CLOSING THE GAP:

FINANCING THE REGION'S TRANSPORTATION NEEDS

June 4, 2008

Summary Report

Sponsored by
NYU Wagner Rudin Center for Transportation Policy & Management
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June 4, 2008

On June 4, 320 individuals from both the public and private sectors attended *"Closing the Gap: Financing the Region's Transportation Needs."*

Hosted by the NYU Wagner Rudin Center for Transportation Policy & Management, this event was co-sponsored by the New York Metropolitan Transportation Council (NYMTC), the Metropolitan Transportation Authority (MTA), CSX Transportation, and the Port Authority of New York and New Jersey (PANYNJ), along with the American Planning Association, the University Transportation Research Center – Region 2 (UTRC), and the Wagner Transportation Association (WTA).

Edward Rendell, Governor of the Commonwealth of Pennsylvania, provided the keynote address. In addition, the conference featured two panels of experts who reviewed the past and present context for the current transportation funding crisis, defined the challenges facing this region in terms of needs versus resources, and discussed future options for "closing the gap."

WELCOMING REMARKS/ FRAMING THE ISSUES

Allison C. de Cerreño, Director, NYU Wagner Rudin Center for Transportation Policy and Management

Dr. C. de Cerreño began by noting that this symposium is the third in a series of events focusing on the very important issue of transportation finance. In March of this year, the Rudin Center hosted a panel discussion on *Public Private Partnerships: National and International Experience, Local Possibilities*. In May, another Rudin Center program focused on the Federal role in addressing *Financing Transportation - A National Imperative.* In addition, Dr. C. de Cerreño noted that the Rudin Center's spring issue of the *New York Transportation Journal* is devoted exclusively to the single topic of transportation finance.

Dr. C. de Cerreño noted that our region's transportation infrastructure is old and deteriorating and that all parts of the transportation system are at or over capacity, illustrating the severity of the situation by citing a number of compelling statistics. For example, even with planned improvements at JFK and Newark airports, those facilities will be out of capacity by 2025. In 2005, 71 percent of major roads in New Jersey and 47 percent of major roads in Connecticut were found to be in poor or mediocre condition. In 2008, 65 percent of all New York state highway bridges in the ten-county NYMTC region were deemed to be structurally deficient or functionally obsolete. Compounding the problem, costs are rising and states and transportation agencies such as the MTA forecast budget shortfalls. Long-term solutions are absolutely critical since transportation is the foundation of our economy and a key factor in our quality of life. But there are no easy answers, including what exactly needs to be done and who should pay. Moreover, we still do not have a vision of what our national and regional systems should be. A vision, not just a project-by-project list, is needed to rally the public and generate the political will necessary to solve the crisis. Dr. C. de Cerreño expressed her hope that today's conference would be more than a one-time event, building momentum, consensus, and interest beyond the transportation community on these critical issues.

Joel Ettinger, Executive Director, New York Metropolitan Transportation Council (NYMTC)

Mr. Ettinger indicated that the region is at a critical juncture in planning for its transportation needs and faces difficult choices in trying to find a balance between needs and resources. With the challenge represented by future growth in the region, he noted that this conference is “of the moment,” with the significance of transportation needs increasing weekly.

The Regional Context

Mr. Ettinger noted being “awash in numbers” and the need to aggregate across agencies, modes, timeframes, and parts of the region to estimate transportation needs between now and 2030 in order to offer an illustrative bottom line for the financial situation of the region’s transportation system as a whole. In NYMTC’s role as the Metropolitan Planning Organization (MPO) for New York City, Long Island, and the lower Hudson Valley, it is legally responsible for programming funds and planning for those areas’ transportation systems. However, this Metropolitan Planning Area is a key part of a larger commuter shed encompassing New York, New Jersey, Connecticut, and Pennsylvania which itself is part of a Northeast megaregion. Further, NYMTC is one of 13 MPOs in New York State.

With the expiration of the current Federal authorization for transportation funding on September 30, 2009, the upcoming reauthorization presents a huge opportunity to speak with one coordinated regional voice to express our needs.

A Scorecard to Estimate Our Region’s Needs

Mr. Ettinger outlined what needs to be done between now and 2030 in four key categories. In particular, the region needs:

- To achieve and maintain a state of good repair on our current systems to ensure the continued ability to move people and goods;
- To operate, maintain, and improve services;
- To complete four large foundation projects (including Second Avenue Subway, LIRR East Side Access, #7 Subway Extension, and Access to the Region’s Core tunnel from New Jersey); and
- To make miscellaneous mobility and safety improvements.

Figure 1 shows the total “scorecard” in inflated year of expenditure dollars.

State of Good Repair	**$226.7 B**
Operations and Maintenance	**$322.5 B**
Foundation Projects	**$ 33.9 B**
Safety and Mobility	**$ 2.3 B**
TOTAL	**$585.4 B**

Figure 1- NYMTC Expenditure Scorecard

So the bottom line is a forecast of over half a trillion dollars needed between now and 2030.

He then noted that this scorecard does not include the need for additional strategic transportation investments to meet forecast population and employment growth, address congestion, and support growth in ten desired growth areas as shown in Figure 2.

Figure 2- NYMTC Desired Growth Areas

Although those strategic investments are not yet defined in terms of dollars, projects under consideration or active study are estimated to be in the ballpark of $60 billion.

Needs versus Resources – Our Essential Dilemma

Mr. Ettinger contrasted the expenditure scorecard with estimated resources available from Federal, State, MTA, and local (NYC and suburban counties) sources in year of expenditure dollars and assuming escalations for each future Federal authorizing bill based on historical trends. This estimate totals $590.2 billion. Mr. Ettinger noted that what is left over amounts to only $4.8 billion, or less than ten (10) percent of the likely cost of the additional strategic investments needed. When considered in the context of larger national and statewide needs and shortfalls, it is clear that those sources will likely not fund the gap. Thus, the essential regional dilemma is determining how agencies can work individually and jointly (including through NYMTC) to pay for the next round of strategic investments.

Mr. Ettinger ended his presentation by underscoring the need for a coordinated regional dialogue to address the dilemma. He emphasized the importance of taking local action to find real solutions to meet the challenges of growth.

KEYNOTE ADDRESS

Edward Rendell, Governor of the Commonwealth of Pennsylvania

(Editorial Note: Governor Rendell's address actually followed the beginning of Panel 1, but is presented here to reflect the planned order of the program.)

Ellen Schall, Dean of New York University's Robert F. Wagner Graduate School of Public Service, introduced Governor Rendell, highlighting his efforts (along with New York City Mayor Bloomberg and California Governor Arnold Schwarzenegger, with financial support from the Rockefeller Foundation) in forming the non-partisan Building America's Future to make the rebuilding of infrastructure a national priority. Dean Schall also applauded Governor Rendell's leadership in Pennsylvania on economic, energy, and transportation initiatives.

An Infrastructure Gap – "Pay Me Now or Pay Me Later"

Governor Rendell's off-the-cuff remarks demonstrated his appreciation of the importance of infrastructure dating back to his tenure as Mayor of Philadelphia. He noted that all older cities with growth face an "infrastructure gap" not just in transportation but also in water and sewer systems. He recalled an old FRAM oil filter commercial which made the point that you could pay $7.79 now to replace an oil filter, or you could pay $4,632 later for a new car. Citing the rapid increases in road construction costs (38 percent over the last three years alone), Governor Rendell noted that there is a real cost to delaying investment. He declared that "If there is a bullet to be bit, we have to bite it."

A Matter of Global Competitiveness

Governor Rendell emphasized that the ability to move goods and people is a matter of global economic competitiveness. He noted that China's 10 busiest ports have 3.5 times the throughput of the U.S.'s top 10 ports. He suggested that this reflects the fact that infrastructure has been left as a state and local government responsibility in our country (historically, 75 percent of infrastructure costs have been paid by state and local governments). Governor Rendell also noted the dramatic difference between shares of national resources going to infrastructure between the Eisenhower era and today. Just after Eisenhower left office in 1960, he said 11.2 percent of non-military domestic spending went toward infrastructure. Today that figure is less than 2.5 percent. In 1987, 1.7 percent of Gross Domestic Product (GDP) was spent on infrastructure; today, that figure is less than 0.5 (one half of one) percent. This level of spending is far lower than comparable figures for other countries:

- In India, 9 percent of GDP is spent on infrastructure;
- In China, 8 percent of GDP is spent on infrastructure;
- The average for European Union countries is 3.5 percent; and
- In Spain, 10 percent of GDP is spent on infrastructure.

Confronting Massive Infrastructure Needs

Not surprisingly, our country's underinvestment in infrastructure has led to massive needs. The American Society of Civil Engineers estimates that it would take $1.6 trillion just to repair our current systems. The National Surface Transportation Commission estimated that the country should be spending $240 billion annually on our infrastructure, three times the current $80 billion figure. In Pennsylvania alone, Governor Rendell estimates that it would take $82 billion to bring the state's infrastructure to optimum condition. Governor Rendell lauded the efforts of the Florida and New York City in increasing funds for infrastructure investment. In Pennsylvania, Act 44 was passed to generate an additional $1 billion per year for infrastructure. The bill pledges toll revenues from the Pennsylvania Turnpike and new tolls on Interstate 80 to provide that funding, $400 million of which will be used for mass transit. Upon learning that Pennsylvania's the number one state in structurally deficient bridges, Governor Rendell tripled state funding for bridge repair over a five year period. The result was that the number of deficient bridges actually rose from 5,517 to 6,007, reflecting that with the large number of Pennsylvania bridges over 75 years old, for every four bridges repaired, five are added to the list. These factors create the need for massive infrastructure investment in our country.

Challenges in Garnering Public Support

Despite the demonstrated need for infrastructure investment, Governor Rendell recognizes the difficulty in getting public support in a climate in which the public associates infrastructure with Alaska's "Bridge to Nowhere," Boston's "Big Dig," earmarks, and a "shameful disposition of tax dollars." A decade ago, however, a poll commissioned by Rebuild America (a national coalition of stakeholders in which Governor Rendell played a key role when he was Philadelphia mayor) showed public support for spending on infrastructure. The poll asked if people would spend one percent more on federal taxes ***if*** various categories of infrastructure were guaranteed to work. Generally, the percentage of respondents saying "yes" was between the mid-60s and high 70s. The only category in which fewer than 50 percent said "yes" was airports, reflecting that not all Americans fly. Governor Rendell's new organization, Building America's Future, will poll again as part of its effort to generate public support for rebuilding the nation's infrastructure. Governor Rendell expects that the public will express concern about the need to spend more wisely on infrastructure.

Proposed Solutions to Meet Our Infrastructure Needs

As part of an infrastructure plan, Governor Rendell supports the development of an infrastructure bank, that has a board of directors and a staff of professionals who can administer and distribute funds. A formula establish that each state gets *a certain level of funding* to meet its basic infrastructure needs, with other major projects having multi-state impacts competing on the basis of cost/benefit and ability to meet performance standards. Projects would compete "on the merits" for selection by an infrastructure board for funding from a national infrastructure bank.

With respect to origin of infrastructure funding, Governor Rendell advocates an amalgam of sources. He believes that the 3 Ps (public private partnerships) have an important role to play based on their demonstrated success in the rest of the world. He emphasized that in the case of Pennsylvania's long term lease of the Pennsylvania Turnpike to Albertus-Citigroup, the state retains control of the asset, including the road's toll and maintenance schedules.

Governor Rendell believes that tolls on new capacity and on some currently un-tolled roads, though difficult politically, have to be part of the solution. He does not see that increasing the gas tax is feasible in the near term. However, in Governor Rendell's estimation, the only source that will provide adequate funding for infrastructure in the long run (the "big enchilada") is a federal capital budget. Such a solution was considered by a Clinton-appointed commission in 1992, but testimony was divided so there was no resulting recommendation. However, a federal capital budget (perhaps supported by current defense spending assuming the war in Iraq ends) could provide $2 trillion for a program of infrastructure investment. That would be enough to return U.S. infrastructure to "A1" condition and to build a high-speed passenger rail system that would be used for all trips under 500 miles. The program would also generate jobs.

A Question of Political Will (and Hometown America Support)

Governor Rendell noted the tendency among "my Republicans in Harrisburg" to argue that they do not want to saddle their grandchildren with debt, but suggested that the alternative is to saddle their grandchildren with crumbling infrastructure, collapsing bridges, unsanitary water and sewer systems, etc. His Building America's Future organization has the goal of getting every state, city, and county in the United States to join before the reauthorization discussion because he knows that the changes will never happen from Washington, D.C. Instead, "Hometown America has to agitate for this," he said. Building America's Future plans a forum (not debate) for the two Presidential candidates to only talk about infrastructure to try and get the issue on the radar screen.

We Need Your Help

Governor Rendell closed by noting that rebuilding America's infrastructure will result in improved public safety, quality of life, and economic competitiveness; and that it will also provide environmental benefits. In a final appeal, Governor Rendell encouraged the conference attendees to support Building America's Future, noting that the choice is to "pay us now or pay us later" and that "we need your help."

PANEL 1: THE PAST AND PRESENT

Moderator: ***Mortimer Downey, III,*** *Chairman, PB Consult*
Panelists: ***Emil Frankel,*** *Director of Transportation Policy, Bipartisan Policy Center*
Elliot G. Sander, *Executive Director and CEO, Metropolitan Transportation Authority (MTA)*
Timothy Gilchrist, *Deputy Secretary, Economic Development and Infrastructure, New York State*
Richard Sarles, *Executive Director, New Jersey Transit (NJT)*
Janette Sadik-Khan, *Commissioner, New York City Department of Transportation (NYC DOT)*

Editorial Note: Panel 1 began before the Keynote Address but is presented here in its entirety, reflecting the planned order of the program.

Each panelist was invited to give brief remarks on the current transportation funding challenges from the perspective of his/her state or organization.

Emil Frankel, Director of Transportation Policy, Bipartisan Policy Center
Mr. Frankel prefaced his remarks by indicating he had been invited to represent the state of Connecticut when he was acting DOT Commissioner, a position he no longer holds. Therefore his observations were offered as a two-time former DOT Commissioner and citizen of the State of Connecticut and the New York metropolitan region. Mr. Frankel stated that Connecticut is in a dire situation, with demands on and expectations of the state DOT having risen dramatically at the same time that financial and human resources have declined. The state DOT faces a loss of confidence and severe challenges. Mr. Frankel observed that the Connecticut authorizing environment provides no priority setting and that capital programs are not fiscally constrained. As a small beginning to help address the state's financial needs, the state's budget office is about to launch a study of electronic tolling and congestion pricing.

Mr. Frankel emphasized his personal conviction that issues well beyond New York and MTA (its immediate neighbor and provider of Metro North rail service, respectively) matter a great deal to Connecticut. As an example, Mr. Frankel highlighted the significance of the Access to the Region's Core (ARC) tunnel in supporting the economic viability of Manhattan, as much a matter of vital importance to the state of Connecticut as it is to the states of New York and New Jersey.

Elliot G. Sander, Executive Director and CEO, Metropolitan Transportation Authority
Mr. Sander said that there had been an important conversation about MTA's needs over the past year in the context of congestion pricing, which offered a preview of a conversation that will begin soon about the agency's operating needs and capital program. He noted the importance of the current national context of increased transit ridership as a result of rising fuel prices and global warming concerns. Also, he suggested that the current situation should be considered in a historical context, with the agency having a solid record of achievement and established credibility over the past 20 years in sustaining the region's economic vitality, in marked contrast to the 1970s and 80s when the system was in decline. More details on the operating side will be forthcoming in July, six months in advance of the agency's next fiscal year. However, Mr. Sander noted he had reported last year that $6 billion in deficits was expected over the next 4 years and that there will be a $600 million structural deficit on the operating side in 2010, neither of which are likely to have improved since then in light of the decline in real estate tax revenue. On the capital side, Mr. Sander indicated MTA's need for $29.5 billion, of which he expects $7-8 billion to come from Federal funding.

Timothy Gilchrist, Deputy Secretary, Economic Development and Infrastructure, New York State
Mr. Gilchrist agreed with the major thrusts of Governor Rendell 's keynote address and emphasized the importance of having a Federal policy that makes sense. He noted that the Eisenhower Interstate System was federally funded initially, but that states were "stuck with the bill" for operation and maintenance costs. He noted in particular the need for a Federal role in supporting intercity rail service, going on to suggest that the Federal government should not simultaneously "starve Amtrak" while also limiting airport slots

along the Northeast Corridor. Finally, Mr. Gilchrist emphasized the fragility of our aging transportation systems as an area of major concern.

Richard Sarles, Executive Director, New Jersey Transit
Mr. Sarles noted that leadership like Governor Rendell's is needed and that for New Jersey, the transportation crisis is here today. Like Mr. Sander, Mr. Sarles noted his state had faced a bankrupt transit system 25-30 years ago. Though the system is in better shape now, it is old and at or near capacity. Mr. Sarles noted that his agency has three major issues – "capacity, capacity, and capacity." He elaborated on his agency's needs to maintain current capacity in a state of good repair; to squeeze the very last ounce of capacity out of existing systems; and to expand capacity. Mr. Sarles echoed others' emphasis on the importance of transportation investment in terms of economic competitiveness with other regions.

Janette Sadik-Khan, Commissioner, New York City Department of Transportation
Ms. Sadik-Khan noted two big takeaways from Governor Rendell's speech: to stop postponing infrastructure investments, and the importance of public support and vision. She reflected on her agency's experience with congestion pricing, seeing it as a watershed moment that can set the stage for the future. Despite the reported "failure" of New York City's congestion pricing proposal, she felt that the real story was that it garnered 70 percent public approval, had the support of two New York governors, and passed the City Council. Discussions at Community Board meetings and public hearings have had a transforming and galvanizing effect such that there is now a different conversation. The public increasingly recognizes that drivers need to pay for the traffic congestion and pollution they create and the connection between traffic and environmental conditions. The diverse groups that came together in support of congestion pricing represent a good foundation to build on for the future.

Mr. Downey continued the discussion by asking three questions of all the panelists.

Reflecting the focus of this panel on past and present, what *has* worked over the past 30-40 years to get us where we are? Are those methods and strategies replicable in the future?

- There appeared to be agreement among the panelists with Mr. Sarles' statement that "we need something for the future beyond what we have today" in terms of approaches to meeting transportation needs.
- Mr. Frankel observed that our region has a good history of creating and using institutions (e.g. MTA, NJ Transit, Port Authority, Connecticut's response to collapse of I-95 bridge) to meet its transportation needs. The time has come to rethink and rebuild these institutions and find new ways to work together across modes, state lines, etc. to support what we do collectively.
- Mr. Sander emphasized that it is important to avoid what happened in 2000 when a New York bond act failed and resulted in no new money to support a $17 billion MTA capital program. In contrast, what does appear to work is illustrated by the strong coalition on the civic side (including both highway and transit interests) which supported the 2005 bond act and sales tax increase. Mr. Sander also felt that the recent experience with congestion pricing shows the importance of a direct connection between fees and use, i.e. the appeal of a user fee.
- Mr Gilchrist said that dedicated funding sources and regular five-year capital programs for both transit and roads have provided financial stability.
- Mr. Sarles commented on the importance of the predictability of funding sources, such as New Jersey's Transportation Trust Fund. At the Federal level, he said that multi-year authorizations and the ability to flex funds have been helpful in planning. He also observed that Public Private Partnerships (PPPs) have been successful on smaller projects such as NJ Transit's parking garages.
- Mr. Gilchrist and Mr. Sarles both noted that anticipating inflation correctly is critical to ensuring that dedicated funding sources continue to provide adequate funding.
- Ms. Sadik-Khan responded that until now, at the national level, the gas tax has worked based on a shared vision and perception of it being fairly assessed. But it is not working anymore and flaws in the distribution of those funds need to be addressed to create a level playing field for all types of transportation projects. She also felt that the Federal government should provide more support for innovative programs, citing the Urban Partnership Agreement as a good first model for encouraging innovative approaches by cities. Ms. Sadik-Khan observed that at the local and regional level, tolling appears highly effective. In addition to generating funding for transportation

agencies, tolling/pricing is very important as a means of ensuring efficient use of limited capacity. Cross-subsidies across modes (e.g. trans-Hudson bridge and tunnel tolls supporting PATH operations) have also been effective. Additionally, pricing can be a source of investment capital and help bring together sustainability and transportation policy.

Given the September 30, 2009 expiration of the current Federal authorization, what are the timetables for state and local action and what are agencies doing to meet these timetables?

- Mr. Gilchrist reported that the State of New York is developing plans across state agencies and MPOs and in conjunction with partners (e.g. NYCDOT) and trying to build coalitions with local governments, the business community, and its congressional delegation to promote its priorities in Washington. He noted the particular challenges posed for New York by the same timing of funding discussions on both State and Federal levels. For example, in the absence of new Federal funding, state DOT debt service will require $200 million in annual increases. Rail investment needs to be prioritized for both freight and inter-city passenger service. A special blue ribbon panel chaired by Richard Ravitch, is expected to issue recommendations for long-term options for financing MTA's needs sometime this year.
- Mr. Sarles said that within New Jersey, a solution to refinance the Transportation Trust Fund is hoped for over the next six months. He also noted that New Jersey is working with colleagues across the country in anticipation of reauthorization to urge expansion in the size of the pot [of Federal funds].
- Mr. Sander indicated that the MTA is now revisiting its capital program that was developed in a congestion pricing context and expects to have a 2010-14 capital plan ready to present to the MTA Board in December 2008. The agency is already working with external stakeholders, including those opposed to congestion pricing, to generate support for the capital plan, emphasizing the accomplishments of the MTA over the past 20 years. Internally, the MTA will decrease its operating budget by six percent over the next four years, representing $350 million, a similar amount to the most recent toll/fare increases. Mr. Sander also said that the MTA has instituted a number of organizational efficiencies (integrating three bus companies; improving coordination between the two rail operations; consolidating back office functions through a business services center). MTA will also be acting on recommendations from a recent Blue Ribbon panel on reducing construction costs and the Ravitch panel. At the national level, MTA will continue to argue that regions should not be expected to take on a disproportionate share of the cost of transportation improvements, given the impact of those costs on the economic competitiveness of regions.
- Mr. Frankel said that Connecticut faces a cumulative deficit in its special transportation fund by FY 2010 or FY 2011. He noted that 70 percent of the state's transportation investment is from Federal sources (far higher than the 40% average for all states). Mr. Frankel also expressed concern about the legislature "not thinking of borrowed money as real money" and the somewhat uncomfortable internal conflict between policies (e.g. environmental sustainability vs. economic growth). Within the state, there is a need to change the way of doing business; there is also a need to re-think the Federal role with an emphasis on spending money more effectively, but the pending reauthorization may be more likely to lead to quick fixes and temporary measures. From a regional perspective, given the shift in political power with demographic changes in our country, Mr. Frankel observed that we cannot expect the Federal government to bail us out.
- Ms. Sadik-Khan reported that NYCDOT is playing a role in the efforts of the National Association of City Transportation Officials (NACTO), which is developing a strong platform for cities in the Washington reauthorization debate. NYCDOT is also working with other city agencies to identify priority infrastructure projects in a constrained NYC budget. Generally, Ms. Sadik-Khan thinks that the time is ripe to develop coalitions around the country to support investment in non-automobile modes of transportation.

Will we all still be friends in the future, both among agencies represented on the panel and with Washington and Albany?

- Mr. Frankel felt that strong alliances will continue within the New York region's congressional delegations, but there needs to be more of a reform agenda rather than the traditional, more parochial approach of supporting each others' projects. Mr. Frankel noted the challenge of different states recognizing that they are "in the same boat" in terms of working together on projects that support the economic core of the region.

- Mr. Sarles and Mr. Sander both noted that the ongoing collaboration on projects like ARC has resulted in agencies having more of a regional than agency or state-specific focus. This is also the case with smaller projects, such as joint rail service to the Meadowlands and the New York City Transit Staten Island bus connection to the Hudson-Bergen light rail line.
- Mr. Sander and Mr. Gilchrist both emphasized the importance of having mature policy discussions about outcomes versus a focus on parity in funding across transportation modes.
- Ms. Sadik-Khan noted the long history of working well together and recognizing the importance of the region. She did indicate that in the future, there needs to be more polycentric, transit-oriented development. Past examples include White Plains, Newark, and Stamford. In addition, from a Federal funding perspective, she believes that there needs to be more direct funding to cities.

PANEL 2: FUTURE OPTIONS

Moderator: ***Charles Brecher, Professor, Robert F. Wagner Graduate School of Public Service, New York University***

Panelists: ***Anne Canby,*** *President, Surface Transportation Policy Partnership*
JayEtta Hecker, *Director, Physical Infrastructure Team, US Government Accountability Office*
Charles Russell, *Technical Director, Steer Davies Gleave, London*
Martin Wachs, *Director, Transportation, Space, and Technology, RAND Corporation*

Each panelist was asked to share some initial thoughts on future options for "closing the gap."

Anne Canby, President, Surface Transportation Policy Partnership

The Importance of Outcomes

Ms. Canby expressed the view that there should be no debate about the need for more investment in transportation. Instead, she stressed the importance of considering the future of transportation in terms of investments and outcomes (vs. needs and projects or how to raise funding) and the need to engage public understanding with a "more compelling transportation story." She highlighted the following new challenges:

- Relief from rising energy costs;
- Decreasing greenhouse gas emissions;
- Access to decent transit services; and
- Efficient and reliable movement of goods.

Ms. Canby acknowledged that we can no longer rely on the gas tax for stable funding in the future, making the case for linking new revenue sources (which she indicated are needed at all levels of government) to desired outcomes. She also advocated more reliance on a direct user base and more careful consideration of who is paying and who is benefitting. She observed that when the public knows what they are paying for and sees what benefits the product provides, public support will follow. [In response to a later question from the audience, Ms. Canby stressed the benefit of getting the product to match what the public wants, offering the successful examples of recent approvals of transportation bond issues in Denver, Minneapolis, and Salt Lake City.]

Ms. Canby emphasized that in the discussion of money to support our transportation needs, it is important to make the distinction between the funding source and financing tools. So if we borrow money [e.g. from bondholders], we need to find funding sources to pay it off. She also noted the need to weigh alternatives to the leasing of assets with public-private partnerships in terms of what is being given up.

Ms. Canby noted that the factors used today in distributing Federal funds are counter to national interests in that they tend to be "all about more," citing such factors as gas consumed and lane miles in place. Instead, allocation of funds needs to be more outcome-based, possibly using such factors as fuel per capita and greenhouse gases per capita. In such a scheme, Ms. Canby thought the New York region would fare better than it does today.

At the Federal level, Ms. Canby noted the need to be cognizant of the potential for "the rules for playing with Federal money" to become a disincentive to states as they receive less than their share of Federal funding. She noted several suggestions for enhancing Federal funding, including vehicle fees, crediting interest back to the highway trust fund, indexing the gas tax, and increasing the gas tax (despite the political difficulties). She also observed the need for the transportation community to keep an eye on what comes out of a carbon and climate bill.

Within the New York region, Ms. Canby saw more tolling and local option taxes as available options, along with parking fees, value capture (to have businesses pay some share of the value created by transportation investments), franchise and sales taxes on fuels, and fees or customs duties on transit fares. She thought that congestion pricing might still be an option in the future. Also at the state/local level, Ms. Canby recommended that state DOTs review their programs in terms of investment priorities, possibly emphasizing "fixing what you have" over expanding.

In wrapping up, Ms. Canby stressed that new revenue/funding sources (beyond the gas tax) will be critical for continuing a strong Federal role in transportation and observed that many of the solutions (e.g. tolls, congestion fees) do not accrue at the Federal level.

JayEtta Hecker, Director, Physical Infrastructure Team, US Government Accountability Office

As the only Federal government representative on the panel, Ms. Hecker prefaced her remarks by joking with the audience that she did not come with any money, which might be consistent with expectations within the transportation community.

Ms. Hecker stressed the importance of focusing on the "what, who, and how" of national and regional transportation policies, rather than on how to fund the gap. She argued that a comprehensive restructuring of the Federal role in surface transportation is required with a clear definition of the national interest and more emphasis on the performance of the transportation system. In other words, having a well-performing transportation system is not just about ***more*** money, but about strategically targeted public investment which can assure a more cost-effective allocation of money.

The Drivers Requiring a Comprehensive Reexamination of the Federal Role

Ms. Hecker noted a "convergence" of factors prompting reconsideration of the Federal government's role in transportation, including:

- Degrading system condition and performance;
- Absence of clear and distinct national interests;
- Rare link of federal funding to system performance;
- Absence of cost-benefit or return on investment focus for infrastructure investments;
- Impending highway trust fund shortfall;
- Progressive deterioration of user-pay base; and
- Long term fiscal imbalance.

The significance of severe national fiscal challenges for coming up with solutions to the current and emerging transportation challenges is that "there is no rich uncle" anymore- i.e. the federal government is broke _ and any new program not covered by new fees, will require borrowing.

Key Principles in a Restructured Federal Program

Ms. Hecker articulated the importance of defining the public interest at all levels of government as the basis for determining appropriate goals going forward. This could include such areas as:

- Energy/Environmental Externalities of Transportation;
- Reliability and Flow of Interstate Freight;
- National Connectivity;
- Maintenance/Upgrading of the Interstate;
- Transportation Safety and Security; and
- Metropolitan Congestion.

She argued that there is a different level of beneficial interest for each party (Federal, state, regional, local) in each of these areas. The real debate about policies is different for each goal, and the funding shares of programs should match up with the level of interest. Ms. Hecker advocated for a more rational allocation of funds and efficient alignment of responsibilities between Federal and other levels of government based on careful consideration of such beneficial interests. For example, the local interest is higher in the case of metropolitan congestion than the Federal interest.

Ms. Hecker cautioned that the Federal landscape today (characterized by a weakening user-pay base, high federal match, proliferation of earmarks, and stove-piped programs) can create a "moral hazard" which distorts the choices of system owners and users. To address this problem, she advocated that performance and accountability, return on investment, and fiscal sustainability be emphasized in transportation funding decisions.

Differentiated tools might be appropriate for different goals, considering such choices as:

- Direct financing versus enabling and incentivizing others;
- Grants versus loans versus guarantees;
- Competitive, merit-based versus formula allocation;
- Varying match levels; and
- Promoting appropriate institutional capacities and authorities.

Ms. Hecker stressed that the bottom line should be that more of the social and economic costs of decisions are internalized by system owners and users, which will, in turn, promote more consistent and efficient pricing of and signal for investment in infrastructure.

State/Regional Opportunities

With the approaching Federal program reauthorization, Ms. Hecker encouraged state and regional transportation agencies to focus on what they really need from Washington in the way of strategic reform. She encouraged them to "integrate locally" to identify their collective needs (vs. being concerned more parochially with specific projects) and the priority areas <u>requiring</u> Federal support (e.g. environment/energy leadership; interstate freight; multi-region corridors). Ms. Hecker noted that some aspects of transportation needs could be addressed more effectively at the state and local level, particularly with the use of expanded road pricing and public private partnerships.

Independent of Federal programs, Ms. Hecker outlined a number of opportunities for state/regional consideration, including:

- Striving to overcome splintered management of infrastructure within a region;
- Focusing on performance of existing systems/networks;
- Promoting cost/benefit driven investment and decision making;
- Promoting improved public "ownership" of costs/trade offs; and
- Establishing state legal frameworks for expansion of road pricing and use of PPPs.

Conclusions

Ms. Hecker concluded with two observations:

- Structural policy and institutional reforms are needed to promote more rational and cost-effective allocation of scarce transportation dollars. These reforms are ***at least as important*** as developing "financing" strategies for "Closing the Gap".
- Optimizing ***how*** money is collected, distributed, and used will itself affect ***how much*** is needed and what impact transportation "investments" will have.

Charles Russell, Technical Director, Steer Davies Gleave, London

Mr. Russell offered an "outsider perspective," being from the private sector and from Europe. Mr. Russell noted that the United Kingdom has the same problems with very old infrastructure in dire need of investment to make it work, and without enough money for that investment.

Mr. Russell emphasized the need to consider how we raise money from the users and beneficiaries of the transportation system and whether they pay enough. He expressed a view that hypothecation (having dedicated tax funds for one specific purpose) creates a system that is inefficient and inflexible.

Mr. Russell noted that international comparisons and the inelasticity of demand suggest there is room for users to pay more of public transit costs. He cited the following statistics from a study performed by Colin Buchanan & Partners in support of a study into Transit for London Fares, for the London Assembly Budget Committee in June 2006:

- In Paris, fares cover 26 percent of "avoidable" public transport costs;
- In New York, bus fares cover 50 percent of "avoidable" costs and metro (subway) fares cover 85 percent of "avoidable" costs; and
- In London, bus fares cover 85 percent of "avoidable" costs and metro (subway) fares cover 125 percent of "avoidable" costs.

Figure 3 shows another comparison.

Monthly Season	Bus	Metro	Expenditure on PT as % Income
New York	£40.51	£40.51	2.1%
Paris	£35.30	£35.30	2.1%
London	£51.90	£85.30	3.3%

Figure 3- Transit Fare Comparisons (from a study performed for Transport for London)

On the road side, toll rates average $.09 per mile in the United States whereas common European toll levels range between $.16 and $.20 per mile. Further, Europeans pay sales tax on tolls and significantly higher gas taxes. For example, in the United Kingdom, $5 of the $8 per gallon cost represents taxes (in comparison to in the U.S. where 47 cents of the $4 per gallon cost is taxes).

Martin Wachs, Director, Transportation, Space, and Technology, RAND Corporation

Editorial note: As the last speaker and because of time constraints, Dr. Wachs condensed his remarks but the full presentation is posted separately from this conference summary on the Rudin Center website, *https://wagner.nyu.edu/rudincenter/conferences*.

Professor Wachs boiled his presentation down to one major point: that the way we price and charge for transportation affects demand and traffic flow, i.e. the use of the system. Accordingly, the most effective way of managing transportation flows (and associated environmental and energy impacts) is through pricing. He noted that the issue of pricing and how to finance transportation projects is more typically an afterthought, treated as independent of the projects themselves. Instead, he argued that pricing as an instrument of transportation policy should be a central element in transportation planning to ensure the efficiency and equity of the system.

Dr. Wachs offered a historical perspective on adoption of the fuel tax as an indirect and imperfect user fee, since there is no distinction between where the fuel is used (at 2 AM on a rural road vs. on a congested urban expressway at the peak hour). A direct user fee is highly preferable since the user is charged at the time and place of use. Dr. Wachs believes that equitable, efficient use of the system will result only when there are direct user fees. He cited High Occupancy Toll (HOT) lanes in Southern California as examples of this principle.

Moderator Remarks and Questions

Dr. Brecher continued the second panel discussion by observing that there seems to be consensus that we need to move beyond "incremental thinking" and think about structural change. In that context, he asked "would transportation be better off without a dedicated gas tax and left instead to compete with other departments for funding from general funds?" The panel reached no definite conclusion but several points were made:

- Dr. Wachs observed that the gas "tax" was intended for the past 60-70 years to be more equivalent to a toll, reinforcing his earlier point about the gas tax being an indirect user fee. He acknowledged that goals might be changing to reflect a national desire to tax gas use for other (environmental, sustainability) reasons. He repeated his strong advocacy for direct user fees, particularly given the technology improvements which make the collection of those fees more user and environmentally friendly. He cautioned that "transit is a whole other story;" it would be unrealistic to expect to cover all costs from direct user fees.
- Ms. Canby thought we should "slice the pie a little differently," with basic operations protected through dedicated resources, while capacity additions could be considered in competition with other regional needs.
- Mr. Russell did not think one should "give [the gas tax revenue] away" for non-transportation needs and that a long-term commitment of resources for transportation is needed, given the long-term nature of transportation projects.

Dr. Brecher picked up on Mr. Russell's comparisons of farebox recovery ratios and asked whether there was any guidance for a sensible farebox recovery policy. Panelists did not offer a universally applicable guideline, but made a number of points:

- From a pragmatic perspective, Mr. Russell said that the fare recovery ratio should be "what you can get away with." Mr. Russell noted that his earlier comparisons were not intended to make the point that a higher recovery ratio is "better," but that it simply costs government more where there is a lower share of costs recovered from fares.
- Dr. Wachs made the case for a differentiated fare structure that could reflect the differentiated costs of serving passengers (by route, distance, etc.). He observed this might not always mean

raising the fare; as an example, a two-station subway trip in New York City might be less than the current flat $2 fare. He felt that differentiated fares would lead to a more rational policy and reverse the historical abandonment of the fare structure as a way of financing the transit system.

- Ms. Canby suggested that there might be more opportunity to raise transit fares in the current environment of rapidly rising costs of motor fuel.
- Ms. Hecker reiterated her caution against the "moral hazard" of not internalizing the costs of the assets and resources used in different transportation programs. She emphasized the points made in her presentation about the current structure of the Federal program creating the perception that someone else is paying for the cost.

CLOSING REMARKS

Allison C. de Cerreño, Director, NYU Wagner Rudin Center for Transportation Policy & Management

Dr. C. de Cerreño concluded the program by observing the common theme of the morning – that "it [the gap between transportation needs and resources] is not just about the money." We need the vision first before we address the money issues. We have to understand why investments are being made and think through all the interconnected issues. We may well need new or modified institutional structures to be more nimble and more flexible.

Dr. C. de Cerreño recalled a lesson from the book "Who Moved My Cheese?" She drew a parallel between the rodents in that book realizing that if they did nothing, they would certainly starve and our region's institutions coming to understand that if they do nothing, our transportation system will not work for us. Accordingly, she appealed to the audience with a call to arms to create a vision, work together to fix what is broken, and set us on a more sustainable path for the future.