TESTIMONY

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HOUSE HIGHWAYS, TRANSIT AND PIPELINES SUBCOMMITTEE

HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

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"UNDERSTANDING CONTEMPORARY PUBLIC PRIVATE HIGHWAY TRANSACTIONS: THE FUTURE OF INFRASTRUCTURE FINANCE?"

Chairman Petri, Ranking Member DeFazio, and members of the Subcommittee, I am pleased to appear before you today to discuss "Major Moves," Indiana's steps to address our growing infrastructure needs through public-private partnerships.

Indiana's Major Moves is one example of the spreading trend of innovative alternatives to address the nation's growing infrastructure problems. As Transportation Secretary Mineta recently commented, "A big part of the answer is to involve the private sector more fully – not just as a contractor or vender, not merely as a financier, but as a partner in the funding, management, and expansion of our transportation infrastructure. The United States will see a transportation investment boom that could forever change the way Americans travel, when state governments adopt policies that allow the private sector a greater role in building, expanding and maintaining transportation systems."

The Committee knows well the enormity of the national gap between infrastructure needs and available dollars. Indiana's part of this shortfall is at least $3 billion, or ten years of new construction spending at the current rate. For a centrally-located state that accurately labels itself "The Crossroads of America," one with great promise as a logistics and distribution capital, the cost of inaction would be especially enormous. A huge part of Indiana's future depends on its transportation capabilities. We must make significant enhancements to the state's physical and "intangible" infrastructures in order to ensure that they are able to support the future requirements of a growing and evolving Indiana economy.

All across our state, hundreds of road and bridge projects have been promised for years, in some cases decades, with no source of funding and no hope of becoming reality unless bold new steps are taken. Upon taking office, I asked for an immediate review of all of the projects on the drawing board, and a prioritization of projects based on traffic congestion, safety and especially economic development opportunities. We sought input from the public at open meetings throughout the state. Finally, we produced a ranking of over 200 projects with realistic cost estimates attached. In the end, it was clear that our new administration inherited a transportation infrastructure gap of at least $3 billion over the next 10 years.

We looked at every option to address this funding shortfall, from raising the state gas tax (currently 18 cents), indexing the gas tax, transferring state sales taxes on gasoline to transportation, issuing more debt, increasing heavy truck fees, and increasing vehicle registration fees, to name just a few. It was clear that very few of these 200 plus projects would become reality on a business as usual basis. Without new approaches that stretch dollars and access new funding sources, only a fraction of our transportation needs would be met. Many projects would never be built.

The only real alternative was to bring to bear that handiest of revenue sources, Other People's Money. The use of public-private partnerships can enable us to accomplish two important things: 1) generate significant funds for infrastructure projects across the state from leveraging an existing asset, the Indiana Toll Road, and 2) build otherwise unaffordable projects, including I-69 from Evansville to Indianapolis.

Public-private partnerships are hardly a novel idea. In much of the world, but only recently in the United States, private capital already plays a large role, most often in partnerships (called "P3s") with public authorities. The Reason Foundation estimates $25 billion of private investments are proposed or committed for new and existing roads in six states. If it were merely a matter of getting hands on money today that would otherwise come in over the years, such partnerships would make little sense. The goal is to capture far more value than an asset would be worth in public hands, and that is often not difficult to achieve.

The Indiana Toll Road has operated at a loss during five of the last seven years, and has been inadequately maintained. For years, the road postponed needed expansions and repairs and failed to install the electronic technology that now makes tollways elsewhere faster, more convenient, and more efficiently operated, all because there was no way to pay for these necessary improvements. A principal reason was its antique pricing; tolls had been completely unchanged since 1985, and were far below comparable American tollways. We had tolls as low as 15 cents. I once asked how much it costs to collect a 15-cent toll, and the answer came back 34 cents. My response was that we'd be better off on the honor system.

Just as many business units are more valuable if separated from their conglomerate parent, an asset like a highway can be worth vastly more under different management. When we offered our road for long-term lease, we received a high bid of $3.8 billion. The highest estimate of the road's net present value in state hands, assuming future toll increases far beyond past history, was less than half that amount. A more realistic estimate was $1.1 billion. Indiana will soon cash a check that closes the infrastructure gap most had believed insoluble. To bring in $3.8 billion through higher fuel taxes, Indiana would have had to more than double its existing gas tax. If we had attempted to close the gap through additional bonding, we would only have been able to borrow about one third of this figure before colliding with marketplace limits.

The ultimate success of this policy depends on the wisdom with which we use the new funds. As in business, it is a mistake or even a misdeed to take value from a capital asset and use it for short-term operating purposes. Central to our proposal was the insistence that the value liberated from our road be redeployed swiftly into new, long-term public assets that will strengthen our economic backbone and leave a more prosperous state to our children.

The authorizing legislation passed both chambers this past March, and we soon expect to sign the largest P3 infrastructure deal thus far in the United States. The preliminary lease agreement was executed on April 12 and is scheduled to close on June 30 with Statewide Mobility Partners, a partnership of Macquarie and Cintra. Macquarie is an Australian company who is serving primarily as the banker in this arrangement and Cintra, a Spanish company, will serve as the operator. These two firms are the most experienced companies worldwide in P3s today, but I believe it is only a matter of time before there will be serious US competition in this emerging market.

The agreement provides for $3.8 billion cash in exchange for a 75 year lease of the Indiana toll road. It is important to note that the $3.8 billion is a cash payment to the state. While other states are raising gas taxes and paying interest on borrowed funds, Indiana will have cash in the bank and will be collecting more than a half million dollars per day in interest to reinvest in our future.

In addition to the $3.8 billion, Statewide Mobility Partners agreed to commit to significant improvements to the road totaling over $400 million. The total interest on the initial $3.8 billion is estimated at $700-$900 million – making the minimum total benefit to Indiana at $4.5 billion.

A few significant highlights of the legislation include:

1) Indiana can enter into a lease agreement for the Indiana toll road and can enter into a public-private partnership(s) to build the Evansville to Indianapolis portion of I-69.
2) Revenues from the toll road agreement go into three funds: 1) The Toll Road Fund which will be used to retire outstanding Indiana Toll Road bonds of $200 million and transaction costs associated with the lease financing; 2) $500 million to a Next Generation Trust Fund, a reserve fund from which the state can draw down interest only at 5 year intervals, for road and bridge projects; 3) the remaining funds go to the new Major Moves Construction Fund.
3) Thirty-four percent of the Major Moves Construction Fund, representing the total value of all Indiana motorists' tolls, (the remaining 66% are paid by out of state or commercial traffic) will be reserved for the seven northern toll road counties. An additional $150 million will go to local government in all 92 counties for local road projects over the next two years. The remainder of the fund will be used to help fund the hundreds of new construction road and bridge projects that the state will undertake over the next decade.
4) Eligible projects from the funds are limited to highway and bridge projects.

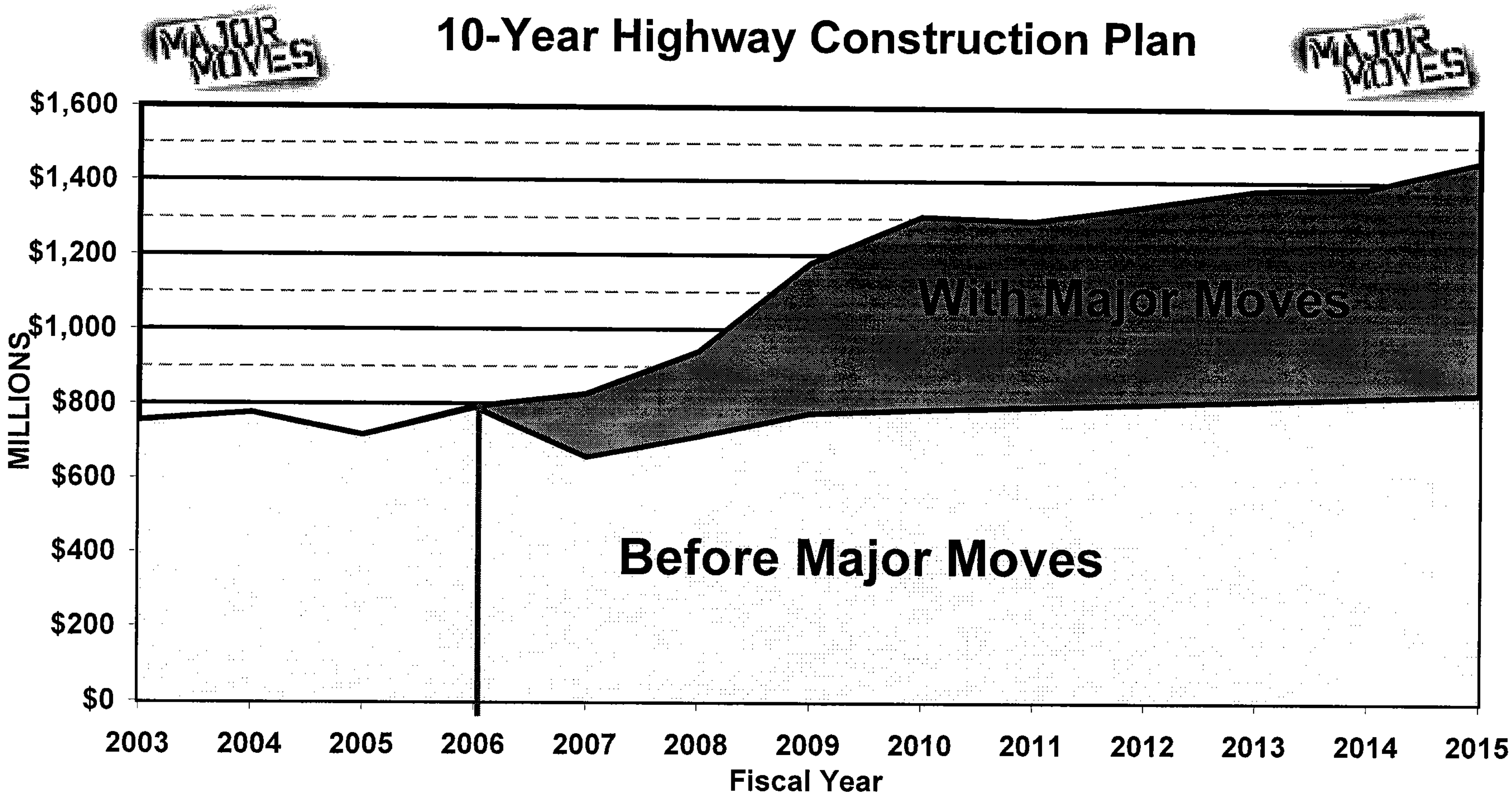
The lease agreement is an extensive legal document, with very specific provisions regarding all aspects from maintenance, improvements, and installation of electronic tolling facilities, even to time requirements for the removal of snow. Acting administratively, we had already begun to increase tolls on the toll road before knowing whether an acceptable bid would be received. Under the agreement, future tolls are capped at the greater of 2% per year or the increase in inflation or GDP.

Within a few years, Indiana will be home to some $5 billion of new public assets that otherwise would not have existed, including US 31, the Hoosier Heartland Corridor, I-69, and two new Ohio River Bridges. It will result in the biggest infrastructure building program in state history, quadrupling new construction, and advancing project timelines by more than 70 years, all without raising the state gas tax. This program will generate directly an estimated 130,000 jobs in Indiana, and we believe it will trigger a wave of business development opportunities in the future.

I consider Indiana's recent actions nothing more than a practical approach to a problem most in our State thought intractable. We have found a way to close our infrastructure gap and invest in hard, permanent public assets for our future without a penny of gas tax increase or a penny of debt.

We look forward to working with this Committee to understand the benefits of these transactions and to examine innovative solutions addressing the transportation infrastructure gap.

10-Year Highway Construction Plan



- Record Construction Every Year
- More Than Quadruples New Construction
- Accelerates Projects by 70 Years
- $12 Billion Highway Construction Program