

**U.S. HOUSE OF REPRESENTATIVES  
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT**

**Testimony on**

**National Infrastructure Bank**

by

**Gabriel Roth**

Civil Engineer and Transport Economist

October 12th, 2011

**Executive Summary**

The American Jobs Act provides for an “American Infrastructure Financing Authority” (AIFA), “a wholly-owned Government corporation ... [to] provide direct loans and loan guaranties to facilitate infrastructure projects”. A bank specializing in infrastructure lending (also known as an “Infrastructure Bank”) could be a good idea, but federal financing of such a bank would be undesirable because:

First, the federal government has run out of money. In these times of financial stringency, it should not finance facilities payable by users, nor local facilities for which state or local governments are responsible.

Second, federal involvement raises costs, e.g. due to Davis-Bacon, “Buy American” and other regulations.

Third, federal involvements can result in politicized projects, even low priority ones.

Fourth, private capital can fund roads and other transportation facilities

These considerations do not apply to appropriations from the federal Highway Trust Fund, which receives dedicated revenues from road users, and has no claims on general revenues. Highway Trust Fund revenues could be increased by raising the dedicated federal fuel taxes but, because conditions vary from state to state, and because of the waste involved in the federal financing of state roads, it would be preferable to meet road funding shortages by the states raising their own charges.

My testimony discusses these issues in more detail, and also describes how specific transportation modes could attract the funding needed to enable transportation users to obtain the facilities they are prepared to pay for.

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**Introduction: Arrangement of my testimony**

I would like to thank Chairman Duncan for his flattering invitation to testify before the Subcommittee's hearing "National Infrastructure Bank: More Bureaucracy & More Red Tape". My testimony covers four issues:

First, whether the federal government should have a role in financing a National Infrastructure Bank;

Second, a review of how projects in different transportation sub-sectors can be financed, generally without federal involvement;

Third, a comment on commercial road financing using "shadow tolls";

Fourth, conclusions

**Federal financing by means of an "Infrastructure Bank"**

The objectives of the "Infrastructure Bank" (or the "American Infrastructure Financing Authority" (AIFA)) as proposed by President Obama, are attractive, but I am not convinced that its financing has to be governmental. Why could not private banks put up \$10 billion to achieve the same objectives? Because private banks would try to finance only financially viable projects?

Government financing — which would be subsidized by taxpayers — could well discourage private financing. The offer of cheap finance could lead to slower spending on infrastructure, because potential borrowers would line up for the bank's loans and put off their own decisions while waiting for the bank's action. Borrowers are likely to be public institutions that would face criticism from their political supervisors if they do not seek loans at lower rates from the government's infrastructure bank.

In dealing with applications, a government-backed bank could be concerned about the reactions of politicians. Government rules would invoke "fairness" as a criterion. And

loans would have to be distributed "fairly" among political jurisdictions. The regulations governing the proposed AIFA already require that funds be "set aside" for rural areas, and disputes about what is "rural" could result.

Those of us who are risk-averse may also be concerned about the proposition (claimed for the BUILD Act) that "After the initial years, the American Infrastructure Financing Authority is set up to be a self-sustaining entity". Was not Amtrak "set up to be a self-financing entity after the initial years"? Why should the Federal Government take risks at potential taxpayer expense? Have the lessons of Solyndra not been absorbed?

### **Financing transportation projects**

The American Jobs Act lists the sub-sectors in which "transportation infrastructure projects" are "eligible" for AIFA financing. I reproduce the list below, with comments on each item on it.

#### **(i) Highway or road.**

There is a long "user pays" tradition for financing roads in the US, typically by means of fuel taxes. In many cases revenues from these taxes feed dedicated road funds. The Federal Highway Trust Fund revenues could be increased by raising the dedicated federal fuel taxes. However, because conditions vary from state to state, and because of the waste involved in the federal financing of state roads, it would be preferable to meet road funding shortages by the states raising their own charges.

Many roads can be financed commercially. An innovative example is a ten-mile stretch of California's State Route 91, some 30 miles east of Los Angeles<sup>i</sup>. In the 1990s the California Private Transportation Company conceived, financed, designed and provided, tolled lanes in the median of this ten-mile stretch. These tolled lanes can be made available to buses, specific types of high-occupancy vehicles (such as van-pools), and to other vehicles for which tolls are paid. Payments are collected electronically from customers' pre-paid accounts, the payment levels being set to ensure congestion-free travel at all times. Tolls for the 10-mile stretch now vary from \$1.30 for much of the night to \$8.95 at 4:00 PM on Thursday afternoons<sup>ii</sup>. All income classes use the tolled lanes, with 10 per cent more women than men switching to them. Those who choose not to pay stay on the non-toll lanes.

The SR-91 express lanes proved popular and have been replicated in the areas of Denver, Houston, Miami, Minneapolis and San Diego. Contracts have been let to add such lanes to the Washington Capital Beltway. Robert Poole and Ted Balaker have dubbed them "Virtual Exclusive Busways"<sup>iii</sup>

These electronically tolled lanes, which can be privately provided, have many advantages:

- They offer buses speedy congestion-free travel;
  - Single-occupant vehicles get premium service and save time;
  - Those who choose not use the express lanes enjoy reduced congestion in other lanes;
- and
- The fees collected can cover the lane costs.

Cities wanting more than tolled lanes could adopt the proposal by Robert Poole and Kenneth Orski for tolled *networks*<sup>iv</sup>: Sets of interconnected premium lanes to be added to congested freeway systems in urban areas by converting selected lanes to tolled lanes, and using toll revenue bonds to finance the missing links and flyover connectors.

Poole and Orski sketched out such networks for Miami, Atlanta, Dallas/Fort-Worth, Houston, Seattle, DC, San Francisco and Los Angeles. They estimated the costs at \$40 billion, possibly equivalent to \$60 billion today. The networks would be financed by electronically collected tolls, varied to ensure congestion-free travel at all times.

#### **(ii) Bridge**

Bridges, like roads, can be financed locally, or by tolls, preferably electronically collected, as by E-ZPass systems.

#### **(iii) Mass transit**

Mass transit provides local service, and should be financed by state or local government. It does not seem right that farmers in Idaho should be forced to finance transit services in Washington DC. Federal funding is not appropriate.

#### **(iv) Inland waterways**

Inland waterways can be put to alternative uses, such as domestic consumption, transportation, irrigation and power generation. The analyses are difficult and investment can merit government intervention, e.g. for the Mississippi, because activities up-river have effects down-river. But financing should be from beneficiaries; can be private; and does not need an "Infrastructure Bank".

#### **(v) Commercial ports**

Ports can be financed by user fees and do not generally justify federal funding.

**(vi) Airports**

Airports tend to be used by wealthier members of the community and can readily be financed by user fees.

**(vii) Air traffic control systems**

The federal government does have a legitimate interest in air traffic control (ATC), but does not have a good record in updating it. Maybe it should consider privatizing ATC. Canada's ATC is successfully provided by NAV CANADA, a private corporation.

**(viii) Passenger rail, including high-speed rail**

Where passenger rail is economically beneficial, it is generally paid for by users. The Executive Branch's obsession with this mode does not seem to be based on credible analysis. Information received from the Federal Railroad Administration on April 18, 2011, (attached as an annex to my testimony) indicates that it had no cost-benefit analyses for projects to which it channelled billions of dollars. One of my principal concerns about a federal Infrastructure Bank is the possibility that the Executive Branch would use it to fund High-Speed Rail services.

**(ix) Freight rail systems**

They can be financed by user fees and do not justify federal funding.

**Commercial road financing using "shadow tolls"**

In the 1980s, government funding for roads was scarce in the UK, and much of the construction industry idled. Private consortia then offered to finance new roads and to be paid by the government an agreed amount for each vehicle-mile using the new road. The principal advantages of this arrangement were:

- Provision of private capital would relieve the pressure on public funds;
- Payment tied to road use would reduce the risk of "roads to nowhere" being financed;
- There would be no tolls to divert traffic to "free" roads; and
- Private provision of the funds would tend to reduce costs.

Eventually, thirty-year concessions for eight highway schemes were offered in the UK in the period 1994-97 under the Thatcher government's "Private Finance Initiative". The UK Department of Highways invited bids from consortia to Design-Build-Finance-and-

Operate these roads that, after the end of the concession, were to be returned to the government in good condition<sup>v</sup>. Payments to the successful bidders were based on agreed rates per vehicle-mile, based on traffic counts, the rates being determined by bidding.

The agreement for these Design-Build-Finance-and-Operate projects included a clear division of risks, and two risks in particular were borne by the private concessionaires:

- First, all construction, operating and maintenance costs, and
- Second, all traffic forecast risks.

Total investment on these contracts exceeded £1.5 billion, and financial savings in reduced construction costs were of the order of 20 per cent.

Similar contracts were made in Belgium and Spain, and I can see no objection to their introduction in the US, as an alternative to an “Infrastructure Bank” for roads.

### Conclusion

I conclude that a federal “Infrastructure Bank”, even when called the “American Infrastructure Financing Authority”, is not necessary for the provision of roads and transit, and could even be harmful, in that it could discourage private investment while wasting scarce federal resources on unviable projects.

If raising fuel taxes to replenish dedicated highway trust funds is considered to be politically unacceptable, private investment could be invited to replace bridges, to expand urban road networks and to improve rural roads.

### References

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<sup>i</sup> Sullivan, Edward C., HOT Lanes in Southern California. Chapter 9, pp. 189—223, in (Ed. Gabriel Roth) *Street Smart — Competition, Entrepreneurship and the Future of Roads*, Transaction Publishers, New Brunswick, New Jersey, 2006.

<sup>ii</sup> <http://www.91expresslanes.com/schedules.asp>

<sup>iii</sup> Poole, R.W. Jr., and Ted Balaker “Virtual Exclusive Busways”, Policy Study 337, Reason Foundation, Los Angeles, September 2005.

<sup>iv</sup> Poole, Robert Jr., and Orski, C Kenneth. “HOT Networks: A New Plan for Congestion relief and Better Transit”, *Policy Study* No. 305, Reason Foundation, Los Angeles, 2003.

<sup>v</sup> Roden, Neil, “Development of Highway Concessions on Trunk Roads in the United Kingdom” Chapter 17, pp. 399-421, in (Ed. Gabriel Roth) *Street Smart — Competition, Entrepreneurship and the Future of Roads*, Transaction Publishers, New Brunswick, New Jersey, 2006.

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
*Truth in Testimony Disclosure*

Pursuant to clause 2(g)(5) of House Rule XI, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name:

GABRIEL JOSEPH ROTH

(2) Other than yourself, name of entity you are representing:

NONE

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

YES

~~If yes, please provide the information requested below and attach your curriculum vitae.~~

NO

(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:

None

Signature

G. J. Roth

Date

Oct 10, 2011

**Gabriel Roth**, Research Fellow at the Independent Institute, has pioneered scholarly work on market-based roads, parking, and transit. Following a Rees Jeffreys Fellowship at the UK Road Research Laboratory, and studies at the Department of Applied Economics (University of Cambridge), on the economics of car parking, he worked for 20 years in five continents as a transportation economist for the World Bank. He has also authored studies for the governments of New Zealand and Sri Lanka, U.S. Agency for International Development, Inter-American Development Bank, Adam Smith Institute, International Center for Economic Growth, and other organizations, and served for three years as President of The Services Group, a consulting firm specializing in market-oriented approaches to economic development.

An author and contributor to scholarly volumes, his books include *Paying for Roads: The Economics of Traffic Congestion* (Penguin Books, 1967); *The Private Provision of Public Services in Developing Countries* (World Bank, 1987); *Roads in a Market Economy* (Ashgate 1996); and *Street Smart: Competition, Entrepreneurship, and the Future of Roads* (The Independent Institute, 2006).

His articles have appeared in *Traffic Quarterly*, *Economic Affairs*, *Transportation Quarterly*, *Transportation Research Record*, *Consumers' Research*, *Traffic Engineering and Control*, *Reason*, *Public Works Financing*, *Local Transport Today*, *Washington Post*, *The Times* (London), *San Jose Mercury*, and other publications.