Remarks by Christopher Ward

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When Secretary Mary Peters called for the end to the federal role in transportation, no one would have predicted how right she would be. There may well be a transportation bill, but it will be a shell of its former self. The days of bi partisan support for a strong federal role are clearly over. At least for now. It is not just a difference on how much, but rather why.

Perhaps the historic swing between conservatism and progressivism will someday bring back a stronger Federal role. But not one born by optimism if that is your perspective. On the other hand, if you subscribe to the Peter's view, you must acknowledge that the experiment is still unfolding. And it is not without its own significant risks. The fundamental question is "can state or local funding strategies fill the gap and still meet the urgent need for major systems expansion nationwide?" And, can they do it before the lack of state of good repair plunges us into system wide failure? This must include all modes: highway, rail, transit, maritime and aviation. We must find answers for all modes of travel, for they are equally challenged.

Regardless of your position, one would hope there is some federal role on the horizon. At this point, the federal transportation agenda is wholly defined by safety; which, while significant, is not an awe-inspiring vision for our nation's future.

Perhaps I am parochial, but higher speed trains on the NEC and a new tunnel into Manhattan might just bridge this gap between the two camps. In fact, with the recent news that AMTRAK will have to cut 25% of its capacity to undertake critical post Sandy repairs, there should be a sense of a national emergency. Sixty percent of the nation's wealth is generated on this corridor. Clearly, further reduction would be catastrophic.

While funding is essential, AMTRAK is not blameless. The idea that AMTRAK publically announces that it will achieve higher speed service in 50 years is incredible. 50 years. The Wright Brothers flew in 1903. Cynic that I am, I worry that AMTRAK may have wasted a crisis and an opportunity for aggressive action.

Whatever the role of the federal government, certain multi state issues will still need to be addressed. I cannot think of a more critical one than the NEC.

So where does this new non-federal paradigm leave us? Both in New York and the country as a whole. And what is the road forward? Most importantly, is this just a short term bridge or a fundamental lasting shift in federal and state roles?

Before I try to answer those questions, let me take a step back and further frame the issues. Let me acknowledge E.J. McMahon's long-term role in this very discussion. While you will hear our differences of opinion, EJ has remained steadfast and consistent when it comes to funding and taxation policy.

So here is a little substance to get us started. Michael Harrington, the great American critic and socialist, once wrote that the basis for a just society was an economy capable of creating a surplus, and a democratic means of distributing it. Today, I would argue, and I think EJ might agree, that Harrington has fundamentally described the challenge in our transportation infrastructure. Because the fundamental questions are: where will the money come from – how will we extract wealth from our economy to pay for it – and how will we decide what the best way to spend it.

I will talk about both in light of the new non-federal paradigm. First, what are the various funding tools; are they enough; and, can they fill the gap; and second, what are the lessons learned to get the necessary public support?

Although it did not help my career at the Port Authority, I will again reject the premise that you can simply do more with less; that there remains such waste and inefficiency in the system that you can fund your way out of the problem. Here I am talking waste, and not long term issues like health care costs and pensions. Obviously, cost cutting is always on the table, but it will never be the full solution; at least that is my perspective.

In traveling around the country, I have seen that local and state officials recognize and embrace the challenge. More and more, you hear it is "home grown solutions;" that cities that take care of themselves will be the ones that prosper; and that, economic and political creativity will be the watchword going forward.

But just as importantly, it is clear that these leaders also recognize that one size does not fit all. Each region will face its own historic and political landscape that will or will not allow certain innovations. Aging northeast cities, with decades old infrastructure, have huge limitations compared to emerging sunbelt and other cities. In short, the democratic means of distributing the wealth will differ markedly throughout the country.

And in blunt terms, I would rather be the Transportation Commissioner in Red State than a Blue State.

But what are these various innovations and how do they work, particularly here in New York? Let's start at the top. The holy grail of the left and the right, the near universal answer to all things infrastructure: The Public Private Partnership: P3s. This one gets them all. For the right, it is private equity bringing market based discipline and innovation to fund the gap. For the left, it is someone else's money that frees up resources for other social purposes. Either way, you continually hear how P3s are the solution for everything. I am reminded of the two scientists who said they discovered energy through cold fusion in a beaker of water. That would have solved the world's problems -- that's for sure. I feel the same way about P3s.

Again, I work for a large infrastructure company aggressively competing in the P3 marketplace, so you probably won't find a stronger advocate. But the bottom line is P3s are financing and not funding. Private equity, no matter how aggressive, must always get paid back. All too often when there is a funding problem, you will hear an elected official claim: "we will innovate with a public private partnership." Don't believe it.

Nevertheless, P3s can and do work and will alleviate all sorts of constraints in the marketplace. But to be successful they must all have measured, fiscal risks that are fully analyzed. As we have seen, unrealistic optimism for P3s created numerous early failures. As it should, the public has grown a little leery of the idea. Equity will only enter the market when risk and return are fully analyzed and carefully balanced. But again, done right, P3s can fill significant funding gaps. Moreover, they also bring private sector discipline to large scale projects, from the beginning on the design side and to the end with construction innovation. For investors, the performance of private equity must be matched with a degree of accountability unavailable in the public markets. As we have all seen, big scale public infrastructure projects are overwhelmingly defined by large, and at times huge, cost overruns and long term schedule delays. P3s can effectively address these chronic issues.

I will take my speaker's privilege here and exclude monetizing existing assets. I don't think these are truly P3s. Mortgaging future assets for current gain only highlights the problem, it does not solve it. Here again, numerous failures and public response indicate that these just fly in the face of how we think about infrastructure and fiscal responsibility. But some of you may disagree.

P3s come in essentially two forms – revenue risk and availability payments. I will take the easy one first: availability payments. The Port Authority's Goethals Bridge project is a perfect example. The long sought

Goethals Bridge – it went through two Coast Guard RODs – had to happen now or the agency would have faced years of slow incremental repairs that would have equaled the replacement costs, but no new or improved bridge at the end of the day. And the bridge suffers huge design and safety issues. Unfortunately, for a variety of reasons, the Port lacked the capital capacity to do it on their own at the time.

But what it could do was financially forecast when it would have the money to pay for a new bridge. Because under the structure, repayment by the Port does not commence until the Bridge is complete, in five years. Importantly, that new forecast did not include any specific toll increase on the Goethals; rather that it would come from its overall financial capital capacity. In otherwords, the Port used private equity to fill a short term funding gap to build a critical bridge it otherwise would not have been able to build. Clearly, with its triple tax exempt status it would have been cheaper for the Port to do it by itself, but funding and timing were of the essence. With long term financial stability from the owner, availability payments can work just about anywhere. But let's be clear – they are a "bridge" to a larger financial solution; in the end, equity must be paid back, which must come from somewhere.

The revenue risk model is another matter entirely. As the name implies, here the P3 contractor is paid back with a forecasted revenue stream dedicated to the project at the contractors' or investors' risk; oftentimes, great risk. Forecasting people's behavior and market response is a tricky business. But with certainty and fiscal discipline these projects can work as well. Dragados recently completed the 595 high speed variable toll lane project in Florida. Here, the pricing assumes that at various times of congestion, drivers would be willing to pay a modest amount – up to $2 – to ensure travel speed. Unlike availability payments, revenue risk projects are stand alone in terms of financing; they are not a bridge. But you have got to get the risks right. While we finished our 595 project on time and on budget, we will have to see how well we forecasted the traffic. The good news here is there is no real commuting alternative, so if you want to get to work quicker or home earlier, a small fee will not likely be a barrier.

Unfortunately, Texas has seen some early failures in the revenue risk market due to clearly overly optimistic projections. With this recent experience, you have seen a substantial increase in the financial rigor of the models. The revue risk model seems best suited to greenfield projects where there is a clear need and high demand. This is not a "build it and they will come" scenario.

Here in the New York region where we have an extremely mature toll pricing structure, as well a deeply embedded public transportation system, revenue risk –particularly highway --projects seem very unlikely.

Depending on the market and the opportunities, you may well see certain hybrids between these two models. For example, while still unclear, the Port's LaGuardia project may contain portions of both. In order to fund a project of this size – maybe upwards of $2 billion -- and a number of partners, the Port will need to bundle a host of revenue streams, some known and others at risks to build a successful project.

In the likely known category, will be the forecasted gate fees paid by the airlines, and while ridership numbers continue to grow, there is significant downward pressure from the airlines to keep these costs to a minimum. As a result, there is a component of risk here even if one were to characterize it as part of an availability payment. Moreover, the airlines in the terminal are largely low cost providers who don't want this cost to increase at all, while the larger carriers like Delta have already spent millions upgrading their terminals so they will not be eager to cross subsidize their competition. But these fees can be agreed upon and captured as part of the financing.

Other aspects of the financing will be more on the risk side, such as concessions and other fees. Here you have more of the revenue risk model. In short, the Port will need to find a way to roll up a variety of revenue streams and create a structure that private equity can embrace. But as someone who called for the redevelopment of LaGuardia before Vice President Biden did, I am confident that my smart Port colleagues will find a way. It is time.

In all these projects, uncertainty is the key. As the risks move to the private equity markets, uncertainty must be reduced, or pricing will rise and become too expensive. So schedules, permitting, regulations, construction complexity, and most importantly, political stability and leadership, are critical.

So P3s: financing, not funding. Someone has to get paid back. But with them construction discipline and innovation. The market prefers availability payments. Revenue risks must be based on detailed and accurate forecasting. But done right, P3s will be a valuable tool for decision makers. Done wrong, they will sour the public, increasing cynicism and jeopardizing innovation.

With Goethals done and hopefully LaGuardia on its way, I think the Port has probably done as much as it can in the P3 market. On the other hand, I am certain the MTA will be under tremendous pressure to find ways into the market. The problem remains. Its financial position is so bleak, without State or City backing an availability project would lack long term funding and a full revenue risk project would price its demand right out of the market. But it is amazing what opportunities private equity will look at.

The next word in infrastructure is user fees. Here in New York we call them tolls. But around the country it has become increasingly clear that people are willing to pay for infrastructure if there is a clear need and the money is wholly dedicated. While the owner collects the fees often times the projects are done on a design build basis to at least capture a portion of the discipiline and innovation. Again, this opportunity is best for greenfield projects in regions that have do not have a mature fee or toll structure. For example, as much as the Goethals Bridge is an enormous headache for Staten Island, and as much as a new bridge would be widely supported, you could have never convinced the Staten Island public or its elected officials to charge an additional incremental toll increase to pay for it. On the other hand, highly congested, non-tolled areas such as Virginia are exploring this concept. Interestingly, in truly congested urban areas, user fees for truck lanes have been raised as an economic means of decreasing congestion costs and increasing the reliability of service. The user fee model has proved successful and clearly there are potential variety of applications.

As someone well aware of the difficulties of the toll model, let me just take a minute to discuss this region and its particular transportation challenges. First, it is not news to recognize that the Port Authority and the MTA face vast funding shortfalls for their respective capital plans. The MTA is $15 billion short on its plan and the Port Authority could spend its capital capacity on the state of good repair and not start a major project in the next ten years. Hence LaGuardia. But New York State and the Thruway Auhtority are not far behind in their financial difficulties.

While both agencies have successfully spent billions on major projects in recent years, that legacy is now clearly at risk. And the question must be asked, can the City and the region truly compete and prosper if there is not a strong financial foundation for each agency. I think the universal answer would be no.

So the question is how did we get here and what can be done about it. Fundamentally, each agency has for a variety of reasons outlived the genius of its very creation: a toll and fare and tax structure that allowed both funding and cross subsidy of its overall operations. For decades, the toll structure was fueled not by increases in the amount, but rather the explosion of automobile usage, which allowed the actual toll to remain low. But as we have seen, the recent increases are proving more and more financially and politically untenable, for both tolls and fares. As a mechanism to extract wealth they appear to have hit a ceiling. And elected officials and the public have similarly reached a point where they are no longer seen as a democratic way to raise revenue. Clearly, this is the dilemma Governor Cuomo faces with the Tappan Zee Bridge. On a micro-level, the mid-Hudson Valley has long enjoyed under market toll pricing for the bridge. And on a macro-level, the Thruway has reached a position it cannot further cross subsidize a new bridge from the larger system. In short, there is simply no headroom left in the regional toll structure to fully cover the cost of the bridge, regardless of its final price. Here I had earlier written: In fact, it would appear for the next decade or so that any significant toll and fare increases to actually pay for what is needed is highly unlikely. Now, with the MTA floating a $14 toll on the Verrazano, we can witness a real life test.

This is not to say that other factors for both agencies contributed to these fiscal challenges. In fact, there are many. For the Port, increasing involvement with non-performing projects such as the Bus Terminal, Pulaski Skyway and the PATH, and of course the World Trade Center have drained its resources. For the MTA , the loss of tax and City support, and also huge capital projects with escalating budgets has also severely eroded its capacity.

But nonetheless, the very thing that made them strong has likely come to an end. Future Governors and Executive Directors are going to have to truly explore new ways to raise revenue.

In looking for new models for financing, one of the most talked about ideas is congestion pricing. An idea implemented elsewhere has faced a far more difficult landscape locally, starting with Mayor Bloomberg's initial plan. Building on what looked like a successful London model, that initial plan failed for a number of reasons; foremost, was its own technological complexity.

Today, the funding concept is simple and clear: toll the East River bridges and fund the MTA. They remain the last untolled part of the regional bridge and tunnel system -- a greenfield, if you would. Fairness, particularly if you are from Staten Island, would seem only logical: why must all the other regions' travelers pay a toll, and this small part of the traveling public ride free? But as we saw, the democratic mechanism to implement such a plan was unsuccessful. And, as is often the case, demagoguery built around race and class led to the failure. As somehow people of color and lower income would be harmed by such a plan, when in fact the lack of funding of the MTA system is actually far greater a risk to that community. Assemblyman Brodsky was the prime example of this misguided logic.

Clearly, the lack of tolls on the East River crossings is a price gap in the regional system and it must be addressed. The Move NY concept of restructuring the regional tolls, built on a more logical time of day pricing and congestion pricing model makes sense. Traveling over the Throgs Neck Bridge in the middle of the day should not cost more than traveling into midtown on a busy afternoon. This restructuring has the convenient benefit of lowering tolls to those communities which most opposed the initial concept. As a result, this plan has begun to gain momentum in certain sectors, although not necessarily from the right political leaders. Again, to return to Harrington, we need a political means of distributing the benefits. As planned, this revenue will go to largely help fund the MTA gap, so it will beg the larger question of what to do about the Port Authority.

But with regard to the MTA and its financial future, it would be irresponsible here to continue to talk about funding without remarking on the cost side. This is not the waste argument; here it is a matter of long term health costs and pension benefits. With both of these benefits costing the MTA _-____ of every dollar, labor must begin to recognize that job security and growth must be tied to productivity gains and structural reform. If the long term relationship between the civil construction and transit industry and the middle class is going to remain, it is in the long term interest of labor to recognize that it must be part of the solution. Regardless, the revenue side of the equation will not be sufficient to fund the growth we all want to see.

Another concept which Mayor Bloomberg was very successful at was the use of tax increment financing for the extension of the 7 train. Financing projects from increased tax revenue due to growth is not that difficult to calculate; it is more about setting fiscal priorities. Built on the concept of transit oriented development, the Mayor recognized that subway service to the west side would accelerate and spur the growth of this undeveloped part of the City, raising additional tax revenue to fund that very project. The hardest part of tax increment financing is having the vision to build it into the system early, because once missed they are likely lost forever. So all TIFs require vision and long term investment, and tax strategy. Building on the West Side model, extending the Air Train finally to Jamaica Station might well be achieved with a TIF, given the enormously undervalued and zoned real estate around the station.

In a sense, all of what I have described is actually not very innovative, for all the use of the word. Equity markets, user fees, congestion pricing. They have all been done and shown effective. Unfortunately, as I have outlined , given the historic landscape here in New York, these opportunities will not be as great as elsewhere. We are living off our earlier historic innovations and now it is catching up to us. As a result,other ideas often one shots are surfacing as solutions. The large settlements in the financial industry have politically provided the Governor the opportunity to fund a robust infrastructure agenda in the near term. From a cost benefit ratio – particularly in terms of job creation – infrastructure is the wise investment. The Governor has also spoken of an infrastructure bank, a wise idea if funded. But the fact will remain that our transportation agenda is fundmentally without financial support.

What I would like to end on is the beginning of a number of ideas which have yet to be fully realized but which I think can, and must somehow, be the foundation of a new regional financial model. I will start with the concept that it will be built on personal technology and the ability to make pricing choices. In a true sense, reducing Harrington's paradigm to the single user. Funding and democracy at its most basic level. It is about a growing sense that if I know what is in it for me I am willing to pay for it. And it is about thinking about infrastructure in a far more dynamic way. For example, we have probably seen the demise of the gas tax. For the driver, the benefit is just too far from the pump, and what it gets spent on is too often invisible. I have been skeptical, but I think now we have reached a point where road utilization and vehicle miles traveled, given with the huge prevalence of personal technology, can be a new structure. Ironically, it may well be in northeast cities like New York where such schemes can be effectively implemented, because they are so many other transit alternatives, which makes the pricing real. Paying for a monopoly service, like a single roadway, is not a pricing decision. But not driving to work and taking the subway is. The technology is clearly there. Newer generations are increasingly comfortable with the concept, and it has as its foundation a personal pricing decision that is made not forced. As a simple matter, implemented on a state-wide basis, the concept is you pay for what you use. Again, we are not there yet, but it would appear an area ripe for exploration.

Most of the funding solutions that are discussed do not deal with the Port Authority's financial challenges and they are great. From the Aviation industry with the long outdated Passenger Facility Charge, to the wholly underpriced PATH system, to a deeply challenged Trans Hudson Network, we also begin to look at new funding streams for that Agency. For as I said, its entire capital plan could be spent only on the state of good repair for the foreseeable future. Let me throw out a crazy idea. The inefficiency and cost of the trucking industry here in the New York City region has always bothered me. For example, we have zip codes for mail. But yet trucks crisscross our region with no rationalization. A bodega gets a food delivery and right next door Sleepy's gets another load of mattresses from a different trucker. The waste and cost to the region is enormous, both direct and indirect costs, such as the environmental externalities like clean air and the enourmous cost of congestion. In a sense, this part of the economy seems ripe for a progressive funding strategy that extracts wealth from the inefficiency and delivers a far more sustainable model for moving goods. Here is a model that would be worth exploring for the Port Authority given its regional role. Again, these are the beginnings of innovative ideas. They are not the end. But for a region facing the costs and challenges we do, thinking beyond the current horizon is our real hope.

In the meantime, if I was President Obama, I would declare a national emergency on the NEC, take $50 billion out of the Defense Department, streamline far more than before the approval process and initiate the largest P3 project in the country and deliver higher speed rail a new Portal Bridge and two new tunnels into Manhattan. Where am I wrong. Thanks.