



For the Record

US DoT Official Notes Opportunities & Challenges in US PPP Market at P3 2007

On November 27, 2007, Tyler Duvall, Assistant Secretary for Transportation, US Department of Transportation, spoke to delegates at the 15th Annual National Conference on Public-Private Partnerships in Toronto. His remarks focused on the recent P3 activity in the US and the opportunities for companies looking to do work south of the border.

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The stars are aligning for a big surge in private sector investment in U.S. transportation infrastructure, especially roads but also airports and mass transit, according to Tyler Duvall, Assistant Secretary for Transportation Policy with the US Department of Transportation. But Mr. Duvall tempered this optimistic outlook with a note of caution and a word of advice when he addressed a lunchtime audience at the annual CCPPP conference in Toronto on November 27.

While there is "an overall air of inevitability" about the development of the PPP market south of the border, there has not yet been much discussion about building the institutional mechanisms, similar to those that now exist in Canada and the UK, to make this a reality, he said.

"Virginia has a good structure in place but many states lack expertise," he said. "There is a great risk that some states will race out ahead without having a clear

understanding of what they are doing, and there could be a backlash."

He urged Canadian companies looking to enter the US market to be prepared to share their expertise, not just in structuring specific deals but also in helping state departments of transport and municipal authorities to develop policies and organize their ability to implement the P3 model.

Outlining some of the forces driving the shift to PPPs and other innovative funding mechanisms, Mr. Duvall highlighted the upcoming reauthorization of federal transportation programs, scheduled for 2009. The federal Highway Trust Fund (HTF), 90% financed from gas and diesel taxes, funds about 46% of all highway capital projects in the US. From a \$20 billion surplus in 2000, the HTF is projected to show a shortfall of at least \$6 billion in 2009, the first time it has ever slipped into deficit.

"There is no consensus right now about what the next reauthorization process should be or what the source of funding will be over the long term," said Duvall. Over the past 15 years, the federal government's approach has been to allow innovation by giving states greater tolling flexibility on interstates and other federally funded highways.

Mr. Duvall said that with federal funding becoming less and less predictable, this approach has met with blossoming interest

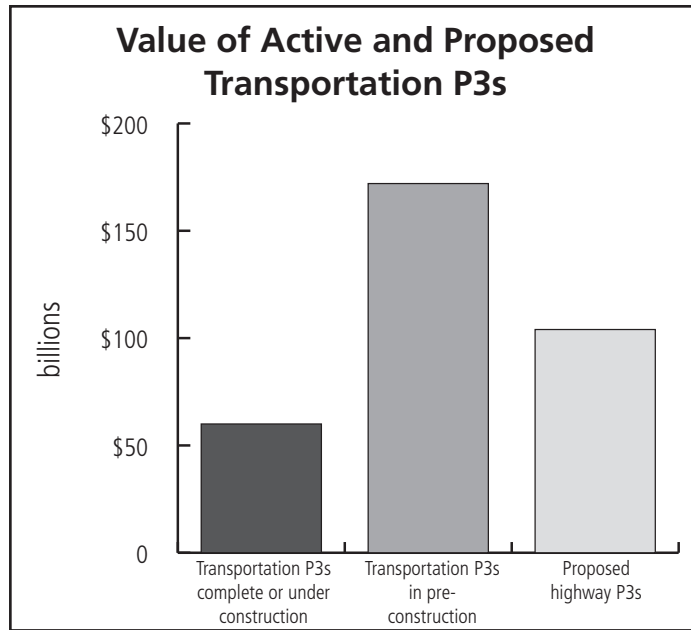
at the state level but not in Washington, where legislators fear that it will weaken their argument for a big federal gas tax increase. He explained that the two main infrastructure policy priorities of Transportation Secretary Mary Peters have been encouraging private capital and its associated innovation and policy benefits and pushing direct pricing of infrastructure, particularly roadways.

"This has created two trends," he said. "One is a major toll road movement. Every new highway project over \$500 million will be a toll road. The other is that we have huge amounts of private capital around the globe looking to invest in US assets. These trends have been running parallel to each other but ultimately they will converge."

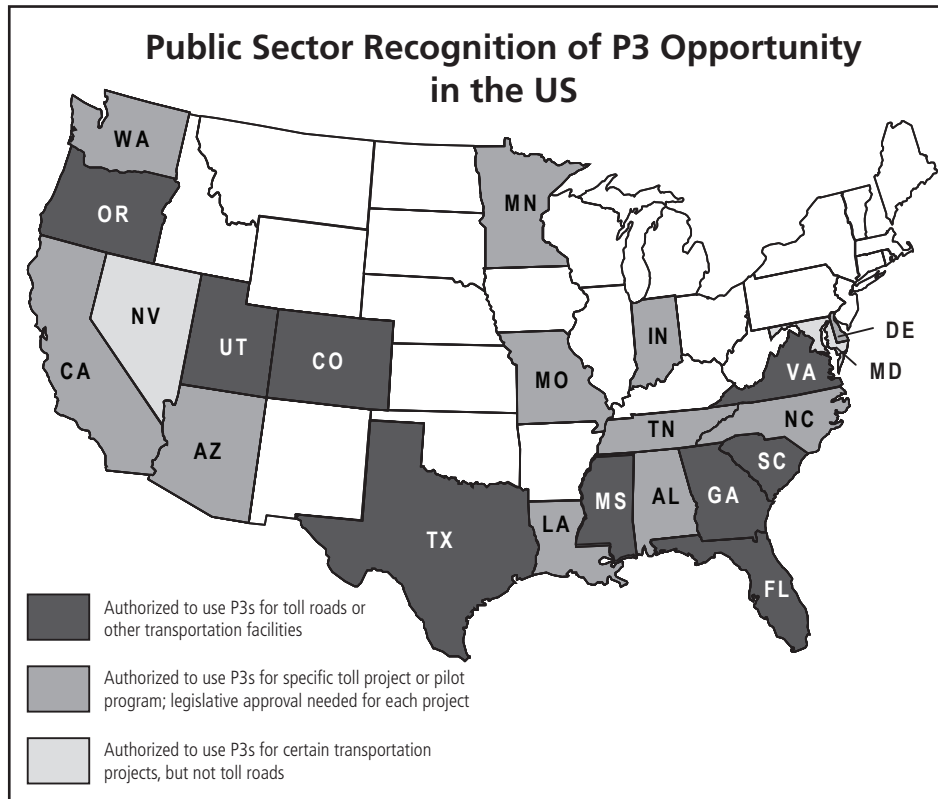
Turning to airports and his department's current focus on aviation congestion, Duvall referred to a recent tentative agreement between the City of Chicago and Southwest Airlines to privatize Midway Airport as "a significant moment" in the airport sector.

"With business travellers fleeing the congestion of the commercial system and the huge growth in light jets, air taxis and smaller airplane travel, if the Midway transaction can be completed there will be significant opportunities for private investment in our aviation infrastructure."

see over for statistics



Source: Public Works Financing, October 2007



Source: U.S. Department of Transportation



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