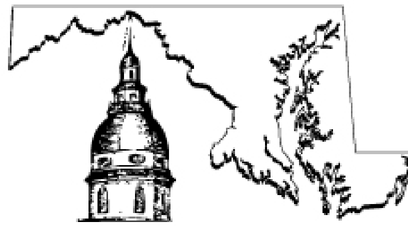

MARYLAND **POLICY UPDATE**

No. 0006 April 30, 2003

HOW TO BUILD AND PAY FOR THE ICC

THOMAS A. FIREY

The Ehrlich administration's announcement that it has allocated $2 million to restart planning for the intercounty connector is welcomed news for D.C. area commuters weary of gridlocked roads in Rockville, Gaithersburg and Bethesda. Construction of the corridor linking I-270 to I-95 would divert a significant amount of traffic away from the overburdened northwestern side of the Beltway.

But even with ICC supporters now in the governor's mansion and the offices of Montgomery county government, the highway still faces two substantial roadblocks: growing budget deficits that threaten big ticket transportation projects, and opposition from smart growth advocates who worry the road would add to suburban sprawl.

However, Maryland can build the ICC in a way that would satisfy the concerns of both budget hawks and smart-growthers. Under the scheme, a state-franchised private toll road company would construct and initially operate the road, which would be built as a throughway with no interchanges other than at I-270 and I-95.

The environmental advantage of making the ICC a throughway comes from its lack of entrance and exit ramps. No ramps mean no interchange towns– no new development along the ICC that would be spurred by easy access to the road. Further, the state could mandate in its franchise contract that the road company would build the highway using environmentally friendly designs and techniques.

The fiscal advantage of making the ICC a privately constructed and operated road is obvious: Instead of being financed with tax money, the road would be funded by private investors hoping to profit from tolls. The historical downside of such roads—the inconvenience of toll plazas and drivers fumbling with money—has diminished in recent years with the development of no-stop electronic debit systems like the EZ-Pass used elsewhere in Maryland and Virginia.

It is true that recent U.S. experience with privately built roads has not been without problems. Just to the south of Washington, the Dulles Greenway has gone through several bankruptcies as a result of the road's failure to draw the traffic that investors expected. Meanwhile, in California, the exact opposite problem has befallen the Orange County Rt. 91 express lanes — operators have been accused of taking advantage of their franchise contract to earn windfall profits from the road's heavy use.

Published by
The Maryland Public Policy Institute
P.O. Box 195
Germantown, MD 20875-0195
(240) 686-3510
(240) 686-3511 - Fax
www.mdpolicy.org

But Maryland can avoid those problems if it were to award the ICC franchise using a present value of revenue auction. Under the auction, potential road companies would submit bids of how much total toll revenue they would be willing to accept in order to build and operate the road. The firm with the lowest bid would win the franchise and construct the road,

and then would operate it until the firm earns its bid amount (adjusted for inflation). At that time, ownership of the road would transfer to the state of Maryland, which could then operate the toll road itself, auction off the toll franchise in exchange for revenue for the state, or convert the ICC to a free road.

The advantage of this auction scheme is that, because the franchise lasts until the road company receives a set amount of inflation-adjusted revenue, both the company and consumers are economically protected. If the economy falters and toll revenue is low, the franchise will continue until the road company receives its anticipated revenue, which makes it highly unlikely the ICC company would end up in bankruptcy court. On the other hand, if road usage is much higher than anticipated, the franchise will expire earlier than expected and the ICC company would not reap the wild returns experienced by the Orange County Rt. 91 company. For both consumers and the toll road company, a limit on windfall profits seems an appropriate tradeoff for the assurance that the road will return a specific amount of revenue. As part of the franchise contract, Maryland could include provisions that would provide additional benefits to ICC users. For example, the contract could include a bonus clause that would extend the franchise if the toll company achieves its revenue bid amount quickly. The bonus would provide additional incentive for the company to provide a roadway that drivers would use heavily. At the same time, the state could establish a maximum toll amount to limit how much drivers will have to pay to use the road. Prospective bidders for the ICC project will carefully evaluate those provisions, projected construction and operation costs, and the ICC's usage potential to ensure that road maintenance, traffic flow, overall usage and toll amounts are all kept at close to optimal levels.

If the ICC were to be constructed in this way, it would not add to suburban sprawl but would supply a needed thoroughfare for area commuters. And it would provide that thoroughfare without denting state coffers; instead, those who use the ICC ultimately would finance it. Given Maryland's budget crisis, concerns about overdevelopment and the need to relieve Beltway congestion, this seems a winning way to get area traffic moving again.

—Thomas A. Firey is a senior fellow of the Maryland Public Policy Institute (www.mdpolicy.org). *This column originally appeared in the April 20, 2003 issue of the* Washington Post.