

Commentary on the July 2008 U.S. DOT Transportation Policy Proposal

Prepared by the

National Transportation Policy Project



NTPP is a Project of the Bipartisan Policy Center



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On July 29, 2008, U.S. Transportation Secretary Mary Peters released a proposal for reforming federal surface transportation policy. The proposal aims to provide a framework for Congressional debate surrounding the upcoming re-authorization of SAFETEA-LU, which will expire on September 30, 2009. DOT does not recommend specific funding levels, but rather offers some general principles and ideas to “refocus, reform and renew” the Nation’s approach to transportation by “completely overhauling the way U.S. transportation decisions and investments are made.”

Although reaction to the DOT proposal has been mixed, many stakeholders share the view that it is time to refocus, reform, and renew our nation’s approach to transportation policy generally and federal highway funding in particular. NTPP applauds the Secretary for putting forward a bold proposal that contains many useful ideas and concepts regarding the reformation of federal surface transportation policy. In the interests of advancing pragmatic bipartisan solutions to these critical issues, the National Transportation Policy Project (NTPP) believes it is not too soon to begin a constructive dialogue about the ideas and assumptions contained in Secretary Peters’ proposal. In doing so we recognize that some elements of that proposal—notably its strong emphasis on privatization and pricing—are bound to be controversial. This controversy should not be allowed to detract from the fact that the DOT proposal also contains a number of valuable insights and ideas that provide a useful starting point for building consensus around a new direction for U.S. transportation policy.

The NTPP is a project of the Bipartisan Policy Center (www.bipartisanpolicy.org). Our aim is to advance politically viable policies that transcend partisan and regional differences to address the transportation-related economic, environmental, and energy security challenges our nation confronts. The remainder of this short paper summarizes NTPP’s initial reaction to specific aspects of the recent DOT proposal.

THE FEDERAL ROLE

The need for a refocused federal role: The NTPP concurs with the DOT’s overarching proposition that the scale of the nation’s transportation challenges necessitates a refocusing of the federal role “. . . on the areas that are of the greatest federal interest.” Critical priorities include maintaining and improving existing infrastructure, improving safety, and establishing performance standards and measures of accountability in the use of federal funds. NTPP would also add improving energy security and environmental performance to that list. Secretary Peters is correct to note that the federal government has invested hundreds of billions of dollars in a nationally interconnected transportation system, and to allow this investment to be squandered by inattention to system preservation would exact an enormous cost to the U.S. economy.

Pricing as an essential tool for solving transportation problems: Though Secretary Peters has drawn criticism for emphasizing the role of pricing in national transportation policy, many stakeholders and experts (including Mayor Bloomberg of New York City and others) have noted that pricing can be an effective tool for advancing objectives such as greater accessibility, lower energy consumption, and reduced environmental impacts. Critical questions remain regarding the appropriate uses of pricing and the federal role in encouraging or deploying pricing policies, but as a tool pricing certainly has a role to

play in addressing important national transportation objectives. Unfortunately, pricing often gets confused with privatization in the Secretary's specific policy proposals, as we discuss below.

The utility of cost-benefit analysis: The NTPP agrees with the Secretary that cost-benefit analysis can be an extremely useful tool in evaluating transportation projects. It should be noted that the National Surface Transportation Policy and Revenue Study Commission also recommended that the current system of transportation investment be reformed so that it is "subject to benefit-cost analysis and performance-based outcomes." However, the real-world application of cost-benefit analysis in transportation does have a number of shortcomings. For example, conventional cost-benefit analyses often fail to consider the full range of impacts on society including economic, energy, and carbon emissions effects. Moreover, given the current constraints on funding resources it is necessary to develop analytical tools that allow prioritizing among competing projects and programs, all of which might meet a cost-benefit test but not all of which can be funded. The Secretary's own initiative, the Urban Partnership Program, was an excellent example of the potential for this type of competition.

The importance of a holistic approach to congestion: Secretary Peters identifies congestion in the nation's major metropolitan regions as an important area for federal policy. The NTPP concurs with this view in light of the fact that congestion and mobility have strong linkages to broader issues of investment, economic growth, and competitiveness. However, a more effective approach to this linked set of concerns is to focus on the role of transportation in enhancing *access* to labor, housing, and goods in metropolitan areas. Accessibility is a broader concept than mobility and is not limited to traffic measures alone. Rather, accessibility considers a multi-modal transportation system and effectively measures not only congestion but linkages between land use and travel patterns and both work and non-work trips. Policies targeted only towards relieving congestion and increasing mobility do not offer a comprehensive response to the complicated economic and transportation challenges many metropolitan areas currently face.

Leveraging of federal highway funds as a goal of national transportation policy: NTPP concurs that federal dollars should be used in a way that delivers maximum benefits, including leveraging non-federal dollars where possible to achieve broader investment objectives. It is important, however not to overemphasize the role of leveraging as a policy goal in its own right. The fact that a federal investment would generate additional investment does not necessarily justify that use of public resources or make it preferable to other investments. For example, a project could deliver strong benefits for a private investor or locality but weak benefits nationally. Our concern is that an excessive focus on leveraging could distort and expand the federal role in transportation policy beyond a clear vision and purpose.

Recognizing essential linkages between transportation, energy, and climate change: A comprehensive national transportation policy must not only be responsive to economic concerns, it must affirmatively address energy and environmental issues related to transportation. While the Secretary acknowledges these connections, she merely indicates that the federal government should ensure that ". . . the transportation system protects the environment while enhancing mobility." Transportation is the only major sector of the national economy that is almost totally dependent on oil (96 or 97 percent by most estimates) and is responsible for approximately 30 percent of all greenhouse gas emissions in the United

States. It is therefore appropriate and necessary that national decisions concerning transportation infrastructure investments address energy and environmental issues directly, and make them essential elements of federal policy with respect to transportation.

Improving the safety and measuring the performance of the nation's transportation systems: The federal government's compelling interest in protecting the safety of U.S. citizens is well accepted and clearly needs to continue to be a central priority of transportation policy. Relatively newer is the recognition that the federal government needs to hold grantees accountable for their use of transportation funding. At present, no systematic effort is made to measure performance or apply performance standards to federal transportation investments. Though developing effective performance measurements without negative unintended consequences will be a challenge, as it has been for other policy areas outside of transportation, Secretary Peters nonetheless rightly recognizes that the federal government must develop greater accountability with respect to transportation funding. NTPP agrees and is currently working to develop performance metrics to evaluate transportation plans and outcomes, including measures for safety.

POLICY PROPOSALS

A greater role for focused programs: The Secretary has proposed new programs that aim to focus the federal role in a more effective manner. The Federal Interest Highway Program (FIH) is intended to promote system preservation and introduce accountability into the system. The Metro Mobility Program (MM) targets congestion in metropolitan areas in an effort to ensure that these metropolitan areas—which serve as the primary engines of economic growth in many regions—receive the direct infrastructure investment they need so badly. Both of these programs are on the right track in the sense that they are consistent with the federal role DOT has outlined and can help to focus federal investments toward advancing legitimate federal interests.

Need for more change and innovation in the formulation of national transportation policy: The Secretary's proposed programs show an adherence to the status quo that seems out of place in a proposal that otherwise calls for strong reforms. For example, the proposed distribution formula for FIH is very similar to current distribution formulas for the core highway programs. This formula provides increased funding based on vehicle miles traveled (VMT) and fuel consumption as proxies for overall use of the system. In effect it rewards states for increasing greenhouse gas emissions and fuel consumption. By disregarding the direct linkages between fuel consumption, climate change and energy security, this approach maintains the perverse incentives that undercut other important transportation policy objectives.

Giving priority to outcomes over methods: Among the most controversial elements of DOT's proposal is the tendency to rely on private-sector solutions to some of the nation's most important transportation problems, and a particular emphasis on the benefits of public-private partnerships (P3s). In fact, DOT articulates a general presumption that P3s will deliver "reduced costs, acceleration of project delivery, more appropriate allocations of project risks, and higher quality projects." While there is undoubtedly a significant amount of private capital that could appropriately be invested in the nation's transportation

infrastructure, these benefits are hardly intrinsic to P3s as a general rule. Rather, the merits of an expanded private sector role are entirely dependent on the terms of individual transactions and should be reviewed on a case-by-case basis.

Our view is that federal transportation policies should enable states and localities to achieve clearly articulated goals and outcomes. To that end, federal policies should be permissive, rather than prescriptive. P3s, private investment capital, and mechanisms to bring private sector skills to bear on transportation system management challenges may all be important elements of state and metropolitan transportation programs, but the degree to which they play a role should rest on decision-making at those levels. The federal government should neither require, nor hinder, the use of such mechanisms.

Unfortunately, the strong emphasis on P3s in the DOT proposal and the accompanying tendency to blur the distinction between privatization and pricing are likely to detract from the ability to have a constructive debate about the appropriate role of road tolls and congestion pricing in advancing transportation policy objectives. Imposing tolls or use fees is often necessary to attract private capital to the transportation sector and P3s can be a vehicle by which variable or congestion pricing may occur, but pricing has value as a policy tool in and of itself, *regardless* of whether the project is public or private. This important point tends to be obscured when much of an entire section of the DOT document titled "Proposals to Encourage Pricing and the Leveraging of Federal Funding" is devoted to policies that encourage P3s. In sum, the assumption that pricing policies will be implemented only or primarily in the context of such partnerships runs the real risk of arousing unnecessary opposition to the introduction of variable pricing. It also runs the risk of unnecessarily inhibiting the use of pricing as a potentially valuable tool for achieving national transportation goals.

The challenge of regional governance: Although the spirit of the Metropolitan Mobility (MM) program is on target, the execution of this concept as described in the DOT proposal falls short. NTPP agrees with the idea of funding metropolitan programs and requiring accountability in using Federal funds to achieve national goals. However, DOT is proposing to fund metropolitan areas directly through this program using new regional decision-making entities called Metropolitan Transportation Boards (MTBs) that all urban areas would need to designate. The difference between MTBs and current Metropolitan Planning Organizations (MPOs) is relatively small, by DOT's own admission. MPOs have existed for many years and yet in most cases have failed to coordinate regional decision-making or multi-modal coordination effectively. It seems unlikely that simply creating another institutional layer in the form of separate, larger MPOs will solve the underlying problem of effective regional strategic decision-making. Metropolitan programs of the type proposed can only "work" if there is regional collaboration and significant institutional reform at the state and metropolitan levels. A better strategy would be for the federal government to focus on providing the incentives that can effectively encourage regional collaboration.

Contradictory messages on the federal role: As mentioned above, NTPP concurs with Secretary Peters' emphasis on the necessary role of the federal government in maintaining a robust and highly connected national transportation infrastructure, including the interstate highway and other critical transportation

systems. This message strikes us as inconsistent, however, with other elements of the DOT proposal, including particularly the call for a pilot program to allow states to opt out of the Federal-Aid highway program and another proposal that would allow states, localities, or other jurisdictions to “buy out” the federal interest in any transportation project that had previously received federal funds. We believe DOT cannot have it both ways: either there is a necessary federal role in transportation or there isn’t. If there isn’t a necessary federal role, then the Secretary should propose exactly where cuts in federal funding should occur.

The proposed opt-out pilot program would allow states to keep most of the fuel taxes they collect for themselves. This implies that the federal role in transportation policy and infrastructure investment is optional and that states can assume the federal government’s obligations. Yet a number of critical roles and responsibilities with respect to transportation policy—responsibilities that DOT itself has outlined—can only be effectively carried out by the federal government and only if all states are included. As long as transportation has national-level implications for economic growth, energy consumption, and environmental impacts there will continue to be a strong federal interest in transportation policy and in the quality of the nation’s interconnected transportation systems. Similarly, the proposal for a “buy-out” program implies that excessive federal regulations impose a burden on states—one that can be discharged simply by paying back the original federal investment. Such a proposal seems ironic in a proposal that recommends adding several new regulations to govern the use of federal transportation money, including requirements to condition funding on P3 comparative analysis, cost-benefit analysis, and performance measurement.

In sum, NTPP agrees that it is time to refocus, reform, and renew the federal role in transportation policy—not weaken it. Certainly, our nation’s transportation needs and objectives must be clearly defined and policies must be crafted that effectively address those needs and objectives, including sustaining economic growth, reducing environmental impacts, and increasing energy security. The transportation challenges we face are large. They demand nothing less than a vigorous, coherent, and national response.