# Observations from the U.S. Department of Transportation

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This morning I want to cover three areas. First, I want to talk about where we came from and what we have learned in terms of innovative financing. Second, I would like to touch on some actions we might take in the near term, such as conferences like this. And third, I would like to get out the crystal ball and look further ahead to various legislative possibilities.

What of our recent past and current conditions? The first point to make is that overall federal financial resources for transportation purposes are at record levels. In fact, when you look at aviation, highway, and transit infrastructure, we see an average of about $39 billion in federal funding per year—an 86 percent increase in the average over the period from 1990 to 1993. This is a very substantial change, and it is of an utterly bipartisan nature. These funding levels did not come about simply because the administration wanted it—although we did—but also because of Congress responding in a very favorable way to our proposals. The culmination was TEA-21, which together with the National Highway System Designation Act serves as some of the most significant legislation to support transportation financing that we have ever seen.

Sometimes we have no idea of the full impact of what we create. At first we thought that the revenue-aligned budget authority provision would be worth about $300 million or $400 million over the life of the bill. We miscalculated there, because so far it has generated about $5 billion for transportation infrastructure.

Coupled with the new guaranteed funding levels, we have seen a number of new public and private approaches to transportation financing emerge, including SIBs, GARVEE bonds, PFC financing for airports, and TIFIA.

Others have spoken of FHWA's Test and Evaluation initiative, TE-045, which got the ball rolling back in 1994. Concepts tested under TE-045 laid the groundwork for the changes that occurred in the National Highway System Designation Act, including the SIB pilot programs, the ability to accept donations of cash and right-of-way in lieu of traditional state matching funds, and the ability to use federal resources to pay not only debt service but also other costs associated with bond issuance that were previously ineligible for federal reimbursement.

One area needing a bit more work concerns the SIB pilots. Under TEA-21, we were able to achieve a compromise that included the continuation of the program in four states. But we would like to have made more progress, such that the program could continue in all the states. The issues that led to the TEA-21 compromise—notably the applicability of Davis-Bacon and certain other federal requirements to second-round assistance—are still on the table. I hope that whoever is in charge during the next reauthorization will take that matter up and make the SIBs a more complete reality.

GARVEE bonds—grant anticipation revenue vehicles—have been a real breakthrough. So far, $942 million has been issued through the GARVEE instrument across the country, including bonds for New Mexico's State Route 44 and Arkansas's Interstate highways, which John Horsley mentioned.

Then came TIFIA. The administration supports TIFIA, but that is not to say we have not had our ups and downs in hammering out the details of its implementation. The fact is that new credit programs are always delicate, given what happened in the savings and loan crisis. But I am glad to report that TIFIA is starting to show a lot of activity. We selected five projects in 1999, and we are in the process of selecting projects for the 2000 round. We have a solicitation for 2001 proposals out on the street, and we hope to make a third round of selections by the end of the calendar year. Companion legislation targeting the rail sector created the Railroad Rehabilitation and Improvement Financing program (RRIF), which authorizes up to $3.5 billion in loans and loan guarantees for rail projects, including $1 billion for the short-line railroads. This program just recently published its governing rules in the *Federal Register*, and I think it offers a lot of opportunity for the railroads.

AIR-21 deserves mention as well, since it included some key features for financing the necessities of air transport. They include new financing strategies for regional jets and broadened authority related to the use of PFC revenues, as I mentioned before.

The question becomes, Where do we go from here? At U.S. DOT we did a series of visioning sessions—something like 30 across the country to collect input and information from all kinds of stakeholders on where transportation programs should go through 2025. None of what I am going to mention is policy at all, but rather food for thought that we will take into account as reauthorization proposals develop over time.

One thing we heard was a need to expand modal flexibility in the use of trust fund revenues across transportation modes through creation of a unified trust fund. This is a politically sensitive and delicate issue, but nonetheless, we are hearing a lot about it.

Second, we are hearing calls to expand innovative financing mechanisms such as TIFIA and RRIF to achieve still more blending of private and public capital—we may wish to think even beyond TIFIA and RRIF, or to consider what they could become through certain statutory changes.

Third is a call to remove the legislative and regulatory barriers that limit transportation agencies from pursuing entrepreneurial approaches and generating revenues from their operations. The National Highway System Designation Act of 1995 already eased a number of those barriers, and I think it is important to recognize the work of Congress in that regard. However, there is interest in even further movement in this area.

Fourth, continue to encourage privatization of government transportation activities that would be operated better by the private sector. I am not quite sure what these are or how they would work, but nonetheless, we are hearing this message loud and clear.

Fifth, foster new organizational arrangements and approaches to asset management, and sixth, deploy congestion-pricing techniques. Now, the administration has been working on congestion pricing since 1993 with mixed results, and it is interesting to see that it is still very much on the table.

That is just a sampling from a document that the Secretary intends to issue within the next month. It is conceived as a transportation policy architecture for the 21st century and will deal with financing issues and much more as well.

During these past 36 years in the policy world I have learned that if you open your mind, you can usually find a way to make change. The bipartisan nature of most of the transportation programs lends itself to exciting opportunities to innovate, to make real changes, and to do things people have said could not be done. As an example, at the beginning of the reauthorization process that led to TEA-21, guaranteed funding for the highway and transit programs was said to be an impossibility. Still, it was done. Much of this kind of success has to do with the good people at the Department of Transportation, many of whom are in this room today. The career people at the department have been the stalwarts—they carry the energy of this program forward and will continue to do so regardless of the political changes that might lie ahead. The dedication of these people is very important to our collective success.