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# PPPs and Sustainable Toll Roads: Advancing to the Triple Bottom Line

*By Hal Kassoff*

**T**oll-highway owners and operators often observe that in return for the fees customers pay, they should receive a corresponding enhancement in service. After all, toll-road customers understandably expect more than non-toll-paying drivers. They're primarily interested in their ability to travel or move freight more efficiently, at higher speeds and with a greater degree of reliability and a higher margin of safety than competing free routes can offer. They're less prone to complain about tolls if their expectations are met.

In short, toll-road customers seek a bottom-line value for their money, while toll-road operators seek a bottom-line return on investments on behalf of bondholders and equity investors. But is this focus on a single bottom line sufficient for the toll-road industry to thrive well into the future, or are there other, noneconomic factors to consider as well?

## The Case for a Triple Bottom-Line Approach

As interest in toll roads in the U.S. continues to deepen, particularly when it comes to major new highways or high-cost expansion projects, a debate about the long-term public interest has emerged. The shift of toll-road financing from what had been almost exclusively the publicly created toll

interests into account—in essence, by taking a triple rather than a single bottom-line approach, one that incorporates not only financial concerns but societal and environmental ones, as well. In particular, how important is it for broader societal and environmental issues to enter the toll-road equation in a more formal and explicit way? Should such issues move closer to the

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authority toward various forms of public–private partnerships (PPPs) has intensified this debate, which questions whether the overall national interest is being served by state and local initiatives to expand the role of the private sector in much needed and underfunded highway-capacity projects. The fact that private-sector investors and financial sources for U.S. toll roads are predominantly offshore has underscored the significance of the issue politically, whether deservedly or not.

As the debate continues, it may be time to consider whether an industry seen as focusing solely on “following the money” might be more sustainable in the long run by taking broader

center of public- and private-sector deliberations as potential PPPs unfold? In fact, haven’t these issues in the past often ignited spontaneously and taken on a life of their own, causing a bit of backsliding and regrouping on the part of project sponsors to address concerns that in hindsight might have been anticipated and better handled up front?

This debate may present a unique opportunity for the toll-road industry to further differentiate itself as a source of value-added services. For isn’t it time for the industry to embrace a much broader definition of “services” and “value added,” one that would transform the single-minded, financial

bottom-line mentality into a more encompassing, triple bottom-line approach?

The triple bottom-line approach requires initial investment decisions and ongoing asset-management strategies to explicitly account for a wide range of societal and environmental, as well as economic, factors. And as state transportation department officials can attest from long-standing experience in planning, building, and managing interstate highways and other roads, stakeholder interests are rarely confined to economic and financial issues. More often than not, the most daunting challenges affecting the future of highway projects involve issues of

environment, community, quality of life, and social equity. The track record of public highway agencies is by no means flawless. But they've come a long way in demonstrating a true willingness to embrace the principles of environmental stewardship as well as applying the best context-sensitive solutions as they steer projects through some hazardous, barely navigable waters.

As the toll industry pushes the envelope in terms of private-sector participation in highway construction, legitimate concerns will continue to surface about the impact such enterprises have on society and the natural environment. Clearly, it is in the best interests not only of public officials







negotiating innovative PPP arrangements, but of private-sector participants, as well, to ensure that the terms and conditions of these agreements pass muster across the full array of public-interest issues. This is especially so when they are scrutinized by increasingly skeptical constituencies.

### **Inspired by Sustainability**

The triple bottom-line approach emanates from sustainable-development concepts currently taking a foothold in the U.S.—ideas whose roots lie in the principles of sustainability that began in earnest in the late 1980s with the United Nations Brundtland Commission. The Commission’s report,

which defined sustainable development as “meeting the needs of the present generation without compromising the ability of future generations to meet their own needs,” emphasized the importance of considering social and environmental as well as economic factors, thereby laying the foundation for what has become known as the triple bottom line.

The concept of the triple bottom line (also known, coincidentally, by another “PPP” designation—people, planet, and profits) was originally developed for the private sector. First articulated by John Elkington in his book *Cannibals with Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business* as

an alternative framework for private-sector accounting and reporting practices, it was initially embraced by a number of international companies. According to Andrew Savitz and Karl Weber, co-authors of *The Triple Bottom Line: How Today's Best-Run Companies Are Achieving Economic,*

nongovernmental organizations) to be concerned with social and environmental issues. Whichever side of the argument one may take, it seems impossible to espouse the concept of PPPs and not acknowledge that the joining of public- and private-sector interests mandates that all three bottom-line

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*Social and Environmental Success—and How You Can Too*, “a sustainable corporation is one that creates profit for its shareholders while protecting the environment and improving the lives of those with whom it interacts. It operates so that its business interests and the interests of the environment and society intersect.”

While the idea here is, of course, to infuse social and environmental considerations into corporate accountability and decision making, not every private enterprise will choose such a path. Many will argue that their job is to look after the financial bottom line on behalf of investors, while it is the job of others (the government and

factors be included in the mix. Failure to recognize this can undermine a PPP enterprise, and possibly the growing interest in and potential of PPPs.

Yet the pressures to relegate nonfinancial factors to a subordinate role are considerable. Financial considerations have always dominated in the private sector, and that isn't likely to change. It is still the exceptional company or investor that places comparable emphasis on societal and ecological factors, for either philosophical or pragmatic reasons. As a result, when it comes to assessing a PPP deal, the safeguard against failure might be to expect the public-sector participants to assume responsibility for incorpo-

rating the full triple bottom line. Here, too, however, the exceptional pressure to alleviate severe and immediate budgetary stress often tilts the triangular plane of the triple bottom line toward the financial apex.

tives are not inherently incompatible with private-sector involvement. In fact, at times such objectives may become dominant, in order to respond to critics who challenge PPPs based on public-interest considerations.

Through private-sector involvement in PPPs as well as in more traditional public toll authority programs, the toll-road industry is in a strong position to take the high ground when it comes to stewardship and sustainability objectives.

As the potential public, press, and political backlash begins to stress PPP toll-road initiatives, it will become increasingly clear to all parties involved that the private interest (the financial success of the deal) as well as the public interest (the financial success and balanced consideration of all social, environmental, and economic factors) demand not only a triple bottom-line approach but a level playing field, as well. While transportation efficiency and financial challenges and opportunities are bound to be the driving factors that spawn interest in PPPs, those likely to flourish will be the ones that don't relegate the second and third bottom-line factors to a subordinate position. Successful PPPs, rather, will demonstrate that sustainability objec-

### **Toward Sustainable Highways**

Highways, whether tolled or free, can be a tough sell when it comes to sustainability. There are detractors who seem to believe that the only good highway is the one left unbuilt. To them, highways of any kind have been the principal cause of our environmental ailments, polluting the air, destroying historic neighborhoods, filling in wetlands, unleashing sprawl, and the list goes on. As a matter of fact, any objective highway advocate would have to acknowledge that some projects have indeed been harmful from an environmental or societal perspective.

At the same time, we know from experience that well-conceived and well-planned highways have improved rather than degraded the quality of the

natural and community landscapes as well as the quality of our lives. There are many examples of highway projects that have strengthened communities, stimulated the restoration of historic areas, improved air quality, reduced noise levels, and created wetland banks, not to mention other benefits bestowed on local residents. Some environmental groups have even discovered that toll highways can manage demand through pricing strategies, provided the political will exists and the right conditions are in place.

Environmental stewardship encompasses two key ideas that, curiously enough, are part and parcel of the philosophy and business practices of most toll-road owners and operators: (1) enhancement can mean going beyond meeting bare minimum requirements when the added increment of cost is sufficiently beneficial and affordable; and (2) infrastructure development should be viewed with a long-term perspective, ensuring that transportation projects benefit communities for generations to come.

When the federal “enhancement program” was incorporated into ISTEA (the Intermodal Surface Transportation Efficiency Act) more than 15 years ago, many in the U.S. transportation community opposed the idea on the basis that it diverted scarce resources from much-needed infrastructure improvements. This opposition not

only has virtually disappeared, but the philosophy of enhancement—namely, making our communities and the environment a bit better rather than worse as a result of implementing a highway project—has become more of a mainstream idea. Furthermore, it has been shown that enhancement doesn’t necessarily run counter to budget-consciousness.

Given the fact that our highway design criteria have been geared toward serving traffic needs 20 to 25 years into the future, the notion of providing benefits for “generations to come” is a significant step forward. In taking such a long-term view, we reflect the life-cycle perspective that toll-road owners, operators, and financial backers already take when making asset-management and resource-allocation decisions on toll projects.

### **Taking the High Ground**

Through private-sector involvement in PPPs as well as in more traditional public toll authority programs, the toll-road industry is in a strong position to take the high ground when it comes to stewardship and sustainability objectives, ensuring that toll-financed projects and facilities:

- Are consistent with and supportive of environmentally sensitive and locally adopted land-use, transportation, and resource-conservation plans;
- Link seamlessly and efficiently with



and make maximum use of existing elements of the transport network, including all interrelated modes of transportation;

- Are developed and managed with the full participation of all stakeholders, drawing upon the talents of interdisciplinary professionals;
- Incorporate designs and specifications reflecting a life-cycle asset-management perspective that requires fewer repairs and less reconstruction while fostering recycling and reuse of materials;
- Specify construction methods that least disturb and disrupt communities and the natural environment;

- Move expeditiously through a streamlined development and delivery process with environmental resource and regulatory agencies; and
- Demonstrate long-term, positive triple bottom-line outcomes in terms of societal, environmental, and economic measures.

Although infrastructure has little direct influence on our moving away from carbon-laden and import-dependent sources of energy, the toll industry has a stake in the outcome of all transportation policy decisions. It should therefore take the opportunity to lead the way to greater public awareness of sustainable alter-



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natives. We can do this by taking all reasonable steps to plan, design, build, and operate more sustainable highway facilities and by encouraging those in related fields, such as land-use planning and vehicle manufacturing, to do the same.

Taking a proactive stance on sustainability and the triple bottom-line principle could signifi-

cantly affect the future viability of toll roads and of PPPs in particular. Embracing the principle would signal that the toll industry has come of age, no longer centering on strictly financial issues, but rather defining, developing, and delivering highway projects that can demonstrate broad-based added value not only to investors but to society at large.

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