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The 19th Annual Public-Private Ventures Conference: The Infrastructure Financing Debate Continues

The annual Conference on Public-Private Ventures in Transportation (PPV Conference in short), the brainchild of the American Road and Transportation Builders Association (ARTBA), has become the de facto voice of the transportation community on matters of the private sector role in infrastructure development. The Conference owes its credibility to the fact that its sponsor, ARTBA, has wisely reached out beyond its own core constituency and brought together a diverse group of interests in support of a common objective— that of promoting greater private sector involvement in infrastructure development. PPV Conference participants come from the world of banking and finance, federal and state government and the consulting profession as well as from ARTBA's core constituency of road builders and contractors.

The Conference has distinguished itself by featuring prominent speakers from government and industry, attracting impressive numbers of senior professionals from the private and public sector, and consistently featuring a program containing leading edge ideas in transportation policy, finance and management. Over the past 19 years (a period of time, incidentally, that coincides with the age of our own publication), the annual PPV Conferences have acquired a loyal following and a reputation of professional excellence that is the envy of the trade association world. With evidence mounting that the task of modernizing and expanding transportation infrastructure will require a combination of public and private investment, the PPV Conferences have grown in influence, visibility and attendance.

True to its tradition, the program of the just concluded 19th PPV Conference offered a wealth of fresh insights into the evolving collective thinking of the transportation community. The program was crafted by the volunteer members of ARTBA's PPV Division, headed this year by Phil Russell, Director of the Texas Turnpike Authority Division. Addressing the Conference was an impressive roster of speakers. They included Rep. John Mica (R-FL), Ranking Republican on the House Transportation & Infrastructure Committee; three respected industry leaders, ARTBA's Pete Ruane, AASHTO's John Horsley and AAA's Robert Darbelnet; U.S. Deputy Secretary of Transportation, Vice Admiral Thomas J. Barrett; Commissioner Ted Houghton, member of the Texas Transportation Commission; and former Colorado Governor Bill Owens, Vice Chairman of the Royal Bank of Scotland. The Conference also heard from representatives of the two congressionally-chartered national surface transportation commissions, Jack Schenendorf, Vice Chairman of the Policy & Revenue Commission and Bryan Grote, member of the Infrastructure Financing Commission— the first time that representatives of the two commissions shared the podium in a joint appearance.

Public-private partnerships (P3) are not the sole nor the total solution but they are a vital key to solving the nation's infrastructure problems, said Pete Ruane in his opening remarks, a refrain that was heard repeatedly throughout the conference. The status quo is no longer acceptable, Ruane observed, and needs to be "reformed, refocused, restructured and refinanced." According to a statement distributed at the conference, ARTBA supports providing states with toll financing options, including congestion pricing, HOT lanes and truck only lanes "if the revenue raised is used for transportation capital improvements." What is more, "states should be able to use appropriately structured toll systems on existing portions of the Interstate Highway System"— a surprisingly bold position for a conservative trade association to espouse.

AASHTO's John Horsley stressed his organization's oft-stated position that the highest priority is to increase funding for the core highway and transit programs, with a hike in the federal and state fuel taxes as the preferred method. He acknowledged, however, that "every state should be given all options possible in the areas of tolling and public ventures so those states can determine for themselves what is in the best interests of their citizens." He also volunteered that revenue from tolls and public-private ventures may account for as much as 50 percent of new expressways built in the U.S. over the next 10 years. (We tend to think that the figure will be closer to 100 percent, for every last cent raised through the gas tax will be needed to maintain and modernize the nation's aging infrastructure.) AASHTO's recognition of tolling and public-private ventures as "vital to meeting national needs," represents a welcome change from its earlier skepticism and a tendency to dismiss these concepts as making only a marginal contribution.

A More Critical View of "Monetization"?

However, not all forms of public-private partnerships received an unreserved endorsement. Long term leases of existing toll roads, as exemplified by the Chicago Skyway and Indiana Toll Road, were viewed with skepticism by some speakers. Coming in for particularly severe criticism were leases whose proceeds would be dedicated to non-transportation purposes. "If the motivation for a P3 project is to generate upfront cash that can be used to solve statewide budget problems or finance other expenditures not related to transportation, we will oppose that deal." announced AAA's Robert Darbelnet in a luncheon address. However, "public private partnerships are certainly one of the options, and I am here to say that AAA believes that these partnerships have a role to play." Opposition to Chicago Skyway-type deals was also expressed by Jack Schenendorf who cited the potential diversion of cash raised from long-term assets leases as a reason why the public and Congress are questioning the wisdom of letting out toll road concessions to private operators.

The current targets of this criticism — proposals to lease the New Jersey Turnpike and the Pennsylvania Turnpike — were absent from the program after having been prominently featured in past conference programs. Was this a subtle sign that the P3 community wishes to distance itself from these initiatives or at least to represent them as outside the mainstream of private sector involvement? That would be the hope of those who contend that the true purpose of public-private partnerships is to share in the risks

(and rewards) of investing in new capacity-enhancing "greenfield" projects. Confusing "monetization" of existing public assets with public-private partnerships sends a wrong message about the true purpose of the P3 process, these advocates would say; it could lead to a withdrawal of congressional support from public-private ventures, or to the promulgation of restrictive congressional guidelines governing their use, as Rep. Mica hinted in his remarks.

To Tax Or Not To Tax?

Unavoidably, there was much speculation about the prospect for increased public funding of transportation infrastructure. Many speakers, notably Commissioner Houghton, Governor Owens and Deputy Secretary Barrett, voiced skepticism about the prospect for increased gasoline taxes and doubted that a small tax increase would make a dent in the infrastructure deficit. Public resources will never be enough, said Governor Owens in a luncheon address, and complementary private capital will be needed to accomplish public purposes. A small increase in the fuel tax would be a band-aid solution, thought Commissioner Houghton, and with oil prices predicted to push past the \$100-a-barrel mark, the prospect of Congress and state legislatures approving major increases in fuel taxes is remote.

Congressional reluctance to increase gas taxes was underscored by the news, made public on the eve of the Conference, that Rep. Jim Oberstar (D-MN) chairman of the House Transportation and Infrastructure Committee, bowed to political reality and withdrew his proposal for a 5-cent-a-gallon federal gas tax increase to fund his bridge reconstruction program. Oberstar's proposed tax hike was vetoed by the Congressional leadership and received little support from rank-and-file Democrats as well as Republicans. A gas tax increase faces bleak prospects heading into an election year, Oberstar acknowledged. (Instead, he is now proposing to fund the bridge program with a \$2 billion general fund contribution.) Whether the political climate after the elections will change sufficiently to allow a tax increase as part of the next surface transportation reauthorization, remains to be seen. The price of gas at the pump prevailing at the time will likely be a major deciding factor.

Discussions in the breakout sessions revealed a growing sophistication with the concepts of public-private ventures and a more cautious assessment of the rate of their penetration of the infrastructure market. Setbacks, such as the Texas moratorium, have moderated the initial "irrational exuberance," and the tendency now is to shift focus from high profile megadeals and long-term asset leases to more modest ventures, such as the public-private concessions in Mississippi and Georgia. New financing techniques such as "availability payments" that are tied to performance, and "shadow tolling" are emerging as alternatives to the first generation concession model.

A Revealing Dialogue

Finally, a revealing dialogue, involving the representatives of the two congressionally-chartered commission, took place at the final session of the Conference. There exist two

different views of the future, said Jack Schenendorf, vice chairman of the Policy and Revenue Commission. One view sees the role of states and the private sector as growing in importance and the federal role diminishing in the face of declining or stagnating Highway Trust Fund revenues. The other view sees a strengthened federal role, nourished by infusion of tax money. In this latter view, tolling and private financing have a role to play funding specific facilities but higher fuel taxes are necessary to support a national system of highways. In reality, future demands are so great that both approaches are needed, and blending them into a single national policy will be the challenge, concluded Schenendorf.

Bryan Grote pointed out that the charter of the Infrastructure Financing Commission is focused more narrowly on the identification of alternative revenue sources. He observed that users today are not paying their fair share of the costs imposed on the highway system. We need to establish a tighter linkage between the two through the pricing system, he said. Direct user fees rather than higher gas taxes may be the answer, with tolling used as a transition mechanism until we develop a reliable mileage-based (VMT) fee system. Both Commissioners agreed that the current federal resource allocation and delivery system is broken and needs to be reformed. The federal transportation program, which currently is based on revenue sharing, should be changed to a performance- and outcome-driven program, with states held accountable for results and federal funding used as leverage to achieve the desired outcomes.

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The 19th annual PPV Conference left this observer with one overarching impression: the transportation landscape is rapidly changing — perhaps faster than at any time since the early days of the Interstate Highway program. The emerging role of the private sector in infrastructure development is a significant part of this change. The 20th PPV Conference will undoubtedly document further evidence of the growing private sector involvement as the nation comes to grips with the transportation infrastructure challenge.

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