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Presentation of Ronald Utt,  
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Speaking on....

**Applying Market Processes to  
Enhance Transportation Investment  
and Performance**

# Advice from the 1920s

*There's a simple Solution to this traffic problem. We'll have business build the roads and government build the cars.*

(attributed to) Will Rogers

# Transportation System is a Mix of Public and Private Responsibilities

- **Private Sector:** Finances, owns and operates rolling stock (cars, trucks, busses, trains), and airplanes. Supply abundant.
- **Public Sector:** Finances, owns and operates infrastructure, including most roads, most airports, and the air traffic control system. Supply sometimes deficient.

# Some Exceptions

- **Transportation**: Freight railroads, Amtrak, roads and other infrastructure in new subdivisions.
- **Other Infrastructure**: Private sector provides most residential housing, office buildings, shopping centers, factories, power plants, transmission lines, internet, telecom -- all abundant.
- **Wisdom of Rogers**: Private provided products, services and capital seldom in short supply.

# The Problem With Public Ownership

Let's begin by noting that transportation is a **valuable and essential commercial service** and fundamental to our prosperity, yet...

## **Hobbled by Budget Priorities:**

- Transportation services subsumed by overall macroeconomic goals of federal budget policy.
- State and federal transportation programs must annually compete for financial resources with scores of other public programs and priorities in an environment of increasingly severe fiscal limits. Dialysis vs. road repair.

# The Problem with Public Ownership

- Process makes budget sense but not economic sense
- Trust Fund no longer pays its own way
- Unresponsive to market forces related to economic optimization. Users are limited in their ability to buy better service, less congestion, and more mobility.
- Will more taxes buy better service?



# The Problem with Public Ownership

## Hobbled by Political Priorities

- Growing influence of stakeholders in reauthorization and appropriations process.
- More diversions, more micromanagement.
- Limits the ability of a socialist enterprise to mimic market processes.
- Provide transportation products that consumers do not want.

# Exhibit One: Budget Priorities

## Current Budget Proposals

- **House** FY 2012 Budget proposal includes \$64 billion for transportation, down from \$93 billion in FY 2011
- **Senate** proposal will likely be modest based on reauthorization discussions
- President **Obama's** 6 year proposal for \$556 billion has \$236 billion funding gap

# Exhibit One: Politics

## Livability, Portland and Lifestyles.

Secretary Ray LaHood's definition of **livability**:

“Livability means being able to take your kids to school, go to work, see a doctor, drop by the grocery or post office, go out to dinner and a movie, and play with your kids in a park, all without having to get in your car.”

**Alan Pisarski** observed that he lived that life growing up, but thought it was because he was poor.

# Portland Model

## Holy Trinity of Smart Growth/New Urbanism:

- Restrictive land use regulations, growth boundary
- Transit Oriented Development subsidies
- Substantial Investment in Transit. Especially light rail

# Portland Results

Transit Market Share in 2008:

2.3 percent

Transit Market Share in 1983:

2.4 percent

# Implications

- **Macroeconomic Priorities** and Budget Policy, as opposed to user/payer preferences, determines quantity of transportation investment
- **Political Priorities**, as opposed to user/payer preferences will determine how that investment is allocated among competing uses
- **Congestion mitigation**, cost effective mobility, and quality of infrastructure will often be incidental to decision-making process

# Another (Better?) Way of Looking at the Problem/Opportunity

- States and Local Governments are (Infrastructure) Asset Rich, but Cash Poor
- Suggests one approach to the issue could be expressed as: How do we *monetize* the value of the assets we have?
- The same quandary confronts Google, Yahoo, Microsoft, and LinkedIn and many other firms offering free access to costly infrastructure.
- Solutions by Governor Daniels in Indiana, Mayor Daley in Chicago. European airports.

# Options to Implement Market Processes: Costs and Revenues

- Monetize Existing Transportation Assets
- Attract Capital From Private Sector
- Reduce Costs
- Mimic Market Processes



# Monetize Assets

- Lease/Sell Existing Tolled Facilities
- Increase Tolls to Generate Project Revenue
- Add Tolls to Non-Tolled Roads
- Increase Tolls to Service New Debt
- PPPs Within Existing Right of Way
- Commercialize Rest Stops on Interstates

# Attract Capital From Private Sector

- Need **Reliable** and Sustainable Revenue Source – Tolls?
- A More **Robust TIFIA** Program
- PPP Option Should be an Upfront Consideration, as Opposed to an “If all else fails” option
- Need accommodative State **Legislation**

# Competitive Contracting for Transit

- Competitive Contracting Now Common for many Road and Highway Services
- Uncommon for Core Transit Services
- Applied in Denver, San Diego, London, Stockholm, Copenhagen
- Becoming more common beyond traditional core service area
- More common in U. S. Commuter Rail

# End Public Monopoly In Transit?

- Many systems **prohibit entry** into existing service area
- Historic and recent experience with private transit mixed
- Employer based private transit – Microsoft
- Lessons from United Kingdom

# Mimic Market Processes

- Performance Based Systems with limited number of clear and well-defined objectives to prioritize projects
- Too many goals, or the **wrong goals**. Confusing inputs with outputs.
- Never free of **politics**
- Washington State – congestion mitigation was proposed goal by state I.G.
- Skepticism by legislature and WDOT. No go in Virginia

# Big Obstacles to Overcome

- Public has **little confidence** in the federal or state DOTs to improve system
- Thus **unwilling to pay higher gas taxes**, tolls, sales tax surcharges, or other revenue raisers.
- Current situation in Washington DC is instructive in this regard
- Few federal officials run for office on a transportation policy – earmarks.
- Has the federal government worn out its welcome?

# Even More Obstacles

- PPPs are **difficult** to do, slow to get underway, and often in need of some public funding.
- Often necessitates an added public purpose which can raise costs and/or lower revenues.
- Not apparent that there are many **financially viable projects** that can be privately financed.
- Opposition to tolls may be more intense than that to gas tax hikes.
- Available federal **tolling pilot projects** largely unused.
- Ditto on airport privatization pilot projects

# Will Rogers Again

Here are a few rules I want to adopt...

Rule two: eliminate all street cars from the streets. They only get in people's way who are in a hurry walking home.

Will Rogers (1923)

Thank you for your kind attention and I look forward to the discussion period