

# ***CREDIBILITY; VISION; A PLAN; FINANCE***

**An address to the FHWA Annual Meeting**

**Milwaukee, Wisconsin**

**Sept. 28, 2007**

**Alan E. Pisarski**

## **INTRODUCTION**

It is wonderful to be here speaking to you all today. My work with FHWA goes back a long time and it is an organization that I have admired greatly over the years.

FHWA an org that doesn't know the meaning of the word failure

An org that doesn't know the meaning of the word quit

An org that doesn't know the meaning of the word honorarium!

Actually we discussed it. When they asked me to speak I, of course, raised the honorarium question and you should know that they have a new ploy in the office of the Admin. They said that the categorical program for conference speaking fees had been earmarked by Congress 120%. So I would owe them money if ---. Actually their real ploy was that they asked me did I really want to be the person whose name went down in history as the one personally responsible for the HTF going insolvent.

## THE TIME FOR ACTION IS PAST.

*Now is the time for senseless bickering.*

FROM MY DEMOTIVATORS TEE-SHIRT

Finance, finance, finance! Its all about finance today!

A bridge falls down in Minn. and it is seen as an opportunity to talk about program finance.

I have argued and many agree that the American people wont provide funding just because you say “trust me.” One needs a plan that tells people what they will get for their money. If you give me this you will get that!

A plan needs to stem from a vision. The “vision thing” is clearly on everyone’s minds today. There is a sense that the federal-aid highway program – the entire surface transportation program -- is lacking in vision. The Commission that is working now, the Congress, AASHTO have all addressed the need for vision. Of course your vision for the future only has meaning if you are a credible source, an organization of credible expertise. So here we have it -- a sequence of steps to the future:

### CREDIBILITY

VISION

A PLAN

FINANCE

If one goes back 50 years and the start of the Interstate the credibility of the agency, its leaders and of engineers in general was great.

If we look at the ‘56 interstate Act we see that we celebrated not the birth of the Interstate program but the financing plan for the Interstate

The plan came much earlier 1944 – with the publication of Interregional hwys and the 1944 highway act

The vision came even earlier with the late ‘30’s *Toll Roads and Free Roads* by president Roosevelt. Let me take you back a bit.

Imagine the President on the phone on a frequent basis with the Agency head. Imagine the agency head sitting with the President looking at the data and looking at maps.

Not just an occasion for vision but again for immense credibility.

### CREDIBILITY

When Pres Roosevelt sent his message to Congress he spoke of the immensely valuable data that had been produced to develop the plans and concepts. Imagine the President of the United States not only actually talking about transportation but also about transportation data! I can't get anyone at DOT to talk about data much less the President.

As many of you know I have spent most of my career focused on data and its importance. I could make the linkage here to the immense credibility the agency enjoyed back then and the data it developed – it was a very important factor in its credibility. It was also what historians called the progressive era where there was great faith in the technical expert and the belief that all problems were solvable with expertise and information – almost a quaintly naïve notion today.

## VISION

The Congress had a series of vision hearings back in January. I told them the following. My three context settings items for a vision were these:

The waning of the Baby Boomer worker generation and the need for workers  
The boom in Mega size regions and mega size commuting flows  
The general affluence of the population

One way to understand how the population will behave in the future would be to look at how the affluent function today in transportation terms. Looking at the Consumer Expenditure Survey we see that it shows that the transportation spending of the Americans in the top 20% of households in income was about \$15,700 per year (2005), compared to the middle group's spending of just above \$7,400. This is how they spend their money. A lesser share on transportation than other groups; 17.3% down from 18-19% on av. but more than double the middle group. Their value of time is immense. Their personal expend on air is 3.8 times that of the middle group. They have 40% more cars. And spend 2.4 times as much on vehicles. Trip making, spending, trip lengths and mode are all affected by income. We must expect that personal vehicles (however powered) will be the centerpiece of personal transportation in the future. Nothing mass will do.

My vision then is: design a transportation system for a society in which the average value of time is on the order of \$50 an hour – three times the value of time of today – and a freight system with three times the average value of goods today. Not inflation – but real value. When I was in the department, freight was about moving grain and coal. Now its just in time, very important, very valuable goods moving in highly controlled circumstances. Med facilities moving drugs at \$10,000 a quart. Such a society will demand and be willing to pay for high quality transportation services to meet the high value of people's time and the high value of goods. The tolerance to transportation costs in return for high quality services is colossal.

My vision then for transportation services is: *transportation services should not impede, but maybe actually abet/enhance, the prospect of that wealth occurring.*

This will be occurring in a period of the greatest demographic upheaval the nation has faced for a hundred years. in addition to dramatic immigration we will be facing the closing of the working years of the baby boon generation. My work in preparing the Commuting in America series, the first of which began in the mid-eighties, has evolved

into the history of the working years of the baby boomers – the same people who challenged our schools in the fifties and sixties filled our transportation system in the seventies and eighties will create a great gap in skilled workers. The Commuting in America series could have been about the masses of unemployed looking for work, rather than the surge in relatively affluent workers all going to work at the same time. After all, my definition of congestion is: *Congestion is people with the means to act on their economic and social interests getting in the way of others with the means to act on theirs.*

## THE PLAN

The current program functions without a plan and certainly without a publicly accepted vision. Not that there are not tremendously critical needs. The bridge again. Last week's TTI report does a pretty good job of making the case for the need for vision and a plan for us but we have not articulated it. A source of revenue without a goal, a vision, a plan, especially one that throws off 1.7 billion per penny, attracts many "helpful friends." There is an inexorable tendency for more and more things to be added to the program. more and more eligibility for spending – mission creep is inevitable. Today we have a program in which almost everything is federal. When you can do bike paths and transportation museums with the federal program then anything and everything is federal. When everything is federal nothing is.

I am not saying that these things are necessarily undesirable – many of you know that I was involved in the creation of and chaired the TRB transportation history comm for its entire existence up til this year. I am as dedicated to transportation museums as any one - - I love them – but when you are spending program funds on converting an old railroad station into a museum it sends a signal to the public that the serious work has been taken care of. When you are doing the "nice to do" it says that the "must do" has been taken care of. When we are building bike paths the public has the right to believe that our bridges wont fall down.

There is a term that you hear in governance discussions in Europe "subsidiarity," that says each agency and level of government does what is appropriate to it and its level. However desirable bike paths and museums might be, they belong at the local level in terms of program and planning.

To get back on track we need to focus. Focus the program on what matters – on what is national – on what is truly federal. A focus strong enough to repel those "good ideas" for "nice things" to do with the program.

Recently I had the privilege to work with a great group of colleagues (including two former staffers of FHWA, Steve Lockwood and Kevin Heanue among them) on a future vision of the Interstate. That product is now available. Several things about the study are pertinent.

First, it tells us that we have an immense challenge ahead of us. the Interstate system will need billions in support of infrastructure renewal and upgrading. An immensely important task. A lot of bills are coming due. The Minneapolis Bridge again.

Second, if we really address the Interstate Program as Interstate System Phase 1, as meeting the needs of the 150 million Americans in the fifties, we can see Interstate System Phase 2 as responding to the needs of the second 150 million, as America passes the 300 million in population milestone. We saw dramatic needs in addressing congestion; in responding to international freight flows, so linked to our competitiveness

as a nation; and the need to link to the new communities of the nation that were not even thought of 50 years ago.

Third, it told us (me at least) how bad we are in making the case for investment in the system. They were better at it in the 30's. Remember I mentioned the President commenting on the data made available (how did they do that!). For our work this year, the data were weak, our tools were limited – and our ability to make the case to address the tremendous benefits of this prospective program were amazingly poor. We cannot go into the next reauthorization hoping for a recession so we can sell the program based on job creation. Imagine selling education based on the jobs created in building schools. Just as in building schools it's what happens there after you build it that matters – otherwise you might as well be building pyramids. We are very weak on making the case for the benefits of what we do. Some of you may remember I gave a talk to your group in Washington a few years ago which was entitled “Every once in a while you have to build a road!” In that talk I quoted a newspaper piece on Secretary Mineta saying: “The real solution is not reducing traffic to fit capacity,” Mineta said. “We must expand capacity to handle the growing traffic.” Unfortunately he was talking about air travel at the time. (but note that Administrator Blakey in her last speech talked of cutting airline flights to fit system capacity.) Capacity matters!

So then a big part of the plan must be to focus. The interstate, the NHS – making a better case for a stronger program in the NHS so that it is more than just a distinction without a difference. We used the NHS as the source for the new additions to the interstate in our study. A key role.

## FINANCE

So with credibility, a vision, and something like a plan we can approach the question of finance with a little more substance. The Congress today is like Tarzan swinging thru the jungle afraid to grasp the next vine that says *tolls and pricing* and afraid to let go of the comfortable vine he is clinging to that says *gas tax* – neither looked sturdy or safe enough to support needs. But that image which seemed clear in the last reauthorization and even perhaps more so in this next one is something of a false image. We don't need to – in fact we cannot -- give up one funding path to get the other. I don't understand what all the conflict – and there is clear conflict – is all about. Maybe its just that the grass is always greener on the other horn of the dilemma.

Both the on-going gas tax based program and the old/new tools of tolling are needed in our future. They are complementary. It is a false image to suggest they are alternatives. That is why I cannot comprehend why the proponents of the tolling/pricing approach seem to feel so impelled to trash the gas tax as a tool of funding. They do an immense disservice to the program, to the industry and to the nation. Perhaps when you recognize how weak your case is – how you are unable to make your case on its own merits – the need to disparage the alternatives becomes acceptable. That's the only way I can understand it.

The gas tax is presented as disappearing soon, unwanted, no one willing to increase it, the public can't stand it. These are all false. If we spent as much effort, as much rhetoric, as much PR in making the case for improving the gas tax as we do in destroying its usefulness we would have a very productive program tool.

The great enemy of the effectiveness of the gas tax is inflation. If we had indexing for inflation at the federal level we wouldn't be talking about insolvency in the program. Other issues, such as the increased fuel efficiency of our vehicles and the advent of new vehicle fuels are readily addressable for at least the next 20 years.

The gas tax was and is a surrogate for a VMT tax. It can and should be continuously updated to more effectively reflect that purpose. An inflation index, perhaps a fuel efficiency index. And also, a needs index designed to get at our colossal backlog -- a backlog which is now at 1.5 reauthorizations -- a new unit of measure. This would make for a solvent, viable program with a strong role for tolling to meet new capacity needs, and would make everyone happy, except possibly the transportation economists -- but they are always unhappy anyway. Only transportation insiders could think that a financing program that generates 1.7 billion per penny is somehow moribund. Lots of non-transportation programs would be happy to take it off our hands if we think it has outlived its usefulness to us.

Rather than trashing the gas tax the proponents of the so-called innovative finance world must focus on making their own case. It has been a very superficial and unsophisticated case so far, without recognition of the political realities. All Economics 101 with no Poli Sci. 101. Somehow trying to connect earmarks with the gas tax as though other forms of finance would be impervious to them is the height of naiveté or gullibility. As we have seen tolls can be turned into cash cows, as dramatic a set of boondoggles as any gas tax.

They argue that the public hates the gas tax as if they loved tolls. The public doesn't like tolls any more than taxes. The public around the country has become deeply suspicious of the intentions of these programs. The Texas legislature under tremendous public pressure has put a moratorium on the programs. The reactions to the ideas of a sale of the Penn tpke and the NJ pike were quick strong and clear. State legislators see the public's deep concern -- a concern that stems from a sense that someone is trying to create facts on the ground before anyone notices. We have the sense of people trying to create a program in a hurry without proper open discussion and vetting. We have only peeled the first layer of the onion -- there is much more to be done to make the case to the American public. They have to do their homework.

Last year I gave a talk at TRB in which I described the two factions in the debate re the funding of what became SAFTEA-LU as the Tabula Rasa school of funding (also known as the tolling advocates) and the Creeping Incrementalists (aka the gas tax will be with us for a long-time crowd). The gist of my characterization was that the TR school not only thought that the days of the gas tax were over, but that it was good that it was over, and that they were happy to help the gas tax out the door and replace it with something finer, more appropriate to modern times, more consistent with good economic theory. On the

other hand, the CI school thought that with a little indexing the gas tax had a lot of legs and was good for another 20-30 years. It had served us well in the past and could well into the future. They thought that a system that could generate \$1.7 billion or so per penny of tax should not be sneezed at.

Since that time we have seen the debate getting more heated, more contested, and more vitriolic. I propose that the distances between the groups have never been very far apart; it is just the hyperbole that sometimes gets in the way that causes some of the estrangement. This is written in the hope that if we can accept certain fundamental premises then we can all make much more progress together. It is very safe to say that the transportation community has, by and large, been a dismal failure in making the case for greater transportation investment. Even with congestion causing many an irate customer the public doesn't seem to trust us enough to make it all work.

## A SUMMARY

*Why can't there be an end to all this killin'?*

*Why can't there be peace in the valley?*

Walter Brennan; in a scene from all of his pictures

Some summary thoughts to guide the vision and the financing plan:

### THE GAS TAX

- #1. The gas tax generates a colossal amount of money.
- #2. The gas tax currently is diminished by fuel efficiency gains, shifts to other fuels, but most of all by inflation.
- #3. The public and their elected officials seem to have a dramatic aversion to increasing the gas tax.
- #3. The gas tax will continue to produce very valuable revenues for decades to come – at least two or three.
- #4. Some adjustment mechanisms like an inflation adjustment; perhaps a fuel efficiency adjustment, could keep the tax going as the fundamental highway financial tool for a long time.
- #5. To lose the gas tax; to have it diverted to some other federal/state interest would be a disaster of exceptional order for transportation – not just in revenues but in the potential that others would obtain to manipulate ground transportation.

### THE TOLLING OPTION

- #1. Toll Roads have a long and effective history in America; we are in the third wave of toll road development today.
- #2. The great strength of the toll road is that users pay and non-users don't; thus they can serve as a high quality, premium service option.
- #3. Toll roads can provide a quicker response to user needs, with an independent funding path than the usual long range programming option.
- #4. The use of private actors can introduce more capital into transportation infrastructure than might otherwise exist.

- #5. There is a natural three-way virtuous circle between toll road operators, their bondholders or other financial backers, and users – each keeping the others in check.
- #6. Many taxpayers don't like toll roads any better than they like gas taxes.

#### TOGETHER

- #1. The gas tax and tolling concepts are complementary.
- #2. The basic gas tax approach can significantly benefit from greater emphasis on tolling where the opportunities exist, often on major high level long distance facilities or where congestion is most serious.
- #3. Toll roads cannot do it alone. They are a very useful supplement in the road system but cannot approach meeting the basic needs of the system.
- #4. Protecting toll roads revenue from diversion is as important as protecting the gas tax.
- #5. Mechanisms need to be put in place that support the continued effectiveness and strengths of these two fundamental revenue sources.

If we all could agree that these are the fundamentals of our situation and could seek to develop the strengths of the parts of the system and the roles they can play then maybe there could be peace in the valley and maybe Walter Brennan can rest in peace.