

**NOTES FOR 19TH ANNUAL UCLA SYMPOSIUM, "ECONOMIC CRISIS AS AN
OPPORTUNITY FOR REFORM"**

**PRESENTATION ON "TAXES, PRICING, BORROWING, or PPPs: EVALUATING THE OPTIONS
FOR FINANCING FUTURE NEEDS IN TRANSPORTATION"**

UCLA CONFERENCE CENTER, LAKE ARROWHEAD, CA, MONDAY, OCT. 19, 2009, 1:30-3:15 PM

- The theme of this year's UCLA symposium and, particularly, of yesterday's presentation has been on the impact that the most serious economic and financial crisis that the Nation has faced, since the end of the Second World War, raises significant challenges and opportunities for the transportation sector
- You all know the circumstances:
- An aging, deteriorating, and congested transportation system poses serious risks to our economy and way of life
- The needs and the funding gap were estimated by the National Surface Transportation Policy and Revenue Study Commission (the Policy Commission) and by other organizations to be in the range of hundreds of billions of dollars
- And, yet, despite this estimate of need and the recognition of the inadequacy of current revenue sources (principally, the federal gasoline tax), no action has been taken, or appears imminent, to establish sustainable sources for investment in transportation infrastructure
- As a matter of fact, over \$15 billion of General Funds have been transferred to HTF in the past 14 or 15 months to keep it solvent and to meet its cash needs, thus adding to the annual federal deficit
- SAFETEA-LU has expired, and Congress cannot even agree on an extension of existing programmatic authority – first, adopting a one-month CR, while still arguing about the length and "purity" of any extension
- But this is more than a funding crisis
- I believe that we will not be able to make a case for sustainable sources of funding for transportation investment and operations, until we have addressed the loss of purpose and national consensus about the Nation's transportation policies and programs
- There has been a growing sense for the last several years that national transportation policy has lost direction and a clear sense of purpose
- It was this sense that motivated our work at BPC's NTPP for the past 2 ½ years
- The programmatic reforms recommended by NTPP were based on a relatively simple proposition:
- ***"U.S. transportation policy needs to be more performance-driven, more directly linked to a set of clearly articulated goals, and more accountable for results"***
- Two questions were central –
- First, ***"Why and for what purposes should the federal government invest in transportation?"***

- And, second, ***“How can the federal government ensure that any greater investment be wiser investment that effectively advances national purposes?”***
- It is the question of “wiser investments” that I believe is critical to dealing with the challenge of establishing a more sustainable revenue stream and source of investment capital for the transportation sector
- For the foreseeable future public investment capital will, I believe, be severely constrained, as consequence of addressing our overwhelming economic challenges
- In this context, limited investment capital, whether generated from transportation-related revenues or, as seems likely in the short-run, from the General Fund, must be directed to those programs and projects that bring the greatest returns, in terms of national economic, energy, and environmental goals
- As NTPP has pointed out, “need” is not an objective standard and defining the gap (and therefore the necessary level of federal funding to bridge it) is not readily quantifiable
- In this sense, we differ from the Policy Commission
- Rather, “need” and “gap” are subjective words
- Compared to what? How does one compare projects and programs, establish strategic priorities, and decide which will bring the greatest benefits?
- That is our great challenge, and, in this connection, how we raise the money for the transportation system is directly related to its performance
- We need to shift away from dependence on general revenues, and the gasoline tax has become less and less effective, as a proxy for a user charge
- Existing revenue mechanism fail to take advantage of the fact that performance of the transportation system can be directly influenced by how users pay for it
- Revenue collected at all levels of government is insufficient either to maintain or to improve system performance
- Revenue collection can enhance system performance, when users more directly understand the full costs of the infrastructure that they use
- To paraphrase Sir Rod Eddington, we need to get the prices right in transportation
- Market mechanisms, whether enabling the greater use of private investment resources or an expanded role for pricing mechanisms, can provide useful signals about where limited capital can most effectively be deployed
- However, in presenting these principles, I want to be clear that, in this federal republic of ours, the role of the national government should be to set clear goals and then to allow the greatest flexibility and discretion possible on the part of states, metropolitan regions, and localities to devise programs, to select projects, and to undertake those initiatives that will best reach those goals
- A “bottoms up” approach that promotes the competition that will bring programmatic, financial, and technological innovations (Urban Partnerships Program)
- As both the Financing Commission and NTPP have recommended, those federal rules (e.g., prohibiting the imposition of tolls, the PPP regulatory regime proposed in STAA) that inhibit state and local innovations in the use of pricing and new funding schemes should be removed

- Indeed, the new federal surface transportation programmatic framework that will emerge, we hope, from the current debate over authorization should assist states to develop sustainable funding sources
- Eliminate federal restrictions on pricing
- Support efforts by state to implement direct user charges
- Institute the data collection, analytical tools, and pricing mechanisms at the federal government that will allow us to move as promptly as possible to a sustainable system of direct user charges, directly linked to performance of the system
- I believe that we need to think about funding mechanisms, not solely or even primarily as a source of necessary investment in the Nation's transportation infrastructure, but as a means to allow us to make better use of the system and to make better decisions about how to use limited resources
- To that end, the connection between how we raise the money and the performance of the system and our capacity to make "wiser" investment decisions are the critical tests to apply, in assessing the various funding options