



U.S. House of Representatives
Committee on Transportation and Infrastructure

Washington, DC 20515

James L. Oberstar
Chairman

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November 4, 2008

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The Honorable Mary Peters
Secretary
United States Department of Transportation
1200 New Jersey Avenue, S.E.
Washington, D.C. 20590

Dear Secretary Peters:

The recent crisis in the financial markets has given rise to a number of circumstances involving public-private partnerships ("PPPs") and innovative financing that have heightened our concerns with these arrangements, and the lack of adequate transparency and public interest protections under these deals. We are particularly concerned about efforts by private investors to exploit the financial crisis to place a number of the nation's transit agencies at risk of default and financial collapse, and the potential negative impact of the uncertainty over the governance structure and financial viability of firms involved in PPPs. We urge the Department of Transportation to aggressively exercise its role as steward of the nation's intermodal transportation network to ensure that the American traveling public is not negatively impacted because of the current economic crisis and the tightening of the credit markets.

The recent moves by investors in transit financing deals entered into between 1988 and 2003 to extract payments and penalties from a number of public transit agencies are threatening to bring a number of the nation's transit systems to a halt. These actions by banks have now placed more than 30 of the nation's largest transit agencies at risk of default and financial collapse. Although your Department has limited information regarding these deals, it is our understanding that the public transit sector's total exposure from these deals ranges from \$1.5 billion to \$4 billion, and may significantly impact 25 cities in 17 states nationwide.

These defaults—if completed—will threaten the very existence of some of the nation's largest transit agencies, as well as the financial stability of the state and local governments that fund them. This would result in immediate termination of transit services in the nation's largest urban areas, eliminating an important transportation option that alleviates congestion, saves energy and reduces our nation's dependence on foreign oil. With this in mind, we urge you to work closely with the Department of Treasury to quickly resolve this pending crisis.

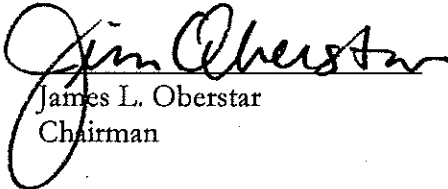
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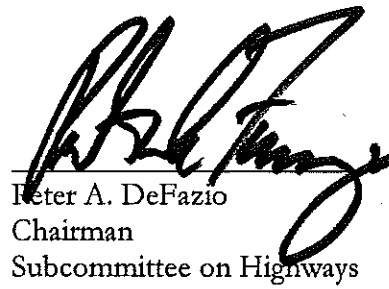
Similarly, the financial crisis and the tightening of credit markets have raised serious questions over the governance structure and financial viability of firms involved in a number of PPPs. The dependence of these firms on debt and asset inflation rather than income or cash flows to finance acquisitions and pay dividends to shareholders has raised questions concerning the sustainability of this model. It also highlights the risks and consequences of rushing into long-term deals that are not structured appropriately or do not contain sufficient contingencies to address unanticipated crisis, such as the current credit crises. While no deal in the U.S. has collapsed to date, the lack of transparency and unacceptable level of risk assumed by these firms underscores the need for strong public interest protections to ensure that the public partner to these deals is not left responsible for bad business decisions, or that roadway users are not forced to pay artificially high tolls to meet investor revenue expectations.

We recognize the important role private sector capital and innovation can play in addressing the nation's surface transportation needs, and believe that the Federal Government should create policies to foster this private involvement where appropriate. However, the Bush administration's rush to embrace and promote PPPs and other innovative financing agreements may hurt future efforts to positively harness private investment and innovation for the public good. The recent crisis in the financial markets makes clear that these deals should be undertaken under very specific circumstances and with strong guidelines to ensure the priority in these arrangements is on generating public value, not private profit. We have serious concerns that without appropriate and effective oversight of these deals by your Department, the public interest could be seriously compromised in the current financial environment.

Thank you for your consideration.

Sincerely,


James L. Oberstar
Chairman


Peter A. DeFazio
Chairman
Subcommittee on Highways
and Transit