2 of trying to access or better coordinate the
3 transportation services that are financed by
4 the federal government. You know, whether it's
5 in Social Services or Veterans Affairs or
6 whatever, often at far greater expense than if
7 you could just find a way to get a bus route
8 out to the neighborhood. And I wonder if you
9 thought about that and whether there might be a
10 path to victory where we could try to get the
11 federal government to look at the all the
12 transportation service it provides and see if
13 it might reorder the funding to put it in the
14 container where it's most cost effectively
15 performed.

16 MR. COOGAN: I'm going to give you
17 exactly the same answer I gave Commissioner
18 McArdle, that there is a big difference between
19 the level of success that you've had at MTC, in
20 a mythical area in the rural areas, I won't
21 name Vermont again. The answer is that you're
22 already there and you're already trying. There
23 is a community 200 miles north of you in
24 Maydock [ph.] County and there's a woman in

1 Maydock County who is building a rural
2 passenger information system based on health
3 and human services needs, and I know her fairly
4 well and I've interviewed her, and I asked what
5 was her inspiration. And her answer is you.
6 You and Larry Doms and Hank Ditmar back in the
7 '90s started defining this job of integrating
8 at least the existence of these services. And
9 I know it is your job to do that in an urban
10 context, and I also know that going away from
11 integrating fixed route and schedule up to
12 finding out all of these health and services
13 providers is massive, but your colleague in
14 Maydock County is doing it.

15 And so I -- and the same is true in state
16 wide origin destination trip planning in
17 Oregon, and now in Washington. They are all
18 finding it vastly more difficult. And as you
19 know, there's a chasm, a bit, between someplace
20 called the health and human services and
21 someplace called transportation.

22 But I believe the three examples I just
23 gave you give me great cause for encouragement
24 that the feds can encourage a better answer,

1 but it is my humble opinion it is exactly the
2 kind of issue that you should be raising. I'll
3 phrase it that way.

4 MR. HEMINGER: I do appreciate your
5 testimony because I think you're right that we
6 generally heard about the other issue which is
7 constricted mobility in urban America and
8 you're really talking about access --

9 MR. COOGAN: Yes.

10 MR. HEMINGER: -- in rural America, and
11 Mr. Chairman, I know we've got a work plan.
12 It's about a hundred pages long and you'd think
13 it has everything in it, but I don't think it
14 has this issue in it, and I don't think it has
15 the issue about the other transportation
16 services provided by the federal government.
17 And I hope staff can remedy that omission and
18 we can dig into this one because I think we
19 should.

20 MR. COOGAN: It won't go away.

21 MR. HEMINGER: Thank you.

22 MR. SCHENENDORF: Thank you. The
23 commission to date has received a lot of
24 information about alternative methods of

1 finance, particularly privatization and private
2 toll roads, and I would like to ask each of you
3 to comment on what role you think these kinds
4 of alternative financing can play in the --
5 meeting our national transportation needs. Is
6 it a piece of the solution, is it the whole
7 solution, is it -- should we even go down that
8 path? I'd like to ask each of you to comment
9 on that.

10 MR. MASSIE: We know it's a piece of the
11 puzzle, okay, and it's a tool that's available.
12 Our company has done a little bit of
13 everything. Always been the traditional
14 design, bid and built work. We have also done
15 a little bit of the new public/private
16 partnership, doing some projects that way. We
17 have already completed one. We are in the
18 second one right now and we have two proposals
19 out there for two more. And we had -- as far
20 as our getting the job or not getting the job
21 in that scenario, we've been successful on two,
22 we missed one.

23 That, using the public/private is a whole
24 different ball game. In that we note -- we're

1 doing it because the owner has put it out there
2 as a means of getting work. Now, the process
3 in doing that, be sure I'll say this carefully;
4 the process in doing that I basically eliminate
5 competition because here's what happens. We
6 will work for two years and if we are
7 successful in getting the project, then a piece
8 of equipment will hit the ground. And that is
9 the shortest time that I know of in any of
10 these scenarios. A lot of them are much longer
11 than that and do realize the ones that I'm
12 talking about are projects that are 30, 40, 50
13 million dollars, not the hundreds of millions
14 or the billions you read about in the papers.

15 So, and as far as a contractor is
16 concerned in this process what you do is you
17 may work for two years and be told no, go home
18 and you walk away with zero. Okay. So it's
19 all or nothing.

20 All right, so when you look at it from
21 that perspective there are not many contractors
22 out there that can invest that time and invest
23 that money into this process with the potential
24 of walking away with zero. Now we do it, quite

1 frankly, because we'll make money at it if
2 we're successful. But in the process we are
3 the developer. We do the engineering; we have
4 the means of going out and purchasing the
5 right-of-way. If you come to condemnation then
6 the state will step back in and take over at
7 that point but there's a budget for that
8 process of right-of-way acquisition, utility
9 relocation. I mean we become the managing
10 entity of the project. There's a guarantee
11 that goes with the work that we have.

12 So it is a process but we will work for
13 two years and maybe we'll get it and maybe we
14 won't. But if we get it the money's there and
15 to make a profit on what we do.

16 We've done design/build and we've done
17 ABC, A B, A plus B, all that stuff that's
18 sitting out there. Best value is getting ready
19 to come into the market as far as state DOT
20 work is concerned. I was just going on NCHRP
21 board that just went through that process of
22 looking at best values. The final product is
23 out now; state DOTs will start doing that and
24 that will be a tool.

1 The biggest thing that I worry about as a
2 contractor, and I'm talking about me personally
3 now, is it's one thing to negotiate work with a
4 private entity; it's private. Okay. When I
5 talk about DOT work, I'm talking about public
6 money. And I think that the path there needs
7 to be very clear on what happens with public
8 money, on how it's collected, what's done with
9 it once it's collected and how it's spent.

10 And I also have a concern, even though
11 I'm participating in the process on the
12 public/private, I have a concern of what it
13 will do to the remainder of the community and
14 the other work that needs to be done on our
15 highway system.

16 So is it a tool? Yes, sir, it's a tool.
17 Are people using it? Yes, sir, people are
18 using it. We're taking advantage of it in the
19 areas that we can because it's put there. This
20 is what the owner wants. And are we doing some
21 of the work that DOTs would be doing? Yes, we
22 are. Are we getting paid for it? Yes, we are.

23 And as long as it's a tool that's
24 available and we can see a means of taking

1 advantage of that tool, then we will continue
2 to do it as a contractor.

3 So in that process I've become a seller
4 of my wares. Okay? Just as I do when I go to
5 Dow Chemical and present a proposal to them or
6 however may be when it's design/build. So we
7 form a team and we go at it. But it is, it's a
8 whole different ball game and -- but you get to
9 a point to where it becomes a negotiation,
10 okay.

11 MR. SCHENENDORF: Mr. Pedersen.

12 MR. PEDERSEN: My boss is sitting behind
13 me and he has pushed us very, very hard in the
14 past four years to be looking at the issue of
15 public/private partnerships and congestion
16 management through use of tolls on our
17 facilities.

18 We've looked at it pretty comprehensively
19 in the State of Maryland, so I will give you a
20 Maryland-based response.

21 It is a tool. It will be a tool for the
22 future, but we need to recognize that it only
23 is a very small portion of a tool box that we
24 need to be addressing issues of the future.

1 It will -- it has potential where you
2 have severe congestion and you are not able to
3 meet the needs of addressing severe congestion
4 through traditional funding sources.

5 In facilities we've looked at, and we've
6 looked at about ten different facilities around
7 the State of Maryland, I'm not convinced that
8 we're going to be able to fully fund
9 improvements that we need in any of those
10 facilities with just money that could be raised
11 in the tolls.

12 I think it truly -- we have to be looking
13 at mixes of public funding and private funding
14 in terms of being able to address the issues.

15 I spoke before about our 42 miles of
16 capital beltway, as an example. We have looked
17 at congestion managed lanes on the capital
18 beltway; it's currently four lanes for most of
19 its lanes in each direction in Maryland. We
20 have much more constrained right-of-way than
21 Virginia has so we would only be able to add
22 one lane.

23 The only way we can make the economics
24 work to even come close to raising enough

1 revenue is actually take a free lane, add
2 another lane have two toll lanes and three free
3 lanes. We can't do that under your current
4 federal law, so there would have to be changes
5 to the federal law as well.

6 Our current cost estimate to do that and
7 address all the system preservation needs that
8 I spoke about before is \$4 billion. We're
9 looking at, under the best scenario, being able
10 to raise \$2 million to tolls, so we're still
11 looking at a \$2 billion gap that has to be
12 funded by the public sector if we're going to
13 be able to do it in that facility.

14 We've looked at other facilities where
15 rights-of-way are not quite as constrained and
16 we may be able to raise a large proportion than
17 just 50 percent, but I don't think we're going
18 to be able to raise all of the money that we
19 need just through the tolls themselves. It has
20 to be looked at through a mix of public and
21 private money.

22 That's at best, and I know you've heard
23 the figures and, on a national level, that we
24 might be somewhere between ten and 20 percent

1 for our needs that way. I think if we start to
2 seriously look at the system [unclear] needs
3 and start to seriously look at the rural needs,
4 the needs off of the limited access highway
5 system itself, I think 20 percent is high,
6 myself, in terms of what is realistic that we
7 could be funding through public/private
8 partnerships.

9 Secretary Flanagan also has really
10 challenged us to be looking on the transit side
11 in terms of value capture and you heard more
12 about that yesterday. I think there's, again,
13 good potential for partial funding of transit,
14 but I don't think realistically we'd be
15 expecting that we're going to be raising all of
16 the funding we need just through volume capture
17 increase in land values and property taxes as
18 well. We really need to be looking at a mix.

19 It's not going to address the huge system
20 preservation needs today that we've talked
21 about. It's not going to address rural issues.
22 I think it's a tool that is probably most
23 applicable in large metropolitan areas where
24 you have severe congestion.

1 MR. SCHENENDORF: Mr. Coogan or Mr.
2 Andrews, do you have any --

3 MR. COOGAN: Well, very briefly. Neil
4 has answered it fairly well for me for the
5 first half.

6 My colleagues who I've talked to from the
7 rural sector all say exactly the same thing,
8 that when you have certain conditions of
9 extreme congestion and you're going to buy your
10 way out, it's his list not mine, most of those
11 don't apply in the rural context.

12 And I would just leave you with an
13 experience I had 20 years ago when I was asked
14 by one of your host groups, I-95 Corridor --
15 I'm sorry, the wrong group. It's Coalition of
16 Northeastern Governors to set up a task force
17 for electrification, high-speed rail in the
18 northeast. It was the middle of the Reagan
19 administration and there was almost a hypnotic
20 belief that public investment was a bad idea.
21 Public investment in infrastructure was a bad
22 idea, and we actually had to break, physically
23 break strategies with our colleagues in the
24 Florida high-speed rail commission and Texas

1 high-speed rail commission and Pennsylvania
2 high-speed rail commission and say no, we
3 believe that incremental role of the federal
4 government is urgent and, shall we say, we are
5 happy we went that way.

6 MR. SCHENENDORF: Mr. Andrews.

7 MR. PEDERSEN: Thank you.

8 MR. ANDREWS: Thank you. We believe that
9 it's going to be inevitable when you look at
10 the magnitude of the investment which is
11 required. One of the reasons that we're
12 advocating for this national model, if you
13 like, on the infrastructure is that we have
14 concerns about, well, how much is the total
15 bill going to be? And we suspect it's going to
16 have a lot of Ts in it rather than Bs and Ms.
17 And, you know, the other challenge that we
18 believe is it's going to be a moving target; no
19 pun intended. And if you look at demographic
20 shifts that are going to occur, if you look at
21 the demographics of industry, they're all
22 shifting. Someone happens to believe that the
23 rural sector is going to be everywhere in
24 between the east coast and the west coast and

1 everyone is going to live on the coast.

2 Well, imagine what that will do to the
3 transportation infrastructure. So we're
4 advocating for public/private. It's
5 consultation, and similarly in business we know
6 that there are many multiple forms of funding
7 available and that both domestic and offshore
8 entities would probably be very interested in
9 investing in this.

10 MR. SCHENENDORF: Do you see the private
11 tolling and privatization as a tool in the
12 solution or the whole solution, do you think?

13 MR. ANDREWS: I would -- first of all,
14 it's not my area of expertise, but what I've
15 read on this, it is one of the tools that can
16 be used. Some of the negatives that I've read
17 on this is that it is difficult to administer
18 and one of the issues that we would have as a
19 shipper is it potentially slows down the
20 movement of the products through rural
21 transportation infrastructure.

22 MR. SCHENENDORF: Mr. Massie, did you
23 have something you wanted to add?

24 MR. MASSIE: If I may, please.

1 One of the things with the
2 public/private, there is a huge infatuation
3 with it right now. And I think that's the
4 proper word to describe it because what you get
5 is you get a lot of publicity going on, and I'm
6 going to just give you an example of my state.

7 Right now we have been debating what to
8 do with our gas tax for about eight years, and
9 we haven't done a thing. But with the
10 public/private jobs that are going on they are
11 finishing on schedule; they are finishing on
12 budget; and with no change orders unless the
13 owner makes a change in the scope of the work.
14 And that's part of how this process works.

15 If you go the other route where you have
16 a design/build bid job, well, then the owner
17 has the risk and whatever you run into the cost
18 will escalate on that project.

19 So within the press what you get is you
20 have the two competing ideas and the results,
21 but really what it boils down to is who assumes
22 the risk.

23 In the public/private part, I assume the
24 risk. So in my price I'm going to have that

1 risk in there. I'm going to know exactly
2 what's within that corridor, what I'm going to
3 run into and I'm going to price it out prior to
4 going to work and prior to turning that bid in.

5 In the other part in the original method
6 of design, bid and build, well, the state has
7 done that. They've taken ownership of that
8 risk and that's how you end up with that price.
9 But again, it's how it's reported on the TV
10 news at night. It's how it's reported in the
11 paper during the day. And the public is now
12 seeing all of the good part, all of the part of
13 this public/private thing; seeing it came in on
14 budget, no overruns, and on time. And it's not
15 -- it's not that, you know, those items weren't
16 in there; they were. It's just we knew it
17 before we bid it and we put it in there. Okay.

18 So what's being publicized isn't the
19 complete story. Okay. It's -- we did the same
20 thing. We just took the risk on ourselves
21 versus the state keeping it during the original
22 method.

23 So what happens when you do all of this
24 and then politicians start running for

1 reelection the public is saying well, why are
2 you sticking with the old? You should go with
3 this new.

4 So the politicians have the political
5 pressure of the public who reads these
6 newspaper articles and hears it on TV and they
7 think this is the greatest thing since sliced
8 bread. But again, it is a tool for a certain
9 project. It is not the panacea for everything.

10 MR. SCHENENDORF: The talk of all the
11 panels yesterday and this panel here today is
12 basically saying that we need to, as a nation,
13 invest more in our transportation systems to
14 meet the challenges that are coming forward and
15 many of the panelists have argued for a bold
16 federal vision in this which would mean
17 additional federal investment in order to meet
18 these needs.

19 A yes or no question: Do you support, if
20 the federal government is going to do that,
21 increasing the revenues into the Highway Trust
22 Fund, either through increased gas tax or some
23 sort of alternative mechanism: vehicle miles,
24 travel tax, or whatever, in order to accomplish

1 this bold vision?

2 MR. MASSIE: Yes, sir.

3 MR. COOGAN: It's not me. It's another
4 planet.

5 I cannot think of a more equitable way to
6 collect revenues than a gas-based revenue
7 system.

8 MR. PEDERSEN: You asked for a yes or no
9 answer but then gave us an either/or question.
10 So I will say --

11 MR. SCHENENDORF: Come to a fork in the
12 road, take it.

13 MR. PEDERSEN: I would say yes, there
14 clearly needs to be additional revenues. In my
15 paper, and I make reference to the meeting I-95
16 Corridor Coalition held earlier this month
17 trying to address this issue of looking at
18 these large mega projects that have multi-state
19 benefits and how to try to address them.

20 Secretary Flanagan, during that meeting,
21 proposed a concept of something similar to the
22 value added tax that Europe has but rather than
23 it being value added on the total value
24 commodity or good or product, the value that is

1 added as a result of the transportation of that
2 good, product, or commodity from location A to
3 location B, and having assessment on that.
4 It's just a concept but I think, to that extent
5 that we probably have not had enough of the
6 discussion thus far, we're really talking about
7 goods movement and the importance of freight
8 movement to the economy of the country. And
9 that really being the basis for what we have to
10 be thinking about from a revenue perspective, I
11 think it's the concept that I would recommend
12 is that if the commission is interested, the
13 I-95 Corridor Coalition is interested in trying
14 to do some more thinking about that concept and
15 seeing if that's a direction we might want to
16 be headed. I do think we need to be broadening
17 the base of our revenue beyond the traditional
18 and historic; primarily beyond tax-based
19 revenue sources.

20 To the extent that the political
21 discussion tends to be more on passenger travel
22 and on freight travel, when you think about it
23 from the economy standpoint, I think we need to
24 have more of that discussion really be oriented

1 towards freight, goods movement and think about
2 revenue from that perspective as well. And I
3 think that this rather bold proposal of my boss
4 -- you know, I don't have to suck up to him
5 anymore because he's not going to be my boss
6 much longer, but I thought it was brilliant. I
7 say to him all the time that, you know, when he
8 comes up with these ideas, I wish I was smart
9 enough to think of these ideas.

10 I think it is something that really is
11 worth putting a lot more thought into.

12 MR. SCHENENDORF: I guess the answer is
13 yes, some sort of increase at the federal
14 level.

15 Mr. Andrews.

16 MR. ANDREWS: Yes.

17 MR. SCHENENDORF: Just to follow up, one
18 additional question. There's some discussion
19 about the notion that really the federal
20 government isn't going to be able to provide
21 more money because this is just politically
22 difficult at the federal level to get the
23 increased funding, so that as we go forward in
24 the future the state should look for less from

1 the federal government and the state should
2 look more from tolling, private tolling, other
3 sources.

4 What are the implications of that? I
5 mean we're all in agreement we need significant
6 increased revenues, increased investment, and
7 if the federal government is actually reducing
8 its involvement from where it is today, what --
9 how do you make that up? Because at the end of
10 the day we all agree we have to have a certain
11 level of investment. Just through tolling,
12 which we're saying is really only a piece, a
13 tool; where is the money going to come from?
14 Is it going to be the states raising the gas
15 tax?

16 How do you distribute the I-95 issue, the
17 Woodrow Wilson Bridge cost; are we going to
18 toll the entire interstate to try to come up
19 with this revenue? I mean what are the
20 implications of less federal investment.

21 MR. PEDERSEN: I'd like to go first, if I
22 could. I think the implications of it will be
23 a major failure somewhere in the system. And
24 unfortunately, my experience now in 30 years in

1 this profession is that it usually has to be a
2 crisis before we really address the problem.
3 And my fear is if that is the prevailing
4 attitude that ultimately prevails, we will have
5 a failure somewhere in the system that will
6 cause the nation to wake up and say, and
7 probably too late, that there is a major
8 federal responsibility here and that we do need
9 to be raising the funds.

10 I think the CSX bridge, for example, that
11 I just talked about or if Congress hadn't come
12 through in the Woodrow Wilson Bridge and we had
13 to post I-95. Some more examples of that type
14 of failure, I think, is ultimately what's going
15 to cause the country to conclude that there has
16 to be a federal role.

17 MR. SCHENENDORF: Hopefully we won't have
18 to reach that point.

19 Commissioner McArdle.

20 MR. McARDLE: I've got a couple of
21 questions and perhaps an observation to begin
22 with and that is perhaps it's not Secretary
23 Flanagan's idea alone. It appears to me as an
24 I-95 user that your neighboring State of

1 Delaware with its toll on 95 and the congestion
2 it creates has, in fact, had the original
3 value-added tax on transportation. Anybody
4 who's used it on a Sunday night, it boggles the
5 mind that not even EZ Pass sorts it out.

6 But a question for Mr. Andrews which is:
7 You're a logistics manager for a major
8 multi-plan operator; you know where the
9 bottlenecks and choke points are within your
10 logistics network; how do you communicate that
11 to the public agencies that, in fact, are
12 engaged in the investment process?

13 I'm not sure you have any role formally
14 in that process. How does it happen for you in
15 the states where you have plant locations and
16 transportation? Is it the end of the day if
17 they resolve your bottlenecks, they, in fact,
18 lower your product cost and create value for
19 everybody? Do you do that now? Is there a way
20 you formally make your needs known in the
21 planning process?

22 MR. ANDREWS: I think it's an excellent
23 question. It is ad hoc at best today and that
24 is an opportunity area that we want to rectify.

1 Where we're largely represented, say, in
2 the State of Texas, Freeport, we have very
3 close connections with the public officials and
4 so on like that, which is built around, you
5 know, that it's a large manufacturing base.

6 We are looking for vehicles to, as part
7 of this public/private partnership to, as I
8 say, rectify that situation. Working with our
9 colleagues at the Chamber of Commerce, to see
10 how that can be a vehicle to address these
11 issues and so on, but yeah, ad hoc at best.

12 MR. McARDLE: Do you have any formal
13 processes in the State of Maryland to engage
14 the shippers and the freight folks and the
15 retail distributors in your planning processes?

16 MR. PEDERSEN: We have a state
17 stakeholders group. Quite frankly it probably
18 is not as active or as comprehensive as it
19 needs to be. This whole issue of how we reach
20 out to our customers and better involve our
21 customers in the process is something we've
22 been doing a fair amount of thinking about,
23 particularly in the last year. Interestingly,
24 I've been asked to speak about that at the TRB

1 annual meeting this year, and it is an area we
2 need to be doing a lot more work in.

3 MR. SCHENENDORF: Commissioner Heminger.

4 MR. HEMINGER: Mr. Andrews, this may be
5 another one that's not quite up to the sweet
6 spot for you, but you did mention in your
7 testimony about Homeland Security questions,
8 and it's an issue that I don't think we touched
9 on yet in any of our field hearings. I just
10 wondered if you had any impressions about how
11 that department is going about dealing with our
12 transportation infrastructure.

13 You know, we've heard a lot about port
14 security and the lack thereof. The American
15 Public Transportation Association makes the
16 point that we spend about nine bucks per
17 passenger on air travel and like a penny per
18 passenger on public transit.

19 Do you have a sense if we're barking up
20 the wrong trees in terms of Homeland Security
21 and transportation, or are we generally headed
22 in the right direction?

23 MR. ANDREWS: I think it's headed in the
24 right direction. I mean it's the realities of

1 the world that we live in today that we have to
2 put a stronger emphasis on security, not only
3 our sites but the movement of products through
4 the transportation infrastructure.

5 If your question addresses, you know, how
6 does DHS align with DOT and other things like
7 that, I'm not competent to comment on that.
8 I'm not that close to the workings of that, but
9 I think, again, the realities are that there is
10 an increasing need to be more aware of the
11 anti-terrorism measures that are affecting us
12 and, as a company, we're very actively engaged
13 with all of the key parties who are working in
14 that space and we expect to continue to do so.

15 MR. HEMINGER: Mr. Pedersen, I don't know
16 if you have a view on that. I know the State
17 of Maryland has a pretty big transit portfolio
18 and, look, I think you can tell from the tenor
19 of the question that I'm not quite sure we got
20 it right, but I'd appreciate your views.

21 MR. PEDERSEN: I think it goes back to
22 what I said earlier; we tend to react to
23 crisis; we tend to react to events. Obviously,
24 the [unclear] events of September 11 focused on

1 the aviation system. I suspect if al-Qaeda had
2 chosen United States instead of Madrid or
3 London for the events that we'd be seeing a lot
4 more money going into public transit.

5 I think from a Homeland Security
6 perspective, first of all, I still don't think
7 transportation is as much a focus at DHS as it
8 needs to be and clearly they are not thinking
9 of it from a comprehensive system perspective
10 in terms of where are the greatest risks and
11 allocating money based on a risk assessment. I
12 think that's really what needs to be done.

13 MR. HEMINGER: I mean it does strike me
14 that there's an analogy there for everything
15 else we've been talking about at this point and
16 that is we've got a national program that's
17 really lost focus in transportation and it's
18 earmarked out the wazoo, and we have security
19 spending that I think, to many observers, is
20 spread like peanut butter around the country,
21 irrespective of where the risks are.

22 MR. PEDERSEN: I would agree with that.

23 MR. McARDLE: Could I follow up on that,
24 and again go back to your freight tunnel and

1 freight, you know, the bridge, but the tunnels
2 in particular. As you know, Washington DC
3 doesn't want anything that remotely resembles
4 hazardous passing through it and yet there are
5 no effective alternative routes.

6 When you have a shipper like Dow, when
7 you have your tunnels, shouldn't DHS be, in
8 fact, making available to you as well as the
9 railroad in concert and for the benefit of
10 everybody, the kinds of equipment, install
11 systems and the like, that can make sure those
12 tunnels can continue to function or that you
13 don't have four day fires.

14 You know, in fact, if there's an
15 incident, and we've had a number with, you
16 know, chemicals moving in trains wherever open
17 area is not, but DHS does not seem, in those
18 kind of close spaces and confined spaces, to
19 really be making the money available to you to
20 do the retrofits you do if you were doing an
21 idealized design.

22 MR. PEDERSEN: Since I didn't give the
23 chairman the one word answer the last time I
24 will this time. Yes.

1 No, but to elaborate, clearly on this
2 type of issue, to the extent that there can be
3 national expertise that can be made available
4 and shared to the owners, again, regardless of
5 whether public or private in these type of
6 facilities I think it's just the most efficient
7 use of resources.

8 MR. SCHENENDORF: Commissioner
9 Busalacchi.

10 MR. BUSALACCHI: Mr. Andrews, you had
11 said in your testimony, your transportation
12 costs globally are about \$2 billion; is that
13 correct? Domestically what are you looking at?

14 MR. ANDREWS: Domestically in the U.S.,
15 it's just under half that volume, half that
16 amount.

17 MR. BUSALACCHI: Okay, so obviously a big
18 part of your operation, you know, is
19 transportation, and I know of a company of your
20 size, when these costs are increasing, they
21 increase dramatically.

22 Are you seeing that trend because of some
23 of the issues that we're going through? A
24 large part of your transportation costs are

1 trucking?

2 MR. ANDREWS: Correct.

3 MR. BUSALACCHI: And what we've been
4 hearing -- we heard a little bit of testimony
5 yesterday that in the trucking industry there
6 are some real critical situations that we're
7 getting to. We're not there yet but we're
8 getting there and I want to hear your
9 perspective, from your company, because you
10 know I think we tend to forget, you know, what
11 happens with the transportation of the
12 products. You know, obviously we need to talk
13 about the infrastructure but the transportation
14 of these products, whether it's rail or whether
15 it's trucks, is facing this increasing -- these
16 increasing regulations. And what we're worried
17 about and what we heard a little bit about from
18 our friends at the Port Authority yesterday
19 were that unless we do something, especially
20 with some of these new laws that are coming,
21 that the pool is going to go down for people
22 that transport these products. Not up, but
23 down and that -- whether you got roads or not,
24 if you don't have any people to move the

1 product is really going to be a problem. So I
2 just -- I want to hear your perspective on
3 that.

4 MR. ANDREWS: Sure. You've hit on major
5 concern areas for us. I mean just to give you
6 a perspective, the largest mode cost-wise that
7 we ship via is truck, then followed by rail.
8 Those are the two predominant modes.

9 The issues in trucking, sounds like have
10 been addressed in the session yesterday but the
11 way we characterize that is that the impact of
12 congestion, the impact of driver shortages, the
13 impact of rising costs in operating a trucking
14 company, you know, with low sulfur fuel and
15 increased driver training, increased
16 requirements; it all translates to increased
17 freight costs for us. And, similarly, it
18 affects our performance in terms of lead times,
19 frequency of delivery and so on. That is a
20 concern.

21 We're seeing the same capacity issues, if
22 you like, in the rail industry, and I alluded
23 -- referenced in my testimony about the growth
24 of intermodal. There is significant product

1 mix shift in rail transportation, which is
2 competing along with the other commodities for
3 an increasingly limited capacity, in that
4 regard.

5 So the issue as we see it is that we
6 recognize that to meet increased security and
7 safety requirements there's going to be a cost
8 associated with that and we are very active, in
9 fact, we're a leader in that regard. We just
10 announced yesterday a joint project look at the
11 next generation rail tank car program and we're
12 going to continue to be a leader in those -- in
13 those aspects.

14 But the issues we see in the U.S. are
15 ones of capacity, performance reliability, and
16 escalating cost, and that's why we're very
17 active in wanting to be a part of a national
18 debate to say, well, the solutions are going to
19 have many components to them and we would argue
20 it's not just a local, state or a federal issue
21 we're talking about, so --

22 MR. BUSALACCHI: But and again, so do you
23 see this as being something that could affect
24 our economy, our global economy, if we don't

1 get this under control.

2 MR. ANDREWS: Definitely, very much so.

3 MR. BUSALACCHI: Thank you.

4 MR. SCHENENDORF: Our final question for
5 this panel will come from our host here today,
6 Commissioner McArdle.

7 MR. McARDLE: It's kind of an analogous
8 question for Mr. Massie.

9 One of the responses of public agencies
10 to Homeland Security demands and, in fact, many
11 businesses as well, has been to increase the
12 security clearances required of construction
13 workers. And, in fact, if you work on the air
14 side of airports now there was extensive
15 background checking. But equally, if you work
16 in a federal courthouse, there's a list of 29
17 things that can get you thrown off the job,
18 including you know, an assault charge ten years
19 old is a case that occurred here.

20 Has the AGC looked at the implications
21 for manpower availability and cost of the
22 imposition of security checks on the
23 construction work force and what that's going
24 to do to our transportation costs if you, in

1 fact, had requirements that required only
2 completely validated individuals, working on
3 job sites, whether that's with respect to their
4 own citizenship status, training, background
5 and the like.

6 MR. MASSIE: No, sir, we have not. What
7 I can tell you though from the B and B, the
8 contractor, we've run into the same thing today
9 in a school site. Really the school site isn't
10 any different in that with the things that have
11 happened in the areas of schools we are
12 restricted. They give us a list of this is the
13 person that is eligible to work on this school
14 site and this is the person that's not. And we
15 have to go through that and, quite frankly, in
16 the end you narrow down your pool of available
17 employees to do the work. So therefore you're
18 competing for less people; therefore you end up
19 paying more to get this person versus that
20 person. So therefore the costs go up.

21 We do the same thing in our area when we
22 get on a naval base. We have Army, Navy, Air
23 Force, CIA. We have Coast Guard. We have
24 every branch of the service in our area that we

1 work in, and it's tough to get in. You go down
2 to the navel weapons station where they store
3 particular weapons and they load the ships
4 coming out of Norfolk naval base. We have to
5 go through the process there. If we go in to
6 Camp Perry, that's a CIA base. It's the same
7 process there. If you go down to Langley air
8 force base in Hampton, same process there.

9 So checking the people is something that
10 is not uncommon to us, and it's a process that
11 we have lived with; but does it narrow your
12 potential pool of people that can go to work?
13 The answer is yes.

14 If it went to that extent on every
15 highway project, for us it's already a common
16 practice, you know, in our case, and it will
17 just become a common practice nationwide. And
18 it just becomes a way of business but yeah, you
19 narrow the pool of eligible people that can
20 work for you so therefore you end up paying
21 more money for the ones that do work for you
22 so, therefore, the prices go up.

23 MR. McARDLE: If that's something you
24 could look at and, again, it gets back to the

1 issue that Secretary Busalacchi raised which is
2 the availability of drivers, the availability
3 of construction workers under these
4 circumstances it's going to be substantially
5 limited and any observations that you can make
6 to help us understand what implications that
7 has for our costing of the future would be very
8 important to us.

9 MR. MASSIE: It's not a problem to look
10 into it.

11 MR. McARDLE: Thank you.

12 MR. MASSIE: And we will when we get
13 back, we'll get hold of the people in the
14 agency office, we'll gather up the information
15 and try to get it to you.

16 MR. McARDLE: Thank you.

17 MR. PEDERSEN: Mr. Chairman, if I could
18 just add one thing, our just-in-time delivery
19 did not work this morning. I have two graphics
20 over here I'd like to state for the record that
21 I wanted to refer to during my testimony; it's
22 both major truck freight bottlenecks and major
23 freight choke points in the I-95 Corridor
24 Coalition region.

1 I understand yesterday that Commissioner
2 Heminger asked for analysis of bottlenecks and
3 choke points coming out of ports along the east
4 coast. I-95 Corridor Coalition has a lot of
5 information on that, and I would offer us, our
6 services to work with your staff in helping you
7 out on that so you can take advantage of the
8 information we have.

9 MR. HEMINGER: Mr. Chairman, if I could,
10 whatever you have in writing if you could
11 submit it now, and then we can evaluate it and
12 then see what gaps remain, that would be very
13 helpful. Thank you.

14 MR. SCHENENDORF: Any of the panelists
15 have anything they want to add?

16 MR. COOGAN: I would like to know why
17 it's raining on your table.

18 MR. SCHENENDORF: Apparently going to be
19 taken care of during the break.

20 MR. COOGAN: Then I have nothing to say.

21 MR. SCHENENDORF: I'd like to thank you
22 all. This has been extraordinarily helpful to
23 the commission, and I hope that you'll be
24 available as we go forward for consultation and

1 thank you very much.

2 We are going to take a 15-minute break so
3 that means, let's try to come back around
4 10:30, and we'll have our second panel of the
5 morning. Thank you.

6

7 (Recess taken.)

8

9 MR. SCHENENDORF: We have solved our own
10 infrastructure needs crisis here and ready to
11 start.

12 I'd like to introduce our second panel.
13 We have Dr. Michael Walton, who is chairman of
14 the American Road and Transportation Builders
15 Association and a Professor at the University
16 of Texas; James Taylor, who's the Principal of
17 the Mercator Advisors LLC; Thomas Madison,
18 Commissioner of New York State Department of
19 Transportation; and Ross Pepe, President of the
20 Construction Industry Council of Westchester
21 and Hudson Valley. Let's start with Mr. -- Dr.
22 Walton.

23 DR. WALTON: Mr. Chairman, members of the
24 commission, thank you for the opportunity.

1 Webster's New World Dictionary defines
2 "holistic" as an organic or integrated whole
3 that has a reality independent of and greater
4 than the sum of its parts. We heard that
5 referred to in the last panel as well.

6 This definition is embodied in the
7 embodiment of the national transportation
8 system. Only the federal government can
9 coordinate all parts of the U.S. surface
10 transportation system to implement a holistic
11 approach to the nation's transportation
12 challenges. The value of one state's roadway
13 network or one city's public transportation
14 system is greatly deluded if it is not viewed
15 -- if it is viewed in isolation.

16 Integrating these facilities into a
17 national transportation network, however, can
18 facilitate economic growth for a region and a
19 nation and provide citizens with enhanced
20 mobility and address national objectives such
21 as reducing the number of fatalities we
22 experience each year.

23 This reality is quantified by the 2002
24 commodity flow study which concludes that of

1 the 6.2 trillion dollars of product shipments
2 by truck, 3.5 trillion, or approximately 56
3 percent, are shipped to destinations in other
4 states.

5 Therefore, one can observe that for the
6 average state shippers depend more on highways
7 in other states than in their own.
8 Accordingly, the federal government should play
9 a key role in developing both short and
10 long-term solutions to the nation surface
11 transportation challenges.

12 In the short term the federal Highway
13 Trust Fund is facing a severe cash crisis and
14 maintaining surface transportation investment
15 levels in the future is in serious doubt.
16 Annual federal highway and transit investment
17 is also well below current documented system
18 needs. To address these short terms needs,
19 ARTBA believes that the federal motor fuels tax
20 should be increased to restore lost purchasing
21 power and generate revenues necessary to begin
22 addressing the nation's highway and transit
23 infrastructure needs. We also believe that the
24 federal motor fuels tax should be linked to a

1 consumer price index to maintain future
2 purchasing power.

3 ARTBA also recommends eliminating all
4 current Highway Trust Fund exemptions, and
5 action of this recommendation, for example,
6 would generate over a billion dollars a year.
7 Furthermore, ARTBA believes federal policy
8 should promote increased use of toll financing
9 and managed lanes to help mitigate growing
10 traffic congestion. We should also encourage
11 private sector capital to further enter the
12 U.S. transportation construction market.

13 These alternatives, however, must be
14 viewed as supplement to the core federal
15 highway and transit investment.

16 In the long-term, the projected growth of
17 freight shipments has the potential to gridlock
18 our highways and our economy. There is no
19 existing national strategy to facilitate the
20 efficient and secure movement of freight and
21 the scope of this challenge is beyond the
22 ability of an individual state or local
23 planning authority to address. As such, ARTBA
24 believes that reviewing the structure of the

1 federal surface transportation program to
2 consist of two separate but equally important
3 components.

4 First, the current highway and transit
5 programs must be significantly better funded
6 through the existing user fee structure and
7 reformed to address future safety and mobility
8 priorities.

9 Second, the federal government must
10 initiate a new program that would greatly
11 expand the capacity of the nation's intermodal
12 transportation network. The exclusive purpose
13 of this critical commerce corridors, or 3C
14 program, would be to facilitate the movement of
15 freight and emergency response capabilities.

16 The 3C program would be directed at
17 improving roadways and other surface
18 transportation facilities that are impediments
19 to freight movement. 3C program should be
20 funded separately and differently than the
21 current federal aid highway program. It
22 should be a user fee funded, that it should
23 draw financial support from a combination of
24 new fire-walled user fees imposed on the

1 shipment of freight. The result of this
2 initiative would be a national strategy
3 directed at the growing dilemma of efficiently
4 moving freight.

5 This challenge is about more than
6 congestion, bottlenecks or delayed deliveries.
7 It is about securing America's place in the
8 global economy. We must realize and utilize
9 all available options to meet these needs and
10 we must do so in a holistic manner that
11 capitalizes on the synergy and pieces of the
12 surface transportation infrastructure network.

13 As such the federal government is
14 uniquely positioned to play a leadership role,
15 not only in promoting alternatives but in
16 delivering tangible resources and directions to
17 meet the nation's surface transportation needs.

18 Thank you for the opportunity to be here.

19 MR. SCHENENDORF: Thank you. Mr. Taylor.

20 MR. TAYLOR: Thank you, members of the
21 commission. My name is Jim Taylor. I'm a
22 consultant with a firm called Mercator
23 Advisers. Mercator works with project sponsors
24 to help them map out strategies to [unclear]

1 [leverage] both public and private resources to
2 get major projects done in major [unclear]
3 programs.

4 Prior to joining Mercator, I was an
5 investment banker for 19 years and had the
6 opportunity to work on many public/private
7 partnership programs and successfully completed
8 several start-up toll roads and had the
9 opportunity to work on the international air
10 terminal project at Kennedy International
11 Airport.

12 I'd also like to note that I served as a
13 member of the TRB committee that prepared the
14 report that's mentioned in [unclear]
15 legislation regarding a fuel tax and
16 alternatives for transportation funding.

17 I'm most excited today about
18 participating in a dialogue with you, but I
19 will take advantage to make a short opening
20 statement just so you get an idea of where I'm
21 coming from. The issue I want to focus on out
22 of the many that you posed this panel is the
23 one of what's the appropriate federal role for
24 the federal government.

1 You've heard ad nauseam, and I'm sure
2 many of you are getting tired about the endless
3 needs that we face, and I think many people are
4 arguing that, because of the magnitude of those
5 needs, in the short term at least, there really
6 is no alternative to an increase or at least a
7 continuous federal role.

8 The alternative that some people propose
9 devolving into state, regional and local
10 governments poses a situation where you would
11 be asking state legislators to come to a
12 consensus to, not only raise motor fuel taxes
13 on their own or come up with some other source
14 of funding, but then to rise to the occasion
15 and dedicate those resources to maintaining and
16 reconstructing existing federal aid
17 infrastructure versus dedicating it to projects
18 where they can cut ribbons and get more of a
19 bang for their buck.

20 Even if we ignore the issue of how do you
21 practically meet the needs without federal
22 support, I think there's a rational argument to
23 be made that the federal government should
24 continue to play a role in preserving and

1 enhancing the capital assets that you've
2 already helped to create, namely the
3 interstates and the other roads in the national
4 highway system.

5 I was very impressed with the gentleman
6 from Maryland today. I think he made an
7 effective argument for system preservation and
8 enhancement. It's hard to come up with a bold
9 new vision that says fix what you have, but I
10 think he did a good job at that.

11 The problem is that with federal budget
12 deficits and the fierce competition for limited
13 federal resources even that premise, that you
14 fix what you have, is in question. So, as a
15 result, I think you've been hearing over and
16 over again that the strategy, the way to get
17 these resources, is to come up with a bold new
18 vision for the federal surface transportation
19 program in the hopes that that vision will
20 somehow bring about the political support
21 that's needed to generate the type of
22 enthusiasm that the interstate highway system
23 vision produced 50 years ago.

24 I think establishing a new mission

1 statement for federal agency is appropriate.
2 Today you mentioned other examples. The one
3 that comes to my mind is NASA; after the loss
4 of the space shuttle Columbia people
5 questioned, well, now you have the space
6 shuttle, what's next?

7 So that's a natural inclination to say we
8 need new bold vision but, for me, the fatal
9 flaw, and one that the commission needs to
10 watch out for is that when it comes to the
11 surface transportation network the federal
12 government doesn't implement the game plan.
13 The state, regional, local, governments decide
14 when, where and how the improvements will be
15 made.

16 And so if you follow concepts like
17 unleashing the private sector or using the
18 marketplace to reduce traffic congestion those
19 become empty rhetoric, if at the end those who
20 actually have to carry it out either do not
21 support the federal objectives or they lack the
22 resources to carry them out.

23 I think any vision for America's
24 transportation future has to be built on a

1 realistic assessment of where we are today, not
2 just idealistic view of where we want to be 25
3 or 50 years from now, and that means
4 acknowledging that the federal aid concept that
5 was adopted in 1916 and the Highway Trust Fund
6 approach implemented in 1956 are not broken and
7 that they have, in fact, served us well.

8 In order to make significant progress on
9 developing alternative funding structures and
10 mainstreaming innovative finance strategies, I
11 think we need to fix what we have first. As an
12 investment banker, I have to tell numerous
13 clients that their projects were not
14 financially viable. In many of those cases it
15 was because of deficiencies in the existing
16 transportation network.

17 Express toll lanes don't work if all they
18 do is rush you to the next bottleneck.
19 Similarly, if the express toll lanes that the
20 gentleman from Maryland mentioned have to cover
21 the maintenance and improvement of the general
22 purpose lanes they're not financially viable
23 either.

24 By improving existing infrastructure we

1 can also strengthen local economies and build
2 local confidence in government and those are
3 two very important components of any project
4 financing initiative of public/private
5 partnership.

6 There are several other areas related to
7 financing and project development and the task,
8 the questions you've laid out for this panel,
9 I'd like to talk about. But in the interest of
10 time and clarity I'm going to conclude with
11 this: Everyone understands how difficult it
12 will be to convince Congress to increase fuel
13 taxes. I don't think we can abandon that
14 effort and let people think it will be possible
15 to address critical mobility needs if we don't
16 protect our investment in existing
17 infrastructure.

18 Strengthening the federal/state
19 partnership and providing a dedicated
20 predictable source of funding for the federal
21 share of baseline investment needs is the best
22 way to foster an environment where
23 public/private partnerships and innovative
24 finance can truly blossom.

1 Thank you for your time.

2 MR. SCHENENDORF: Thank you.

3 Secretary Madison.

4 MR. MADISON: Thank you, Mr. Chairman.

5 I'd like to thank the commission for holding
6 this hearing in New York and in the northeast
7 where the need for an integrated multimodal
8 transportation system is so apparent.

9 The northeast has the nation's oldest
10 transportation network, a network that is
11 complex, interrelated and heavily utilized by
12 both passengers and freight. Accordingly we
13 must have a federal policy that helps us
14 operate, maintain, build and integrate the
15 transportation infrastructure that our
16 customers demand and that our state, region and
17 nation need in order to remain competitive in
18 an ever-expanding global marketplace.

19 The time is now to implement a bold new
20 multimodal transportation policy and you have a
21 once in a generation opportunity to make
22 recommendations that will guide the
23 transportation policy and planning throughout
24 the next half of the 21st century.

1 I urge this distinguished commission to
2 champion a new national policy to promote
3 seamless integration across all modes of
4 transportation and call for increased federal
5 investments in those parts of the system that
6 support the nation's economy.

7 As you know, promoting equity has been
8 the hallmark of the last two federal surface
9 transportation bills. In fact, the 22.3
10 percent, the equity bonus program, has grown
11 into the largest funding category in the entire
12 federal highway program, surpassing even the
13 national highway system and the interstate
14 maintenance and bridge programs.

15 This practice of the distributing federal
16 fuel tax as based on where they're collected is
17 not a visionary policy. It no longer serves
18 the needs of this country and it penalizes
19 states here in the northeast that invest
20 heavily in transit and fuel conservation.

21 Realizing a new vision for transportation
22 is going to require stronger federal
23 partnership with the states in order to develop
24 a coordinated marketing and education effort to

1 inform our customers and our stakeholders about
2 the dramatic impact the transportation
3 infrastructure has on their daily lives. We
4 must go beyond the traditional federal/state
5 relationship that is primarily limited to
6 highways and transit and collaborate more
7 closely on all forms of transportation that
8 make up our complex system. Keeping our
9 existing system safe, reliable and operating
10 efficiently is paramount, and this will require
11 a renewed effort, both locally and in
12 Washington, to employ the best practices and
13 the latest technologies before a significant
14 capacity expansion program can be undertaken.

15 We can't build our way out of congestion
16 especially here in the northeast and the system
17 we have in place will actually continue to meet
18 the majority of our transportation demands. So
19 to ensure that our most important highway
20 facilities are appropriately maintained I urge
21 you to recommend a new federal interstate
22 highway reconstruction program that will make
23 rehabilitating our existing interstate system a
24 joint priority with all states.

1 Funding for such a program could be
2 provided in a manner similar to the original
3 interstate highway construction program and be
4 based on the cost to complete the necessary
5 work.

6 The federal role should also focus on
7 improving transportation access at critical
8 ports of entry, including our major border
9 crossings, airports and seaports which provide
10 our nation with essential gateways to that
11 global economy.

12 We all know the traditional government
13 funding sources for transportation programs are
14 severely constrained. And the gasoline based
15 taxes, the hallmark of the highway funding
16 program for the last 50 years are no longer
17 sufficient to meet our growing needs. That's
18 why the federal government must find new ways
19 to encourage, or even require, states to
20 explore innovative financing tools by
21 public/private partnerships. We desperately
22 need to stop thinking one dimensionally about
23 how we fund transportation.

24 States must have greater flexibility to

1 use federal funds in ways that increase
2 mobility of passengers and goods. That means
3 giving us the ability to make investments that
4 help us operate this system more efficiently,
5 as an alternative, in some cases, to capital
6 improvements.

7 It's clear that new sources of revenue
8 for construction and operations must be tapped
9 to stimulate greater investment in public and
10 private transportation facilities. Our system
11 provides substantial benefits to the nation's
12 economy and we should identify and aggressively
13 pursue innovative new methods that capture and
14 reinvest some portions of those benefits.

15 If we were to successfully meet the
16 challenges of the 21st century, we must invest
17 smarter, think bigger, be more creative, and
18 embrace new funding paradigms that enable to us
19 to accelerate the delivery of large, complex
20 projects and free up traditional government
21 funding streams for other transportation
22 investments.

23 If we are to remain economically
24 competitive with the rest of the world we must

1 embrace the concept that infrastructure
2 investments are assets, not liabilities. Just
3 as other countries have recognized
4 [inaudible] --

5 I again respectfully urge this commission
6 to seize the unique opportunity it has and
7 recommend dynamic new strategies for national
8 transportation policy that will serve America
9 well for the next 50 years and beyond.

10 Thank you very much for the opportunity
11 to testify today.

12 MR. SCHENENDORF: Thank you. Mr. Pepe.
13 Did I pronounce that properly?

14 MR. PEPE: Pepe.

15 MR. SCHENENDORF: Pepe.

16 MR. PEPE: Thank you for the opportunity
17 to testify this morning on behalf of New York
18 Roadway Improvement Coalition, which consists
19 of trade associations and unions representing
20 the heavy and transportation construction
21 industry of New York State.

22 As others have testified, I also believe
23 in a strong federal role in planning,
24 execution, and funding of the nation's

1 transportation system. We believe your 50 year
2 transportation horizon report should establish
3 a significant framework for the federal
4 government to create a comprehensive agenda
5 linking the nation's economic growth and
6 development with prioritized transportation
7 planning and stable funding. These goals will
8 help create the foundation of a new national
9 plan for this century's great public works
10 projects. In our view, protecting or
11 enhancing the prosperity of the day, largely
12 defines the current federal agenda. The
13 long-term agenda you have set forth
14 acknowledges that our nation's progress grew
15 from the ability to easily transport good
16 services and people within regional
17 communities, coast to coast, and
18 internationally with maximum efficiency. The
19 great transportation projects of the last
20 century were conceived and built for
21 generations of growth that has and will
22 continue to occur.

23 However, now the challenge before us is
24 to assess the best use of available federal and

1 state revenues and apply them to the next
2 generation of worthy improvements. We believe
3 it is essential for you to evaluate and
4 recommend long-term and financially secure
5 funding mechanisms for these needs as well as
6 maintaining and improving systems already in
7 service.

8 A comprehensive and successful national
9 policy must include a secure financial plan to
10 encourage the building of a stronger, better
11 economy with long-term gains, not simply the
12 short term improvements of a five- or six-year
13 program.

14 As you have most certainly heard
15 throughout your hearings the national
16 transportation agenda's success demands secure
17 financing at the highest -- as the highest
18 priority. Our representatives must also be
19 convinced that national prosperity and security
20 depend on improved mobility.

21 The most recent volatility in fuel prices
22 indicate there is an opportunity to index the
23 federal fuel tax based on a fairly moderate
24 target without unduly burdening the economy.

1 We need also look to user fees and responsible
2 congestion pricing. Those financial structures
3 offer users a price signal system encouraging
4 efficient use of our roads.

5 At a minimum the highway trust fund must
6 be fully secured and funded.

7 The federal government's role in
8 coordinating and funding the transportation
9 agenda must also begin with recognizing the
10 national economy is often driven by certain
11 factors and transportation networks, while
12 appearing local or regional, are in fact vital
13 to the national prosperity and mobility. This
14 can only be achieved by taking care of
15 congestion and other needs where they best
16 serve the national agenda.

17 For this reason, we believe your report
18 to Congress must recognize the northeast with
19 both its population and economic strength that
20 the nation draws upon. It is vital in setting
21 the long-term goals of multimodal mobility.

22 If this region's economy is choked with
23 congestion, then the national economy will also
24 stall. When the commission looks to this

1 region, there are four transportation networks
2 to be addressed: Highways, mass transit,
3 freight, and international ports, both aviation
4 and maritime.

5 As our nation's history has made the
6 northeast so important to our economy, it has
7 also left these networks old and constrained.
8 As an example, an important local discussion
9 now underway is the future of the Tappan Zee
10 Bridge in the northern suburbs to New York
11 City. Once considered a secondary part of the
12 network commuter link, also providing access to
13 upstate New York, it has evolved into a major
14 connector from a growing multi-state regional
15 economy from Boston to Buffalo and the Midwest.

16 State agencies reviewing various
17 replacement options have found none are cheap,
18 depending on the extent from \$4- to \$12
19 billion. Even though state agencies say a new
20 bridge should be operating by 2015 the question
21 of how to pay for the project has yet to be
22 tackled. Innovative financing through PPPs may
23 be a solution. However, federal leadership
24 will likely be needed to ensure the most

1 beneficial and cost effective return.

2 Upstate New York faces a similar problem
3 with the Buffalo Peace Bridge linking the
4 Canadian economy to the northwest New York and
5 other northeast and mid Atlantic states.

6 We also believe the commission's report
7 should provide guidance to states for expanding
8 suburban communities as work destinations and
9 for their work force commuter needs. In terms
10 of mass transit no system moves as many people
11 as the New York metropolitan authority --
12 transportation authority and the benefits to
13 both the environment and the economy are
14 unmatched. Today this transit system is on the
15 verge of a most important expansion. The
16 federal government must participate.

17 Freight distribution is a vexing
18 challenge that also needs to be addressed.
19 Congestion of regional roads, rail systems and
20 truck routes need to be improved and expanded.

21 Finally, the train freight tunnel is a
22 possible solution.

23 Thank you for the opportunity to address
24 these concerns.

1 MR. SCHENENDORF: Thank you, and thank
2 you all. We'll start the questioning with
3 Commissioner Heminger.

4 MR. HEMINGER: Mr. Chairman, thank you.
5 I appreciate the testimony of all the
6 panelists. I'd like to begin by asking a joint
7 question perhaps of Dr. Walton and Commissioner
8 Madison, trying to read your testimony
9 together.

10 Dr. Walton, you called for an increase in
11 the fuel tax of some, I suspect, substantial
12 amount; and Commissioner Madison, you talked
13 about the federal role, and it's something
14 we've been talking about for the past day and a
15 half, and in particular you identified in your
16 testimony four areas. One, promoting the
17 importance of the system supporting multimodal
18 system, ensuring maintenance and operation
19 funding needs at ports of entry. There may be
20 others as well; safety has been suggested and
21 so on and so forth.

22 So let's just say we go forward a year or
23 so and we persuaded the policy makers to
24 consider a whopping increase in fuel tax. How

1 do we go about expressing the federal interest
2 in a bill?

3 I'd like to suggest at least three
4 possibilities. One of them is we could use
5 categorical programs which has been done in the
6 past. I mean, Dr. Walton, you suggest a 3C
7 program for freight that will target money for
8 freight. That's one way of expressing the
9 federal increase in goods movement.

10 A second one that we've been talking
11 about with the commission is the notion of some
12 kind of performance-based approach where you
13 might provide the states a more flexible pool
14 of funding, a block grant, but then establish
15 some performance targets that they would have
16 to meet to continue to be eligible to receive
17 it, whether it's in fatalities reduced or
18 congestion alleviated or whatever.

19 A third, I suppose, might be the
20 interstate model, you could call it, where you
21 target specific facilities whether it's you
22 know bottlenecks here or there.

23 You know, Mr. Pedersen's CSX rail bridge
24 in Washington, and you target those facilities

1 for a higher match or exclusive federal
2 participation. I'm sure that's not the range
3 of them, but I think it does, at least to me,
4 suggest that we do have a range of possible
5 ways of expressing the federal vision that I
6 think we've all been talking about without
7 being specific. So I'd like to try to get a
8 little more specific and get your sense of,
9 among those options or another you'd like to
10 suggest, which one should we pursue.

11 DR. WALTON: I yield to Commissioner
12 Madison to start with.

13 MR. MADISON: Thank you, Doctor; that was
14 very generous of you. I appreciate that.

15 Well, let me depart from the three
16 categories that you mentioned, Commissioner,
17 and go back to the testimony that I submitted
18 that you referenced.

19 I think there's a fundamental need to
20 expand the federal role in places like the
21 northeast and across America. At the outset we
22 need to figure out better and different ways to
23 market the importance of our infrastructure.
24 You know, one of the things I've learned in the

1 position I'm in now and working in
2 transportation for some years is that, at the
3 state level and even during the federal
4 reauthorization process, it's usually the last
5 thing that's considered and it's a painstaking
6 process because there are other areas of public
7 policy that tend to be more interesting or
8 garner more public support or are sexier,
9 perhaps, than transportation.

10 However, as panelists had mentioned
11 earlier today, when there's a problem on the
12 system somewhere, that's when attention becomes
13 immediately focused. So one of the things I
14 think we need at the outset, in terms of a
15 stronger federal role of partnership that will
16 get us to the kinds of funding questions that
17 you talk about is making our customers and
18 stakeholders understand the importance of
19 infrastructure investments be it in transit or
20 highway or other approaches across the modal
21 spectrum. And in order to do that I think we
22 need to have a comprehensive national marketing
23 strategy. We try and do it at the state level
24 and at the county or local levels in different

1 this all my career, I'm reminded of how it
2 works and how we got to where we are today.
3 Your question is an excellent one.

4 Based on the history that we have, I
5 think you -- we're to the point where the
6 existing programs, categorical programs have to
7 continue in its fashion. There is so much
8 momentum behind those programs. Coupled with
9 that your notion of a performance-based
10 objective is right on target.

11 But it's interesting from a national
12 perspective that that has to be set in context
13 and, truly, what are the national needs? What
14 are the national priorities?

15 So to put all of these in perspective, we
16 must have, not the vision, but we must have a
17 road map of exactly where we want to go and
18 what we would like to accomplish both in the
19 short term with a long-term perspective of what
20 needs to occur. Then I think we can begin to
21 put these in perspective somewhat and recognize
22 that based on discussion that you've had in
23 other sessions as well as something today that
24 there are so many variations from locality to

1 locality and the needs are urgent and in many
2 ways some of those are of national
3 significance.

4 You talk about the ports, for example,
5 just to mention the L.A. Long Beach, which I
6 know you'll be addressing, or the port here or
7 the ports in Houston and so forth. Those are
8 critical components and that's why we felt that
9 the 3C program is a new initiative recognizing
10 the new frontier of freight movement and
11 international and global competitiveness. We
12 think that is a program that sort of fits the
13 interstate model perhaps where we need a new
14 funding initiative to support that activity.

15 So, better funded and I like your
16 assumption and we're behind that a hundred
17 percent, you know, 12 to 13 cents per gallon
18 would be wonderful. I think we could structure
19 a plan that continues the categories since
20 they're desperately needed and then look at the
21 overarching performance based and new programs
22 such as the 3C program.

23 MR. HEMINGER: Dr. Walton, the 3C program
24 you recommend, do you contemplate that program

1 funding improvements to the rail freight
2 system?

3 DR. WALTON: I think it's across the
4 board. We're talking about critical corridors.
5 So, in essence, it is an intermodal
6 multi-mobile program. So we're talking about
7 transportation, we're talking about a national
8 network; we're talking about connectivity and
9 integrated systems. So, in essence, it has to
10 be in the best interests.

11 MR. HEMINGER: And to the extent that
12 some of those will also benefit the rail in our
13 urban areas you don't mind that.

14 DR. WALTON: Personally, having spent
15 quite a bit of time in that arena too, I know
16 there are issues there, but again, it comes
17 back to what is the national interest and where
18 do we need to hit and how do we get there? So
19 I come back to the view of what is in the
20 national interest.

21 And recognize -- 30 years ago I was in
22 the office of the secretary of DOT when it was
23 just getting started and I remember how many
24 class one railroads we had at that time. I

1 remember that they were also passenger
2 oriented. I did some calculations that led to
3 Amtrak. I must have missed a decimal point
4 here or there somewhere along the way, but in
5 essence that was an integrated network at the
6 time. We have to have a national perspective.

7 MR. HEMINGER: Mr. Taylor, I think we're
8 probably many of us, I'll start, are going to
9 take advantage of the fact that you're an
10 investment banker and we have been hearing a
11 lot in our last couple of meetings about these
12 asset lease deals in Midwest with the Indiana
13 Turnpike and the Chicago Skyway; that -- it
14 raises several questions. Let me just begin
15 with a couple, if you could entertain them.

16 But, you know, the first is if we put
17 together a big picture of what the nation needs
18 and, you know, we heard this morning that we're
19 going to be off by a factor of two or three but
20 let's say it's a hundred billion a year that
21 we're short.

22 First question is how much can private
23 capital take out of that need? You know, given
24 the fact that, I think as Mr. Pedersen said

1 earlier, it's unlikely that our maintenance
2 backlog is something that the private sector is
3 going to be all that interested in financing.
4 So how much of that need could they take down
5 in terms of if we are focused on congested
6 urban areas and the like?

7 The second question is one that I raised
8 at our last meeting in Washington and that is
9 the economists often talk about these deals
10 sort of releasing, you know, stranded capital
11 or dead capital and it strikes me that in a
12 couple of these instances it's not so much dead
13 capital, it's murdered capital. Because the
14 public agencies just have neglected the assets,
15 they haven't raised tolls in many years, and
16 then they throw up their hands and say, my
17 goodness, we better let somebody else do this
18 instead of us.

19 So your thoughts in the second question
20 on the issue of private versus public toll
21 financing and to the extent that we have and
22 we've got a lot of them here in New York,
23 public toll facilities, whether that's a model
24 that could be deployed perhaps to better effect

1 in some of these areas as opposed to relying
2 upon the private sector.

3 MR. TAYLOR: One of the things that I
4 discovered, I've been doing public/private
5 partnerships so much of my whole career, is
6 that there's a natural tendency for the
7 rhetoric to dissolve into public versus
8 private. And one of the things that leads to
9 that problem is this concept of public/private
10 partnerships being a generic source of revenue.
11 And so you get the question of well, is it
12 five percent or 20 percent? And in reality,
13 public/private partnerships are not a revenue
14 source; they're a means of getting other
15 people's money, but it's a tool.

16 And so, to me, debating whether or not it
17 is you know a minor part of the solution or a
18 bigger part of the solution misses really what
19 the contribution is.

20 And so a different analogy -- it may not
21 work, but I would move you away from the tool
22 and the tool box and how powerful is it, to a
23 baseball team, and whether or not it makes
24 sense to debate whether or not it's hitting or

1 pitching. I'm not a big baseball fan, but if
2 you live around here you get to appreciate the
3 Yankees and one of the things that they do is
4 they figure out what their needs are on their
5 team and try to balance those.

6 In my mind, and from what I've seen,
7 there are situations where a public/private
8 partnership, the private sector, can be the
9 home run hitter. Will a home run win the game?
10 No. You need a lot of singles, you need a lot
11 of fielding people, but it can be a critical
12 tool if applied correctly.

13 One of the things that gets dismissed in
14 the Indiana transaction is that before they
15 made the run to try to get the legislature to
16 get on board for that, they went to every
17 community, every county and said,
18 hypothetically, if you had all the money you
19 needed what would you prioritize? What would
20 be the projects you would need and they forced
21 people to rank them, figure out what made
22 sense. So that before this cash windfall came
23 there was discussion from the ground up about
24 where to apply this money; what makes sense?

1 One of the strengths of our system, our
2 democracy, is that we do things from the bottom
3 up. We have these MTOs, we have ways to plan.

4 A lot of what we do in infrastructure
5 produces winners and losers. Public/private
6 partnerships are a way, are a tool to help
7 communities figure out how they're going to
8 resolve those issues.

9 To me, the point of Indiana was not so
10 much unlocking unspent capital but really
11 focusing people on, you know, does it make
12 sense to keep toll rates at the same level for
13 20 years. Should toll rates be set at a level
14 that you can at least maintain the asset that
15 you have?

16 If you can manage an asset better,
17 through the private sector; why don't you go
18 ahead and do that? It's not something that you
19 then take and make a rule that all assets
20 should be managed by the private sector.
21 Harris County, Pennsylvania Turnpike; there are
22 a number of strong public turnpike authorities
23 who, really, the incremental benefit from
24 privatization would be nil. But in Indiana, I

1 think there was an argument that the concession
2 was a means to an end.

3 MR. HEMINGER: If I could press on that.

4 MR. TAYLOR: Sure.

5 MR. HEMINGER: Why is it in some cases
6 that the benefit would be nil or marginal
7 whereas in the case of Indiana, in Chicago, it
8 at least appeared to those decision makers that
9 it was much greater?

10 You know, one thing that appears to me is
11 that the public agency was unwilling to adjust
12 the toll rate and they preferred somebody else
13 to do it. If they had been willing to adjust
14 the toll rate and had done so, a lot of that
15 capital would have been unleashed in projects
16 and facilities not only in that corridor but
17 elsewhere.

18 MR. TAYLOR: Yes, it's not that, I mean,
19 there isn't a generic public sector. Indiana
20 went through several different administrations
21 that missed the opportunity to do that, so you
22 can't lay the blame on any public sector that
23 didn't. Part of what happened in Indiana was
24 you are taking tolls collected by people

1 passing through the state and those in the
2 northern part of the state and using them to
3 produce benefits in the southern part of the
4 state.

5 If the legislature debated, let's raise
6 tolls, and issued 3.8 billion of debt and then
7 used the proceeds in the southern part of the
8 state, it would have been a non-starter, but as
9 a vehicle of using that asset that they had to
10 produce benefits throughout the state, that
11 public policy debate took place in the
12 legislature.

13 So, to me, the tool that was used wasn't
14 as important as what was the outcome they
15 wanted to achieve and that was to make an
16 immediate impact on the backlog of needs.

17 And so, did they debate? Should we issue
18 3.8 billion of debt versus getting a payment
19 from private sector? No. But in effect that's
20 what they did, was they figured out how to
21 leverage this asset to get other needs.

22 And the thing I applaud them for, even
23 though I have concerns about the transaction,
24 is that they laid the ground work first by

1 saying let's do a rational analysis of what our
2 needs are. Not let's do what normally happens
3 which is every state legislature gets to pick a
4 favorite project and we make sure that a little
5 goes to the south and a little goes to the
6 north. Hopefully the money in Indiana will be
7 spent and directed to real needs.

8 MR. HEMINGER: What are the concerns you
9 have about the transaction?

10 MR. TAYLOR: I think that in both Chicago
11 and Indiana, you're taking advantage of a
12 situation where the user base, the fees are
13 being collected from people who don't
14 necessarily have a say in where that money
15 goes.

16 I mean, the residents of Indiana who
17 commute into Chicago don't vote for the mayor
18 of Chicago. But Chicago, it was an accident of
19 history, really, that they had control of part
20 of the interstate system, so I don't fault them
21 for saying we shouldn't be in the business of
22 maintaining this and running this, we'll leave
23 it away but the impact on the regional
24 transportation network didn't really go through

1 the democratic process.

2 Similarly, with the Main Street of
3 America, the Indiana toll road, there will be
4 implications for Michigan, for people doing
5 cross country travel, and their ability to
6 influence that, they had no say in the process.

7 And so, to me, there are certain assets
8 where the externalities need to be dealt with,
9 otherwise you have a situation where it's every
10 person for themselves. And, to me, it's a
11 symptom of the fact that there isn't a stable
12 federal funding source that you have people
13 saying I'm going to sell assets or I'm going to
14 get every earmark I can while my Congress
15 person is there so that I take care of myself.
16 So it's that looking out for myself sense that
17 I think, in the long run, we might regret.

18 MR. HEMINGER: Mr. Chairman, just one
19 last question on this point, if I could. Do
20 you think it would be an appropriate role for
21 the Congress or for the federal program to set
22 some sort of parameters in this field in terms
23 of how these deals are done?

24 You know, some I know have raised

1 concerns about the Chicago deal, taking money
2 out of a transportation asset and spending it
3 on general fund purposes. Others have talked
4 about the length of the leases which are quite
5 long-term. You've raised the issue about
6 externalities. Should it be hands off or
7 should there be some general set of parameters?

8 MR. TAYLOR: My personal opinion is hands
9 off. That the way the federal state
10 relationship works is you really want local
11 decision makers deciding it. I think the feds
12 need to recognize that those types of
13 opportunities gain momentum when there is a
14 lack of resources and that there should be
15 resources devoted to strengthening regional
16 planning and MPOs, so that people aren't
17 tempted to take the short term. But in the
18 end, the federal government risked too much by
19 opening the door to determining how money
20 should flow at the regional and local level.

21 I don't think the feds should decide on
22 the Tappan Zee Bridge; should there be a rail
23 component or not, or should it go all the way
24 over to 95 and Connecticut. That should be a

1 regional, local decision. They can provide the
2 funding, but the decision making needs to come
3 from the bottom up, not the top down, otherwise
4 you have people gaining the system and that's
5 not the way it really should work.

6 MR. SCHENENDORF: If I could just take a
7 second and follow up on this. The Indiana
8 Turnpike, to me, is a good example and I'd like
9 to really understand it better.

10 We have been talking about the national
11 needs that we have out there; the need for
12 national vision and a freight strategy, the
13 importance of interstate transportation, yet
14 here we're taking a facility and we're
15 essentially increasing the tolls dramatically
16 over time. They're allowed to increase by two
17 percent or inflation or GDP, whichever is
18 higher, and that revenue stream was lost to the
19 State of Indiana for 75 years, and what they
20 got from it was 3.8 billion dollars that
21 they're spending on, essentially, local
22 projects.

23 So you're asking these interstate
24 travelers to pick up the tab for all of these

1 local projects which may not be used -- of use
2 to them or even part of the national system,
3 and the people who will actually be using those
4 projects won't be paying anything for them
5 because they're being paid for by the people
6 that are traveling along.

7 It seems to me we're taking a lot of
8 money out of the system, so to speak, of the
9 national system, and diverting it to other
10 kinds of projects, and as this is being -- as
11 this is being done, and these rates are allowed
12 to go up and the private sector is basically,
13 at that point, benefiting from that, it seems
14 to me to be a huge loss of revenue that could
15 be used for improving the national
16 transportation system.

17 And when people in Indiana are asked
18 about this, they respond, this was a
19 no-brainer; over half the traffic is interstate
20 nature. These aren't Indianans that are paying
21 for this.

22 MR. TAYLOR: Right, but, sir, that's the
23 point, is that to the extent that you don't
24 have a stable federal funding source, you have

1 an environment where everyone looks out for
2 themselves.

3 If you are an Indiana resident,
4 particularly in the south, you never drive the
5 Indiana toll road, are you going to complain
6 that all of a sudden a local project is getting
7 funded?

8 The issue of are you taking away a source
9 of revenue from the state is moot. They had
10 not raised the toll in several years. It was
11 unlikely that they would, and so the fact that
12 you are taking away an option that somebody
13 doesn't use; in the financial world that
14 happens all the time.

15 If somebody thinks they can use an asset
16 better they'll pay you for it and then they
17 turn around and try to make more money.

18 So I don't think the issue is really was
19 the public not really served or should they
20 have gotten five billion for it. That's basic
21 math, and present value. That is a financial
22 transaction that you protect yourself through
23 the competitive process. The question is every
24 state has issues about whether or not the money

1 they collect in the urban areas should be going
2 to the rural areas or not and there's always
3 questions of distribution. That's what the
4 whole fight about the bonus equity program is.
5 The federal gas taxes. Should they really just
6 go back to the people who you collected them
7 from or is there a federal interest in spreading
8 it around?

9 Indiana had an interest in spreading
10 money throughout the rest of the state. The
11 asset happened to be located in the northern
12 part and it happened to be traveled by people
13 who weren't residents but the goal really was,
14 let's fund investment capital to the rest of
15 the state and invest in real projects, not pet
16 earmarked projects, and that's a noble goal.

17 So you can question the means but if that
18 was the only thing open to the governor and he
19 got the legislature to come on board as well,
20 I'm not sure they're the culprit but rather the
21 environment in which there was no other
22 recourse for them to do. They couldn't go and
23 get more federal money. They tried -- not only
24 them but previous administrations had tried to

1 increase revenues, but again, if you had gone
2 to the legislature and said we want to increase
3 toll rates on the Indiana toll road and use all
4 the money in the south that would have ignited
5 a big political fire storm.

6 So, I think the point is to recognize the
7 political reality that money is not spread out
8 equally here and that there will need to be
9 some redistribution. We do that through the
10 Highway Trust Fund, concessions are another way
11 to do it. They're a way to get increases --
12 user fee increased and they're a way to
13 redistribute money in resources as well.

14 MR. SCHENENDORF: Between the concession
15 model and an increased federal program, which
16 is better from a public policy perspective in
17 your view?

18 MR. TAYLOR: That depends on who the
19 actor is. There will be certain states that
20 because of the congestion that they have --
21 Texas, for example, had several opportunities
22 where they could really take advantage and
23 leverage whatever money they get from the feds
24 and local and really do well with a concession

1 program. Would I recommend that to Montana or
2 Iowa? No.

3 And so to me the question is not
4 concession versus federal highway. It's
5 really, are we providing the states with the
6 full resources they need so that, at a regional
7 local level, they can apply whatever tool makes
8 sense?

9 There is a need in certain areas, because
10 the needs are so great, to bring in concessions
11 in the private sector but only if you've done
12 the basic block and tackling that you could
13 only get those resources from the federal
14 government.

15 So to allow your research to devolve into
16 a debate as to are public/private partnerships
17 just hype, are they real or not, ignores the
18 reality that some of that stuff will occur
19 regardless of what you do.

20 MR. HEMINGER: Mr. Chairman, can I get
21 back in this because, look, that's a fair
22 point, and I think you've given us a pretty
23 good diagnosis of the politics of these
24 transactions, but it is also the fact that I

1 think there is a school of thought that
2 public/private partnerships represent an
3 alternative to an increase in the fuel tax.

4 And you're suggesting that we shouldn't
5 view it as a, you know, a piece of the
6 solution. It's just one of the tools or it's
7 one of the players on the team but there are a
8 bunch of folks who are positing this as an
9 alternative.

10 And the question I think we're trying to
11 pose to you, and I'd be happy for other
12 panelists to jump in here, is: Is it robust
13 enough to be an alternative? And, given the
14 fact that it won't address maintenance needs,
15 and given the fact that it doesn't appear all
16 that applicable to public transit, and given
17 the fact that -- it seems to me what's really
18 happening there is, as you say, you're taking
19 money out of a federal facility, a facility
20 that's part of a federal interstate system and
21 spending it off that system. Now we do that in
22 the Bay area and they do it in New York here
23 all the time, but, arguably, those investments
24 help that federal facility operate better

1 because you can't widen the Triborough Bridge.

2 What's happening here is you're taking
3 the money off the interstate system and instead
4 of that money or revenue generated by that
5 system benefiting the interstate system, it's
6 benefiting some non-interstate purpose.

7 And if it were still there it could
8 arguably benefit some national purpose in Iowa
9 or Montana.

10 So I think that's why you're getting
11 these questions and I do apologize that you're
12 sort of the first guy we've had to talk to
13 who's not an advocate. You know, given the
14 fact that this idea is being posited, I think,
15 in large respect by a bunch of folks who don't
16 want to raise taxes; can it be a true
17 alternative to raising taxes?

18 MR. TAYLOR: The other panelists want to
19 speak to -- I think that all the hype about
20 this commission has the chance to set the new
21 vision for the next 50 years, those proponents
22 of value pricing and public/private
23 partnerships have to come and push you hard
24 because this is their opening to do it.

1 Do they truly believe that it is the
2 alternative, and are they anti Highway Trust
3 Fund? I don't think so. But I think that the
4 nature of the political process says they need
5 to make that push.

6 The reality of it is in northern Virginia
7 they might leverage Dulles toll road revenues
8 to build transit. The reality of it is that
9 the Indiana toll road is really more of a state
10 asset than a federal asset. Most of the
11 preexisting toll roads are, so did they really
12 do a disservice by -- to the nation by taking
13 their own asset and leveraging it to benefit
14 their own state? Those are legitimate public
15 policy questions and I think your challenge is
16 to recognize that there are self interests in
17 this debate because everybody needs to --
18 nobody wants to miss out on influencing the
19 next 50 years. But getting through that smoke
20 and mirrors and say what's the reality today;
21 how can we make an impact today on what's
22 happening? That's how you get some of the
23 ideologues out of the debate. You focus on,
24 this panel, what are the real needs; what do

1 you need to get them addressed?

2 MR. MADISON: Can I jump in for a second?

3 I agree with a lot of what Jim said and he's
4 the finance expert, but let me step back a
5 little bit and talk about the power of these
6 kinds of public/private partnerships or
7 relationships to accelerate project delivery.

8 You know, it's not all about the
9 fundamental elements of a concession agreement
10 or a deal. Here in New York we have dozens of
11 projects on the drawing board that the
12 politicians have been talking about for years,
13 and in some cases decades, but we don't have
14 the capability to finance them or deliver them
15 without looking to some other alternative
16 source.

17 This, in my view, is certainly not a
18 replacement for the Highway Trust Fund, the
19 fuel -- or fuel taxes. It is another tool as
20 it's commonly referred to. But there are a lot
21 of other benefits beyond just looking at the
22 financial structure of a given deal.

23 Back to your question, Commissioner
24 Heminger, about the federal role in this

1 process. That's where I disagree with Jim a
2 little bit in that I think there should be a
3 stronger federal role with respect to
4 communicating to states or incentivising states
5 to at least have the statutory ability to
6 entertain proposals.

7 That doesn't mean that the feds should
8 dictate how the transit option gets disposed of
9 on the Tappan Zee Bridge. What that means is
10 give the states incentives or perhaps give them
11 some sort of requirements to look at the
12 potential of these kinds of deals and have the
13 option of utilizing them if that's in the
14 locality's interest or the state's interest
15 once they debate a particular project.

16 And right now, you know, there are only,
17 I think, 20 states in America that have the
18 statutory capability to do this. New York not
19 being one of them and we've been trying very
20 hard to get the statutory allowance to do it in
21 New York because there are also other
22 advantages that we see from a public sector
23 standpoint from these kinds of investment.

24 When you take the Tappan Zee Bridge

1 example, which is often referred to as the
2 poster child here in New York, that's part of
3 the New York Thruway Authority and its system,
4 back to the political points that were well --
5 that were well defined here, the Thruway
6 Authority had not had a toll adjustment in
7 almost 18 years. They just raised their toll,
8 I think, two years ago to -- in order to fund a
9 capital plan going forward for six years.

10 That was because there was not the
11 political will to make the necessary tolling
12 adjustments to link the value and the need
13 along that system to the actual life cycle of
14 the asset.

15 You don't have that, when you have a
16 public/private partnership and a private sector
17 is maintaining a segment of highway or bridge
18 or another asset. It's in the private sector
19 interests to make investments; not just to
20 maintain the highway or bridge in a fundamental
21 state of good repair but to infuse new kinds of
22 investments like cutting edge technologies and
23 electronic tolling and other things. Because
24 the more through put and the more mobile and

1 reliable you make that asset the better it is
2 for the bottom line of those investors.

3 So the investors make out well but if
4 it's my job to make our system in New York
5 State more mobile and reliable for our
6 customers and freight haulers then I think
7 that's a good thing for the public in terms of
8 benefits as well.

9 MR. McARDLE: If I might, Commissioner.

10 MR. MADISON: Sir.

11 MR. McARDLE: You're here in New York
12 City with the Triborough Bridge and Tunnel
13 Commission or the MTA bridges, as they like to
14 be called, quite able to raise their tolls to
15 do exactly what needs to be done to rebuild
16 their facilities. They were the pioneer in EZ
17 Pass, a great public agency able to execute.

18 You've sat in the governor's office. Why
19 is the public will here and it was not there to
20 raise the revenues on the thruway?

21 At the end of the day it seems what
22 you're asking is for authority to shift a
23 decision so you don't have to make it. Okay.
24 So you don't have to take the blame to raise

1 the tolls. And that seems to be very bad
2 public policy.

3 I mean I'd rather have you explain to me,
4 if you could, why doing a public/private
5 partnership on the TZ makes economic sense as
6 opposed to political avoid the decision making
7 sense.

8 Presumably for you to do a public/private
9 partnership on the TZ, you have to deliver a
10 lawsuit-proof project that's fully permitted.
11 Okay? If you've done that, what's the
12 advantage? Can they get you cheaper money? Do
13 they get you faster project execution? How
14 does that really bring you bottom line benefit
15 as opposed to simply avoiding the political
16 decision which this state has avoided, as you
17 point out, for 18 years of irritating
18 motorists?

19 MR. MADISON: Well, I would yield to my
20 fellow panelist on the economic or financial
21 benefits but I would just say that that
22 political avoidance that you characterize isn't
23 the central objective in my thinking of these
24 partnerships; it's a by product. It's just one

1 of the by-products that makes these
2 arrangements palatable or pragmatically it
3 helps you infuse the capital that's necessary
4 to get the job done.

5 Ironically, I work at the Department of
6 Transportation where it's unlikely that we
7 would have a P three (ph.) project. However, a
8 couple of the projects that Mr. Pepe mentioned,
9 the Tappan Zee and in western New York, the
10 Peace Bridge Authority; those are projects
11 that, ultimately, one way or another have some
12 state funding and if you have some other
13 revenue source to supplant that state funding,
14 that enables us to reinvest in our state of
15 good repair projects; the bread and butter, DOT
16 projects all across the state.

17 So I don't -- it's not about political
18 avoidance; that -- that -- I guess you could
19 characterize that as one of the favorable
20 by-products, but, you know, if you're a private
21 sector operator like the Bridge and Tunnel
22 Authority, it's a quas- -- it's more of a quasi
23 private.

24 MR. McARDLE: It's in exactly same status

1 as the thruway. It's a public benefit
2 corporation created by the State of New York.
3 And you've had the Thruway had the ability to
4 recognize these needs for how many years?
5 Okay, you've not been accumulating money to
6 deal with this, and now you'd like to kind of,
7 it seems, make this a public/private
8 partnership so someone else will raise the
9 motoring costs and you can point to them and
10 say they're responsible.

11 MR. MADISON: I think it's you know,
12 again about being responsive to our customers
13 and stakeholders; it's about a multimodal
14 system of transportation investments that will
15 strengthen New York, that will strengthen our
16 connectivity, not just to other states but to
17 other countries. We are a major player here in
18 the northeast in the global marketplace that --

19 MR. McARDLE: Absolutely.

20 MR. MADISON: -- everyone talks about.
21 So it's my job and the responsibility of all of
22 the state transportation entities, whether it's
23 the thruway or others, to figure out ways to
24 maximize investments in our facilities.

1 And if this is a way, if this is one of
2 the tools that we could have at our disposal to
3 do that to become more interconnected, it helps
4 our economic competitiveness in New York.
5 That's why I stepped back to the federal,
6 hoping that there will be a stronger federal
7 dialogue in this issue rather than saying in
8 SAFETEA LU we've got private activity bonds or
9 we've got some flexibility in TIFIA and loans.

10 Let's have a real concerted effort to
11 talk about this thing and vet the kind of
12 issues that this commission is trying to get at
13 the root of right now. Let's have a broader,
14 more comprehensive dialogue about it.

15 DR. WALTON: Can I have this before you.

16 Leave New York for a moment and go into
17 the broader issue again to comment on
18 public/private partnerships and being from
19 Texas and the experience that we've had,
20 contributed to some of the background that I'll
21 say.

22 But first of all, put in context, ARTBA
23 has had public/private venture division for 18
24 years. In fact, today, we're having a

1 public/private venture conference in
2 Washington. In fact, the commissioner and I
3 were talking; we'd both be there except for the
4 importance of this initiative. But that tells
5 you that, at least in our organizational
6 structure, we've had members who've had a lot
7 of experience and a lot of background in this
8 whole area.

9 There are tremendous benefits and gains
10 under certain circumstances, but it's not the
11 panacea. It is just a tool that's been talked
12 about. It needs to be in the tool box, it
13 needs to be available, absolutely not a
14 replacement for the traditional approach to
15 funding the transportation system.

16 You know, if you go back and look at
17 highway statistics, you'll see that they talk
18 about tolling as 4.1 percent of the revenue.
19 Okay, let's say that in the future it might be
20 ten, as I think Neil Pedersen mentioned or
21 others. It's not going to get us where we need
22 to go.

23 So it needs to be there; it needs to be
24 available to us. I might suggest that -- a

1 couple of considerations for you. As the
2 commission continues to go through and develop
3 your data and your fact-gathering, you might
4 want to look into two particular aspects that
5 may help in some ways.

6 Number one, a number of states have
7 statutory provisions against tolls. Commission
8 might want to develop a full list of those
9 states and the types of laws to get an idea of
10 what the potential might be for more initiative
11 in that area.

12 The second is that perhaps you want to
13 initiate a look at the cost per mile of toll
14 roads versus a per mile cost for using the
15 traditional means. I think that may provide
16 some light as well.

17 But let me stress again, at least from
18 our perspective, it is one of the tools, it's
19 been around for a long time, and I think it
20 adds tremendous benefit.

21 Now, in Texas, just as an aside, and I
22 know you had a hearing there and you heard a
23 lot about that at the BTTA. There was an
24 interesting discussion going on about whether

1 -- how much of a policy change this represents.

2 And this is, in fact, good public policy.

3 And one of the questions that was asked
4 of me is that -- recently was: Can you write
5 an article about what the state should be
6 doing, state DOT should be doing to protect the
7 private interests?

8 Of course, I turned that right around. I
9 said, you know, don't you want to focus on what
10 should be done to protect the public interest?

11 Do we really understand enough of what's
12 taking place in the concessions, in the
13 activities that are going on in that arena?
14 What are the long-term implications? And I
15 think that's a valid public policy.

16 MR. McARDLE: I mean, it would seem to me
17 that's one of the more critical issues that has
18 to be addressed and you go back to the Indiana
19 circumstance. It surprised me that in this
20 whole package they did not allow the counties
21 and the local governments who actually impose
22 property taxes on the facility so they, too,
23 could take advantage of more revenue yield
24 extracted from somebody else, which is always a

1 favorite technique of communities and the way
2 you can disguise those things.

3 But I go to the TZ, you know, you'd like
4 to have a minimal federal role, but then the
5 question comes, how far down do you get?
6 Because, as Mr. Pepe knows, and we knew each
7 other a long time and I've had this discussion
8 with him, one of the real concerns about the
9 Tappan Zee Bridge is that the beneficiaries of
10 the reinvestment are kind of somewhat indirect.

11 That, given the nature of real estate in
12 Westchester and New York, the largest flows of
13 people in the morning coming across the TZ west
14 to east are basically public employees; police
15 and fire early, teachers, nurses, the four
16 categories that make up the flows of people.
17 But the cost to those people is hidden in the
18 wages that they're paid so you raise the toll
19 and it ends up in some school board's budget
20 someplace else.

21 But one of the things that concerns me is
22 that, as I understand it from Mr. Pepe, there's
23 been little discussion or commitment by the
24 communities along the 287 corridor, which, by

1 the way one of the first public/private
2 partnerships in which the State of New York in
3 the '80s sold a segment of interstate to the
4 thruway. Very interesting early deal, know
5 where that money went.

6 But in any case of getting the localities
7 engaged so that the additional capacities that
8 are there are matched by land use decisions, so
9 that you can see the kind of benefits that are
10 so obvious. When you look at the light rail,
11 for example, in New Jersey, where you see the
12 benefit on the Jersey waterfront, instantly,
13 from that facility and where they can track it,
14 here we have a set of communities in
15 Westchester that have not yet engaged on the
16 land use decision making that rationalize
17 capacity additions that everybody would see as
18 one of the things that helps pay for this
19 project one way or another.

20 How do we get that; and how does the
21 federal role there to just see that we do not
22 end up with communities at the local level
23 basically simply killing projects?

24 And Commissioner Madison knows there are

1 a number of projects in, again, New York State
2 down here, where single community's
3 unwillingness to change something basically
4 stalls out our capacity additions, and that's
5 true on the rail system and it's true on the
6 highway system.

7 Just seems to me there's got to be some
8 way we bring those localities out of their
9 ability to shell and stop a project.

10 DR. WALTON: Very difficult.

11 MR. McARDLE: Any of you want to comment
12 on it?

13 MR. SCHENENDORF: Just -- does anybody
14 want to comment?

15 Just one last question on this before
16 turning it over to Commissioner Busalacchi on
17 these public/private partnerships, and I think
18 I'm in the same camp as Commissioner Heminger.
19 It's -- one of the issues is: Is this really
20 an alternative to the Highway Trust Fund and a
21 broad-based tax or user fee? That's one set of
22 issues.

23 But even looking at it as a tool, for the
24 tool box, for a given project, take the Tappan

1 Zee Bridge, if the choice is -- let me just
2 start. We've all agreed there's a huge
3 investment need that's out there on a national
4 basis and it seems to me we're all saying also
5 there's limited resources and we've got to
6 basically increase those resources.

7 So it seems to me that we would be trying
8 to improve the system in a way that's going to
9 be the cheapest because at the end of the day
10 we want to spread out whatever resources we do
11 have. And for a given project like the Tappan
12 Zee Bridge a decision was made to do that
13 through tolling. Why wouldn't we do it through
14 a public tolling authority as opposed to a
15 private tolling authority? Because the 15 to
16 25 percent rate of return that they are looking
17 for is going to increase cost. People are
18 going to be paying more for having done it
19 through a private tolling than through public
20 tolling.

21 So why wouldn't we just, from an economic
22 perspective, the overall system go the public
23 tolling route as opposed to the private
24 tolling?

1 MR. TAYLOR: I think that, again, there's
2 a danger in reducing it to who has the lowest
3 cost to capital. In the current market there
4 are people who can make effective arguments,
5 and there are examples, that the commercial
6 bank market is so aggressive today that their
7 cost of borrowing is competitive if not lower
8 than the tax exempt cost of borrowing.

9 Part of that has to do with the nature of
10 how you approach the market. On the tax exempt
11 side you need to have coverage, you need to
12 have a bunch of other protections, because of
13 the way those bondholders work, and it's hard
14 to go out past 45 or 50 years.

15 On something like the Tappan Zee,
16 somebody would be able to leverage flows out 75
17 or 99 years to get a project of that magnitude
18 done.

19 Could the public sector issue hundred
20 yield debt? The Port Authority of New York New
21 Jersey could but maybe not a new public entity
22 just for the Tappan Zee or the Thruway
23 Authority.

24 It's a question of how you want to access

1 the market and how you want to amortize it.
2 The real question is on something like the
3 Tappan Zee there may be challenges associated
4 with that that somebody internationally has
5 some experience with. One of the things that I
6 found very interesting on the private toll
7 roads I've worked on is that all the private
8 entities automatically went out and got
9 international toll operators and they came in
10 and had some interesting perspectives.
11 Autostrade in Virginia had a different way of
12 doing snow removal than had ever been done
13 before in that area.

14 Was that going to make or break it? No.
15 But on the private management side they're not
16 going to blink if they need to pay their
17 executive director \$600,000. If she or he is
18 worth it, they'll pay that. But could you have
19 a thruway director making more than the
20 governor? It's much harder to do.

21 So it's -- you can't -- I really don't
22 think you can come down and say the public is
23 losing out because you're going to a private
24 sector model.

1 The framework that, somehow, all
2 infrastructures should be built at the lowest
3 cost to the user, ignores the fact that what
4 the user really is buying is not a certain
5 number of miles of roadway but really a
6 service. How much time are they saving?

7 And, in my mind, when you get right down
8 to it, the public and the private will charge
9 the same.

10 If you look at the 91 express lanes; it
11 was privately owned and they set the toll
12 levels at rates so that there would be --
13 maintain traffic flow.

14 The Orange County Transportation
15 Authority bought it. Politically what they had
16 to do was set up a formula that say tolls that
17 rise automatically if we get a certain amount
18 of congestion. Tolls have risen much higher
19 under the public authorities than they were
20 under the private, because the private guys got
21 slammed every time they raised tolls. You're
22 just making more money for yourselves. But in
23 the public sector, what they were able to do
24 was come up with a framework where drivers

1 understand the tolls are not set to raise
2 money; they're set to maintain through flow of
3 traffic.

4 It's not -- you can't reduce it to cost
5 of capital or who has more expertise. It
6 really is given the challenge, and that
7 includes the political challenge, what's the
8 best way to approach getting something done.

9 MR. MADISON: If I could briefly add to
10 that if I could. I think, again, doing the
11 proper valuation of the deal is different than
12 looking at the broader public benefit of
13 getting a more reliable, consistent trip,
14 whether you're a commuter or whether you're a
15 freight hauler.

16 So you have to look, in the Tappan Zee
17 example, I think, again, I yield to Mr. Taylor
18 on the financing piece, but I think you have to
19 look at the prolonged period of neglect on that
20 facility. The fact there have been hundreds of
21 millions of dollars in temporary, you know,
22 patch work capital projects, to let it limp
23 along until there's some agreement on land use
24 and other issues and the type of facility

1 that's ultimately going to be selected in the
2 alternative.

3 So what is the cost or the lost
4 opportunity to all the years that that
5 particular project has been discussed?
6 Meanwhile, a facility that was designed for
7 70,000 cars a day averages 130-, and on some
8 days, 170,000 cars a day.

9 What is the cost of people waiting an
10 hour rather than 15 minutes to get across that
11 bridge and get to their jobs? You have to look
12 more comprehensively at the public costs and
13 benefits.

14 MR. PEPE: I don't want to belabor this,
15 but allow me to give you a brief overview of
16 the industries look at this, and my personal
17 view of it as well.

18 I happen to live in Rockland County. I
19 work in Westchester County. I've crossed the
20 bridge nearly every day, except for the three
21 years I spent in the service, for the past 45
22 years. So I know well what has taken place on
23 the bridge when it comes to the deterioration,
24 the lack of initiative on the part of the

1 leaders of the authority to get the job done,
2 and it takes years and years to get things
3 accomplished.

4 We're in the midst, today, of a
5 discussion about the Tappan Zee Bridge. This
6 discussion has been going on for the past 12
7 years and we're still not all that far advanced
8 into the process. Hopefully, we're getting
9 close to it but not there yet. Probably
10 looking at another two or three years before a
11 decision is made.

12 With regard to the tolling, as a commuter
13 it was wonderful. Up until last year with EZ
14 pass I commuted every day for a dollar, round
15 trip, on the Tappan Zee Bridge when every other
16 structure in Downstate area of New York is 4,
17 5, and \$6 a trip.

18 So, you know, they just hadn't addressed
19 the issue as they should have. There were the
20 attempts to get it done but the political side
21 of the equation pulled it back and didn't allow
22 for the increases in the tolls to occur.

23 So on re-looking at the private/ public
24 partnerships, we are concerned about the how,

1 when and where of them taking hold or grasp of
2 a facility like this and the type of contracts
3 that would go out.

4 We represent labor. Labor has some very
5 interesting concerns about how the contracts
6 would be let and what effect it would have on
7 the work force community in their area.

8 All of that said, your threshold question
9 about guidance, I think the federal government
10 needs to provide guidance in New York State and
11 others across the country. If nothing else
12 than just to give them information about what
13 other states -- arguing what the successes have
14 been, what the failures may have been, and how
15 to proceed in this environment to use a PPP as
16 an incremental source of funds for the overall
17 transportation program in the state.

18 MR. SCHENENDORF: Thank you, and I
19 apologize for the three of us, I think, hogged
20 all the time. Commissioner Busalacchi.

21 MR. BUSALACCHI: You want to have lunch?

22 I just have a couple of questions just on
23 this PPP thing, and I'll get into a different
24 type of transportation. But you know, when I

1 the states don't have tolling, they don't like
2 tolling, and they don't want tolling. And they
3 don't trust this stuff from where I come from.
4 And that's the concern that I have with this.

5 You know, you brought up a good point
6 about labor. They should be concerned. They
7 better be concerned. A lot of them aren't even
8 here and Frank and I have talked about this.
9 How are they going to let these projects? Is
10 there going to be the right wages on these
11 jobs? That's something that they need to be
12 concerned about.

13 But from my standpoint, and when I look
14 at this, I get very concerned that we're going
15 to diminish the federal role, particularly in
16 these areas where tolling just isn't going to
17 happen. And really, it's not. I'm just
18 telling you that. It's not going to happen.

19 My boss has been on the record as saying
20 they'll never be tolls as long as he's
21 governor. Minnesota's there. Believe it or
22 not, Illinois's there and that guy just got
23 reelected and that was one of his platform
24 things, was tolling.

1 And you can comment on this but this is
2 just the political reality of it. And I
3 understand there's a whole gamut of problems
4 out here in the east and I understand that. We
5 have them in the Midwest and everybody's got
6 them across the country. But the real fear
7 that I have with this, is that once we kind of
8 open this door that we're going to, you know,
9 we're going to diminish the federal role.

10 I think what I have heard here this
11 morning, and what I've been hearing everywhere
12 we've gone, is that there needs to be a larger
13 federal role, not less, and that's the thing
14 that really -- that really concerns me.

15 So I just thought -- I just thought I
16 would say that. You can comment then I have
17 another question for Tom.

18 MR. TAYLOR: Just a quick comment.
19 Somebody mentioned earlier the Moynihan quote,
20 the feds are the investors not the ones who do
21 it; and I think that that's something that
22 should be preserved.

23 You had Illinois and Missouri fighting
24 whether or not their tolls should be used to do

1 a project; both agree it's very important. But
2 yet you have historical presence like the
3 Woodrow Wilson Bridge, where the only thing
4 everybody could agree on was, well, let's not
5 toll it. Let's join forces and get as much
6 federal money as we can.

7 That may be the solution for Tappan Zee:
8 Let's get as much federal money as we can.

9 But, to me the critical issue for your
10 commission is really strengthening the federal
11 role in providing funding, so that those
12 debates can continue to happen at the local and
13 federal level. Taking a side on that issue,
14 and did Indiana do the right thing by its
15 citizens or the national taxpayers, distracts
16 you from the real question/issue which is the
17 baseline, the fundamental platform on which all
18 these other things can take place. If you
19 allow yourself to be distracted with the
20 theoretical debate over tolling and
21 public/private partnerships, I think you miss
22 an opportunity here.

23 DR. WALTON: Just to support what was
24 said: Essentially in Texas, which is not a

1 state that's got a lot of tolling, we've had
2 some going way back, but for the most part it's
3 very limited in application, and there is a lot
4 of concern. And there are areas in Texas that
5 will never have tolling. I'll say never and
6 underscore it and probably eat it one of these
7 days.

8 But the other issue that we're fighting
9 though, is we have officials who are stating,
10 look, we're only getting back 30 cents on the
11 dollar that we send to Washington, and the rest
12 of that is being taken up by earmarks.

13 So I suspect when we talk about a
14 stronger federal role and a stronger commitment
15 to the traditional programs and looking at the
16 national vision of where we would want to go,
17 you have to put all that in context. So I
18 didn't want to leave out the opportunity to
19 under score here.

20 MR. MADISON: Can I just make one comment
21 to that, Frank? On the politics I couldn't
22 agree more and I've spent some time in the
23 political realm here in New York and I'm still
24 alive, but I think one of the ways that you can

1 fundamentally change the way those polls look
2 goes back to my initial comment about marketing
3 the importance of infrastructure investments in
4 our country and in this state.

5 And if we can get our customers, the
6 people that drive across the Tappan Zee Bridge,
7 to understand, you know, the vital importance
8 to our economy. The fact if we have a more
9 seamless, reliable, safe, secure system we're
10 going to stimulate economic development, we're
11 going to create jobs for organized labor. For
12 every one billion dollars we invest in our
13 infrastructure it creates or sustains 42,000
14 jobs. And these are jobs that are going to be
15 going to people in the Hudson Valley, whether
16 it's the folks that Mr. Pepe represents or
17 other construction interests. That's the
18 concrete suppliers, the steel fabricators, et
19 cetera.

20 So I think that's a pretty compelling
21 poll question. I don't know how that would
22 stack up against raising tolls versus creating
23 jobs, having a more reliable trip, stimulating
24 interest in states like New York where we would

1 have logistic companies move in here if we had
2 a better and more efficient way to move
3 freights, freight and goods from the port of
4 New York or from the Canadian border or from
5 other entries -- ports of entry in this state
6 out across our country.

7 And the better job that we can do and the
8 more investments that we can make to make our
9 system more seamless and reliable, I think,
10 ultimately, it's going to take a while but that
11 will translate to some political benefits as
12 well.

13 MR. BUSALACCHI: Okay. The one follow up
14 question I had, Tom, and we've talked about
15 this. Changing gears here now but the
16 intercity passenger rail: What do you think
17 the federal role should be in intercity
18 passenger rail?

19 And I know we've had this conversation
20 and you've got some great people here in the
21 state, by the way, that are very supportive
22 but, I mean, do you think the federal role
23 right now is fine? Do you think it should
24 change and if so, how?

1 MR. MADISON: Thank you for saying that
2 about our people. I couldn't agree more and
3 they've given me a good education over the past
4 several years.

5 I think, again, in this instance the
6 federal role can be strengthened with respect
7 to intercity passenger rail. It's such a
8 critical thing here in the northeast. It's
9 actually, apart from being a redundant system
10 to our airlines and other things that we
11 critically need in this area, intercity
12 passenger rail is a vital link between the
13 major cities in the eastern corridor here;
14 between Boston, New York and Washington. And
15 we believe that there should be a stronger
16 federal role or even a specific federal program
17 like a highway program that would fund these
18 projects on the 80/20 basis like the federal
19 highway program.

20 When we look at the dynamics here in the
21 New York metropolitan area and look at the
22 three major metropolitan airports that the Port
23 Authority manages, this year there will be a
24 hundred million passengers on those airlines.

1 Looking out to 2015, there will be 130
2 million passengers. And that's important
3 because when it gets to 130 million goes
4 through airports, that's the maximum capacity
5 that they will be able to handle. So we have
6 to even increase our already heavy reliance on
7 transit systems here in the northeast. And
8 those kinds of investments aren't local to New
9 York or New Jersey or regional even but
10 investments in transit are another example of
11 smart investments for our national economy to
12 move freight and passengers and goods in a
13 different way. So I think we need to have a
14 federal program that puts more money in.

15 MR. BUSALACCHI: Thank you. That's it.

16 MR. SCHENENDORF: I'd like to ask a
17 question and just to kind of clarify the record
18 after all that we have been talking about with
19 respect to the alternative financing
20 techniques.

21 If we are going, as a nation, to meet the
22 transportation needs going out into the 21st
23 century and provide for transportation system
24 that provides for the quality of life that our

1 people want and for the economic growth that we
2 all want, do you believe that just looking at
3 the federal investment aspect of this, that the
4 federal investment needs to be greater than it
5 is today, about the same as it is today or less
6 than it is today?

7 DR. WALTON: Greater.

8 MR. TAYLOR: Greater.

9 MR. MADISON: Greater.

10 MR. McARDLE: Thank you. One important
11 point. Mr. Pepe kind of made the point but
12 it's particularly germane here to things that
13 Mr. Madison said as well, and it might be
14 worth, if you could, some analysis.

15 One of the issues here is the cost of
16 projects. Because they are so massive, simply
17 accumulating the fund to do some projects,
18 particularly the renovation projects has proved
19 particularly difficult; and one of the things
20 that it might be worth the commission
21 understanding is how much money is being spent.

22 Tappan Zee is a good example but the
23 Gowanus Expressway is the best I know. Simply
24 to hold structures up in the air, so to speak,

1 while you are trying to figure out what the
2 rebuild is or where you simply don't have the
3 capital to do the rebuild that you know you
4 would like to do at the end of the day.
5 Because on the question of the Gowanus
6 Expressway, which is approximately four miles
7 long, before they get to the full renovation I
8 suspect you will have probably and simply
9 maintenance to keep it functioning money
10 probably spent close to a billion dollars,
11 literally, just to hold it up.

12 MR. MADISON: I think you're in the right
13 order of magnitude, Frank. I don't know
14 exactly the numbers but that's something we
15 could provide for you with respect to Tappan
16 Zee and Gowanus and other major assets that
17 need renovation in New York, or replacement,
18 but the numbers are staggering.

19 Here in the New York metropolitan area it
20 costs a tremendous amount of money to do
21 projects that anywhere else in the country
22 would be done for a fraction of the cost.

23 DOT is just completing a project up on
24 the upper east side, the Outboard Highway on

1 the FDR Drive. It was a re -- a
2 reconfiguration and a refurbishment of about
3 ten city blocks. We had to build a temporary
4 road out onto the East River for the past year
5 and a half that's now being deconstructed.

6 When you try and go to Washington and
7 explain to a congressional staffer that ten
8 city block project was \$150 million, 50 million
9 of which was to put a temporary -- the
10 temporary roadway out on the river just to
11 maintain flow of traffic while that project was
12 being done; it's mind boggling.

13 So there's tremendous complexity in the
14 nature of projects that we do here, and that's
15 why things like public/private partnerships or
16 some other alternative, and I wish that there
17 were other options or alternatives that are in
18 the dialogue right now because we need an
19 increased infusion of capital in order to get
20 these projects delivered more quickly, to
21 accelerate the delivery of these projects.

22 Every year we go by and don't do the
23 Gowanus and don't do the Tappan Zee, not only
24 are we investing hundreds of millions of

1 dollars in Band-aids, but the cost of
2 construction continues to escalate.

3 And these projects, as Ross mentioned, it
4 was 12 years ago when we started talking about
5 Tappan Zee. So I'm sure the bottom end of that
6 5 to 14 billion dollar range that we're looking
7 at now was significantly lower 12 years ago.

8 MR. SCHENENDORF: Any other questions?
9 Once again, we want to thank you very, very
10 much. This has been very helpful, and I hope
11 that you will all agree to kind of be a
12 resource to the commission as we go forward.
13 And I want to also thank all of the people in
14 your organizations that we've worked with quite
15 a bit and they've been very, very helpful in
16 this process. Thank you.

17 For everybody the afternoon session will
18 commence at 2 p.m.

19
20 (Recess taken.)

21
22 MR. SCHENENDORF: Okay, if we could get
23 started now for our afternoon session and we
24 have another distinguished panel here.

1 We have Richard Larrabee, who's the
2 Director, Port Commerce Department of the Port
3 Authority of New York and New Jersey; Sam
4 Crane, Senior Vice President External Affairs
5 for Maher Terminals; William Goetz, Resident
6 Vice President, CSX Transportation; Anthony
7 Hatch, consultant on finance and railroads; and
8 Glen Weisbrod, the President of Transportation
9 Energy and Economic Practice, the Economic
10 Development Research Group, so we welcome you
11 to the commission hearing.

12 And we'll start with Mr. Larrabee. Again
13 we're trying to hold the oral statements to
14 five minutes. Your written statement will
15 appear in the record, but we'd like to be able
16 to have a good dialogue with you after your
17 statements.

18 MR. LARRABEE: Commissioners, good
19 afternoon. I want to thank you for the
20 opportunity to discuss with you some thoughts
21 on trade and freight gateways both here in the
22 northeast and in our nation. I also want to
23 thank you for taking the time yesterday to go
24 out and visit the port. I think that's

1 probably the best way to see it and get a sense
2 of it.

3 Today the port faces significant
4 challenges in keeping up with transportation
5 infrastructure demands required to maintain
6 both regional and U.S. competitive positions in
7 the world economy. My comments today are
8 specifically focused on a view from the port of
9 New York and New Jersey, but I think they apply
10 to an awful lot of large ports around our
11 country.

12 World trade is a dominant driver in
13 today's freight transportation needs. As you
14 well know, we've gone from a manufacturing
15 society to a service society, and as a result
16 of that we've seen trade become more and more
17 dominant part of our GDP.

18 This growth is, in turn, putting a
19 tremendous strain on the nation's logistics
20 systems. More than 90 percent of the cargo
21 that comes and goes from this country by volume
22 enters our nations through its ports. However,
23 having an effective international gateway is no
24 longer simply a matter of having a strong port.

1 International freight movement is happening
2 within a logistics framework where the port is
3 just one element of that total delivery system.

4 Cargo movement is now planned and
5 organized as a logistic system where each move
6 is part of a supply chain and those links are
7 seamless. The competition for business from
8 international shippers between entire freight
9 and logistics systems, not just ports, and
10 movement is viewed, obviously, from point of
11 origin to point of destination.

12 Our port has an interesting advantage in
13 the fact that we serve one of the most -- one
14 of the largest, most affluent consumer markets
15 in the world. We share that position with not
16 only our own capabilities but also cargo which
17 is coming into southern California and coming
18 across the [unclear].

19 Today 48 percent of our cargo is imported
20 from Asia. Asia surpassed Europe as our
21 largest trading region and China is our number
22 one trading partner. Prior to 2001 the
23 majority of Asian products that were bound for
24 the northeast moved primarily through southern

1 California ports. But after September 11th and
2 after the port disruption in 2002, shippers in
3 our country began to rethink their supply
4 chains and all water services using both the
5 Panama Canal and the Suez Canal have now grown
6 significantly over that period of time. Today
7 there are region and there are new services with
8 larger ships being planned every day. Shippers
9 are finding these services more reliable, lower
10 cost, and nearly matching transit times these
11 days from our west -- to our west coast ports.

12 The port is an economic engine. The port
13 handles about 132 billion dollars' worth of
14 cargo each year, creates today about 233,000
15 jobs and about 25 billion dollars' worth of
16 economic activity in our region.

17 The port's container traffic has an
18 average annual growth of about seven percent
19 per year over the last decade. It's more than
20 doubled from 1996 to today, and it will double
21 again before 2016. We believe that by the year
22 2056 we could see as many as 11 million
23 containers entering this port.

24 Most of that cargo, about 80 percent of

1 it, stays within the region, stays within about
2 150 miles of the port, but a good deal of it
3 today is finding its way into the Midwest and
4 today approximately 13 percent of our cargo is
5 being moved by rail. And I'll talk some more
6 about rail later on in our remarks but
7 primarily we're moving towards a model where
8 about 25 percent of that cargo in the future
9 will be moved by rail.

10 I mentioned that seaports are part of a
11 logistic system that must provide shippers with
12 low cost reliability and cargo velocity to be
13 effective. And I can't stress enough that, for
14 us, we are in a very competitive world. We
15 compete every day with, not only the ports of
16 Los Angeles and Long Beach, but we're competing
17 with Norfolk, and Halifax and other ports on
18 the east coast and so the competitive nature of
19 not only our port but our logistics chain is
20 very important to us.

21 One of the factors that clearly is taking
22 place in our world today is that ships are
23 getting larger and the dynamics of that
24 particular factor are really driving the rest

1 of that supply chain. In the 90s where we were
2 handling ships of about 2,500 TDUs; today we're
3 looking at ships like the [unclear][Ella Merse]
4 which can handle in excess of 13,000 TDUs; an
5 enormous change in the system which is causing
6 the rest of the system to have to rethink its
7 capacity in the way it handles large volumes of
8 cargo.

9 The savings that are offered by these
10 ships are significant. The per unit cost we
11 calculated to be somewhere in the range of
12 savings of about 15 to 20 percent and that's
13 really what's driving the system. As a result
14 of us -- as a result of that the rest of us are
15 having to adjust.

16 Yesterday you had a chance to see some of
17 the things that we're doing in our port in
18 order to be able to accommodate not only the
19 growth in cargo but the change in the size of
20 the ships and the volume which we're having to
21 deal with. And I won't spend too much time on
22 sort of the past five years but I want to just
23 briefly talk about our strategy in terms of
24 accommodating this cargo. Because five years

1 ago there was no way that this port was going
2 to be able to handle either the change in the
3 size of the ships or the volume of cargo that
4 we were going to be dealing with.

5 Dredging became a very important first
6 step in our program and between the federal
7 government and the Port Authority and the State
8 of New Jersey we will spend in excess of \$2
9 billion to deepen our channels to 50 feet.
10 We've completed our 45 foot channel; we
11 actually completed it five years early and \$300
12 million less than was anticipated. We're well
13 into the 50 foot channel and expect to have
14 that completed by 2012.

15 With the channels deepened we now believe
16 we can begin to handle post-Panamax ships and
17 larger volumes but terminals have to be
18 reconfigured in order to do that and today
19 we're spending an additional one billion
20 dollars on container terminals in this port.

21 It's a partnership between ourselves and
22 our terminal operators and basically what we're
23 doing is reconfiguring all those terminals, the
24 one you saw yesterday, to handle these larger

1 ships; deeper berths, larger cranes; better
2 yard handling equipment, better software to
3 handle and manage the cargo, better gate
4 systems.

5 Sam Crane is going to talk next and we'll
6 talk a little bit about what Maher's doing
7 today to improve their system.

8 The real challenge for us in the future
9 is inland access. If we bring twice as much
10 cargo in here in the next ten years as we now
11 handle, how do we get it out efficiently. And
12 the key to this is velocity and, from our
13 perspective, we're focusing more today on that
14 land side transportation system.

15 I can talk later on more about the rail
16 system and about trucks and what we're having
17 to do with roadways, but the thing I would like
18 you to take away from, the fact is that as we
19 make our investment in our port, we're limited
20 in terms of how far out we can go into that
21 system. We're limited to a 25 mile radius
22 around the Statue of Liberty and when we begin
23 to look at that system we begin to realize that
24 there are a number of choke points in that

1 system outside the port that really have to be
2 dealt with.

3 We're going to spend nearly \$650 million
4 on on-dock rail facilities in the port. We'll
5 talk about how we finance that but one of the
6 critical issues for us, and you'll hear from
7 Mr. Goetz later, is matching our capacity with
8 the capacity that CSX in north and southern
9 bring to the port and are assisting us in terms
10 of moving that additional cargo.

11 There are two factors that I'd like to
12 just mention that I think we need to come back
13 to in our discussion. One is security and the
14 other is the environment because both of those
15 factors today are not only increasing the
16 challenges that we have in terms of designing
17 systems that meet both areas of requirements
18 but also they add considerable cost to the
19 equation. We've increased our security costs
20 since 9/11 by about 900 percent; we're spending
21 literally millions of dollars in environmental
22 programs today that have to be offset in our
23 business model.

24 Just to conclude, when I talk about these

1 investments, I'd like you to keep in the back
2 of your mind two models. One is that the Port
3 Authority is a financially self-sufficient
4 organization. With the exception of dredging,
5 all of the funding that I'm talking about has
6 to come from our revenue stream. We finance
7 most of our capital programs through borrowing
8 in the market which means that we've not only
9 got to cover our operating expenses but the
10 cost of capital, and so each time I look at a
11 new capital investment in the port, I've got to
12 answer the question: How do I pay for this?
13 And that's a discussion that I know you've been
14 having over the last couple of days.

15 When you look at that financial model, I
16 think there are any number of ways to answer
17 that question, but one of the issues that I'd
18 like to be able to talk about later on is the
19 notion that ports and water-borne
20 transportation in general add public benefit to
21 our transportation system, air quality,
22 congestion, are all issues that I think we can
23 find solutions to when we look at moving cargo
24 by water. How do we capture those benefits,

1 who pays for those benefits is one of the
2 issues.

3 Funding for us is going to be a critical
4 factor going forward. When you talk about
5 improving roadway systems, there is no direct
6 revenue sources associated with that; where
7 does that come from? And one of the
8 observations I would make is that I look at my
9 counterparts in other modes; I look at aviation
10 where they have PFCs, and I would like to have
11 probably a more reliable source of funding for
12 some of the projects that we can't attach a
13 revenue stream to. So that may be one of the
14 issues we want to talk about. Finally I think
15 from our perspective one of the issues that
16 clearly -- I know is on your agenda today, is
17 this notion of national policy when it comes
18 to particularly freight movement.

19 Recognizing that freight today is not
20 about individual projects or nodes if you will,
21 it needs to be viewed as a system. How does
22 the federal government begin to think about
23 gateways such as New York and perhaps Los
24 Angeles and Long Beach or Houston or Chicago,

1 how does it begin to think about that system in
2 terms of a system, in terms of what needs to be
3 done to improve it and ultimately how do you
4 pay for that.

5 All of that, I'm sure, is part of our
6 discussion and I'll stop my comments at this
7 point. Thanks.

8 MR. SCHENENDORF: Thank you. Mr. Crane.

9 MR. CRANE: Thank you. Would you go to
10 the second slide, please.

11 I want to talk a little bit and I'm going
12 to talk about containerized cargo today. Not
13 that there aren't important logistics issues
14 with the borders of Mexico and Canada, or the
15 inland waterway, with grain and other bulk
16 products but containers is what I know.

17 I think on the slide you see that 78
18 percent of all the containerized cargo is
19 moving through ten points. I'm going to come
20 back to that theme over and over again. Would
21 you go to the next slide, please.

22 The traditional view of this -- and this
23 is a slide of those ten points, if you will,
24 showing their volume in 2005. These ten points

1 are our gateways to international trade but
2 they are also the gateways into the domestic
3 freight movement system in this country, and
4 right now we are counting on these ten gateways
5 to move our products in and out of this
6 country. Next slide, please.

7 We spent some time altering that slide
8 for two reasons. One if you will notice that
9 at a ten percent growth rate assuming that none
10 of those ten points could handle any more cargo
11 we would have to add the port of Sea-Tac every
12 year. That's a new port of the size of
13 Seattle/Tacoma every year. That's impossible.
14 It will never get done so we're going to have
15 to push more through.

16 And to support what Director Larrabee has
17 said, the largest port in the United States is
18 not on the coast, it's on Chicago. And it
19 doesn't have a gantry crane and doesn't unload
20 ships but it moves more containers through the
21 port of Chicago via this nation's rail system
22 than -- so it is our largest mover of
23 containers.

24 Next slide, please. This thing faces

1 some real challenges, and I'm not going to talk
2 about each one of these, but I want to focus on
3 the third one.

4 When you look at -- you assume that these
5 are the ten points of connection. There are
6 ten regions attached to that; regions close to
7 the port and regions more distant, but they
8 are, if -- they are the points on which this
9 system will succeed or fail.

10 As Director Larrabee has pointed out, our
11 biggest fear at Maher Terminals is not the
12 ability to get deep water to operate our
13 terminal. Our fear is for the road and rail on
14 the other side of the fence. Next slide
15 please.

16 So we think there's some solutions that
17 need to be addressed and we can discuss each of
18 these individually or whatever. But I think
19 one of the questions that was raised yesterday
20 during the tour is: Is there a national
21 interest? Is there a national role? Is there
22 a federal role in the freight movement system?
23 And the answer, from my point of view and the
24 point of view of the organizations that I've

1 been working with in Washington and elsewhere,
2 is that, clearly, this is of national interest;
3 this is a national system.

4 Next slide, please.

5 So let me talk about a regional approach
6 for the federal government.

7 We believe, many of us, that if these are
8 the ten points then we have to start to focus
9 on those and we're going to have to build
10 partnerships that is not a federal system.
11 This is not a state system; it's not a Port
12 Authority system, or a railroad or a port
13 terminal system. It is the collection of those
14 interests that need to devise and develop a
15 plan and execute it. Next slide please.

16 Let's talk about the components.
17 Everyone talks about funding. Some offer the
18 easy solution: We're going to privatize
19 everything. Some say we should have everything
20 publicly funded. Some people have -- these
21 regional plans will be the purest expression of
22 mixed revenue sources, mixed responsibilities.

23 Let me give you some examples. We
24 invested 400 million in our terminal as I

1 outlined on the tour yesterday. Right next to
2 us -- that's 400 million in private money in a
3 transportation facility that some call a
4 terminal. Next to us private railroads like
5 our friends at CSX are investing hundreds of
6 millions of dollars to increase that.

7 You saw all the Port Authority
8 investments in on-dock rail. They are putting
9 up the money to fund that \$650 million
10 investment that Director Larrabee talked about.
11 It's being repaid with a per lift charge on
12 the containers that go through there. That's a
13 mixed public/private.

14 And then we can talk about Portway which
15 is a road complex to connect the port to our
16 major rail heads. That is a purely public
17 investment with huge public benefits.

18 And finally, my favorite topic, is that
19 the government controls and regulates a lot of
20 what we do, including where trucks can move at
21 night. So if you want to move freight in the
22 middle of the night somebody's going to have to
23 let those trucks go through those communities
24 to those distribution centers where there's

1 restrictions today.

2 Next slide, please. I've submitted the
3 full MTSNAC report, Maritime Transportation
4 System National Advisory Committee. When we
5 sat down to do this, this was an interesting
6 group around the table, and one of the things
7 we fashioned, and I think this gives you an
8 example of how the issues rate between the
9 public and private sectors, and what it shows
10 that if you put those two sides together, you
11 get more efficiency out of existing systems,
12 you can change business practices, you can
13 change the amount, you know, luring more
14 employees into this business. At the same time
15 the public does some things to complement
16 those, and that is the regional plan.

17 I'm out of time, thank you, and I look
18 forward to the balance of the discussion.

19 MR. SCHENENDORF: Thank you. Mr. Goetz.

20 MR. GOETZ: Thank you very much. Good
21 afternoon and welcome to New York.

22 I'm going to begin with a distinctly New
23 York story and finish with national policy,
24 hopefully in five minutes or less.

1 To introduce myself my name is William
2 Goetz; I am a career railroader and have worked
3 in the industry for 29 years. I'm employed by
4 CSX.

5 Next slide, please.

6 And just briefly CSX is an \$8.6 billion
7 corporation. Its core holding is a 21,000 mile
8 railroad. It is the largest freight railroad
9 in the eastern United States.

10 Next slide, please.

11 From the perspective of operating a
12 freight railroad franchise in this part of the
13 nation, and I'm going to limit my comments to
14 this New York/New Jersey region, this is very
15 much a consumer economy and our freight
16 activity is pulled by consumption of the 19
17 million people who live in this region.

18 On a railroad map this is an end point,
19 this is a place that trains come to and finish
20 their business here. There isn't much
21 interchange between railroads here. This isn't
22 Chicago, Memphis or New Orleans, but what there
23 is here, and it's very, very critical, is an
24 enormous interchange of freight between modes;

1 from rail to truck and from rail to water.

2 Next slide, please.

3 I'm prepared to speak to two subjects,
4 one being the challenge of mainline route
5 capacity and the second be the complications of
6 serving the very highly successful port that we
7 have here. To honor your time I'm only going
8 to address the first one in my opening
9 statement but if you'd like to dive into the
10 second subject we can certainly do that.

11 Next slide, please.

12 Let's talk a little bit about mainline
13 route capacity. Route capacity is basically
14 the ability to put a train across a track at a
15 given speed at a given time; that's what it's
16 all about. And under normal operating
17 conditions the freight network in this region
18 can do that; under normal operating conditions.

19 Quite frankly, this industry does not
20 knowingly sign up for more than we think that
21 we can do. However, the network is vulnerable
22 to what I would call abnormal events. There is
23 not a lot of redundancy, there is not a lot of
24 backup in this system, so abnormal events like

1 weather, mechanical failures, track
2 maintenance, or any of the other things that
3 can happen in a highly populated area can have
4 a direct impact on the quality of rail service
5 that we provide.

6 So I want to use this time with you this
7 afternoon to talk a little bit about these
8 kinds of issues. I don't think I need to prove
9 that this is a congested area. I see the
10 charts in the back of the room. I think you've
11 probably heard that from other folks who have
12 come before you. But what I'd like to do is
13 discuss, first of all, how we got from where we
14 were to where we are now. Discuss a real
15 project that we have done in this area, to do
16 something about it, and offer you a critique of
17 that effort and then describe some lessons
18 learned that might be useful for the formation
19 of federal policy. Next slide, please.

20 Look out the window if you will, this is
21 a great room for this speech. This region,
22 this city, more than anything else derives its
23 identity from its fabulous waterway system. It
24 is probably unparalleled of any other city in

1 the United States.

2 The port was and is -- was New York's
3 first industry and as industry and
4 manufacturing came to this region it located on
5 the waterway. The Manhattan, Brooklyn and the
6 New Jersey waterfront was just loaded with
7 industrial activity.

8 And when the railroad industry came into
9 its own in the mid 19th century the waterfront
10 was where it wanted to be, getting to New York
11 meant getting in -- getting to and on the
12 water. And if you had looked out this window
13 in the year 1900, it would have looked like an
14 enormous railroad switching yard.

15 There would be railroad cars being
16 floated all throughout the harbor because all
17 the customers were there and all the other
18 railroads were there. But as you know, and as
19 you can see here, if you look out there you
20 will not see one railroad car out there, and
21 you'll have to look pretty hard to see any
22 waterfront industry either. That's all
23 changed. It didn't happen overnight but it did
24 happen. Next slide, please.

1 What happened was the customers moved to
2 other locations, waterfront property became
3 prized for other development and the railroads
4 had to react and respond to that. Customers
5 increasingly wanted to be on the interstate
6 highway grid. Not only were they not on the
7 Hudson River, they were not on the railroad;
8 they were on the highway network. And so we
9 had to reach them and so we had to build
10 facilities to transfer between rail cars and
11 trucks to get to our customers.

12 And we did that by building a whole
13 series of trans-loading facilities that are
14 shown here on the map; facilities to transport
15 automobiles, containers, trailers, even bulk
16 materials. Next slide.

17 But you know at the heart of this, this
18 whole activity was really a retrofit because
19 the system was being used in a manner different
20 than it was originally designed. Also the rail
21 network became increasingly specialized. This
22 list shows that there were ten railroads that
23 were built to serve this region, but as time
24 developed, as time passed, and the industry had

1 its challenges in the 1970s, practically all
2 these railroads were bankrupt and anxious to
3 shed passenger operations. Willing, also, to
4 shed title to a lot of the routes. Next slide
5 please.

6 So what happened was the main most robust
7 rail plans were turned over to rail passenger
8 operations. For example, all the first six are
9 now almost exclusively rail operations or --
10 are rail passenger operations. What was left
11 on the freight side were, at best, I would call
12 the second tier railroads, and we continue to
13 struggle with that today. Next slide, please.

14 And so to do something about this, when
15 CSX and Norfolk Southern acquired and divided
16 the common law franchise, they immediately
17 began to look to what problems they were going
18 to encounter in this North Jersey area, and
19 this horribly complex slide here shows all of
20 the projects that were needed, but at its heart
21 was an objective to meet -- to reach the port
22 and also to reach those trans-loading
23 terminals. Next slide.

24 What was developed from that was a

1 structure of a five-party structure, which
2 includes CSX and Norfolk Southern, its wholly
3 owned subsidiary Conrail, and on the public
4 sector, the Port Authority and the State of New
5 Jersey.

6 CSX and NS developed a business case and
7 contributed 25 million. The Port Authority and
8 the New Jersey DOT assessed the projects for
9 alignment with public policy and also
10 authorized 25 million. That combined 50
11 million went to Conrail to do the engineering
12 and ultimately to construct the projects. Next
13 slide, please.

14 So what do we learn from all of this?
15 Well, first of all the effort was a success.
16 You know, some projects are already complete
17 and in use and most will be complete by the end
18 of next year. And we now have areas of double
19 track where we had single track. We've
20 eliminated a number of very critical pinch
21 points in this area.

22 However, we've also learned these things.
23 The process was very slow, the time from
24 conception to completion, 1998 to 2007, just

1 about ten years; that's a long time.

2 We found that changed management was very
3 difficult, issues like cost overruns have been
4 difficult to deal with, and the institutional
5 structure is not really portable to other
6 areas. You can't take this structure and plug
7 it into Atlanta or San Diego or another area.
8 It's a very uniquely New York, New Jersey type
9 of solution, and also the project pace has made
10 it vulnerable. From conception to completion
11 the State of New Jersey has had five different
12 governors and the three CEOs of the railroads
13 that authorized this, none of them will be
14 around in their position as CEO to cut the
15 ribbon when the project is completed in 2007.
16 So when you have a project that takes this long
17 to complete, it becomes vulnerable and its very
18 completion is put at risk. Next slide, please.

19 So I submit to you, respectfully, that
20 today's policy risk is less about doing the
21 wrong things and more about doing the right
22 things too slowly. And I would urge you to
23 consider these objectives; first of all, to set
24 freight capacity growth as a policy objective,

1 to acknowledge a sense of urgency, to push
2 project identification decisions to the
3 private sector, and establish private sector
4 investment incentives.

5 Now, I could end here and say I hope you
6 figure this all out and let me now how you do
7 it, about I actually have an idea. Would you
8 go to the next slide, please.

9 The railroad industry has advocated,
10 instead of attacking this problem strictly from
11 the grant and program side, but also looking at
12 it from the revenue side of federal policy, has
13 specifically proposed an investment tax credit
14 tied very tightly to infrastructure growth.

15 A 25 percent investment tax credit with a
16 limited five-year life period tied to
17 investments in a new capacity. This is not
18 about, you know, a tax benefit for just
19 repairing or renewing things that are already
20 there. It has to be new and additional
21 capacity, new additional horsepower in the
22 locomotive fleet.

23 It also has to be hard assets. Real
24 things; track, locomotives, not studies, not

1 research. And the tax credit concept has some
2 very positive benefits associated with it.
3 Number one is it's limited. You can only
4 credit as much tax as you pay, so it forces the
5 private sector to really scrutinize the
6 projects and pick the best ones.

7 It's not an unlimited resource, so it
8 demands careful scrutiny of how funds are
9 actually allocated. And also it's a perishable
10 resource. It's a use it or lose it, so it
11 really encourages the private sector to,
12 likewise, acknowledge that sense of urgency
13 that we've been talking about today.

14 So I thank you very much for the
15 opportunity to speak to you, and I'll be happy
16 to respond to any of your questions.

17 MR. SCHENENDORF: Thank you very much.

18 Mr. Hatch.

19 MR. HATCH: Thank you. First of all,
20 thank you, Commissioner, it's an honor to be
21 here. I've been an equity analyst for 23
22 years, so I'm going to try to give you this
23 perspective on railroads and returns in the
24 commission, next slide, please, and capital

1 capacity and how they're inter-connected from
2 the perspective of the investment community.
3 And I'm going to be saying "next slide" a lot
4 so I apologize. I thought I'd have this
5 controlled directly.

6 What I see going on in the railroad
7 industry here is they've actually reached a
8 historic tipping point where demand has
9 equaled, or in some cases, actually exceeded
10 supply. Rail market share is increasing. I
11 believe it's a secular and not just a cyclical
12 story, and I think that has real ramifications
13 for all of us. Next slide.

14 The key thing here is that, although the
15 investment community is a critical stakeholder
16 here, it's also a score board. So I think the
17 role of an analyst to the people who invest in
18 this industry is important for even those who
19 don't actually care about this part. The share
20 price is the indicator over time, of the health
21 of the company or the industry and return on
22 investment capital and cash flow are the key
23 drivers of that. It's a key driver to whether
24 we're going to go for the old model of

1 railroads of dis-investment in the industry or
2 a new model of investment. Next slide.

3 That is really the key thing. To me the
4 top management's number one decision is where
5 they spend their money. Capital expenditure on
6 maintenance is obviously critical to maintain
7 that enormous plant out there, but also the
8 options now for shareholders on dividends on
9 [unclear] [any] tax policy, direct share
10 buybacks or mergers and acquisitions. Or
11 bucket number two, [unclear] [cap] extra
12 capacity service and growth which is really
13 critical for solving any of our future needs.
14 Good returns are required for that and that's
15 also where the investment tax credit we just
16 heard about can serve a role. Next slide.

17 What I see right now is actually on the
18 verge of being in a virtuous circle this year,
19 and that's where better returns on investment,
20 better stock prices, driven by better revenue
21 prospects, allowed for higher capital
22 expenditure which allows for more capacity in
23 return allows for more business that drives up
24 stock prices, et cetera; you get into this

1 virtuous circle. It's a tremendous situation
2 to be in. For many years, both before and
3 after deregulation, the railroads were in quite
4 the opposite. Next slide.

5 As we approach the virtuous circle we see
6 the railroad stocks have outperformed the
7 market over the last -- through this last
8 period of the cycle. Next slide.

9 But over time, dating back to
10 deregulation 1980, they have significantly
11 under-performed the market. The key question
12 is, you know, what's changed and what happened
13 before. Next.

14 Historically, rail earnings have been
15 substandard. When we hear about record profits
16 and whatnot, the critical thing here is to earn
17 enough money in order to justify reinvestment.

18 If you look at rail earnings for 2005 and
19 how they compare to many other industries, many
20 of which are either competitor industries or
21 customers, you see how they are substandard.
22 Next.

23 This is really the critical thing: The
24 cost of capital, the way that average costs of

1 capital, versus the return on invested capital.

2 Rail stocks have done well. They still

3 trade at a discount to all stocks in general.

4 They do that because we still see this red

5 here, the cost of capital, which has come down

6 until recent years, tied to the return on

7 invested capital.

8 Now, three of the six, big six railroads

9 in North America are earning the cost of

10 capital currently, that is they're doing it in

11 2006, to my estimation. I think at some point

12 in the next several years all of them will, and

13 that will be a fundamental change. That will

14 be the first time that's happened since the

15 Second World War. Next.

16 It costs a lot of money to be in this

17 business. You take a look at capital

18 expenditures there and you look at it through

19 several cycles; there is a lot of money being

20 spent. We think that's a good thing. It's a

21 sign of belief in your own business. Next

22 slide.

23 You see where railroad stands here in

24 terms of they're spending almost 20 cents on

1 the revenue dollar, 18 cents in each revenue
2 dollar back in -- on their system, and compared
3 again to other industries. Next.

4 This is rails since deregulation.
5 Clearly it's been a pro-consumer move, if you
6 see what price and constant dollars is and what
7 productivity is. The revenue line is trailed;
8 we believe that's ticking up at the end and we
9 think the volume number will tick in for
10 reasons of the next slide, please.

11 The fundamental driver related to what
12 the first two gentlemen talked about is
13 intermodal. Globalization, world trade, truck
14 load issues, and share recovered from the
15 highway and the general costs of [unclear]
16 rails are driving this. Next.

17 But the key question is: Is this growth
18 important? Capital expenditures are going to
19 be up another ten percent in 2007. From the
20 investment community, we want to know can this
21 intermodal model be extended to carload? Is
22 additional capacity necessary for Wall Street
23 to [unclear] [role] change? These are the
24 critical, key issues we're talking about.

1 Next.

2 The sources of capital come from free
3 cash flow from governments; I want to refer you
4 and direct you to RIF loans, and we hope this
5 ITC program ends. I think Canada has got a
6 terrific model to study in the pacific gateway
7 model. Traditional street sources and the new
8 entries private equity noticed is the Rail
9 America deal announced yesterday.

10 The reason for this, that we see
11 tremendous opportunity here, is because
12 infrastructure and capacity will be at a
13 premium and I think that it will be paid for.
14 Next slide.

15 Because there's serious congestion, I
16 think we have a major government opportunity
17 here and major issue for the private and public
18 sectors to work together and that's it for me.

19 I look forward to answering any
20 questions. Sorry I was a little late.

21 MR. SCHENENDORF: That's fine. Mr.
22 Weisbrod.

23 MR. WEISBROD: I want to thank the
24 commission for the opportunity to speak to you.

1 I'm actually speaking to you as the chairman
2 of the Transportation Research Board Committee
3 on transportation and economic development.
4 And I'd like to switch gears a little bit and
5 talk about a 50 year time horizon about our
6 economic competitiveness and its relationship
7 toward international trade corridors in the
8 Canadian border.

9 First thing I'd like to point out when
10 we're talking about the Canadian border is,
11 there are no two countries on our planet that
12 has as much mutual trade as United States and
13 Canada. It's \$500 billion a year. And that
14 trade is not just between United States and
15 Canada; it's also a very interesting growing
16 element of trans-shipment which is where
17 Canadian goods are exported out through U.S.
18 ports overseas and U.S. goods go through
19 Canadian ports. Next.

20 This is particularly important if you
21 look at the map here because there are some
22 very interesting changes in the shipping
23 patterns that have shifted to the northeast.
24 To talk to people 15 years ago, everyone's

1 talking about China trade and what this is
2 going to do to the west coast, United States
3 ports and everyone thought the east coast ports
4 were, you know, not going to happen much. And
5 since then the amount of trade that's moved
6 through the Suez Canal from south Asia and
7 through the Panama Canal from north Asia as
8 well, has really taken off. That's what's been
9 putting a lot of pressure on. So, when you
10 look into the coming decades, we have to look
11 at our capacity on that. Next.

12 One of the big issues is the
13 concentration that we have of port traffic.
14 We've heard from some of the other speakers
15 about the amount that's concentrated right now
16 in the New York/New Jersey area; there's some
17 efficiencies to that and there's some cause of
18 congestion from that.

19 But looking to the future, you have
20 expansion in the port of Boston. You have a
21 lot of people in Maine making plans for a major
22 port expansion as well as in Nova Scotia; not
23 only Halifax but a major super port at Canso
24 Bay, Strait of Canso, and in New Brunswick, St.

1 John.

2 So these people are banking on the fact
3 that, looking over the next 20, 30 years, there
4 are going to be further shifts happening in
5 port activity. Next.

6 Now, one of the other aspects which we
7 heard from Mr. Larrabee was about because of
8 the concentration of port activity, the
9 distances, they were traveling by truck and
10 rail to get to the ports, is pretty dramatic.
11 You have a lot of freight going several hundred
12 miles, sometimes even a thousand miles.

13 This chart here shows the major sources,
14 this is by dollar amount, U.S. trade
15 information, the states that are shipping
16 through the ports of New York and New Jersey.
17 You see very much how it tracks through the
18 existing highway and rail network. So that
19 network's ability to serve long distances for
20 these regions to ship through these ports is
21 very important.

22 The flip side of this, go to the next
23 slide, is how any given state has to ship long
24 distances. If this -- I took the example of

1 Massachusetts. Actually, of products made in
2 Massachusetts, only one-third of them go out of
3 the airport and seaport in Boston. Two thirds
4 go out through other states and, in fact, New
5 York City airports and marine ports have just
6 nearly as much service to Massachusetts as the
7 Massachusetts air and seaports. So, you know,
8 we have a lot of dependence of Massachusetts
9 products going down to New York.

10 The State of Maine would be the same
11 thing. If you look at the top ports for
12 exports of Maine products, after Calais, Maine,
13 number two Maine export location is JFK
14 airport, by dollar. So there's just a
15 tremendous amount of this reliance on
16 further-away ports. Next slide.

17 And this slide shows a forecast for now
18 and the year 2020 in terms of the congested
19 corridors. We've heard from other speakers
20 yesterday and today about the congested
21 corridors, but what's interesting from the
22 point of view of trade, is that it not only
23 constrains the trade growth, but for the areas
24 furthest away, it makes it particularly hard

1 for them to get their products to the ports.

2 Next slide.

3 And if you focus in now on New England in
4 particular, New England has a very unique
5 problem; the corridor down to Connecticut.
6 Now, Connecticut and New Jersey have some of
7 the fastest congestion growth so it's very hard
8 for products, going over the next 10- 20 years,
9 coming down from Connecticut into New York.
10 Unfortunately all the other points west, you
11 have Lake Champlain and the Hudson River,
12 there's very constrained bridge crossings
13 there. Not only for trucks, it's particularly
14 constrained for rail. So much so that there's
15 a dramatic reduction in the amount of freight
16 on the eastern side compared to the western
17 side.

18 So, in effect, New England could become a
19 prisoner of congestion. Or as another
20 colleague of mine has said, it could become a
21 fairly irrelevant cul-de-sac in the global
22 economy if something isn't done, which is why
23 the northern New England states are looking
24 very much northward to connections into Canada.

1 Next.

2 And this is to illustrate the fact that
3 even northern New England states are very much
4 shipping to Europe and Asia.

5 And my final slide I want to talk about
6 is across the border. Because of these issues
7 of New England being stuck in terms of its
8 international trade, New York, the northern New
9 England states have joined with five Canadian
10 provinces to form what was originally called
11 Northeast Border Corridor Project, now called
12 the Northeast Can-Am Connection Project, to
13 look specifically at the opportunities for
14 improving connections, east-west connections
15 along this corridor.

16 If you look at chart you'll see that the
17 eastern Canadian border is the only part of the
18 United States borders anywhere where it folds
19 back on itself, not once, but twice. So you
20 have going -- traveling in the U.S. going
21 around Lake Erie and Canadian travel going up
22 over Maine, go several hundred miles out of the
23 way just to avoid border crossings.

24 In the future, if we could solve our

1 border crossing issues, there could be
2 tremendous economies to save, and that's why a
3 lot of the shippers that have been talking
4 about this project are very much interested in
5 the economies to be had if a trade corridor was
6 developed between the upper Great Lakes,
7 northern New England and ports in Maine or the
8 Atlantic Provinces. They see that not only can
9 this save money, it can also relieve the
10 pressure on the existing ports where the
11 congestion is getting -- projected to get so
12 bad in the future. And it can also help
13 relieve the isolation of that region in terms
14 of its economic development.

15 But in closing, all of this depends on a
16 great deal of inter-governmental coordination
17 between the U.S. and Canadian side, and it also
18 depends on coordination between those two sides
19 in terms of developing the surface rail and
20 highway routes that would have to connect to
21 those gateways. Thank you.

22 MR. SCHENENDORF: Thank you, and again,
23 thank you to all of our panelists.

24 I would like to start the questioning

1 with Commissioner Busalacchi.

2 MR. BUSALACCHI: Thank you, Jack. Well,
3 I'll start with Sam and then any of you others
4 can jump in here. Thanks again for yesterday,
5 for the tour of the port. It was very
6 enlightening.

7 The concern I have, obviously, after
8 being with the [unclear] [SA] is the trucking
9 aspect of what's going on here. And I mean, in
10 talking to you, I think it's serious in that
11 the port is going to get to the point where
12 it's going to be at capacity, as I understand
13 it, and movement of freight in and out of the
14 port is going to be difficult, especially if
15 the regulations on these drivers tighten up and
16 you lose this pool of drivers at a time when
17 you need more drivers.

18 So I guess what I'd like you to do and
19 any of other panelists can jump in here, but
20 kind of just take us through, you know, this
21 problem from the time the ship comes in to port
22 and the time that, you know, the container
23 leaves -- leaves the yard. I mean when we left
24 yesterday we looked out on the bridge and all

1 we saw were trucks lined up not moving on the
2 bridge, so I think this is an issue that --

3 MR. SCHENENDORF: One thing the turnpike
4 was right next to us.

5 MR. BUSALACCHI: That's right. Nobody
6 was on it.

7 MR. SCHENENDORF: Nobody was on it. They
8 were just sitting on this one bridge.

9 MR. BUSALACCHI: Right. It was kind of
10 humbling when you look at it, you know, when
11 you see all of these poor truck drivers sitting
12 up on that bridge because they don't pay a toll
13 there and then there's nobody on the turnpike.

14 But I think this is really something that
15 we really need to talk about because I really
16 think that this is going to be part of our
17 charge and when we do this report and how we
18 face this challenge, which I think is going to
19 be significant. But I'll let you experts get
20 into it a little bit more.

21 MR. CRANE: Well, I will not hold myself
22 out as a trucking expert, Frank, but let me try
23 and tell you. The trucking challenge has about
24 four parts to it. It has, we need more

1 drivers, which raises the economics and pay of
2 those drivers, particularly if they're small
3 business; the [unclear] [trades] drivers, or
4 small business people owning one truck in their
5 backyard. So there is an economics issue.

6 There's also attracting people not just
7 in trucking, but I would say the whole freight
8 movement industry to participate in a career
9 sense.

10 The second thing is they face significant
11 restrictions on hours of operation, but also
12 restrictions on their environment -- on the
13 environment and that is the coming of sulfur
14 fuel but also everyone trying to clean up the
15 engines. None of those drivers wants to
16 breathe bad air, but the economics tied to the
17 environmental and how much they can drive are
18 connected.

19 I think the third thing is that we have
20 really made them the enemy in this country.
21 And particularly in New Jersey, I happen to
22 live in Hopewell Township, New Jersey, small
23 little 'burb, we got Route 31. We're ground
24 zero for the anti truck movement in New Jersey.

1 All my neighbors hate them except for me.

2 We also have a CSX line that we love as
3 well. I love, none of my neighbors loves. But
4 the fact of the matter is that we've now made
5 the truck the bad guy instead of one of the
6 critical links that allow us to compete
7 worldwide, and I'm looking at it from the poor
8 truckies.

9 And the last point is that the industry,
10 and that includes marine terminals, like Maher
11 Terminals and others, have got to start to
12 figure out a way to help that trucker move, get
13 the cargo they need and get out of our
14 facilities quickly. It's why we extended our
15 hours, voluntarily, no regulations, nobody told
16 us to do it; we did it as a business decision.
17 It hasn't fulfilled everything we'd like to
18 date.

19 So I think those are some of the things
20 we need to do to tackle this. Because it is
21 the combination of truck and rail that is going
22 to make this work and they're no longer
23 competitors in my mind. We've got truck
24 drivers who support rail improvement programs

1 because they are mostly serving the rail lines.
2 The rail lines need the trucker to do the last
3 mile. So what we need to do is to take a more
4 balanced approach, and frankly, I think the
5 most -- I'm going to go back to this -- they
6 are not the enemy. I'm tired of them being
7 beat up. They're the ones who get the bad rap,
8 along with us [unclear] [who only have a] truck
9 line.

10 MR. BUSALACCHI: So Sam, let's just
11 assume you wake up on Monday and you find out,
12 which could probably happen, that you've lost
13 ten percent of the drivers in this area. What
14 happens to the ships? What happens to the
15 port?

16 MR. CRANE: It slows down. And as we
17 discussed yesterday this is all about velocity
18 and if we cannot process it, since we're
19 largely a truck port, a local regional service
20 port using truck, it will slow down. And that
21 means the capacity of the terminals will
22 decline, which means we can handle less ships,
23 will take us a longer time to do it because we
24 will not have enough places to put containers

1 because we can't get them out the gate.

2 MR. BUSALACCHI: Where will it go then,
3 Sam?

4 MR. CRANE: Well, it will go to ports
5 that are successful in doing that.

6 MR. WEISBROD: What if they don't have
7 drivers.

8 MR. CRANE: I think then you've got --
9 now you're going to start talking about a
10 national economic problem. This is when, I
11 believe -- I believe you're from Wisconsin?

12 MR. BUSALACCHI: Yes, sir.

13 MR. CRANE: Pretty good football team,
14 not as good as ours. It's the first time we
15 ever had an undefeated football team. You've
16 got to understand in New Jersey this is yeah,
17 it will probably end in a couple of weeks.

18 But the people that have a problem with
19 this probably is not the New York metropolitan
20 area because we will figure out a way to
21 service that local cargo. But it is the people
22 of Wisconsin and the people of Western
23 Pennsylvania and the people of Ohio who will
24 have the biggest problem.

1 And that's the point I tried to make
2 about these ten points. These ten points are
3 not -- just because it's located in New York
4 does not make it a local facility, the port.
5 Where the truck drivers have lived in the New
6 York metropolitan area. They are a national
7 service system, and that's the way I think it
8 has to be viewed.

9 And that's why we push, to go back on
10 message, the regional approach because if these
11 regions fail, and I'm going to speak for
12 L.A./Long Beach. I will mention that place in
13 the south Norfolk once and only once.

14 MR. BUSALACCHI: You did it once
15 yesterday too.

16 MR. CRANE: I know, Brian Maher, I may be
17 looking for a job, Rick's going to tell him.

18 But other places if one of those has the
19 same nature of problem we're not going to have
20 the capacity to divert to the port of New York
21 and take that from Norfolk or they're not going
22 to be able to take our load. We're kind of all
23 in this together. We might compete, and that's
24 good for the nation, but at the end of the day

1 we all need each other.

2 MR. BUSALACCHI: Richard?

3 MR. LARRABEE: There's a couple of points
4 I guess I'd just like to make. One is that
5 when you look at this region, less than two
6 percent of the truck traffic is port-related.
7 What's happening is when that container comes
8 off the port, we've divided the road up into
9 what we call three-tiered moves; the first move
10 being the cargo coming into the port and sort
11 of moving to the gate; the second tier is from
12 the terminal to that first point of rest which
13 is a warehouse and distribution center.

14 And then the third move is that move from
15 the distribution center to the retail outlet.
16 And of all those moves, as I said, about two
17 percent of it is truck; port/truck related
18 activities.

19 The market, I think, today creates a
20 tremendous amount of competition in the
21 trucking industry. If we reduce the number of
22 drivers, obviously the cost of that trucking
23 industry is going to go up. Those drivers that
24 are left are going to get better salaries and I

1 think the market factors will begin to adjust
2 when it comes to that whole issue.

3 We have 60,000 truck drivers that service
4 the port of New York and New Jersey. So if we
5 lost ten percent of them, I would say it would
6 have an impact, but I think we could make it
7 up.

8 The real question for us, I guess, is
9 what's going to happen when [unclear] [quick]
10 comes in, when we begin to raise standards.
11 We, like every other port in the United States,
12 are looking at that whole situation.

13 The other thing we're doing is that we're
14 thinking from a systems standpoint, thinking
15 about the notion that our only success is going
16 to come when we can move cargo quickly off the
17 port; where does it go how does it get there
18 and how do we improve that system?

19 Warehousing and distribution and the
20 location of that warehousing and distribution
21 is a critical issue for this port and every
22 port throughout the nation, because that part
23 of the system is really what's going to create
24 that velocity. Looking at better ways to move

1 that cargo, whether it's short distance or long
2 distance, is another one of the issues that
3 we're looking at.

4 We have a program called Portway that Sam
5 mentioned earlier, creating dedicated truck
6 routes to clusters of warehouses makes sense.
7 Instead of taking trucks all the way to
8 Pennsylvania to a warehouse and then bringing
9 those goods all the way back the next day, can
10 we find a way to bring that warehousing
11 industry closer to the port.

12 We have a program called Port Ways [ph.]
13 which is taking old brownfield sites which
14 there are about 2,000 acres right around the
15 port, remediating those sites and converting
16 them into warehousing. We've identified 17
17 sites in the last year; four of those sites are
18 under construction, and we'll see about eight
19 million square feet of new warehousing close to
20 the port, developed during this next couple of
21 years.

22 So it's those kinds of programs that I
23 think, if you think systematically, you can
24 begin to understand where are the bottlenecks,

1 where are the critical issues and how to begin
2 to attack those things.

3 MR. SCHENENDORF: The rest of us kind of
4 hogged the questioning on the last panel.

5 Do you have any more, Frank?

6 MR. BUSALACCHI: No, that's okay. I'm
7 okay.

8 MR. SCHENENDORF: Commission McArdle.

9 MR. McARDLE: It's a very interesting
10 dilemma that Commissioner Busalacchi poses to
11 you because if you lose 10 percent of the
12 drivers nationwide, if the response is anything
13 as we have seen in construction employment, the
14 drivers across the country flow to where the
15 money is. And the wages are here, so you'll
16 get the drivers you want but other places will
17 hurt, and then you will get containers here
18 whose normal flow might have been out of that
19 other port or Baltimore or someplace to
20 warehousings that are located adjacent to that
21 port.

22 Now the flow is further, so those drivers
23 you do have are less productive which means
24 you've sucked more drivers out and you just

1 create this vicious circle, as opposed to a
2 virtuous circle, in this regard. So this whole
3 impact is something really does have to be
4 thought through because we've seen that happen
5 in this area in construction employment.

6 When New York City booms they get all the
7 workers they need. It's a lot of other areas
8 that see their wages driven up, their access to
9 labor being substantially restricted; becomes a
10 real problem.

11 But in that same vein, perhaps Mr. Goetz,
12 you can, you know, looking at your chart, as
13 you put it up there, showing as you did, the
14 flows and the intent to kind of cross the
15 borders and avoid the humps; it presents an
16 interesting option of [unclear] [trading]
17 northern Maine for southern Ontario.

18 You might get some buyers from the
19 current government in Ontario for that, given
20 where their opposition comes from. But how
21 well is the CSX able to use its, you know,
22 cross Ontario lines under the increased
23 security issues that you face at the border
24 crossings?

1 We hear about it in terms of trucking and
2 the real impacts that they're now seeing both
3 in Buffalo and in Detroit. Are you seeing the
4 same thing on the rail side?

5 MR. GOETZ: To construct an international
6 route that goes through Canada and reenters the
7 United States, is probably not something that
8 you would see very soon. And the reason, quite
9 frankly, goes to just who owns the routes. The
10 routes in Canada are generally owned by
11 Canadian rail carriers, the routes in the
12 United States are generally owned by U.S.
13 carriers, with some exceptions. So
14 constructing a route through a different a
15 country over a different rail carrier is
16 probably something that you just wouldn't
17 naturally tumble to that.

18 But while I'm speaking, I was struck by
19 the comment here and the sense of potential
20 despair in the middle of the country and
21 perhaps I can speak some words of reassurance.
22 That the further away you get from the port the
23 more options you have. If you're moving a box
24 from Port Newark here, it's going to be

1 trucked. That's pretty much what's going to
2 happen, and it will be trucked and the only
3 question will be what the price will be. We
4 have a capitalist economy here and the price
5 will adjust and the freight will move and
6 people will pay what that price is.

7 As you move into the interior of the
8 country like into Cleveland, the Columbus's,
9 the Chicago's, the Wisconsin's of the world,
10 you suddenly have not only modal selections but
11 you also have selections amongst competing,
12 say, for example, rail carriers. You can go to
13 Chicago on CSX; you can go to Chicago on
14 Norfolk Southern, and both fine carriers. So
15 you have increasing options and competitive
16 outlets to do that.

17 Consider these two numbers. The port,
18 correct me if I'm wrong but the port overall --
19 this port overall grows about 10 percent a
20 year, but the containers that move via rail
21 from the port grow about 17 percent a year. So
22 rail as a viable solution is not only a
23 solution but it's a growing solution. And that
24 definitely clicks in with those interior points

1 where rail is competitive and where customers
2 have competitive options.

3 MR. McARDLE: But do you have capacity
4 issues upward so you can get to perhaps six or
5 seven million TEUs out of the port with a
6 growing rail share, but beyond that you don't
7 have the capacity on the rail side in this
8 market place?

9 MR. GOETZ: Without a doubt, long-term,
10 there are capacity issues. The real question
11 is the sense of urgency towards addressing
12 them. We have the capacity to handle the book
13 of business that we have today, plus the near
14 term growth that we foresee. But when you go
15 out into the long-term --

16 MR. McARDLE: You look at --

17 MR. GOETZ: -- 30, clearly we need to do
18 more and we need to do more quickly.

19 MR. McARDLE: Are you in discussions if
20 you, in fact, go to the 11 million TEUs, what
21 your role could be, what it needs to be, to
22 make this port able to get the velocity to
23 handle 11 million TEUs? Because it seems to me
24 in that horizon you have an opportunity to

1 identify the additional capacity and
2 investments that you need to make.

3 MR. GOETZ: We most definitely have those
4 conversations, and one of the things is that
5 you can look to this region and this port and
6 this Port Authority as an area that gets it.
7 That there really is, and this is coming from
8 someone who has dealt with a lot of different
9 ports up and down the east coast, that this
10 region understands the need to use non-truck,
11 non-motor carrier resources better than any
12 other one of which I'm aware.

13 And, you know, Rick's comments about the
14 Port Authority's direct investment in on-port
15 rail facilities exceeding what I think would
16 be, 500- \$600 million, clearly shows that
17 there's a great deal of leadership there.

18 MR. SCHENENDORF: Commissioner
19 Busalacchi, do have any additional?

20 MR. BUSALACCHI: Yes, just a quick
21 question.

22 Mr. Goetz, you touched a little bit on
23 the capacity issue, and I think we've talked
24 about this before with the freight capacity;

1 how does this impact what's going with the
2 passenger rail?

3 Obviously, you've got issues, we know
4 that the passenger rail, freight rail got to
5 get along together to operate on the same
6 tracks, but how do you view this going forward
7 from here?

8 Because you know I think we've identified
9 this as a significant need. But how do we, how
10 do we address this, you know, problem, which I
11 think is going to be a serious problem?
12 Obviously, if you're going to be at capacity or
13 are at capacity; we've got passenger increases
14 throughout the country, you know, people are
15 more and more are flocking to riding trains;
16 how are we going to co-exist?

17 MR. GOETZ: Well, if I may I'll give you
18 a two-part answer.

19 MR. BUSALACCHI: Sure.

20 MR. GOETZ: First of all, speaking to it
21 regionally, I actually cruised through some of
22 my opening statement just to fit the time, but
23 in this region -- let's talk first about the
24 region, then we can talk about, if you will,

1 the rest of the United States.

2 In this region the problem has generally
3 been solved by isolating the two networks. So,
4 for example, the Amtrak northeast corridor has
5 very few freight trains operating on it and a
6 decreased number of industrial customers
7 located on it. And in the State of New Jersey
8 there are vast segments of historical rail
9 network that are owned outright by New Jersey
10 Transit and generally support the commuter
11 train network that -- and it's an excellent
12 high quality network.

13 Over here on the east side of the Hudson,
14 you know, most of the historical mainlines are
15 all owned by the public sector and all
16 supporting high-quality passenger service.

17 So what's happened in this part of the
18 country is that the passenger agencies have
19 taken the routes, not taken, I don't mean to
20 say they were confiscated, but they are
21 operating the routes and the freight railroads
22 are generally using other routes or are using
23 time slots on that are subsidiary to the
24 passenger operations and that is working.

1 Now, when you move outside of this region
2 where you don't have the advantage of a large
3 transit passenger network then you look at the
4 additional passenger service; those trains have
5 to run on tracks and the tracks are generally
6 going to be the freight railroads.

7 And that is an absorption of capacity and
8 that absorption of capacity may actually be
9 greater than the one train that it is. For
10 example, if you said I have a freight route and
11 it has no passenger trains on it and now I just
12 want one train; that one train may actually
13 displace two or three freight trains. It's
14 operating at different speeds; stopping at
15 different places; doing different things; and
16 it's operating counter to the flow of freight.

17 And that capacity, it's just real
18 capacity and CSX very much struggles with this
19 up and down our I-95 corridor where Amtrak has
20 a very successful and popular passenger train
21 network that overlays directly on to our I-95
22 freight corridor.

23 We have congestion points between
24 Washington DC and Baltimore and in the

1 Philadelphia area where we have passenger
2 trains running on primarily, you know, freight
3 operations, so capacity is -- it's not free,
4 it's not imaginary, and if you put a train
5 there that wasn't there before, it may take
6 more than just one train's worth of capacity.

7 MR. SCHENENDORF: Commissioner Heminger.

8 MR. HEMINGER: Thank you. I've got two
9 questions, and I'd like to ask them to the
10 whole panel, anyone on the panel who'd like to
11 try to address them.

12 The first one is on funding and I think I
13 heard a couple of ideas. Mr. Larrabee talked
14 about the notion of a container fee. You know,
15 passenger facility charges we have at airport
16 and I guess this could be a container facility
17 charge. Mr. Goetz talked about a tax credit
18 which I'm sure from your point of view has the
19 advantage that the federal government doesn't
20 sort of hold onto the money and maybe monkey
21 with it. On the other hand, it's sort of a
22 draw on the general fund of the United States
23 as opposed to a user fee.

24 In my State of California, our onus is to

1 prove a very large infrastructure bond of \$20
2 billion and two billion of it is reserved for
3 freight improvement but one of the features of
4 it is that it requires a 50 percent private
5 match.

6 So I'd appreciate your reaction to those
7 different ideas, some of which you've mentioned
8 yourself, in terms of trying to make some of
9 the improvements that we need to make to our
10 port facilities, to our rail facilities, to the
11 intermodal connectors that link them and the
12 rest.

13 MR. LARRABEE: Let me just -- I'll start
14 with a couple of examples.

15 I mentioned earlier that our security
16 program has caused our budget to go up by about
17 900 percent since 2001, and we had been
18 authorized through federal law to charge a
19 security fee, but it is one of these unilateral
20 actions that from a competitive standpoint puts
21 you at somewhat --

22 MR. HEMINGER: When you say we, you mean
23 ports around the United States?

24 MR. LARRABEE: Yes.

1 MR. HEMINGER: Okay.

2 MR. LARRABEE: Right. And some, about 17
3 ports, have successfully done that. We're
4 struggling right now with trying to sell that
5 notion.

6 Because of the competitive nature we are
7 very expensive port by our very nature and
8 adding another fee, even if it's just for
9 perception, is something we're all very
10 sensitive to.

11 The notion of some sort of a fee
12 associated with containers has been debated
13 over the last couple of years, certainly in
14 southern California and I know in your home
15 area, and I think what we found is that
16 industry is, across the board, resistant to it
17 for a couple of reasons. One is they don't
18 have much control over it and they're afraid
19 it's going to be just another tax that would
20 not make real improvements.

21 So I think there are some conditions
22 under which those kinds of free systems might
23 be structured but I think it's something we
24 really need to look at.

1 MR. HEMINGER: If it were in a trust
2 fund, for example, I mean does that start to --

3 MR. LARRABEE: Yeah, look at the Harbor
4 Maintenance Fund, that's a good example, I'm
5 sure you've heard about that, but that's
6 another example of a fund that gets created for
7 a use but never quite gets used.

8 MR. HEMINGER: Highway Trust Fund hasn't
9 done that badly.

10 MR. LARRABEE: No.

11 MR. HEMINGER: Not perfect but pretty
12 good.

13 MR. LARRABEE: Exactly, so I think from
14 our perspective, you know, I mentioned the fact
15 we're going to spend, between our federal
16 partners and ourselves, \$2 billion to deepen
17 the port. There is no direct revenue source
18 associated with that activity.

19 Likewise, we're going to make dramatic
20 improvements to our marine highway systems. We
21 ought to be able to handle the kind of roadway
22 capacities that we talked about earlier.

23 Improving that infrastructure is
24 absolutely critical because we know those

1 roadways will fail in the next five years if we
2 don't do something. Do we go out and try and
3 attach that user fee to the truck driver who is
4 probably the last person you want to attach it
5 to? Where does that revenue come from? And so
6 it's that kind of thinking that has led us back
7 to this notion that if we had something like
8 the passenger facility fund that might be at
9 least an offset for some of the things that
10 we'd have to spend money for.

11 MR. HEMINGER: But what would you charge
12 it on?

13 MR. LARRABEE: It would be on cargo, it
14 would be on the container

15 MR. HEMINGER: So it would be on the
16 container?

17 MR. LARRABEE: -- the automobile, the ton
18 of cargo that's coming in here and there are
19 ways of doing that. How do you collect it, who
20 gets it, who makes decisions about how it's
21 spent, how do you demonstrate the sort of the
22 end result in a quantifiable way? Those are a
23 lot of the issues that we've got to deal with,
24 but I think it's something we have to look at.

1 MR. HEMINGER: Do you have a concern
2 about a competitive issue as against Canadian
3 or Mexican ports, or does the fact that you get
4 so much investment out of it sort of outweigh
5 that?

6 MR. LARRABEE: Again, I wouldn't speak
7 for the shipping industry, but I think it's
8 important that we recognize that and the rail
9 example we talked about today is a good
10 example.

11 We charge \$45 for every container that
12 gets picked up and put on a rail car. We know,
13 because we've looked at it very carefully, that
14 we are adding business value to that shipper's
15 logistic system. That \$45, even though I'm
16 sure they wouldn't volunteer to pay it, is not
17 creating a huge burden on the users of our
18 system, and as a result, that huge investment
19 which we are making at risk, we believe is a
20 sound one based on the fact that we have a
21 reliable revenue stream associated with that.

22 That's a model that works for rail. If
23 we can find similar ways to fund other
24 infrastructure in the port, we'll do that, but

1 that doesn't apply to an awful lot of the
2 projects that we're dealing with off-port.

3 MR. CRANE: I think -- I don't
4 necessarily disagree with Rick. I think the
5 fundamental problem with this so-called
6 container fee or the cargo facility charge is,
7 I think, the private sector really does believe
8 that the money will go for projects that are
9 not directly related to moving that cargo.

10 But I also want to turn the argument
11 around. All of a sudden there's a suggestion
12 that the private sector has put more money into
13 the freight/ goods movement system. My company
14 -- we're a family owned business in Berkeley
15 Heights, New Jersey. We operate one terminal
16 today, and as I disclosed yesterday, we may
17 open another one in Prince Rupert, British
18 Columbia, to move Midwestern US product.

19 But that's \$400 million that we put into
20 a facility to move cargo. The Port Authority's
21 put \$650 million out of [unclear] [total/toll]
22 revenue, non-public, non-taxed revenue, at
23 risk. We don't think it's at risk, at least as
24 far as our rail facility because we think we're

1 going to make the numbers, but with the cargo
2 plan paying for that. Okay, so now, just
3 between our terminal and them we're up over a
4 billion dollars for which there is no public
5 payment. There is no tax revenue in any of
6 that money. Then we go to my friends over here
7 in the railroad. They're investing billions of
8 dollars nationwide; I don't know how much CSX
9 is investing, to increase capacity on all the
10 main lines throughout the United States because
11 we are at capacity.

12 So the question shouldn't be how are we
13 going to fund this stuff and who can we put a
14 fee on. The question has to be, and that's why
15 I go back to these regional plans, that every
16 one of them will be different. There is no
17 single solution. At the port of New York we
18 have a bi-state authority with revenue. That's
19 very different than some of the other ports
20 around the country. And our business practices
21 and models are different than our friends in
22 southern California. So I think if you want to
23 start to talk about a cargo fee, I think you
24 got to start talking about a cargo fee that's

1 just not international.

2 We're two percent of the trucking in the
3 New York area. So, well, let's say we levy a
4 \$300 container fee and we start fixing roads
5 all over northern New Jersey, for instance.
6 What about the Frito-Lay truck or the oil
7 truck; are they going to contribute to that?
8 You're going to get into these equity
9 questions.

10 I think the private sector, and the
11 shippers particularly, have started to look at
12 this issue and are willing to accept it as long
13 as they can say where the money's invested and
14 they can see a return on it in both speed and
15 reliability of moving their cargo.

16 I think there's real nervousness about
17 some of the public models that have been put
18 forward. But I also think everybody's got to
19 sit down and take a look at the fact that,
20 unlike the mass transit system, very frankly,
21 except for what's collected off the truckers
22 and others in the Highway Trust Fund, which
23 funds some of this, the freight movement system
24 is largely privately funded today, and

1 privately invested or through authorities like
2 the Port Authority, and I think it has to be a
3 little different, treated a little differently.

4 MR. GOETZ: Rick mentioned the tariff
5 that's assessed on containers and that that
6 provides a cash stream of under paying these
7 significant investments that the Port Authority
8 is making and that's generally working. And
9 let me just comment how CSX handles this and
10 what customers actually see.

11 When a customer gets his CSX freight bill
12 to, say, move a container from the port to
13 Chicago, there's a CSX charge on there and then
14 separately broken out is a Port Authority
15 tariff charge. So it's not buried, it's not
16 hidden, it's right there and the customer sees
17 it on each and every single shipment. And if
18 the tariff is increased then it automatically
19 increases on the pass-through and customers
20 generally do that -- accept that. No customer
21 likes any kind of charge, particularly any kind
22 of new charge, but they generally accept it and
23 they pay it.

24 And I think the reason why they do that

1 in this instance is because it's assessed by
2 the Port Authority, it is specialized, it's for
3 visible assets that they can actually see, and
4 they consider it valuable. They want to reach
5 this market, they want to use rail facilities,
6 and they can make a direct connection between
7 this charge that's appearing on their freight
8 bills and this infrastructure which they very
9 much understand and they very much value and
10 want.

11 When you start to move away from that and
12 all of a sudden you have a charge for an
13 amorphous segment that is for something that
14 may be 500 miles in the interior of the system
15 and people really don't understand what it is,
16 then I think you're facing a much tougher
17 challenge. Because then it just looks like a
18 plain old nasty tax; and at that point it's not
19 something where you're paying for valuable
20 things that you really want, it's just a tax.

21 MR. HATCH: Quickly, I just wanted to
22 echo what the last two gentlemen said about
23 private sector investment. I showed you a
24 slide earlier about rail investment being close

1 to 20 cents on the revenue dollar and rail's
2 also, as my CSX colleague here, Ken, said
3 before, can be part of the solution. But I
4 want to point out, representing my sector here,
5 my group of stakeholders in the investment
6 community, that they will have the capacity to
7 meet this growth that we talked about in 2010,
8 much less 2030, but only if the returns justify
9 it. And right now, for most of them, they do
10 justify investment, not just in the base but in
11 growth capacity. And it looks like the trend
12 line suggested it's a good gamble to continue
13 to invest in it, but that's not always certain.
14 And for my stakeholder group to continue to
15 finance CSX and Norfolk Southern and the rest
16 of the rail communities invest enormous
17 investment, the returns have to justify it.

18 So I just wanted to point that out but I
19 do believe that enlightened public policy can
20 help with this because there are tremendous
21 public benefits in terms of emissions and
22 safety and efficiency towards moving things on
23 the railroad. So the tax credit Mr. Goetz
24 talked about is something that seems to make

1 sense to me but if it's, you know, I agree also
2 that it's -- trust funds and other things will
3 not be viewed very favorably by the investment
4 community in general.

5 And then just as an aside, what we talked
6 about earlier, you talked about Canada and
7 whatnot. There are a couple of examples, I
8 think, of good policy going on, whose
9 representatives are not in the room. In
10 general we in the investment community view the
11 Canadian carriers as equivalent to the
12 Americans, and certainly there's a lot of
13 investment by CN, they bought the IC, they go
14 all the way down to Kansas City, into New
15 Orleans; CP is here in the northeast so we
16 don't view the fact that C may be the first
17 letter of their name, doesn't mean anything to
18 us.

19 Certainly my colleague there, two down,
20 who's investing in Prince Rupert, knows the
21 advantages of working with Canadian National.

22 And also an example of enlightened public
23 policy, it seems to me it might be working, and
24 as a native New Yorker, I hate to say this, but

1 in Norfolk, Virginia, the Heartland Corridor
2 which is bringing -- allowing double stacks to
3 go all the way to the Midwest, seems to be
4 something that may be working for -- to better
5 move freight and something that could be
6 replicated elsewhere.

7 MR. HEMINGER: Could I just press the
8 point, not necessarily with you, but for you
9 all to think about. One thing that does strike
10 me, though, about the tax credit notion; at a
11 time when our federal government is running
12 these hellacious deficits, I'd suggest that we
13 just ought to add to that and pass it on to our
14 grandkids, instead of trying to construct some
15 sort of user fee system that can be
16 trustworthy, it just seems to me that's what
17 we're giving up too early.

18 MR. HATCH: My quick answer to that is,
19 right now, given that this is a taxable
20 right-of-way that the roads have and they're
21 paying taxes on it, your grandkids are getting
22 tremendous benefits on it right now. Make it
23 modally even and, you know --

24 MR. HEMINGER: I think what we're here to

1 talk about is they're not getting enough
2 benefit. That if we could have more access for
3 passenger use; if we could have more freight
4 movement we would have a better system for
5 everybody. Right now we're asking the
6 railroads to do too many things and you know
7 they're not -- they're not miracle men. They
8 can't do it all.

9 MR. WEISBROD: If I could just speak for
10 a moment about the public cost. You have to
11 recognize the tremendous public cost that we're
12 paying in excess costs of building highly
13 capacity and highly congested areas where the
14 rail capacity is highly limited.

15 It's no coincidence that in the areas
16 east of the Hudson, in Connecticut and New
17 Jersey, where major parts of the rail system
18 have been turned over to passenger operations,
19 there are also some of the major highways.
20 Mention the turnpike or I-95, where there's a
21 particularly high percent of the traffic is
22 trucks and that's contributing to the
23 congestion that both passengers and shippers
24 feel. And the fact that the reduction, or the

1 constraints on the rail capacity lead us to pay
2 more and more money on highway building in the
3 particular areas where there's very little room
4 to do it, we're paying really high costs for
5 that.

6 It may be that the return -- that it
7 costs less money, ultimately, if there could be
8 more in the way of public private partnerships
9 involving various fees and other investments.
10 The whole government can come off better off,
11 as well as people.

12 MR. CRANE: Let's turn the public transit
13 argument on its ear. The public has paid,
14 basically, for those rail lines. Why can't we
15 move freight on those public railways when
16 they're not being used for passenger trains?

17 It's the same -- I mean, when you really
18 sit down and start to think about this
19 argument, and I've had my discussion with my
20 friends at New Jersey Transit, they have quiet
21 time in the middle of the night when those
22 rails -- the same way we want to move trucks
23 down the New Jersey Turnpike at 2:00 in the
24 morning because there's excess capacity. If

1 we're facing a capacity constraint, it is
2 incumbent upon our friends at CSX to invest,
3 particularly in double stack north, because
4 we've got a local problem here.

5 But the other thing is that maybe we
6 ought to look at some of those public
7 investments and figure out how are we going to
8 move freight using those public right-of-ways
9 at times when they're not used for passenger.

10 I think the debate has to be broader when
11 you're talking about freight. It's different.
12 I've only been in this business for six years
13 so what do I know. I'm a former state
14 treasurer, a bean counter for the State of New
15 Jersey, but the thing is it's an interesting
16 public policy debate because this raises all
17 those public, those thorny public and private
18 relationships between government and private
19 sector.

20 But it also should start to raise how
21 we're going to make the best use of public
22 infrastructure. I would argue, even though we
23 can only do single stack because of the
24 electric overhead, the catenary, maybe at some

1 point we're going need to move freight on
2 passenger rail lines and reintroduce that
3 notion.

4 It changes the way you start to think
5 about how you're going to allocate the use of
6 public and private infrastructure and it's
7 probably a debate we ought to have in the
8 context of freight movement.

9 MR. HEMINGER: Mr. Chairman, in the
10 interest of time, my first question took quite
11 a bit, maybe I could just ask the witnesses to
12 respond in writing to the second one.

13 Well, the second one I think you just got
14 to a little bit with your question and I think
15 we asked Mr. Pedersen this morning from the
16 Maryland Department of Transportation, I've had
17 my own experience in the Bay area, and that is
18 I think the public sector has done a fairly
19 poor job of engaging with you all. And I would
20 appreciate especially, Mr. Crane, Mr. Goetz,
21 your view from private side of how we can
22 improve the capability, the relationship, not
23 only the port operators but the MPOs, the
24 state, the federal role. You know, we've tried

1 in our region to engage the freight and goods
2 movement community and had very limited
3 success.

4 One thing I think they all get frustrated
5 with us because we've got this 20-year planning
6 horizon and they're worried about the next
7 year's annual report. How can we improve the
8 public side of that relationship?

9 MR. CRANE: We'll send you a letter. You
10 want an answer now or do you want us to send
11 you --

12 MR. HEMINGER: That's up to the chair.

13 MR. SCHENENDORF: Now is fine.

14 MR. GOETZ: Well, I'll go down two routes
15 of this; it's an interesting question.

16 I think you touched on one. One of the
17 biggest disconnects between the private and the
18 public sector is the time horizon; that the
19 private sector does not have the luxury of, I
20 say, planning things to death. We have a
21 saying at CSX that perfect is the enemy of good
22 and that sometimes in pursuing a perfect
23 solution you wind up with no solution where a
24 good solution might be there.

1 So, to go back to my comments, I think
2 the sense of urgency, pressing the sense of
3 urgency on both sides, on both the public and
4 private sector, would certainly be a benefit.

5 Second thing, totally unrelated to this,
6 is to depoliticize the process and this is
7 something that we struggle with all the time in
8 this region.

9 Freight railroading is a heavy industrial
10 activity and in this area it is directly
11 overlaid on top of communities. And that
12 causes constant pressure points and
13 dissatisfaction and citizen anger that
14 frequently gets translated into political
15 action. And so we in this region spend an
16 inordinate amount of time trying to disable and
17 trying to calm down this natural tension. And
18 that's one -- we could use some help on that
19 front because it's one that certainly works
20 counter to the overall picture.

21 MR. CRANE: I think -- I think one of the
22 advantages of trying to deal with the freight
23 capacity challenge that we have in this country
24 is that I think it will create new public and

1 private models because of the nature of the
2 business. And it seems to me that the way in
3 which this system gets fixed is -- for
4 instance, let me give you an example. There's
5 some people in the State of New Jersey who
6 think we can fix all the congestion problem if
7 the marine terminals are open seven days a
8 week, 24 hours a day. Marine terminal's open,
9 congestion goes away, the turnpike is
10 free-flowing, the air is clean, you know, the
11 flowers bloom, everything is wonderful.

12 We talked about the fact that they can't
13 move it to the distribution center because
14 there's truck restrictions in towns or there
15 aren't enough places for trucks, so I agree
16 that speed's important, but the speed is
17 important within a complex set of relationships
18 in the freight movement system that we've got
19 to get over and I think that brings me to my
20 point. I didn't have a chance to talk about it
21 on the side.

22 It seems to me that if we start to build
23 these regional partnerships, if you will, of
24 shippers and terminal operators and truckers

1 and state agencies and MPOs; we are lucky in
2 North Jersey we have a rather enlightened MPO
3 on freight movement. They do a lot of work in
4 that area I'm proud to say. But the thing is
5 that you're going to have to get down at the
6 table, understand the complexity, understand
7 the business decisions in the same way as
8 somebody who came from the public sector to the
9 private sector that the private sector has to
10 get sensitive to some of the political forces.
11 Never going to take politics out of anything,
12 Bill, God bless, but what you can do is start
13 to -- under the private sector, start to
14 understand the complexities on your side. And
15 it is the combination of the two. If you want
16 to see one that works, you want to see one
17 that's succeeded, go to Seattle. Visit the
18 fast program.

19 When I was first hired Brian Maher bought
20 me a plane ticket to Seattle and I spent two
21 days learning about this kind of amorphous
22 public/private partnership that got rail
23 projects done around Seattle. They gave birth
24 to a whole focus on freight movement,

1 export/import, in that area, and I strongly
2 recommend if you get a chance to do it.

3 The other thing that you might want to do
4 as commissioners -- I don't want to say who you
5 ought to have come testify. You might want to
6 think about getting a panel of shippers;
7 Target, Dell, Nike, are three that I know that
8 are leaders in thinking these issues through
9 because, ultimately, it is the owners of the
10 cargo that dictate where the trucks go, where
11 -- how much rail they're going to use. And,
12 frankly, whether they're going to use our
13 vessels, our customers, the vessel owners.

14 I think it would be important to
15 understand them, but it is that getting around
16 the table, understanding complexities that both
17 sides face that will yield, I think, real
18 private sector investments, matched by,
19 frankly, smaller public sector investments to
20 support that private investment.

21 For instance, we have to double stack
22 north. We have a problem. We've got tunnels
23 that we can only put a single stack through.
24 What? Well, two high-cubes, but we got to do

1 it for efficiency, everything is going high-cube;
2 it's the way to the business.

3 The cost of that project is somewhere
4 around, let me just say 35 million. That's the
5 cost of one on-ramp on an interstate highway, a
6 new on-ramp. But in return for that we can
7 double stack freely with high-cube containers
8 north and increase capacity. That's
9 potentially a damn good investment with a real
10 return for the public that the private sector
11 probably will fund almost all of it but it
12 needs the encouragement.

13 It's those kinds of conversations that I
14 think yield a unique investment mix for the
15 long-term; and we'll send you a letter on it.

16 MR. SCHENENDORF: Good. Thank you.
17 Anybody else?

18 MR. HATCH: No. I just [unclear] in
19 investment. I mean, we would love to see
20 better coordination because there's a lot of
21 opportunity for you all to help these guys move
22 their freight better, so I look forward to
23 seeing his letter.

24 MR. SCHENENDORF: Commissioner McArdle

1 has a follow up to this.

2 MR. McARDLE: We talk about investment,
3 but again, you made the point about looking out
4 here 50 years ago and you would have seen a
5 completely different level of activity as you
6 would have seen if you've gone 50 years before
7 that. And clearly over the last 50 years we've
8 had substantial dis-investment in this
9 marketplace in rail infrastructure.

10 And my guess is that across the country,
11 after staggers we've had the same thing, but
12 here particularly, because it happened earlier.
13 I'm sure if you were looking again 50 years
14 ago and could say, aha, I want to have a system
15 that works 50 years out, or if you're looking
16 back now, there are clearly facilities that we
17 don't have anymore, that you'd love to have in
18 place to make the rail work better.

19 And the question I have is: Given that
20 there's really no motivation in the, you know,
21 private sector to keep a facility that you
22 don't need, you dis-invest because of
23 bankruptcy, it's not earning, how do we get the
24 public involved, so to speak, in preserving

1 things that the private sector wants to
2 off-load in a way that they are available in
3 some fashion for another spin of the wheel that
4 changes the demand in the port?

5 I mean, we had a whole different port
6 focus, we moved different things 50 years ago.
7 Now we do things differently but the facilities
8 that we don't have today, if we have them in
9 many places, are things we would prize and
10 restoring them is going to be much more costly
11 than preserving them even in a mothball
12 environment.

13 The question is how do we do that in this
14 environment? How do we make the investment
15 community feel that we're doing it right and,
16 in fact, make it possible for new private
17 sector operations in the future? It seems to
18 me that that's one of the lessons looking back
19 that we should be learning because it may turn
20 again sometime in the next 50 years and more
21 dis-investment of things that, again, 50 years
22 from then we wish we would never have gotten
23 rid of.

24 MR. HATCH: Well, you make a good point

1 and, essentially, what happened in the 20th
2 century was a giant retrofit and a retrofit of
3 a network to make it perform differently than
4 it was originally designed to do.

5 And particularly in the latter half of
6 the 20th century, quite frankly, that retrofit
7 was done on the cheap because you can't spend
8 money that you don't have and all of these
9 private sector companies were very much
10 struggling financially. So the retrofit has
11 been done but it certainly is by no means gold
12 plated. Now, unfortunately many of those
13 assets that were in place, they have all been
14 sold. And to tell you the truth, I'm not sure
15 that all that waterfront property with all
16 those waterfront rail heads would really be
17 valuable for something else.

18 But one of the things, one of the lessons
19 that we can learn is where we do have
20 facilities today, to not compromise them, to
21 not build unsympathetic uses right up against
22 it. One of the things that we constantly
23 struggle with is conversion of industrial
24 properties to residential use, right next to

1 railroad yards which are heavy industrial
2 operations. That's not something that a
3 private sector company can just go out and just
4 buy every one, buy all of its neighbors out,
5 but more sensitive zoning that reflects that
6 this is valuable infrastructure that we have;
7 these trans-loading facilities, these port
8 facilities. That we need to preserve them and
9 also preserve the operating environment in
10 which they do operate.

11 I think it's too late. It's too late to
12 revive the Hudson waterfront. It's converted
13 so, and it's beautiful and I love it and I use
14 it as much as anyone else, so I'm certainly not
15 here saying we need to lay rail tracks back
16 down to the Hudson.

17 But if you go to an area, the New Jersey,
18 Meadowlands, the port area in Essex, in Union
19 County, places like South Carney, New Jersey,
20 there is very intense rail activity there, and
21 we could make sure that we preserve that and
22 that we don't undermine or compromise that with
23 unsympathetic land development.

24 MR. WEISBROD: If I could just add to

1 that. Fundamentally, the public sector and
2 private sector have different perspectives;
3 they have different costs of capital, different
4 discount rates, different perspectives and
5 different pay back requirements, and I think we
6 should honor those differences when we talk
7 about the public/private partnerships.

8 No one could have predicted 50 years ago
9 any of the global trade we do now, nor are we
10 going to be able to predict very well 30, 40,
11 50 years from now either, so the best you could
12 do is preserving options; that's what we failed
13 to do before.

14 To preserve options, including multiple
15 rail line options, multiple port options and so
16 on, then we're hedging our bets in a way that's
17 probably very productive.

18 MR. HATCH: Yeah, I agree with that
19 completely. You're talking about surplus
20 capacity which is not earning a return now and
21 it's very hard for the private sector to
22 justify that and over -- since deregulation you
23 saw a lot of dis-investment, creation of lots
24 of other uses of that land. Well, some of it

1 was turned into short line industry which has
2 been pretty productive, but -- and I think
3 budgets are tight for public monies too. But
4 there are different costs of capitals, so I
5 guess the idea is to try to quantify what would
6 be the potential future public and private
7 benefits and how they might match up and then
8 potentially co-invest in keeping surplus
9 capacity.

10 It is too late to turn back the clock,
11 but it's useful to potentially save surplus
12 capacity in areas like Carney and places that
13 Mr. Goetz was just talking about. It's hard to
14 predict the future but there may be ways of
15 blending different costs of capital and working
16 together to try and keep the surplus and to
17 prevent this from happening in the future.

18 MR. McARDLE: That's really I think the
19 point because here it's almost as if we threw
20 things away. I'm thinking of the Bayonne
21 Bridge to Elizabeth, for example, that might
22 today provide a useful alternative. It kind of
23 just got thrown away without anyone having the
24 mechanisms to preserve it because there was

1 little or no discussion of the freight
2 implications for that. And you know, and then
3 I'm mindful that with a good developer, you
4 know, we can put up housing right next to the
5 Maher Terminal and totally shut it down
6 tomorrow simply because of a noise factor.

7 You have the Bay Ridge line prominently
8 featured on your little map, and I'll be right
9 behind you as you tell the communities that
10 you're starting up rail again. You know, as
11 they throw things at you and scream and yell.

12 But it seems to me we do have to find
13 that mechanism to preserve those things that
14 the private sector, we've seen this here, have
15 a tendency to want to sell off. You know, an
16 asset [unclear] sees this as something they can
17 get rid of. And, unfortunately, in many
18 businesses we've seen that pattern, that
19 someone will come in, decide they're going to
20 make their bid to take over, they take it over,
21 they see the assets as that which they will
22 strip and raise the capital to repay their, you
23 know, their loans for the shares they've
24 bought. But the public sector has no quick way

1 going back to the 20 year horizon to get in and
2 stop that at this point and basically keep the
3 housing away from the productive areas.

4 And I, you know, would have you all go
5 take a look at Richmond Terrace on Staten
6 Island where it could be a working waterfront,
7 you know; right across the street, townhouses
8 right up there, and you try to run anything on
9 Richmond Terrace today, you know, they'll be
10 out there with their baby carriages. And so
11 you've lost a substantial portion of that
12 waterfront development potential for industrial
13 use that might have been there ten years ago.

14 MR. CRANE: One of the problems that you
15 have is that when you start this dialogue, it
16 also means that both the public and private
17 sector have to go out and sell the benefits of
18 freight movement to the very citizens who may
19 have concern about those facilities.

20 We are the creator of high income, high
21 quality U.S. jobs, and we're creating more
22 every year. The distribution centers, the
23 railroads, the truckers, and the port
24 terminals. This, you know, we can't elapse

1 into we're noisy and we're dirty and nobody
2 wants us, but at the end of the day it's what's
3 inside the box. That if you unleash the
4 economic value; it produces jobs at a time
5 which a lot of U.S. jobs have gone overseas.
6 And so part of this conversation, if you will,
7 between the public and private sector, is to
8 recognize that the movement of freight is not a
9 bad thing. It is a good thing; it is a creator
10 of jobs, it is a creator of low cost goods for
11 consumers and businesses, and allows
12 manufacturers and exporters in this country to
13 compete worldwide.

14 It all depends on how both the public and
15 the private sector want to talk about it. And
16 that's why I don't want to squeeze the politics
17 out of it because that is the political
18 argument for why this has a national interest
19 and why the federal government has a role in
20 the national freight movement system. Because
21 it is the economic benefit to the country that
22 in the end is the payoff, and not whether one
23 project is public or privately funded.

24 MR. HEMINGER: If I could, Mr. Chairman,

1 thanks for letting me get back in here.

2 On our way in from the port yesterday in
3 the helicopter we flew over part of Bayonne, I
4 think, and somebody mentioned it was a former
5 military base that is now going to be
6 redeveloped for non-port purposes, let's just
7 call it.

8 Does any of the panel know, I mean, when
9 you go through the BRAC process with the naval
10 base, I think I know that there's some level of
11 priority that is given to former military bases
12 for certain uses. Is there any priority given
13 or consideration given to reserving those for
14 port purposes when they're on the water?

15 MR. LARRABEE: There's about 150 acres
16 that have been identified as future maritime
17 activities. But you can very quickly
18 understand that if you're trying to develop
19 high priced housing you probably don't want to
20 locate a container terminal in that hundred and
21 50 acres, so one of the debates right now is:
22 How does that property get used in a maritime
23 nature?

24 One of the ways it's being used today is

1 for cruise operations and that creates jobs and
2 maybe fits the bill, but if you're looking at
3 it as a future expansion opportunity it has
4 been a bit frustrating.

5 One of the challenges that all ports have
6 today is finding new land that's developable
7 from the standpoint of creating new cargo
8 operations and that has become prohibitively
9 expensive. Our answer here is we're going to
10 have to turn to much higher levels of
11 productivity and we think on our current
12 footprint, we can go a ways without having to
13 expand too much here. Because today where we
14 handle, let's say, 23- to 2400 containers per
15 acre per year, in Hamburg they're handling
16 twice as much as that, and in Asia a different
17 sort of operation, they're handling four times
18 that much.

19 So there is a tremendous amount of room
20 for increased productivity. Sam suggested at
21 some point 24/7 operations are going to happen.
22 They're going to happen for business reasons.
23 They're going to happen because it's the only
24 solution, much as what's going on in the west

1 coast today.

2 MR. HEMINGER: You know, the reason I
3 asked, a phrase you used of preserving options
4 I think is really good. And it does strike me
5 that when the federal government goes to all
6 the expense of building naval bases around the
7 country and then decides to turn them over and
8 they just turn into nice little developments,
9 instead of maybe giving some priority to
10 preserving them for maritime purposes.

11 MR. HATCH: I think it's safe to say that
12 you can carry de-industrialization too far and
13 that you need to look at your core
14 transportation corridors, port facilities and
15 that needs to be recognized as valuable
16 industrial infrastructure.

17 And that's going to be pitted against
18 commercial development and residential
19 development which, quite frankly, can have
20 higher tax rates, can look prettier, can
21 look better to a voting citizenry than a heavy
22 industrial transportation-oriented
23 infrastructure.

24 So again, even though Mr. Crane disagrees

1 with me, I think you have to lift yourself out
2 of that very narrow, provincial, local,
3 what's-on-my-block view and take it up to a
4 regional view; otherwise you'll make the wrong
5 decision every time.

6 MR. SCHENENDORF: I think I'll try to ask
7 our last question which is kind of long but
8 hopefully the answer will be short.

9 We've heard a lot to obviously the
10 previous panels and today, about the need for a
11 federal role. Obviously, we've talked here
12 about tremendous amount of investment on the
13 port, on the rail facilities, but that the
14 government needs to step up to the plate for
15 the facilities that are off the port property.
16 And there's been a lot of talk about
17 public/private partnerships with rail to try to
18 address some of the passenger issues, some of
19 the freight-related issues. And so I guess I'd
20 like to ask as we put in place this
21 transportation system or this vision for the
22 transportation system as we go out 40 or 50
23 years, do you see that the federal investment
24 role is one that should grow from where it is

1 today; or the level of federal investment that
2 we're making today is just about right; or a
3 model that would have the level of federal
4 investment actually going down and letting the
5 states and the private sector step in to make
6 investment?

7 And I'm talking now about on the public
8 facilities and whatever public private
9 arrangements are made with rail, for example,
10 and which of those three models do you think
11 ought to be the direction that we head in as we
12 are looking for this vision.

13 MR. LARRABEE: There are a couple of
14 aspects of our financial challenges that we
15 didn't really get into in our discussion today.

16 One is security and the other is the
17 environment, and these are both huge sources of
18 requirements for additional funding. And in
19 both cases I think -- I'll just give you an
20 example.

21 For every dollar I spend operationally on
22 security, it's \$10 I can't borrow in the
23 capital market. The unfunded mandates that
24 have come along with the maritime

1 transportation system in the last couple of
2 years have put significant burdens on my
3 agency, not just from a capital standpoint, but
4 from an operating standpoint.

5 When you raise the level of security one
6 notch every time you do that it costs my agency
7 another million dollars a week to handle
8 overtime funding for police and other
9 requirements. So I think the federal
10 government needs to begin to think about this
11 transportation system not only as a system, as
12 we've talked about it today, with various
13 components, but the other requirements that
14 we're placing on ourselves for both the
15 environment and for security.

16 MR. SCHENENDORF: Do you think the amount
17 of federal investment, the amount of money that
18 the federal government is spending on improving
19 its highways, on entering into partnerships
20 with rail and doing the other kinds of things
21 at ports to provide the access at intermodal
22 facilities, that that level of funding that
23 we're providing should go up in the future;
24 roughly stay where it is; or be reduced and

1 really turn it back over to the states and the
2 private sector?

3 MR. LARRABEE: Well, I think ports --

4 MR. SCHENENDORF: Our port investment.

5 MR. LARRABEE: Ports in the system we
6 talked about today are more of a federal issue
7 than they are a state issue and therefore I
8 would say that the federal government needs to
9 think about spending more money but in a
10 smarter way.

11 MR. CRANE: As far as the freight system
12 is concerned, I think the federal government
13 probably -- assuming that there's not going to
14 be vast new amounts of revenue available.

15 MR. SCHENENDORF: Don't make that
16 assumption.

17 MR. CRANE: Okay.

18 MR. SCHENENDORF: To put in place the
19 transportation system this country needs 30,
20 40, 50 years down the road; is that going to
21 take more investment?

22 MR. CRANE: In terms of more investment,
23 I don't think there's any way, just in
24 inflationary costs of asphalt and steel, that

1 you can continue to do it unless you find a way
2 to, you know, deflate those.

3 But as far as the freight system's
4 concerned, I think the investments over the
5 next ten to 20 years have got to be investments
6 in a multimodal solution that kind of
7 transcends state borders and transcends modal
8 borders.

9 That's what makes this such a difficult
10 problem because we're talking about a system --
11 the problem with the current, is it is by a
12 state level, which is wonderful, but in places
13 like New York and New Jersey or even our
14 friends in Virginia or other places, they're
15 talking about investments that go well beyond
16 those state borders, and I think that's where
17 the direct federal investment is.

18 Now, do they have to invest in the
19 freight movement system at the level they do in
20 the highways? No. We're out there spending
21 money already on that. Railroads are out there
22 spending money. But I think long-term,
23 nothing's free, and we didn't get a national
24 transportation system for nothing and we're not

1 going to maintain it and have it be efficient
2 for nothing and I think any time Mr. Sam
3 Crane's personal point that anybody suggests
4 that we can continue to do the same thing we
5 did 25 years ago with the same amount of money
6 and it's going to all be free, I think they're
7 misleading us all.

8 MR. SCHENENDORF: Thank you.

9 Mr. Goetz.

10 MR. GOETZ: This is a great question,
11 Commissioner. We have a national
12 transportation network and we're always going
13 to have one because we don't have stand-alone
14 state economies. You can't take the State of
15 New Jersey and say we're just going to have New
16 Jersey secede from the rest of the economic
17 landscape and be a stand alone economy. No
18 state -- no state can do that, and so there is
19 a need to have that connectivity, and I foresee
20 that's going to be a federal responsibility for
21 a good long time.

22 So as you wrestle with do you need more
23 and where should that more go, I'd turn that
24 question around and say are you satisfied with

1 the current modal split.

2 The economy of the country is going to
3 grow and so the question is: Do you want
4 everyone to just kind of stay in their current
5 positions? Because if they do we'll have more
6 trucks and we'll just build a heck of a lot
7 more highways, probably with federal and state
8 dollars.

9 But if you challenge that and say maybe
10 before we go down that road we should look at
11 other modal splits, more rail more water, and
12 then model that and see how those investment
13 requirements work out. You may find you like
14 those answers better.

15 MR. SCHENENDORF: Right, but either way,
16 is it going to take more investment?

17 MR. GOETZ: I think if you want the
18 economy of this country to grow I think you're
19 going to have to have that. Transportation
20 supports the economic growth. People in
21 communities say how can I make these trains go
22 away? And I answer; stop buying things and
23 move out of the state.

24 Of course that's a silly flip answer but

1 it's the correct answer because the
2 transportation demands are derived by the
3 economic activity and every time you go to the
4 mall and buy something there's a transportation
5 demand that comes from that.

6 Now, if you want to interrupt that and
7 stop that, then, put a cap on the
8 transportation system. I don't think anyone
9 would sign up for that kind of an economic
10 outcome.

11 MR. SCHENENDORF: Mr. Hatch.

12 MR. HATCH: I think the equity markets
13 have been mystified by the federal response in
14 the last few years anyway. If you look at the
15 [unclear] [CREA] program that was agreed upon
16 by various competing factors and was
17 under-funded and compare that to the Western
18 Gateway Program in Canada, my general response
19 to that is, yeah, I think federal dollars
20 should go up. I think there should be a
21 co-investment sense looking for public/private
22 partnerships.

23 Again, not to keep bringing up one, but
24 Heartland Corridor seems to be one where they

1 were successful and [unclear] corridor,
2 creative, if it ever gets funded.

3 I just want to leave this with you.
4 Private capital is really going to be the
5 determinant of success or failure of this in
6 the future, so creating an environment where
7 the private capital continues to invest is, I
8 think, the primary job.

9 MR. WEISBROD: I'd like to close by
10 saying more investment is needed but not
11 necessarily just pouring in more federal money
12 the way we've been spending it now.

13 Three quick points: Number one; it's a
14 matter of smarter spending not just on highways
15 but looking at rail solutions that can reduce
16 congestion as well as [unclear] [force of port]
17 for outlying ports and alternative corridors
18 that could also help reduce congestion.
19 Because congestion costs are so expensive to
20 try to address.

21 Number two, not just public money but
22 more effective leveraging of private money.
23 The way it's being done now, the two are not
24 very well coordinated at all.

1 And finally, it's not just a matter of
2 money. It's also a matter of coordination with
3 other governments like Canada for border
4 crossings as well as with the railroads. Thank
5 you.

6 MR. SCHENENDORF: Thank you all. We very
7 much appreciate your testimony today. It was
8 very, very helpful, and we hope we can call on
9 you as we go forward for help and assistance.
10 Thank you. We're going to take a ten minute
11 break and come back and start about five after
12 4.

13
14 (Recess taken.)

15
16 MR. SCHENENDORF: Okay, we'll get
17 started. Commissioner Heminger will be joining
18 us shortly, just on the phone.

19 We have our final panel of the day.
20 Chris Boylan, who's the Deputy Executive
21 Director Corporate and Community affairs for
22 the Metropolitan Transit Authority for the
23 State of New York; and Victoria Cross Kelly,
24 Director of the Tunnels, Bridges, and Terminals

1 department of the Port Authority of New Jersey.

2 Thank you for coming this afternoon, and
3 Chris, we'll start with you.

4 MR. BOYLAN: Thank you. Good afternoon.
5 And on behalf of the 65,000 employees of the
6 Metropolitan Transportation Authority, welcome
7 to New York, which is, of course, not only a
8 national capital for finance but also the
9 transit capital as well. If you walked --

10 MR. McARDLE: Might I stop you and thank
11 you for the lend of your space along with
12 everything else that you've done for us because
13 this has truly been both the Port Authority and
14 the MTA a major contribution to the commission
15 and its work.

16 MR. BOYLAN: You're very welcome and
17 there's nothing more important to us, I think,
18 than having you understand our perspective on
19 some of the issues you're looking at tonight
20 and we're very happy to be the -- to help host.

21 Within dozens of feet of this building
22 are many gateways to the western hemisphere's
23 largest transit system. Our seven operating
24 arms, New York City Transit, which operates the

1 buses and subways in New York City; Long Island
2 Railroad; Metro North Railroad; Long Island
3 Bus; MTA Bridges and Tunnels; our Capital
4 Construction Company. We move about eight
5 million people in the transit system every day
6 and on top of that another 900,000 cars which
7 represents an additional \$1.4 million.

8 Our current operating budget is about \$9
9 billion, none of which is federal, and about
10 four billion dollars a year in capital
11 expenditures of which about 25 to 27 percent is
12 federal.

13 Those are big numbers, but to put them in
14 a national context when you look at our
15 ridership, our combined ridership is bigger
16 than the next ten transit systems combined. We
17 move roughly one-third of all transit rides in
18 the country and about two-thirds of all rail
19 transit passengers in the country.

20 In three days we move about as many
21 people as Amtrak moves all year and in ten
22 weeks as many as the domestic airlines move all
23 year. So that kind of puts it in perspective.

24 But I'm not going to talk about size

1 today. I'm going to talk a little bit more
2 about history and the history of the MTA
3 because it's a very interesting public/private
4 type history. Like many transit systems around
5 the country, we were, in many cases, private
6 companies that had owned and operated
7 railroads.

8 In the case of the Long Island Railroad
9 and Metro North railroad, they trace their
10 histories back to 1832 and 1834 to the New York
11 and Harlem and Hudson rail lines that went
12 north from the city and to the Long Island
13 which went east, and was initially intended to
14 hook up with a ferry to Boston.

15 And on the transit side of the house we
16 actually inherited what folks largely think was
17 a private set of transit operators but really
18 was a set of private operators that operated a
19 system that was largely funded by the City of
20 New York in terms of its infrastructure back at
21 the turn of the century.

22 In fact, it wasn't until 1904 that the
23 City of New York finally got its act together
24 after having seven private companies try to

1 build a subway system in New York and Mayor
2 Hewitt at the time said it was evident that
3 underground rapid transit could not be secured
4 by the investment of private capital but in
5 some way or another its construction was
6 dependent on the use of the credit of the City
7 of New York. And the City of New York then
8 provided the capital resources necessary to
9 build the first subway line.

10 The history after that is not necessarily
11 positive and by 1940 the IRT and BMT systems
12 were no longer financially viable and they were
13 rolled into the New York City transit system
14 which is part of our family today. The same
15 thing happened on the bus side as many private
16 bus companies were added to the mix of failed
17 but nonetheless economically necessary systems
18 that we now run.

19 So our history has been defined by the
20 assumption of a whole host of unprofitable
21 remnants of private companies, and remnants
22 they were, having suffered from decades of
23 deferred maintenance and little or no capital
24 reinvestment.

1 Now I'd like to be able to say when the
2 MTA took them over that we immediately reversed
3 the lack of investment in the system and
4 unfortunately that wasn't the case. And from
5 1968 when the MTA was created until 1982 we
6 suffered the effects of the dis-investment.
7 The result was that in the late 1970s our
8 system almost collapsed. And we basically were
9 on the cusp of bringing the financial capital
10 of the world to its knees. Our subway suffered
11 derailments every 18 days; hundreds of train
12 runs were abandoned on a typical day; track
13 fires and graffiti were the norm for our system.
14 But in 1982 we began to rebuild that system and
15 started with a seven billion dollar capital
16 investment plan. Dick Ravitch, who was
17 initially supposed to be part of today's panel,
18 was the chairman of the MTA at the time and he
19 rallied support in the business and private
20 communities to put the first plan together.

21 I will tell you that some 50 billion
22 dollars later we are still working hard to
23 rebuild the system that is probably worth 4- or
24 500 billion dollars in terms of its replacement

1 value. Maybe I'm a little bit on the low side
2 but it has had a, we have had a tremendous
3 amount of success in that time.

4 Let me just conclude by saying that the
5 public investment that we're able to amass has
6 been very critical and important to being able
7 to revive not only our system but New York and
8 frankly the financial center of the country,
9 and we know that as we go forward and our
10 population grows and our ridership grows, in
11 fact, we've seen a more than 46 percent
12 ridership growth in the last 12 to 15 years.
13 We anticipate at least another 20 percent
14 ridership growth over the next 20 years. We
15 need to be prepared for that and we've been
16 very fortunate to have an enlightened business
17 community in New York, some enlightened
18 political leadership that had looked for new
19 resources state and local to help fund that.

20 We wish that everyone would look at the
21 investments made in public transit as ones that
22 could be considered cost effective and that
23 deliver return on the investment. The return
24 on investment doesn't always show up in the

1 balance sheets of the companies on a line but
2 nonetheless there is a significant return on
3 investment in terms of the economic activity
4 that's generated by people being able to get
5 around in this region.

6 So let me just conclude by saying we know
7 it's not an easy task to find new resources.
8 We're concerned that folks not give up and say
9 the federal role in helping us to provide the
10 service to our riders will have to diminish
11 over time. We're hoping there is an
12 opportunity to work with you and Congress and
13 the administration and others to find credible
14 new resources.

15 Certainly the discussion about
16 public/private partnerships is interesting. It
17 is not the answer to the increasing need going
18 forward, but it is certainly an important
19 element of whatever the solution is. Thank you
20 very much.

21 MR. SCHENENDORF: Thank you. Ms. Kelly.

22 MS. KELLY: Good afternoon, Mr. Vice
23 Chairman and Commissioners. And thank you for
24 this opportunity to share some thoughts on

1 future challenges and the solutions facing the
2 U.S. transportation system.

3 As Director of the Tunnels, Bridges and
4 Terminals Department for the Port Authority of
5 New York and New Jersey, I represent an
6 organization whose mission is to strengthen the
7 economy of the New York/New Jersey region
8 through transportation systems that move people
9 and goods efficiently. We manage some of the
10 most critical bridges, tunnels, bus terminals,
11 airports, rapid transit and seaport facilities
12 in the region and in the nation.

13 The Port Authority's experiences and the
14 mandate are highly relevant to work of this
15 commission. Its focus is regional and
16 multimodal. It is a financially self
17 supporting public agency that receives no tax
18 revenues from any state or local jurisdiction
19 and has no power to tax.

20 It relies almost entirely on revenues
21 generated by facility users to fund the
22 operations and maintenance of its facilities.

23 The Port Authority consolidates the
24 revenues from its various businesses to finance

1 capital projects and to maintain, improve and
2 expand the system. We have a strong history of
3 public/private partnerships and leveraging
4 private investment to advance transportation
5 and trade.

6 The Port Authority faces a number of
7 challenges that are typical of the northeast
8 and may very well be a bell-wether for many
9 other areas of the country over the next 50
10 years. We spend a significant amount of money
11 to keep very old facilities in a state of good
12 repair but this only maintains the ability of
13 the infrastructure to meet today's mobility
14 standards. It often has little impact on
15 improving the capacity and efficiency of the
16 system. Critical infrastructure replacement
17 and new capacity will require new funding
18 commitments and regional cooperation.

19 In the New York New Jersey region as I
20 know you've heard throughout yesterday and
21 today we're facing congestion on our roadways,
22 rail and transit systems and on the freight
23 network. Congestion affects access to
24 airports, marine terminals and urban employment

1 centers costing billions of dollars annually in
2 lost productivity.

3 The future challenge is to ensure the
4 highest efficiency from our existing assets
5 while selectively expanding capacity to address
6 bottlenecks and improve corridor-wide mobility.

7 This region is extremely densely
8 developed and our transportation assets are
9 intensely utilized. There are very limited
10 opportunities to expand capacity on our
11 highways, river crossings and rail systems.
12 The challenge of meeting growing demand will
13 require integrated solutions among all
14 transportation modes. In addition, we must
15 embrace new technologies, demand management
16 solutions, and pricing incentives.

17 Like no other entity, the Port Authority
18 understands the risks and threats facing the
19 security of our transportation system.

20 Ongoing programs addressing employee
21 preparedness, risk assessment and threat
22 evaluation are essential. Equally important is
23 the need for regional approaches to security
24 including operational protocols, inter-agency

1 coordination, advanced planning and integrated
2 communications.

3 I encourage the commission to think
4 boldly in defining a vision for the national
5 transportation system over the next half
6 century. I offer the following as areas of
7 critical attention: First, expand the national
8 funding base for transportation operations and
9 investment to both maintain the existing system
10 and expand it to meet new demands. To address
11 this need, federal policy should index the
12 federal gas tax, protect its purchasing power,
13 increase local flexibility for funding of cross
14 modes and encourage user fees that generate
15 revenue to cover the true costs of service and
16 manage demand to more effectively use capacity.

17 Second, encourage new partnerships,
18 institutions and standards among transportation
19 operators, governmental agencies, private
20 investors and business and commercial interests
21 that will be essential for new investments and
22 new concepts.

23 Third, attract more private investment.
24 The challenge to the public sector is to fully

1 understand and make the appropriate trade-offs
2 between the risks and value of what it's
3 receiving.

4 Four, maintain an essential role for the
5 public sector and transportation because
6 government has a fundamental interest in
7 ensuring that the nation's transportation
8 system supports the economic health of the
9 country.

10 Five, recognize that the nation's
11 economic strength is based on a series of
12 inter-connected regions rather than individual
13 states. Federal funding allocations must be
14 better aligned with this reality.

15 Six, allocate security funds according to
16 risk-based criteria and encourage, multi-agency
17 cooperation.

18 Seven, support advanced research
19 development and demonstrations of new
20 technologies in the transportation sector with
21 the multiple goals of enhancing security and
22 safety and improving customer service.

23 And finally, maybe most importantly for
24 the long-term, we need federal leadership to

1 communicate the new transportation paradigm for
2 the 21st century. One that invests in our
3 transportation institutions, one that educates
4 the nation, especially our young people, about
5 the importance of transportation in their lives
6 and encourages them to see the transportation
7 industry as a career opportunity.

8 Transportation is the foundation of a
9 healthy, growing and driving economy.
10 Transportation services must be a resource, not
11 a problem, in addressing local regional and
12 national needs. Thank you.

13 MR. SCHENENDORF: Thank you both, and I'd
14 like to start the questioning with Commissioner
15 McArdle.

16 MR. McARDLE: Thank you very much. It's
17 quite appropriate to have you kind of sum up
18 for us today.

19 The commission heard at a meeting earlier
20 in the year that maintenance objectives were
21 best served by private ownership; that somehow
22 private operators were better motivated to
23 maintain things than were public operators.
24 And I think some of us on the panel found that

1 somewhat difficult to comprehend. And I was
2 particularly struck at the time because I was
3 thinking of your agencies. You both operate
4 major toll facilities. Both of them throw off
5 streams of revenues that you use elsewhere
6 within the agency to cross support other
7 operations that you have and yet you see both
8 to have, in fact, set maintenance objectives,
9 reconstruction objectives that, in fact,
10 preserve the integrity of those structures and
11 quite frankly, in the case of both of you,
12 advance the reconstruction of these facilities
13 so they will be available in the 21st century.

14 What is it about the way you look at
15 these things, do you think, that gives your
16 agencies kind of the ability to do that and how
17 can we kind of translate that thinking across
18 the board?

19 MR. BOYLAN: If I could, you know, I
20 think our perspective on maintenance is one
21 that's forged by our history and our history
22 was not a good history initially. But having
23 the solid public support that we got back in
24 1982, and coupling that with a very serious and

1 structured management plan, has allowed us to
2 maintain our infrastructure very well, I would
3 say, over the last 25 years.

4 The public has responded well to that.
5 The political environment has responded well to
6 that. They understand that and because of our
7 success it's only bred more success. The
8 initial seven billion dollar capital plan,
9 folks weren't sure we were going to get to the
10 second the third or the fourth plan but when
11 folks started seeing results, tangible results,
12 and we held to standards, and we held ourselves
13 to a very high standard, it boded well for the
14 region and people knew it.

15 MR. McARDLE: But you never begged the
16 bridges, as you could, to throw off more cash
17 for other facilities, and that's been something
18 that I've looked at with some awe because the
19 tendency and temptation to do that must be very
20 great.

21 MS. KELLY: I guess I would -- from my
22 standpoint I would question the premise of the
23 statement of the question that you received
24 that implied that the private sector would do a

1 better job at maintaining the facilities
2 because --

3 MR. McARDLE: It was not my statement, I
4 can assure you.

5 MS. KELLY: No, no, I understand that. I
6 knew that.

7 We're at a very similar position as the
8 MTA, although we arrived at it through a
9 different history than what Chris just went
10 through for the MTA.

11 One of the hallmarks, one of the
12 strengths of the Port Authority, I think, over
13 the 85 years or so of our history has been the
14 quality of the people that we've attracted, the
15 quality of people that we've been able to train
16 well and to retain. Many throughout their
17 entire careers and the pride that they've taken
18 in the facilities.

19 So that while we certainly, as you
20 suggested, have throughout our history used
21 tolls to fund primarily our transit operations,
22 both PATH and our bus terminal are subsidized
23 by our tolls, we have always focused on the
24 service that we're providing to the region, the

1 critical nature of our facilities, and that has
2 been, along with the quality and commitment of
3 our people, what drove us to always having very
4 high standards and being very proud of that,
5 quite frankly.

6 I don't think there was ever any sense
7 that it was appropriate to sort of raid the
8 coffers, if you will or to under invest in the
9 facilities. We always felt that, and we do
10 today, that we're in the business for the
11 long-term, and we did not ever feel it was
12 appropriate as an organization to take what I
13 would describe as a fairly short-sighted view.

14 MR. McARDLE: Thank you.

15 MR. SCHENENDORF: Commissioner
16 Busalacchi?

17 MR. BUSALACCHI: I'll pass.

18 MR. SCHENENDORF: Commissioner Heminger.

19 MR. HEMINGER: Great restraint. I don't
20 share it, unfortunately.

21 One question for each of you and I'll ask
22 them both right away so one of you gets a
23 little bit longer to think about it.

24 Mr. Boylan, I think we discussed the

1 other day along the tour that you're about to
2 inc the largest full funding grant agreement in
3 the history of the federal transit program for
4 a New Start. And I would appreciate your
5 views, both pro and con about the New Start
6 Program, in brief, and what's working and
7 what's not.

8 And Ms. Kelly, as you heard earlier today
9 we've had a lot of discussion about asset lease
10 and I think you and I talked at the break about
11 the way you're going about thinking about that
12 question, given its currency, and I'd
13 appreciate you sharing that with us for the
14 record.

15 MS. KELLY: I think that -- I know
16 there's been a lot of discussion -- I know
17 there's been a lot of discussion both at this
18 hearing over the last two days and at your
19 prior hearings about various forms of private
20 investment and I think a lot of times we speak
21 of it in our industry a little bit too glibly
22 and have just one model in mind when we talk
23 about public/private partnerships.

24 And I would suggest first of all that

1 there's a much broader model to look at and
2 here, again, I think the Port Authority's
3 history and some of the ways in which we do
4 business offers some good examples. What I
5 mean by that is, for example, on both our
6 aviation side and our marine side, as you've
7 just heard from the prior panel the Port
8 Authority's put an awful lot of investment into
9 our marine terminals as well as to our airports
10 and yet there's been a huge amount of money put
11 into those facilities by the private airlines,
12 by the private marine terminal operators, by
13 the railroads and others. And so those two
14 lines of our business, in particular, offer
15 good examples of leveraging public and private
16 money together. Another example, albeit
17 somewhat smaller, is the investment that we've
18 made in ferry operations. Because when ferries
19 were reinstated into New York harbor, the
20 Port Authority made investments in the ferry
21 terminals and looked to the private sector to
22 provide the ferry boats and to actually run the
23 operations. And that's another example and
24 there's actually a myriad of others in terms of

1 initiatives the Port Authority had started but
2 then were spun off into private nonprofit
3 corporations. And so I think that we need to
4 take a step back and look at public/private
5 investments in a broader way.

6 When we talk or think more specifically
7 about deals such as the Chicago Skyway and the
8 Indiana deals and that type of either sale or
9 long-term lease of the asset, I think that
10 there's not a one model that fits all. I think
11 in large cases there needs to be a local
12 decision but I think that there are a number of
13 factors that the public sector needs to be
14 mindful of as it begins to consider those type
15 of arrangements.

16 And they range from things like what is
17 the toll policy because I think clearly to the
18 extent that the public sector wants to retain
19 some control over toll increases, it will
20 probably realize less revenue from the deal and
21 that's a trade-off that has to be made. But it
22 also needs to look at what is the implication
23 for the rest of the network. You've, I know,
24 again heard a lot from panelists earlier today

1 and yesterday about the fact that we look at
2 the transportation systems in this region as a
3 network, and the Port Authority I think is one
4 of the better examples of knitting the two
5 states together. And yet we are so congested
6 that pricing decisions or other operational
7 decisions by the private operator on one
8 roadway, one bridge, one tunnel, one segment of
9 roadway can very easily have spillover effects
10 on to adjacent roadways, be they toll roads, be
11 they public free roads, or what have you. So I
12 think that that's something that we need to
13 understand, particularly in an area such as our
14 region that's so congested. We need to
15 understand that. Certainly any types of
16 conditions that go along with the agreement
17 that put restrictions on toll increases or
18 operations on adjacent roadways or to your
19 roadways also need to be considered.

20 So, again, I don't think that there's one
21 model that fits all but I think that there's
22 number of public policy decisions that need to
23 be weighed.

24 Another one is the length of the

1 agreement. I think that the private sector,
2 while I don't suggest they go into the deal
3 looking to walk away from it, clearly we need
4 to recognize that they have the ability to walk
5 away from it. They may not be in existence ten
6 years from now; they may not be in existence 90
7 years from now; if it's a 99 year lease. And
8 the responsibility for operating that facility
9 will then fall back to the public sector. So
10 again, it doesn't mean that that's a bad thing,
11 but it's one of the considerations that the
12 public sector needs to keep in mind as we go
13 forward.

14 MR. BOYLAN: Now the easy question.

15 MR. HEMINGER: Mr. McArdle suggests you
16 might want to answer it after, based on the
17 agreement then. You know if you prefer that,
18 you can send me something in writing at that
19 point but if you'd like to do it now go right
20 ahead.

21 MR. BOYLAN: Let me just start by saying
22 that I'm very grateful to the federal transit
23 administration, transportation for having --

24 MR. McARDLE: For creating this

1 opportunity for me to say that.

2 MR. BOYLAN: But that being said, and we
3 are grateful, I don't think it would come as a
4 surprise to anyone at FTA or DOT that we, like
5 other transit systems, are concerned that the
6 process as it exists today is perhaps a bit
7 lengthier than we'd like.

8 The average FFGA takes eight years from
9 beginning to end of the process and that's
10 probably far too long. Entire systems were
11 built in half that time around the turn of the
12 century. Our own is a perfect example of that.

13 Of course, it was an easier world back then
14 and we didn't have to deal with alternative
15 analysis and MISS and EISSs and preliminary
16 draft EISSs, and so forth. And we also probably
17 did not have to look at the types of risk
18 analyses that we're looking at today.

19 But to put it really in context there's a
20 reason why FTA and DOT do put folks through a
21 grueling process and some of it has to do with
22 past experience. Although I like to think that
23 everyone should not have to pay for the sins of
24 a few, I can understand why there are some

1 burdensome elements to the process. That
2 doesn't mean it doesn't need to be looked at
3 and streamlined. I will say to FDA's credit
4 they are in the process now of polling many of
5 the New Start properties to see how the process
6 can be improved.

7 I anticipate that they're going to have
8 something to show us in the next year or so and
9 hopefully that will improve, if not for me,
10 because we are at the end of that eight or nine
11 year process, certainly for others.

12 I think at the end of the day, and I
13 think it was telling while we were on our tour,
14 at the end of the day it's about getting the
15 people that we saw on those tours around in a
16 better fashion and we have to be careful we
17 don't get bogged down in too much process along
18 the way or we leave them all behind.

19 So we're very eager to get -- to get on
20 with it. And we think we're there and I hope
21 my remarks don't change that but thank you.

22 MR. SCHENENDORF: Ms. Kelly, I'd like to
23 just go back and get some additional thoughts
24 of yours on this whole issue of leasing of

1 assets, and at least concession fees that are
2 being paid up front.

3 It would seem to me that if you take a
4 case like Indiana where the -- this is a
5 segment of the interstate system where
6 basically tolls can be increased each year by,
7 I believe it was two percent inflation or GDP,
8 whichever was higher, that the private sector
9 that's operating that has almost a fiduciary
10 duty to its shareholders to raise the tolls of
11 that facility, to the extent that they can, and
12 maximize the revenue that's been generated by
13 that facility.

14 There isn't really any oversight over
15 what those levels would be other than the caps
16 that were put in place. So if they did that
17 over time and did raise those levels, and
18 generated a profit stream that was then going
19 back as we turn on equity that might be rather
20 large, isn't that money being lost to
21 transportation? Those kinds of -- is that
22 something as a matter of policy, that if you
23 were to recommend an increased use of private
24 tolling that we might want to consider as to

1 what happened with that revenue stream?

2 MS. KELLY: Well, I think the way I would
3 look at it and, again, I think this is very
4 much of a local decision, and so I won't put
5 myself in the place of the folks in Indiana,
6 the governor of Indiana, who felt that was an
7 appropriate decision to make at the time.

8 I think that there's a question in my
9 mind as to how you really value the asset and I
10 think that's sort of the part of the premise
11 behind your question.

12 There's been a fair amount written, more
13 so on the Skyway deal than on the Indiana deal,
14 that indicates that if they raise their tolls
15 at the minimum level at which they're able to
16 under that agreement, that they would be
17 recovering their investment with something less
18 than one percent growth in traffic. And I
19 think that those factors -- there's been a lot
20 written on the converse side in the sense that
21 perhaps growth has been over estimated in some
22 cases, but I think that it's an indication as a
23 country, as a policy, the public sector in this
24 country is still very new to those types of

1 decisions, and I think that we're learning as
2 we go, but I think that how you get the full
3 value out of that asset is something that we
4 still need to learn some more about. But,
5 quite frankly, I think at the end of the day it
6 becomes a decision on the part of the local
7 state politicians who are making those
8 decisions as to what the value is of having
9 that money in hand today vis-@-vis what their
10 forecasts are of toll growth and their ability
11 to raise tolls and what their projection in
12 ridership are over the length of the lease.

13 MR. SCHENENDORF: Let's say after the
14 period of time, I mean, basically they receive
15 3.8 billion dollars for that concession that
16 they then spread throughout the state as part
17 of their ten year investment plan. What
18 happens in year 11, in year 15, when they still
19 have these high level investment needs and yet
20 they've mortgaged this asset for 75 years?

21 MS. KELLY: That's a consideration.
22 Again I can't -- I don't think there's one easy
23 answer. Certainly all of the issues that
24 you're raising are things that I think the

1 public sector needs to consider.

2 MR. SCHENENDORF: I guess I'd also like
3 your views on -- it's easy to kind of look at
4 it and say it's a local decision but this is a
5 segment of the interstate and if we're
6 basically encouraging states to make these
7 kinds of local decisions, and then look at an
8 interstate route that's 500 miles long that
9 traverses, you know, nine or ten states, and
10 have all these little local decisions made and
11 each one of these private entities is charging
12 the maximum they can under their agreement,
13 aren't there significant implications to the
14 interstate traffic that's moving along there?
15 That these quite large trucking companies are
16 going to be paying quite a bit to ride on the
17 interstate through those nine or ten states if
18 you've got all these little pockets of private
19 tolling that's going to be going on.

20 MS. KELLY: I think there are serious
21 issues and considerations that you raise and I
22 don't pretend to be an expert on public/private
23 partnerships. I think that that's why we need
24 to look at transportation systems as a region

1 because clearly trucks don't start at the
2 border of the state and go to the other end of
3 the state and then stop. Particularly when
4 you're talking about interstate system I do
5 think we have to look at it as an interstate
6 system, as a regional decision. And there may
7 be an appropriate federal role there to give
8 some guidance at a minimum.

9 I hesitate to say oversight but I think
10 that those decisions to the extent that they
11 are made by a local state entity and have
12 regional implications, we don't yet have a way
13 in this country to raise those to a higher than
14 a state level for discussion and that's
15 probably an appropriate federal consideration.

16 MR. SCHENENDORF: Thank you. I think
17 I'll ask you both the question I've been asking
18 everybody on the panels that as we develop our
19 federal vision, as we go forward, it seems to
20 me really from a federal investment how much
21 money does the federal government need to
22 invest to meet our transportation vision for 50
23 years out, as to whether you know you think the
24 federal government's going to need to invest

1 more than it does today or about the same as we
2 invest today or that we can really cut back on
3 what we invest today and really let the states
4 and the private sector fill in the gap as to
5 which you each think is the right way for us to
6 go.

7 MS. KELLY: Well, I know from previous
8 panels that you want a more, same, or less
9 answer so I'm going to say more. But what I
10 also want to say is that I think that it's
11 incumbent on federal policy to ensure that
12 states and regions have the flexibility that we
13 need to use the assets most effectively and
14 most efficiently. I don't think it's simply a
15 matter of more federal funding. I think it's
16 federal guidance, federal policies that
17 encourage time of day pricing, that encourage
18 congestion pricing, that support hot lanes,
19 that support a new technology, that allows us
20 to collect tolls in a non-stop high-tech
21 environment. So I think it's more funding, but
22 I think that there are a lot of other policy
23 considerations around use of the asset that
24 come along with that.

1 MR. BOYLAN: I would, of course, say that
2 more funding needs to be provided. Certainly I
3 think the transit program as it is today,
4 there's a pent up demand to do two things. One
5 to expand systems to meet existing ridership
6 needs, not only in New York but in other
7 places.

8 But also something I'm worried about on
9 the horizon, which is we're getting better and
10 better in the last 10 or 15 years building new
11 systems. What we're not getting good at is
12 figuring out how five, ten, 15 years from now
13 we maintain those systems. There's a parity
14 between the amount of money we spend on
15 building new systems and the amount of money
16 that we've been spending on maintaining those
17 systems.

18 At some point, in my own sense, the
19 national transit infrastructure will end up
20 being like New York. They will have built
21 tremendous new systems but there will not be
22 enough in the way of resources to maintain
23 them. And I think we'll need to see a shift in
24 the balance of funds that are invested in, what

1 we in New York call, a state of good repair.

2 We've gotten better of doing a state of
3 good repair. We realize that you can expand
4 the system if you want, but if the core is
5 rotten, you really have nothing but appendages
6 that don't connect.

7 The reason why we're able to do the full
8 funding grant agreement with the FTA for our
9 east side access project, the Second Avenue
10 subway project, is because we spent the lion's
11 share of the last 20 or 25 years reclaiming the
12 core of our system and it is not to a complete
13 state of good repair, and we probably would
14 have another ten years or so to go on that, but
15 it is to the point where we are comfortable
16 enough to be able to expand it.

17 Certainly the success that our rebuilding
18 has had in the last couple of years has driven
19 our ridership and we have to expand it and so
20 -- but I am concerned there be a better balance
21 in the federal program and the need is growing.

22 When I first got involved in the business
23 back in 1990, there were only 12 or so rail
24 systems in the country and now there are many

1 more, probably three or four times that many
2 who have built new systems since, and yet the
3 pie has kind of remained proportionally the
4 same in terms of -- not in dollars, they both
5 growing for sure, but the proportion that we
6 spend on new and on the rehabilitation remain
7 pretty much the same.

8 MR. SCHENENDORF: Would you say that your
9 goal is, on the maintenance side, is for state
10 of good repair? One of the things we've been
11 talking about is the idea of performance
12 standards and having some of the federal
13 investment driven by performance standards.

14 Do you have a performance standard in the
15 transit area that represents the state of good
16 repair, as you measure your investments?

17 MR. BOYLAN: Well, we do in certain
18 categories. We know what state of good repair
19 is in terms of the track beds. We know what
20 state of good repair is in terms of our cars
21 and our maintenance facilities and, then when
22 we get to a state of good repair the issue
23 really switches to maintaining an ongoing
24 maintenance so that they stay in that constant

1 state of good repair. So yes, we have
2 standards and we know when we've met them.

3 MR. SCHENENDORF: If somebody said to you
4 what level of investment would it take to get
5 your system in a state of good repair, and to
6 keep it in a state of good repair, would you be
7 able to estimate out what investment level does
8 it take --

9 MR. BOYLAN: Yes, we have.

10 MR. SCHENENDORF: -- to do that?

11 MR. BOYLAN: Yes, and while I, off the
12 top of my head, can't give you it category by
13 category, we have it very much laid out. And
14 the first thing, of course, was making sure
15 that the rolling stock and the tracks were up
16 to a state of good repair. They were the first
17 part. There are other elements in the system
18 that weren't as urgent a need and they are laid
19 out very clearly on a schedule that goes to, I
20 believe 2019.

21 We also know that it will take between
22 two or three million -- billion dollars, I'm
23 sorry, two or three billion dollars a year to
24 not only achieve a state of good repair but

1 maintain it.

2 So before we even get to the fancy stuff
3 we have to spend between two and three billion
4 dollars a year here and you can escalate that
5 going out, so it's significant. On the other
6 hand the amount of people that we move and the
7 size of the system --

8 MR. SCHENENDORF: Could you share with us
9 in writing basically a description of your
10 system; how you do the state of good repair and
11 some of the estimates?

12 MR. BOYLAN: We'd be happy to do that,
13 yes.

14 MR. SCHENENDORF: Commissioners, do you
15 have any other questions?

16 MR. McARDLE: I would reserve questions
17 in writing because --

18 MR. SCHENENDORF: You're the first panel
19 he's done that.

20 MR. McARDLE: One in particular that I
21 think would like you to perhaps do some
22 analysis on. It's a question you and I have
23 discussed before. You built a system with no
24 MISS, no EISS, no federal funding, no full

1 funding grant agreements, and it does seem to
2 work most days. And one of the questions is
3 whether or not you could go back and actually
4 track for us the steps that were taken to make
5 the decisions that created that system, up to
6 the point of construction. Because clearly at
7 some point somebody said go and people went
8 through a set of planning exercises and
9 decision making that led to a construction
10 point. And what those were, who was involved
11 and how they made the decisions that, again,
12 shape the system you're basically operating
13 today.

14 MR. BOYLAN: I think we can try to do
15 that. I have to tell you I've not seen -- I've
16 seen written histories of not so much the
17 details of the process and the decision points
18 but what they did. Your point is well taken;
19 when we built part of the elevated system we
20 built them into nowhere, empty parts of the
21 outer boroughs, if you will, and it was
22 fortunate we did so because it helped New York
23 grow and, you know, we were the first transit
24 oriented development in the country. When we

1 put a transit system, people flocked to it, so
2 when people talk to me about transit-oriented
3 development, and the fact that we have focused
4 more on transit-oriented development, I can
5 take them to every one of our stations and say
6 this was a farm and now it's not a farm and
7 people flock to it. But how they made those
8 decisions is something I have not seen but we
9 will look at it.

10 MR. McARDLE: And I would close by saying
11 they built the second avenue L seven and a half
12 miles, start to finish opening day, 18 months.

13 MR. SCHENENDORF: Sounds like you already
14 know the answers to these questions.

15 MR. McARDLE: No, I don't, and one of the
16 questions that's there is we know what they
17 built but exactly what the public decision
18 making process was that took them to a
19 consensus on what they would build, where they
20 would build it, is one that has not been paid
21 much attention to.

22 MR. SCHENENDORF: Well, we thank you
23 both, very much appreciate your testimony. We
24 now have come into the public part of the

1 program where the public can come forward and
2 submit testimony. And we have two people who
3 signed up, a John Jordan and Robert Dougan, if
4 they would come forward. Maybe they've been
5 scared off by the questioning.

6 John Jordan? Robert Dougan?

7 Well, in that case we are finishing
8 early, on budget. I would -- we're on budget
9 and early, so thank you.

10 MR. BUSALACCHI: Jack.

11 MR. SCHENENDORF: Yes.

12 MR. BUSALACCHI: Ann, thank you.

13 Voice: Thank you for coming.

14 MR. BUSALACCHI: You've done a great job.

15 Thank you for allowing us, Chris, to use
16 your building here and anybody else from this
17 area, you know, we really appreciate everything
18 that you've done for us. It's really been an
19 enjoyable couple of days. Thanks.

20 MR. SCHENENDORF: In addition, today we
21 thanked Chris and Ann this morning, and I'd
22 forgotten, we should also thank Janet Cabinocci
23 [ph.] who was essential in helping us --

24 MR. BUSALACCHI: Yes, Janet, I'm sorry, I

1 left out, don't be mad.

2 MR. SCHENENDORF: So, again, thank you
3 all and thank all of the people of MTA and DOT
4 who have helped in all sorts of aspects here to
5 make this hearing a success. Thank you very
6 much.

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8 (Whereupon, the hearing was
9 adjourned at 4:58 p.m.)

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