

**TESTIMONY BEFORE THE
NATIONAL SURFACE TRANSPORTATION
POLICY AND REVENUE STUDY COMMISSION**

March 19, 2007

**Patrick D. Jones
Executive Director
International Bridge, Tunnel and Turnpike
Association**

1146 19th Street, NW, Suite 800 ▪ Washington, DC 20036
(202) 659-4620 ▪ www.ibtta.org ▪ pjones@ibtta.org

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Setting the Stage: Limitations of Government.

Madam Secretary and members of the Commission, my name is Patrick Jones. I'm Executive Director of the International Bridge, Tunnel and Turnpike Association. We appreciate the opportunity once again to express our views and suggestions for the areas we believe may help you in your difficult task.

We are very proud to have played a role in conducting the initial field hearing of the Commission and appreciate the complexity of the many different issues you have to incorporate into your eventual recommendations to Congress.

We are here today, to put it bluntly, because Congress, the White House, and the States cannot seem to find a way to make the necessary investments in our highways. This is not a statement implying blame; it is simply a fact. Making a significant change in how to deal with transportation needs will require engaging and winning broad public support for the effort. We need to do a much better job of educating the public about the costs and dangers we face without change, and showing them clear evidence that changes will bring improvements. We believe this evidence is already apparent for toll financing and that it is being rapidly established for congestion pricing and other road pricing mechanisms.

We certainly need to make new investments. Based on all the studies the Commission has received to date, it's safe to say that there is roughly a \$50 billion a year gap between the revenues we have and the revenues we need just to maintain our highways in their current condition. With recent history as a guide, these increased public investments are unlikely to appear any time soon.

It is not simply that our government won't make the necessary investments; the fact is, it can't. A recent GAO report on the federal budget says that if discretionary spending continues to grow at the rate of GDP after 2005, by the year 2040 the only thing our taxes will pay for is interest on the national debt. This leaves not just transportation but all federal programs unfunded. The 1909 Commission has an opportunity to help redirect the course of how we take care of our transportation needs before even greater pressures overwhelm our ability to respond to them. We are encouraged by the Commission's interest in bold new proposals and hope that our comments may help you in your task.

In light of all this, it is both flattering and ironic that some highway assets here in the US are so highly regarded by people beyond our borders that they are willing to invest in them; but our government is not.

I'd like to make three points about the future of transportation.

First: Tolling is a piece of the puzzle.

First, tolling is a piece of the puzzle. Road user charging is one of the tools that will help solve our mobility challenges. It's not the only tool; but it's a very important one.

Tolling is important because it establishes a direct connection between the use of the road and the payment for that use. The federal fuel tax, as we know, has lost a third of its purchasing power since 1993. And the average state fuel tax has lost two-thirds of its purchasing power in the last 40 years.

While the fuel tax is the major source of funding for highways today, it is clearly not a sustainable source of funding. Indeed, a recent TRB study on Alternatives to the Fuel Tax urges the federal government to embrace tolling and move toward a Vehicle Miles of Travel (VMT) charge to pay for highways.

All over the world – even in the US – tolling has become much more popular. Why?

- Because technology has made toll collection easier;
- Because open road tolling means you don't have to stop; indeed, you can pay your toll at highway speeds; and
- Because this technology allows us to price our roads dynamically – as traffic increases, tolls increase. Therefore, we can get much greater productivity or throughput from our limited highway capacity.

Second: Opponents of tolling would block transportation system improvements.

My second point is this: opponents of tolling are blocking improvements to our transportation system. We hear many arguments today in which people take common, everyday words and turn them into profanities. Good words like “private,” “investment,” “foreign,” “profit,” and “lease.”

The opponents of tolling use these perfectly good words to stand in the way of entrepreneurs and risk takers who seek to improve the performance of our transportation system by investing in our highways and seeking a legitimate return on their investment – in the tradition of American capitalism

The modern history of toll financing in the United States has reflected large projects that were beyond the means of the states to absorb the needed outlays and risk of certain major capital projects. Pennsylvania, New Jersey, New York, and Maine all developed major cross-state roadways, bridges and tunnels in the first half of the 20th century. They developed these facilities by creating quasi-governmental authorities which could issue bonds and finance the projects outside of the normal legislative and budgetary cycles. Essentially creating entities that acted

more like businesses, and spreading the risk that any given project might not support itself in the investment market through their bondholders.

This model was effective and allowed the development of our nation's first superhighways and major metropolitan connectors. The establishment of the interstate system and the evolution of significant federal-aid funding for highways removed much of the impetus for toll road development. Why would anyone go to the trouble to plan and "sell" such projects when the federal government was giving money away? Federal aid was easier, and the gas tax mechanism was also relatively easy to implement, generating more than adequate revenues to support the system for more than 40 years. Unfortunately, that system is now over 50 years old, and both revenue collection and spending have proven inadequate to meet even maintenance needs for the old system, let alone improve facilities to meet contemporary or future needs.

In the past decade we have seen a resurgence of interest in toll financing to support new construction projects, sponsored by state, county and local governments. The vast majority of the projects are outside of the federal-aid system, due largely to restrictions under current law, as well as a traditional bias against tolling existing interstate highways. It has become increasingly apparent that Congress is unable or unwilling to provide significant new resources, thus leaving the burden to be solved by lower levels of government. City, county, state, and regional governments are stepping up to fill the void by once again going to investor-based financing models to pay for the projects their constituents need now and for the future.

We have also observed a growing crop of investors who see the acquisition of key highway facilities as an investment opportunity that will produce long-term reliable returns. Much discussion has occurred of late regarding "cherry picking" of projects. This suggests the presence of undervalued facilities that, if privatized or leased over the long term, could garner significant gains for the investors over time.

We would submit that while there may be "cherry" projects, these are a reflection of the very stresses the Commission is seeking to address. Projects that can provide real transportation improvements that the public would be willing to pay for exist across the nation, not coincidentally in places where congestion is most severe.

If our present system is unable to address these demands, then any entity that can enter the scene to improve the situation, whether a public or a private entity, should be welcomed and we should look closely to understand how the values are perceived. It is the function of government to look for the public benefit and our many state chartered members are duly proud of the service and value they bring to the operation of their roadways. At the same time, we have members around the world who view long-term concessions or leases as a well-tested operational model that also bring benefits to the government and public while earning a profit through their own efficiency.

We are not suggesting that either model is superior to the other, only that they are not opposed to each other. Both models have worked in the past and can be expected to do so in the future. Both bring benefits to the public and most especially to their customers.

While the Commission is trying to identify bold new methods of addressing our nation's needs, we would submit that a part of this effort involves redefining both our frame of reference and our expectation of how the system should work and operate.

IBTTA has always tried to be very clear that we are not suggesting pricing and tolls are appropriate for all transportation projects. There are clearly systems and roadways with too little traffic or demand to support a pricing mechanism that could effectively recover the cost of its operation. Yet these facilities may be vitally important for rural access, regional connectivity or shipping purposes. It is an appropriate role for the federal government to maintain these linkages insofar as they serve national needs. It is clearly a federal role to identify these most critical linkages and streamline any requirements that hinder their improvement.

The question the Commission must address in your recommendation to Congress is what is the scope of federal activity in the coming years? Is it a bystander managing a dated and inadequate funding mechanism, with growing networks of transportation facilities outside of a federal process? Or is it an active participant with a new purpose and mission to help guide and foster the development of a transportation system that meets local needs as well as those of the nation?

Third: There are tremendous opportunities ahead.

My third point is this: we stand on the threshold of tremendous opportunity.

The technologies I mentioned give us the chance to raise large amounts of new money for our highway system. These technologies also give us the tools we need to manage our highway system more efficiently.

Whether it is traditional tolling which equates the fee paid to repaying a small portion of the construction cost of the facility; or "pricing" which involves a somewhat different view that establishes a cost based on the time of day or congestion levels to help regulate traffic on the roadways, it is clear that the public is willing to pay for time, convenience and access.

Today on our highways we experience the equivalent of an electrical brownout twice a day – every day – in every major metropolitan area in this country. This brownout manifests itself as gridlock when the congestion of the morning and evening rush hour brings commerce and commuting to a halt.

Tolling technology gives us the tools to manage this congestion much more effectively. So that we don't spend \$63 billion a year in lost wages, delays, and wasted fuel.

Recommendations

Over the course of numerous reauthorizations of the federal-aid highway program, IBTTA has advanced a number of proposals to expand the array of financing options available to the states. We offer the following recommendations for your consideration in developing your own recommendations to Congress as part of the Commission report.

Finance Mechanisms

- **Remove restrictions on tolling.** Foster the use of innovative financing to build and maintain transportation infrastructure, including toll motorways, bridges, and tunnels through the elimination of existing language in Title 23 U.S.C. which limits the use of toll financing on federal aid highways.
- **Encourage State Infrastructure Banks.** Encourage the development of state infrastructure banks (SIB) and similar credit assistance programs at the state level to foster tolled infrastructure improvements and the coordination and consolidation of efforts to seek bond financing from the private sector investment community.
- **Allow funding flexibility for states.** Allow the states maximum flexibility to consider and implement all forms of financing mechanisms for transportation infrastructure improvements, allowing the broadest possible interpretation of toll agency capital expenditures and bonding to maximize the leveraging of these efforts under current law.
- **Encourage private investment.** In order to encourage broader private investment, Congress should consider initiatives that:
 - Encourage private financial institutions to invest in toll projects;
 - Create a flexible environment for local and state transportation operators to engage in public-private partnerships where such agreements are desirable;
 - Amend the federal Tax Code to exempt from income taxation partnership distributions or corporate dividends related to the ownership of a toll road;
 - Amend federal law to allow governmental and quasi-governmental agencies to compete on a level playing field with the private sector to deliver infrastructure; and
 - Enhance the value of private activity bonds by lifting the total bonding cap.

Transportation Operations and Traffic Flow

In addition to our recommendations on financing options, IBTTA advances the following proposals on operations and traffic flow for consideration by the Commission.

- **Freight.** Advance the development of trade and commercial corridors to foster the efficient movement of freight.
 - Support programs that encourage expeditious movement of freight through toll border facilities between the United States, Canada, and Mexico;
 - Foster an environment that allows toll-financed commercial corridors to enhance the efficiency and effectiveness of moving cargo to and from the nation's airports, seaports, and intermodal facilities, as well as through the logistics chain.
- **ITS Technology.** Continue efforts to automate and streamline traffic handling with integrated and interoperable Intelligent Transportation System (ITS) technologies, improvements to connecting infrastructure, interagency agreements and cooperation, and user association involvement consistent with evolving security and safety considerations.

- **Infrastructure security.** Provide financial assistance to help toll transportation facilities protect themselves against both the physical and financial impacts of terrorist attacks and other disasters. Specifically, Congress should enact legislation creating a federal “backup” insurance program to enable toll operators to obtain reasonable levels of terrorism insurance coverage.
- **Environmental streamlining.** Support continuing efforts to streamline environmental review processes that can delay the implementation of toll projects that accept federal funds. As “good neighbors” to the communities they serve, IBTTA members practice prudent environmental sensitivity when planning and developing new projects and expanding/rehabilitating existing facilities.
- **Congestion mitigation.** Congestion Mitigation and Air Quality programs within the highway program have been constructive and should be continued, and toll agencies should be given greater consideration in state priority setting processes.
- **Best practices.** Encourage state transportation agencies (STAs) and toll agencies to share “best practices” insights and experiences regarding the development, financing, operation, and management of highway infrastructure facilities. This should include innovative practices in project planning, prioritization, development, contracting, administration, financing, and customer service.
- **Design-build.** In order to expedite the delivery of badly needed transportation projects amend SAFETEA-LU to allow a state DOT to authorize design-build contractors to perform environmental and design work on multiple phases of multi-modal transportation projects.

Conclusion

We thank you for the opportunity to present the views of IBTTA members and the tolling community.