INNOVATION BRIEFS

COMMENTARY

The Challenge Ahead

Even though the current surface transportation law (SAFETEA-LU) still has four years to run, it is not too early to begin thinking about the future of the highway program. With the 50th anniversary of the Interstate Highway System coming up next June, it seems like an opportune time to focus public attention on the importance of highway transportation in the life of the nation, and to underscore the need to maintain a strong federal-aid highway program. The congressionally established National Surface Transportation Policy and Revenue Study Commission will offer another forum for exploring new visions of the highway program. In sum, events are conspiring to create a unique opportunity for a new look at the nation's surface transportation future.

Unlike several past authorizations whose primary objective was to grow the program, the next bill will have to tackle some tough policy issues. These include, *first*, finding new sources of revenue to supplement the eroding resources of the Highway Trust Fund; *second*, developing a long-term strategy to preserve and enhance the aging Interstate Highway System and relieve congestion on the nation's highways; and *third*, formulating a meaningful national transportation policy to guide infrastructure investment in the years ahead.

This last challenge, in our judgment, is particularly important. There is a real danger that if no clear goals for the future federal highway program are set, Congress will be tempted to continue earmarking an ever larger portion of the program. While earmarking may please local constituencies and special interest groups, it diverts badly needed resources from the states' core programs and creates a public perception that the federal-aid program is a grab bag of pork barrel projects. Unless we succeed in changing this perception, public support for the highway program will erode, and any hope of increasing federal financial support (whether in the form of a gas tax increase or some substitute revenue measure) may evaporate.

The Fiscal Challenge

There is growing evidence that the fuel tax-based fiscal system that has served us well for over half a century is no longer adequate to meet tomorrow's transportation needs. Maintaining the Interstates and the National Highway Systems in a state of good repair is already consuming a major share of revenue flowing into the Highway Trust Fund, leaving little money for investment in new facilities. According to a National Chamber Foundation-sponsored study by Cambridge Systematics, tax receipts into the Trust Fund will fall $55 billion short of covering the currently authorized federal funds of $286 billion (*Future Highway and Public Transportation Finance*, Parts I and II, 2005). It is conceivable that the Highway Trust Fund will find itself in a deficit situation as early as

Fiscal Year 2008, necessitating supplemental revenue even before the expiration of the current authorization.

What are the options?

Indexing federal motor fuel taxes would be the most straightforward way out of this dilemma. Indeed, this was the recommendation of the National Chamber Foundation study. Indexing federal motor fuel taxes starting in 2005, said the NCF report, would raise an average of $5.6 billion annually and $62 billion cumulatively through 2015. But the trouble is, indexing is viewed as tantamount to raising the gas tax— something the current Administration has categorically ruled out. And with the cost of fuel at the pump remaining high, Congress will have no appetite for raising fuel taxes in the face of an almost certain presidential veto.

Whether the political climate beyond 2008 will allow such a tax increase is anybody's guess. Chances of boosting the gas tax will depend on the attitude of the next administration, the political complexion of the next Congress and the degree of public concern over gas prices prevailing at the time. Some observers believe that the pressure to raise the gas tax in the next Congress will prove to be irresistible. But it is instructive to recall that Congressional reluctance to raise federal fuel taxes is not exactly new. Since 1956, Congress has raised this tax only five times, with the last increase occurring 13 years ago, in 1993— and that hike was enacted not to boost transportation spending but to reduce the budget deficit. One has to go back all the way to 1982 to see a federal gas tax increase devoted entirely to augmenting the Trust Fund.

Eventually, a mileage-based revenue system may solve the problem of inadequate fuel tax receipts. In such a fiscal system motorists would be charged a fee based on the distance they travel and, conceivably, by the time of day and the route taken. With vehicle-miles of travel steadily increasing, VMT (vehicle-miles traveled) fees would provide a steady and reliable source of funds without the need for periodic congressional intervention. But implementing mileage-based charges raises a host of difficult implementation problems. A congressionally authorized research effort (Sec. 1919 of SAFETEA-LU) is underway at the University of Iowa to assess the feasibility of this approach. However, the results of this research, culminating in a pilot program, are not expected until 2015. Thus, a national distance-based charging system is, at the very least, a solution for the distant future.

Growing State Role

In the meantime, states and localities, faced with uncertain prospects for more help from Washington, may be obliged to take up the slack. Some states will undoubtedly choose to raise their local gas tax or pass bond referenda. Earlier this year, for example, the Washington State legislature enacted a 9.5 cent gas tax increase intended to finance some of the state's most critical transportation needs. In another example of a local initiative, Arkansas voters are being asked to approve a half-billion dollar bond proposal (Act 685) to refinance a program of rehabilitation of the state's Interstates.

Other states may turn to more unconventional means of raising investment capital. In a precedent that is beginning to reverberate widely throughout the country, the City of Chicago realized a $1.83 billion gain by leasing a city-owned toll road, the Chicago Skyway, to a private toll road operator. This has prompted a number of other states to explore similar long-term concession-type agreements. The states of Indiana, New Jersey, Delaware, and Virginia are all in discussions with private consortia to lease existing toll facilities in return for up-front capital to finance badly needed transportation improvements.

Still other jurisdictions are looking to partnerships with the private sector to expand road capacity without using public funds. The State of Texas, for example, has received authority from the state legislature to enter into comprehensive development agreements with private firms to design, construct, finance and operate toll road facilities at no expense to the taxpayer. A 316-mile section of the Trans-Texas Corridor (TTC-35) between Dallas and San Antonio will be built by a private team, Cintra/Zachry. The consortium will invest $7.2 billion in the project in return for the right to operate the road and collect tolls for 50 years.

Similar public-private partnerships are funding roads in California and Virginia. In the case of Virginia, a private consortium, Fluor-Transurban, will construct, and fully finance a 14-mile stretch of toll lanes along the Capital Beltway, to the tune of $900 million. The same team also has proposed to build a 28-mile extension to existing carpool lanes on I-95/395 at no cost to the taxpayer, in exchange for the right to operate and collect tolls on the HOT lane facility.

Thus, there are sme encouraging signs that private investors are prepared to come to the aid of fiscally strapped state governments in return for long-term toll road operating concessions. Initially, most of the equity capital will be coming from foreign sources. French, Spanish, Italian and Australian toll road operators have had decades of successful experience with toll road development around the globe and now are seeking new markets in this country. Eventually, it is to be hoped, our own infant toll road industry will gain enough confidence to join the ranks of toll road developers.

The Capacity Challenge

In recent speeches, transportation officials have painted the enormous demands that demographic changes and growing international trade are expected to place on the highway system in the years ahead. The highway network, which grew by a mere 1.5 percent in the last 25 years, is reaching — and in many places exceeding— its design capacity. Currently, 29 percent of the network is congested and 45 percent of traffic delays are estimated to be due to inadequate capacity (the other 55 percent are attributable to incidents, weather conditions and road repairs). If road capacity is not increased, traffic congestion is expected to affect 46 percent of the network by 2020, reported John Horsley, Executive Director of the American Association of State Highway and Transportation Officials (AASHTO).

The freight transportation picture is equally challenging. Container cargo is expected to quadruple and truck traffic to double by 2025, according to Horsley. Responsible for the explosion in freight traffic are a rapid increase in international trade and widespread adoption by manufacturers and major retailers of "just-in-time" deliveries to control inventory costs. Bottlenecks at ports threaten our international competitiveness. Shipping companies concerned with cargo backups at Southern California ports are reportedly looking for alternative gateways in Canada and Mexico. "Infrastructure congestion at freight gateways is not temporary – the challenges will become greater and be with us for years to come...." warned Jeffrey Shane, Under Secretary for Policy at the U.S. Department of Transportation in an address before the U.S. Chamber of Commerce Committee on Transportation and Infrastructure.

These bottlenecks and capacity constraints will not be eliminated through operational improvements alone. Squeezing more capacity out of existing facilities through application of intelligent transportation systems (ITS) technology and better management techniques may help some, but it has definite limits. Overall system performance has shown few signs of improvement despite significant advances in technology that have led to more efficient methods of collecting tolls, monitoring system performance in real time, and more effective approaches to handling highway incidents.

Clearly, new highway capacity is needed, and it looks like much of it will be in the form of toll roads and toll lanes rather than toll-free facilities. At the November 2005 "Transportation Finance Summit" sponsored by the International Bridge, Tunnel and Turnpike Association (IBTTA), speakers agreed that interest in tolling is rising. Riding on this wave of enthusiasm, IBTTA has called on state and local governments to include tolling as an option whenever new roads or upgrading of existing roads is contemplated.

It looks like its call may be answered. There are indications that not only are transportation officials receptive to tolling, but so is public opinion. Surveys in jurisdictions where new toll projects have been proposed or implemented suggest that when people are confronted with a choice of higher gas taxes or tolling, they choose tolls as the more acceptable alternative. Looking at the rapid pace of change in attitudes toward tolling, it is quite conceivable that by the end of this decade, toll facilities will become the primary means of expanding highway capacity.

Redefining the Federal Mission

Throughout the second half of the 20th century the federal transportation program had a well-defined mission – construction of the Interstate System. But once this mission was completed, the federal-aid highway program lost its unifying purpose of achieving nationwide road connectivity. Increasingly, it became a revenue sharing program for local public works— projects that may benefit local economies but have little relevance to enhancing national or interregional mobility. What is more, the congressional earmarks, have become "a symbol of fiscal extravagance and the object of justified ridicule across the political spectrum" in the words of a *Wall Street Journal* editorial. SAFETEA-LU contains a staggering total of 6,371 such earmarked projects, accounting for $24 billion or nearly 9 percent of total highway spending. Widespread news coverage of the "bridges to nowhere" and other spurious earmarks has regrettably made the highway program an object of derision and a symbol of Congressional runaway spending.

The challenge ahead is to restore to the federal-aid highway program a sense of mission, so that it would capture — just like the Interstate Program did 50 years ago— the imagination of the public and garner broad based support for increased funding. One example of a goal-oriented program would be the creation of express toll lane networks in, say, 40 of the largest urban areas of the nation. The ultimate vision would be to offer every motorist and bus rider in large urban areas the option of reliable, congestion-free travel from one end of the region to the other. Another example might be a national network of truck-only toll (TOT) lanes that would provide premium level service to freight carriers while helping to improve highway safety and decongest existing freeways (both ideas have been advanced in recent reports. See, Robert Poole and Kenneth Orski, *HOT Networks: A New Plan for Congestion Relief and Better Transit*, RPPI Policy Study 305, February 2003; Robert Poole and Peter Samuel, *Corridors for Toll Truckways*, RPPI Policy Study 316, February 2004). Needless to say, preservation and enhancement of the existing Interstate System would remain a high priority in any future federal-aid program.

Reaching a consensus on and selling to the public an imaginative vision of a new national surface transportation policy, would be the highest form of contribution the transportation community could make to ensuring a bright future for the highway program.

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