



National Transportation  
Policy Project

Founded in 2007 by former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole and George Mitchell, the Bipartisan Policy Center (BPC) is a non-profit organization that drives principled solutions through rigorous analysis, reasoned negotiation, and respectful dialogue. With projects in multiple issue areas, the BPC combines politically-balanced policymaking with strong, proactive advocacy and outreach.

Performance Driven:  
**Achieving Wiser  
Investment  
in Transportation**



June 2011



BIPARTISAN POLICY CENTER

1225 Eye Street NW, Suite 1000  
Washington, DC 20005  
(202) 204-2400



BIPARTISAN POLICY CENTER



## NATIONAL TRANSPORTATION POLICY PROJECT

Emil Frankel, *Director of Transportation Policy*

JayEtta Hecker, *Director of Transportation Advocacy*

Joshua Schank, *Research Fellow*

Nikki Thorpe, *Senior Policy Analyst*

Marissa McCauley, *Administrative Assistant*

Marika Tatsutani, *Writer and Technical Editor*

## BIPARTISAN POLICY CENTER LEADERSHIP

Jason Grumet, *Founder and President*

Julie Anderson, *Senior Vice President*

David Conover, *Senior Vice President*

# National Transportation Policy Project Members

## PROJECT CO-CHAIRS

### Dennis Archer

Former Detroit Mayor

### Sherwood Boehlert

Former New York Congressman

### Slade Gorton

Former Washington Senator

### Martin Sabo

Former Minnesota Congressman

### Alan Altshuler

Professor, Harvard Graduate School of Design; Former Massachusetts Secretary of Transportation

### Lillian Borrone

Board Chair, Eno Transportation Foundation; Former Senior Executive PANYNJ

### Tom Downs

Chairman, Veolia Transportation NA; Former CEO, Amtrak; Former Commissioner of New Jersey DOT

### Mike Erlandson

Vice President Government Affairs, SUPERVALU

### Douglas Foy

President, Serrafix Corporation; Former President, Conservation Law Foundation

### Jane Garvey

Former Administrator of the FAA; Former Deputy Administrator of the FHA

### Garry Higdem

President, CH2M Hill Energy Operating Division

### Douglas Holtz-Eakin

President, American Action Forum; Former Director of the Congressional Budget Office

### Nancy Kete

Former Director of EMBARQ

### William Lhota

President and CEO, COTA; Former Senior Executive, American Electric Power

### Bob Lowe

President and CEO of Lowe Enterprises, Inc.

### Sean McGarvey

Secretary-Treasurer, AFL-CIO

### Bryan Mistele

President and CEO of INRIX

### Jim Runde

Managing Director & Special Advisor, Morgan Stanley

### Tom Stricker

Director and Corporate Manager, Toyota Motor North America, Inc.

### Chris Vincze

Chairman and CEO of TRC Companies

### Martin Wachs

Senior Principle Research, RAND Corporation; Professor, UC Berkeley

### John Wall

Vice President & Chief Technical Officer, Cummins Inc.

### Lynda Ziegler

Southern California Edison, Senior Vice-President, Customer Service



### ACKNOWLEDGEMENTS

The National Transportation Policy Project would like to express its sincere appreciation for the support and vision of the funders who made the Project possible: the ClimateWorks Foundation, the Heising-Simons Foundation, The Rockefeller Foundation, the William and Flora Hewlett Foundation, and other supporters of the Bipartisan Policy Center. The Project would also like to thank Project member representative, J. Bryan Nicol, CH2M Hill for his many contributions to the Project's work.

### DISCLAIMER

This report is the product of the National Transportation Policy Project. The findings and recommendations expressed herein are solely those of the Project and do not necessarily represent the views or opinions of the Bipartisan Policy Center, its Advisory Board, or its Board of Directors.

# Table of Contents

<b>Executive Summary</b> . . . . .	5	<b>A Diminished Federal Role</b> . . . . .	27
<b>The Need for Reform</b> . . . . .	5	Reduced Restrictions on Funding Tools . . . . .	27
<b>Methodology and Criteria</b> . . . . .	6	Adjustments to Match Requirement . . . . .	28
Advance National Purposes . . . . .	6	Streamlining of Processes . . . . .	28
Leverage Non-Federal Funding . . . . .	7	<b>New Program Structure</b> . . . . .	28
<b>Proposed Reforms to Achieve Wiser Investment in Transportation</b> . . . . .	7	Figure 3: NTPP's Proposed Surface Transportation Program Funding Levels . . . . .	29
Moving to Better Performance . . . . .	7	<b>Programs to be Cut (Savings)</b> . . . . .	29
Leveraging Resources . . . . .	8	Figure 4: Programs to be Cut Under NTPP Plan . . . . .	30
<b>A Consolidated Program Structure</b> . . . . .	8	Figure 5: Percent Share of Total Equity Bonus Funding in 2009 by State . . . . .	30
Figure 1: NTPP's Proposed Federal Surface Transportation Program . . . . .	8	Equity Bonus . . . . .	31
<b>Final Word</b> . . . . .	11	High Priority Projects Program and Transportation Improvements . . . . .	31
<b>Summary of Proposed Federal Surface Transportation Program</b> . . . . .	12	Other Programs . . . . .	31
<b>Chapter 1: Purpose of this Report</b> . . . . .	15	Appalachian Development Highway System Program . . . . .	32
<b>Previous NTPP Work</b> . . . . .	16	<b>An Alternate Proposal Including the Equity Bonus Program</b> . . . . .	32
Figure 2: Proposed Performance Measures . . . . .	17	Figure 6: NTPP's Proposed Program with Equity Bonus . . . . .	33
<b>Changing Policy Trends</b> . . . . .	18	<b>Proposed Programs</b> . . . . .	33
<b>The Opportunity of Constrained Resources</b> . . . . .	19	Asset Management Program (AMP) . . . . .	33
<b>Chapter 2: Criteria for Prioritizing Transportation Investments</b> . . . . .	21	Metropolitan Accessibility Program (MAP) . . . . .	35
<b>Economic Goals</b> . . . . .	21	Freight Transportation Improvement Program (FTIP) . . . . .	37
<b>Energy and Environmental Goals</b> . . . . .	22	Safety Improvement Program (SIP) . . . . .	39
<b>Safety Goals</b> . . . . .	23	Federal Transportation Program (FTP) . . . . .	41
<b>Criteria for Leveraging Federal Investment</b> . . . . .	23	Rural Connectivity Program (RCP) . . . . .	42
<b>Applying National Interest and Leveraging Criteria to Existing Programs</b> . . . . .	24	Federal Support of Supplemental Revenue (FSSR) . . . . .	42
<b>Chapter 3: The NTPP Proposal</b> . . . . .	26	State and Metropolitan Planning Program (SMPP) . . . . .	47
<b>Definition of National Goals</b> . . . . .	26	Data, Research, and Education (DRE) . . . . .	50
<b>Bringing a Performance Emphasis into the Existing Framework</b> . . . . .	27	Essential Access Program (EAP) . . . . .	53
		<b>Closing Words</b> . . . . .	55
		<b>Appendix A: "Other" Programs</b> . . . . .	56
		<b>Appendix B: Approaches to Developing a "Maintenance of Effort" (MOE) Test to Reward Sustainable State Funding</b> . . . . .	57



## Executive Summary

Our nation faces substantial challenges. In the current environment of economic hardship and unsustainable budget deficits, tough decisions are required. However, political partisanship and division make collaborative and timely decision-making extremely difficult. And yet, as at other points in our nation's history, trying times can create new opportunities to confront some of America's most compelling challenges.

In particular, the looming budget challenges that have stymied progress on a new surface transportation bill can provide the impetus for needed reform of the federal program. Both parties should seize this moment to push forward a thoughtful, equitable, sustainable, and well-targeted federal approach to transportation policies and investments that help our economy grow, improve the energy and environmental sustainability of our transportation system, and improve the safety and quality of life in our nation.

In this report, the Bipartisan Policy Center's National Transportation Policy Project (NTPP) builds on its June 2009 report, *Performance Driven: A New Vision for U.S. Transportation Policy*, to propose a set of practical near-term actions that are responsive to current political and fiscal conditions but represent a substantial step towards that original vision. The central goal, as articulated in that 2009 report, remains a federal surface transportation

**The recognition that we are under-investing in our transportation systems has run headlong into a political and fiscal environment in which expanding federal expenditures for any purpose is increasingly difficult to discuss, much less enact.**

program that is more performance-based and accountable and therefore better equipped to meet the economic and environmental challenges we face in the years ahead.

Specifically, this proposal outlines immediate steps that can be taken to:

1. restructure the existing federal surface transportation program to be more performance-driven; and
2. better leverage non-federal resources.

### The Need for Reform

For years there has been overwhelming evidence that the U.S. is failing to maintain its highways, bridges, and transit systems, and consistently falling short in making the infrastructure investments needed to provide for the long-term needs of our growing population and economy. The recognition that we are under-investing in our transportation systems, however, has run headlong into a political and fiscal environment in which expanding federal expenditures for any purpose is increasingly difficult to discuss, much less to enact. In this context it is arguably more important than ever to ensure that all federal resources directed to transportation—albeit never enough to keep pace with the nation's vast and growing transportation needs—are invested wisely.

This NTPP report proposes a new programmatic framework for federal transportation spending. The approach we recommend is organized around ten focus areas, each of which addresses one or more of the core national interests articulated in the 2009 report. This report assumes that federal funding for transportation will be reduced to roughly current levels of incoming revenue—that is, approximately \$40 billion per year. We developed this proposal bearing in mind that should increased funding become available in the near term, the programmatic structure recommended could absorb additional resources while still allocating them in a more targeted, efficient way.

## It is imperative for Congress to articulate specific national goals in the next surface transportation bill.

NTPP's 2009 report framed a long-term vision and program structure designed to bring accountability and a clearer sense of purpose to the federal surface transportation program. This report develops a more detailed set of near-term recommendations aimed at introducing a more performance-driven focus into the next surface transportation authorization bill.

As in our 2009 report, these recommendations proceed from the central premise that any amount of federal investment in transportation should advance specific national purposes. These purposes must be articulated by Congress as part of any new, federal surface transportation authorizing legislation.

NTPP's 2009 report proposed five key goals, all of which are central to the national interest and require federal leadership and action:

- **Economic Growth**—producing maximum economic growth per dollar of investment
- **National Connectivity**—connecting people and goods across the nation with effective surface transportation
- **Metropolitan Accessibility**—providing efficient access to jobs, labor, and other activities throughout metropolitan areas
- **Energy Security and Environmental Protection**—integrating energy security and environmental protection objectives with transportation policies and programs
- **Safety**—improving safety by reducing the number of accidents, injuries, and fatalities associated with transportation

It is imperative for Congress to articulate specific national goals in the next surface transportation bill. This is the only way we will be able to move from a disparate and fragmented federal program with many narrow and often uncoordinated interests to one that is more

performance-based and able to effectively prioritize and target investments.

The U.S. Department of Transportation (U.S. DOT), in collaboration with states and metropolitan regions, should be directed through legislation to develop performance measures for evaluating progress toward these goals. Recipients of federal funding should thereafter be held accountable for demonstrating progress toward agreed upon metrics. Performance metrics could include access to jobs and labor, and non-work activities; network utility; corridor congestion; petroleum consumption; carbon emissions; and fatalities and injuries per capita and per vehicle miles traveled.

### Methodology and Criteria

NTPP followed a structured methodology to develop the recommendations advanced in this report. Our aim was to reform, consolidate, and scale existing components of the current transportation program such that they maximize progress toward a set of clear national objectives within a budget constrained by existing revenue levels. In assessing where to cut, modify, or combine programs we evaluated the full suite of current programs based on the extent to which each is able to (1) advance national purposes and (2) leverage non-federal funding.

#### Advance National Purposes

The performance measures proposed in NTPP's 2009 report are intended to be used to evaluate likely returns on specific transportation investments. For the purposes of this proposal we developed specific criteria, based on those previously proposed performance measures, to evaluate existing federal transportation programs.

For each program we asked a set of questions, including whether the program serves the following objectives:

- Part of a nationally connected system—is it a program that supports a unique federal role providing transportation investments within a nationally connected system?
- Requires a national perspective—is it a program that is consistent with a unique federal role in providing investments where a national perspective is essential to maximize economic benefits?
- Focuses on preservation—is it a program that supports the maintenance, preservation, and performance of existing assets?
- Expands access to employment—is it a program that provides access to long-term employment as an essential element of national economic growth?
- Reduces petroleum consumption—is it a program that helps reduce national dependence on oil?
- Reduces carbon dioxide (CO<sub>2</sub>) emissions—is it a program that reduces the transportation sector's contribution to carbon emissions?
- Reduces injuries and fatalities—is it a program that helps ensure the safety of the citizens on transportation networks?

#### Leverage Non-Federal Funding

To expand investment opportunities and actively encourage a greater state, local, and private role in funding transportation improvements, NTPP recommends that any legislative or executive action taken to leverage federal transportation resources meet the following criteria:

- Demonstrably increase overall transportation investment;
- Have minimal federal budgetary impact;
- Be implementable relatively quickly; and
- Advance NTPP's recommended national goals.

## Proposed Reforms to Achieve Wiser Investment in Transportation

### Moving to Better Performance

The new program structure we are proposing aims to make the existing surface transportation program more performance-based. This is accomplished through several strategies, the most crucial and important of which is that **Congress must first define a short, focused set of national goals for the surface transportation program.** Without this first step, everything else is rendered meaningless.

Another important element of our proposal is a greater emphasis on **managing and preserving existing assets.** NTPP has called for the vast majority of funding to be dedicated to this purpose both because this approach makes sense in the context of severely constrained resources, but also because a focus on preservation and performance of existing assets is an excellent proxy for greater economic return on investment. NTPP is also calling for a **substantial shift in funding to allow greater emphasis on national connectivity priorities, including freight and rural connectivity.** These are obvious national priorities that, if properly funded, will substantially improve the performance of our transportation system at the national level.

Recognizing that members of Congress will have a strong preference for relying on formula programs, NTPP proposes to make these programs more performance-based by including **performance bonuses based on meeting specific measurable criteria.** We also recommend **a more robust, outcome-oriented, and well-funded planning program** that should help maximize the benefits achieved by the formula programs.

Finally, an essential first step in moving towards a more performance-based system is to **eliminate programs that lack a specific national purpose.** The largest program

without such a purpose is the Equity Bonus program, which allocates over \$9 billion annually based on considerations of geographic equity. Eliminating this program will be politically difficult, however, a compelling case can be made for freeing up these resources to be put to better targeted and ultimately more beneficial uses—particularly in an environment of overall spending cuts and painful budget choices. Similarly, we call for the elimination of earmarks totaling \$3.5 billion and multiple other programs totaling over \$1.5 billion in annual spending. Together, these cuts of more than \$14 billion annually make it possible, under our proposal, to provide adequate funding for programs that will serve national needs.

**Leveraging Resources**

NTPP’s proposal emphasizes greater leveraging of state, local, and private funding sources. This is accomplished in large part through **a program designed to support, promote and reward the development of sustainable revenue flows** by non-federal partners. NTPP calls for a dramatic increase in

the resources devoted to maximizing the returns achieved on investments of limited federal funds. Similarly, NTPP calls for **restructuring existing funding match requirements**, particularly when these requirements can be applied at a program level rather than on a project basis. A different approach to matching requirements could provide further incentives for non-federal funding. Finally, NTPP recognizes that a diminished federal role in funding should be accompanied by a **reduction in federal restrictions and requirements**. States, localities, and the private sector are unlikely to be willing to pay for a greater share of transportation needs without a greater voice in related decisions and without some concurrent easing of federal restrictions and streamlining of federal processes.

**A Consolidated Program Structure**

Adjusting the federal surface transportation program to meet the revenue constraints we assumed for this analysis clearly entailed difficult program choices and trade-offs.

Figure 1: NTPP’s Proposed Federal Surface Transportation Program

New Program	2009 Funding	Recommended Funding	Change
Asset Management Program	\$20,677,600,127	\$20,000,000,000	-3%
Metropolitan Accessibility Program	\$12,034,873,542	\$11,000,000,000	-9%
Freight Improvement Program	\$967,650,000	\$2,350,000,000	143%
Safety Improvement Program	\$1,479,474,396	\$1,700,000,000	15%
Federal Transportation Program	\$1,555,217,640	\$1,600,000,000	3%
Rural Connectivity Program	\$526,250,000	\$800,000,000	52%
Federal Support for Supplemental Revenue	\$122,000,000	\$750,000,000	515%
Planning Program	\$442,466,565	\$700,000,000	58%
Data, Research, and Education	\$503,050,000	\$600,000,000	19%
Essential Access Program	\$390,500,000	\$500,000,000	28%
<b>Total</b>	<b>\$38,699,082,270</b>	<b>\$40,000,000,000</b>	<b>3%</b>

We found a major streamlining and downsizing of the current suite of programs can be achieved if one rigorously aligns spending priorities with the advancement of compelling national interests. By cutting more than \$14 billion in annual expenditures from the existing program, we are able to propose a consolidated structure with ten core programs that are all clearly focused on advancing our nation’s most important transportation-related interests (Figure 1). Each of the programs included in the table represents a consolidation of existing programs under the 2005 SAFETEA-LU authorization; the percentage change in funding is shown in relation to those existing programs.

**Asset Management Program (AMP)**

**Consolidates:** Interstate Maintenance, National Highway System, Bridge Program, Half of the Surface Transportation Program, and Fixed Guideway Modernization

The intent of this program is to emphasize the preservation of existing assets and enhance the performance of the existing system. We recommend this program be implemented on a mode-neutral basis but that it include a strong focus on investments that support progress toward national goals through the planning process. Funds would be distributed by formula using a combination of factors from the existing programs we propose to consolidate under the AMP heading. The AMP program would provide bonus funding for recipients that are able to provide data on their performance with respect to defined national goals.

**Metropolitan Accessibility Program (MAP)**

**Consolidates:** Half of the Surface Transportation Program, Congestion Mitigation and Air Quality (CMAQ), Urbanized Area Formula (UAF) Grants, New Starts, Small Starts, Bus and Bus Facilities, Value-Pricing Pilot Program, Ferry Boats and Terminal Facilities

This program would support investments that increase access in metropolitan areas as a way to generate and optimize national economic returns. MAP would be mode-neutral with a strong emphasis on outcomes. Funds would be distributed via formula using factors that have been developed for the existing programs we are proposing be consolidated under MAP. Some federal funds would continue to flow, as they do now, directly to metropolitan regions. A set-aside bonus program would be available to reward regions that employ strategies known to advance national goals.

**Freight Transportation Improvement Program (FTIP)**

**Consolidates:** National Corridor Infrastructure Improvement Program, Coordinated Border Infrastructure Program, Projects of National and Regional Significance (PNRS), Truck Parking Facilities, Freight Intermodal Distribution Pilot Program

This program responds to the need for a comprehensive national freight policy. While some funds would be distributed via formula, the bulk of this program would consist of a competitive discretionary grant program. The mode-neutral nature of both the formula and competitive programs, combined with joint decision making by the executive and legislative branches would serve to encourage high-return, evidence-based investments across multiple modes to address freight transport needs of true national significance.

**Safety Improvement Program (SIP)**

**Consolidates:** Highway Safety Improvement Program (HSIP) and Safe Routes to School

The emphasis of this program would be on reducing injuries and fatalities. The consolidated SIP would continue to allocate funds through formula, but in a mode-neutral

fashion while eliminating all set-asides/restrictions from existing federal safety programs. A performance bonus would be available for fund recipients based on their progress toward achieving safety-related goals.

**Federal Transportation Program (FTP)**

**Consolidates:** Indian Reservation Roads, Indian Reservation Road Bridges, Park Roads and Parkways, Refuge Roads, Public Lands Highways, Administrative Expenses (highways and transit)

FTP would combine programs that the federal government is equipped to operate, as well as provide resources for federal assets.

**Rural Connectivity Program (RCP)**

**Consolidates:** Transportation Community and System Preservation (TCSP), and Formula Grants for Other than Urbanized Areas

This program would focus on investments that ensure access and connectivity for rural areas. Funds through this program would be distributed via formula with a set-aside discretionary grant program to supplement and incentivize performance.

**Federal Support for Supplemental Revenue (FSSR)**

**Consolidates:** Transportation Infrastructure Finance and Innovation Act (TIFIA), Existing Technical Assistance

This program creates a mode-neutral, performance-based program for the specific purpose of leveraging maximum state, local, and private funding for each federal dollar spent. It would emphasize reducing federal barriers and providing tools for increased non-federal investment. A new incentive program would be established to reward the development of sustainable revenue flows at the state and metropolitan levels.

**State and Metropolitan Planning Program (SMPP)**

**Consolidates:** Metropolitan Planning Program (takedown from core programs), Planning Programs (Metropolitan and Statewide), Alternatives Analysis Program

This program aims to substantially reform the federal planning process to become more outcome-oriented. Funds would be allocated by formula to states and metro regions with bonus funding available for improved planning processes, as well as provide supplemental grants to incentivize greater collaboration.

**Data, Research, and Education (DRE)**

**Consolidates:** Surface Transportation Research Program, Training and Education, Bureau of Transportation Statistics, University Transportation Research, Intelligent Transportation Systems Research, National Transit Database, National Research Programs, Transit Cooperative Research, National Transit Institute, University Centers Program

This program would consolidate overlapping federal programs for research and the collection and reporting of data. Overhauling and rationalizing existing research and data programs is essential to facilitate the transition to a more performance-based federal program.

**Essential Access Program (EAP)**

**Consolidates:** Job Access and Reverse Commute (JARC) Program and Formula Grants for Elderly and Disabled, New Freedom Program

This program consolidates existing programs that improve access for disadvantaged populations. Funds allocated through this program would be distributed by existing formula factors to states; within states, EAP funds could be allocated on a competitive basis.

**Final Word**

Current budget realities pose a major challenge for the U.S. transportation system. In this climate of extraordinary constraint, action is needed to generate new ideas and measures that may not have been possible under other circumstances. Now is the time to make more efficient use of scarce resources.

The reality is that federal transportation spending is likely to be under enormous pressure for some time to come, despite compelling evidence that we have been falling consistently short of making the infrastructure investments needed to sustain an efficient, safe, environmentally sustainable, and well-functioning national transportation network.

In the long term, the programmatic framework proposed in this report allows for the achievement of wiser investments. It offers a sound strategy for securing broad public support for policies and resource commitments that will allow the U.S. to continue to achieve high standards of living and remain competitive in a highly mobile, global economy. It provides a way to make substantial investment and tangible improvement to the vital transportation systems on which our nation depends.



# Summary of Proposed Federal Surface Transportation Program

PROGRAM	CONSOLIDATES	STRUCTURE	DISTRIBUTION	AMOUNT
<b>Asset Management Program (AMP)</b>	<ul style="list-style-type: none"> <li>- Interstate Maintenance</li> <li>- National Highway System</li> <li>- Bridge Program</li> <li>- Half of the Surface Transportation Program</li> <li>- Fixed Guideway Modernization</li> </ul>	<p>Mode-neutral program</p> <p>Emphasizes an increased focus on preservation of the existing transportation system</p> <p>Emphasizes investments that are able to demonstrate progress towards national goals through a reformed planning process</p>	<p>Formula based on factors in the existing programs combined to form AMP</p> <p>Provide bonus funding for recipients who report performance data with respect to national goals</p>	<p><b>2009 Funding Level</b> \$20,677,600,127</p> <p><b>Recommended Funding Level</b> \$20,000,000,000</p> <p><b>Percent Change:</b> -3%</p>
<b>Metropolitan Accessibility Program (MAP)</b>	<ul style="list-style-type: none"> <li>- Half of the Surface Transportation Program</li> <li>- Congestion Mitigation and Air Quality</li> <li>- Urbanized Area Formula Grants</li> <li>- New Starts</li> <li>- Small Starts</li> <li>- Bus and Bus Facilities</li> <li>- Value-Pricing Pilot Program</li> <li>- Ferry Boats and Terminal Facilities</li> </ul>	<p>Mode-neutral program</p> <p>Emphasizes programmatic metropolitan investments that generate national economic returns</p> <p>Emphasizes outcomes</p>	<p>Formula based on factors in the existing programs combined to form MAP</p> <p>Some funds would flow directly to metropolitan regions</p> <p>Provide bonus funding for regions that employ strategies known to advance national goals.</p>	<p><b>2009 Funding Level</b> \$12,034,873,542</p> <p><b>Recommended Funding Level</b> \$11,000,000,000</p> <p><b>Percent Change:</b> -9%</p>
<b>Freight Transportation Improvement Program (FTIP)</b>	<ul style="list-style-type: none"> <li>- National Corridor Infrastructure Improvement Program</li> <li>- Coordinated Border Infrastructure Program</li> <li>- Projects of National and Regional Significance</li> <li>- Truck Parking Facilities</li> <li>- Freight Intermodal Distribution Pilot Program</li> </ul>	<p>Mode-neutral program</p> <p>Emphasizes the need for a national freight policy</p> <p>Emphasizes and encourages investment in multimodal programs</p>	<p>Primarily a competitive discretionary program</p> <p>Some funds via formula</p>	<p><b>2009 Funding Level</b> \$967,650,000</p> <p><b>Recommended Funding Level</b> \$2,350,000,000</p> <p><b>Percent Change:</b> 143%</p>
<b>Safety Improvement Program (SIP)</b>	<ul style="list-style-type: none"> <li>- Highway Safety Improvement Program</li> <li>- Safe Routes to School</li> </ul>	<p>Mode-neutral program</p> <p>Emphasizes reducing injuries and fatalities</p>	<p>Formula, eliminating all set-asides/ restrictions from existing federal safety programs</p> <p>Provide bonus funding for fund recipients based on their progress toward achieving safety related goals</p>	<p><b>2009 Funding Level</b> \$1,479,474,396</p> <p><b>Recommended Funding Level</b> \$1,700,000,000</p> <p><b>Percent Change:</b> 15%</p>

PROGRAM	CONSOLIDATES	STRUCTURE	DISTRIBUTION	AMOUNT
<b>Federal Transportation Program (FTP)</b>	<ul style="list-style-type: none"> <li>- Indian Reservation Roads</li> <li>- Indian Reservation Road Bridges</li> <li>- Park Roads and Parkways</li> <li>- Refuge Roads</li> <li>- Public Lands Highways</li> <li>- Administrative Expenses</li> </ul>	<p>Emphasizes need to combine federal programs that federal government is equipped to operate</p>	<p>Provide resources for federal assets</p>	<p><b>2009 Funding Level</b> \$1,555,217,640</p> <p><b>Recommended Funding Level</b> \$1,600,000,000</p> <p><b>Percent Change:</b> 3%</p>
<b>Rural Connectivity Program (RCP)</b>	<ul style="list-style-type: none"> <li>- Transportation Community and System Preservation</li> <li>- Formula Grants for Other than Urbanized Areas</li> </ul>	<p>Emphasizes access and connectivity for rural areas</p>	<p>Formula program</p> <p>Set-aside discretionary grant program to supplement and incentivize performance</p>	<p><b>2009 Funding Level</b> \$526,250,000</p> <p><b>Recommended Funding Level</b> \$800,000,000</p> <p><b>Percent Change:</b> 52%</p>
<b>Federal Support for Supplemental Revenue (FSSR)</b>	<ul style="list-style-type: none"> <li>- Transportation Infrastructure Finance and Innovation Act</li> <li>- Existing Technical Assistance</li> </ul>	<p>Mode-neutral program</p> <p>Emphasizes leveraging of state, local, and private funding</p> <p>Emphasizes reducing federal barriers and providing the tools for non-federal investment</p>	<p>Provides a range of tools, largely on a project-specific basis</p> <p>Provide bonus funding for states able to secure a sustainable flow of revenue</p>	<p><b>2009 Funding Level</b> \$122,000,000</p> <p><b>Recommended Funding Level</b> \$750,000,000</p> <p><b>Percent Change:</b> 515%</p>
<b>State and Metropolitan Planning Program (SMPP)</b>	<ul style="list-style-type: none"> <li>- Metropolitan Planning Program</li> <li>- Planning Programs (Metropolitan and Statewide)</li> <li>- Alternatives Analysis Program</li> </ul>	<p>Reform the federal planning process to become more outcome-oriented</p> <p>Emphasizes collaboration and involvement of the relevant institutions</p>	<p>Formula to states and metro regions</p> <p>Provide bonus funding for improved planning processes</p> <p>Provide supplemental grants to incentivize collaboration</p>	<p><b>2009 Funding Level</b> \$442,466,565</p> <p><b>Recommended Funding Level</b> \$700,000,000</p> <p><b>Percent Change:</b> 58%</p>
<b>Data, Research, and Education (DRE)</b>	<ul style="list-style-type: none"> <li>- Surface Transportation Research Program</li> <li>- Training and Education</li> <li>- Bureau of Transportation Statistics</li> <li>- University Transportation Research</li> <li>- Intelligent Transportation Systems Research</li> <li>- National Transit Database</li> <li>- National Research Programs</li> <li>- Transit Cooperative Research</li> <li>- National Transit Institute</li> <li>- University Centers Program</li> </ul>	<p>Better integrate related modal programs</p> <p>Emphasizes streamlining major research priorities</p>	<p>Merit based allocation with focus on clearly targeted priorities</p>	<p><b>2009 Funding Level</b> \$503,050,000</p> <p><b>Recommended Funding Level</b> \$600,000,000</p> <p><b>Percent Change:</b> 19%</p>
<b>Essential Access Program (EAP)</b>	<ul style="list-style-type: none"> <li>- Job Access and Reverse Commute Program</li> <li>- Formula Grants for Elderly and Disabled</li> <li>- New Freedom Program</li> </ul>	<p>Consolidates existing programs that improve access for disadvantaged populations</p>	<p>Formula to states, with an option of then distributing funds through competitive programs within states</p>	<p><b>2009 Funding Level</b> \$390,500,000</p> <p><b>Recommended Funding Level</b> \$500,000,000</p> <p><b>Percent Change:</b> 28%</p>



## Chapter 1: Purpose of This Report

There is overwhelming evidence that the U.S. needs to invest far more in its transportation infrastructure. Numerous independent studies and analyses find that by deferring transportation expenditures we are increasing long-term costs and hindering our economic competitiveness and growth prospects. Meanwhile we are left with a transportation system that remains highly dependent on oil, continues to be a major contributor of carbon emissions, and sustains tens of thousands of fatalities and injuries annually.

Unfortunately, however compelling the evidence and however influential the voices calling for greater investment, no increase in public spending on transportation needs can be expected to materialize in the current political and fiscal environment. Our national political discourse today is characterized by strong disagreements about the appropriate level of government spending and is overwhelmingly resistant to any new taxes. At the same time, the nation faces a looming debt crisis that threatens our underlying economy and makes increased borrowing both impractical and potentially harmful. In this environment, it is hard to conceive of significant additional federal resources being made available for investment in transportation.

Even under these circumstances, the means to fund increased transportation investment could likely be found, if the political will existed. The president has called for “redoubling” such investments, and his deficit reduction commission recommended increasing the gasoline tax and dedicating the revenues to transportation investment. But these recommendations run counter to the recent trend towards fiscal austerity. As the nation’s debt crisis is likely to continue to dominate the political stage for the foreseeable future, it is highly likely that transportation programs, like

most other areas of discretionary federal spending, will face either stable or declining funding. This report attempts to answer the following question: **Assuming diminished funding for transportation, how should the existing federal program be reformed to make it more performance-based and to better leverage non-federal resources?**

In its June 2009 report, NTPP articulated a new, long-term vision for U.S. transportation policy.<sup>1</sup> We recognized that the reforms called for in that report, realistically, will take a decade or more to implement. Re-orienting current transportation programs around the principle that we need to invest transportation funds more wisely will take time. But the 2009 report did not provide detailed recommendations concerning specific steps that should be taken in the next surface transportation bill.

This report attempts to fill that gap by describing the building blocks needed to lay the foundation for a more performance-driven federal policy in the next surface transportation bill. NTPP’s guiding principle continues to be that no matter how much money is available for transportation at the federal level, it needs to be invested wisely. In the present environment of constrained resources, it is more urgent than ever that Congress take steps to introduce performance measures and dramatically change how transportation investments are prioritized.

For the purposes of this report, we assume that federal spending for transportation at approximately the level of revenue currently coming into the Highway Trust Fund (HTF): \$40 billion per year. In other words, we assume that funding sources and projected revenues remain essentially unchanged, but that spending is reduced to align with those revenue levels.

<sup>1</sup> National Transportation Policy Project. Performance Driven: A New Vision for U.S. Transportation Policy. Bipartisan Policy Center, June 2009. <http://www.bipartisanpolicy.org/library/report/performance-driven>

The recommendations contained in this report are designed to steer the next surface transportation bill toward a performance-driven framework. They remain relevant even if additional resources become available because they show how the existing program can be modified to more effectively advance a set of clear national objectives. That is something NTPP believes must be done no matter how much money is available.

This report begins with a short summary of NTPP's 2009 vision, to help set the stage for a discussion of reform opportunities that could be implemented immediately. It then reviews changes in the political and policy environment since the release of the 2009 report, speculates on the potential for further changes, and discusses how our long-term vision might be translated into short-term action items.

Chapter 2, goes on to explain the criteria we used to develop the policy recommendations, and identifies the assumptions and limitations of the approach proposed. Chapter 3, representing the bulk of the report, is dedicated to our recommendations for a new consolidated program focused on core national interests, as well as specific suggestions for how existing programs should be modified, combined, or even eliminated. We provide specific recommendations for (a) changes to the federal transportation planning process and (b) fundamental reform and refocusing of research initiatives that would support and substantially hasten the transition to a performance-based system.

### Previous NTPP Work

In 2008 NTPP brought together four former elected officials and a larger group of thinkers, experts, business, and civic leaders to develop a new vision for U.S. surface transportation policy. We believe that the current federal surface transportation program lacks clear direction or purpose and that this has detrimental economic

and environmental consequences. In articulating these concerns, NTPP became part of a larger reform movement within transportation as many organizations including two federally-mandated commissions, the Government Accountability Office, the Brookings Institution, Transportation for America (T4), the Miller Center at the University of Virginia, and many others inside and outside the Beltway have echoed similar themes and advocated for a new approach.

NTPP's message was intended to be bold but pragmatic. Since the 2009 report was issued we have continued to emphasize the need to (a) articulate specific national goals for transportation policy, (b) develop performance measures to evaluate progress toward those goals, and (c) hold funding recipients accountable for that progress. Although we spent considerable effort researching and developing specific national goals and associated performance measures that best captured the federal role in transportation, these goals or measures were not viewed as immutable. Rather, they were seen as the basic elements of an outcome-based and accountable federal program.

Our 2009 report proposed five national-level goals:

- **Economic Growth**—Producing maximum economic growth per dollar of investment
- **National Connectivity**—Connecting people and goods across the nation with effective surface transportation options
- **Metropolitan Accessibility**—Providing efficient access to jobs, labor, and other activities throughout metropolitan areas
- **Energy Security and Environmental Protection**—Integrating energy security and environmental protection objectives with transportation policies and programs

Figure 2: Proposed Performance Measures

Economic Growth	Energy and Environment	Safety
Access to jobs and labor <i>(metropolitan accessibility)</i>	Petroleum consumption	Fatalities and injuries per capita
Access to non-work activities <i>(metropolitan accessibility)</i>	CO2 emissions	Fatalities and injuries per Vehicle Miles Traveled (VMT)
Network utility <i>(national connectivity)</i>		
Corridor congestion <i>(national connectivity)</i>		

- **Safety**—Improving safety by reducing the number of accidents, injuries, and fatalities associated with transportation

To measure progress against these goals we developed a suite of eight performance measures (Figure 2). Many of these measures involve data and tools that are not currently being used by—and in some cases are not yet readily available to—federal grantees or decision-makers. Nevertheless, they represent a useful starting point for developing metrics that can be used to both evaluate and quantify the national benefits of transportation investments.

NTPP proposed linking transportation performance to federal funding in three ways. First, we called for replacing existing discretionary grant programs with two large mode-neutral competitive programs wherein the federal government focuses only on performance outcomes and leaves specific mode choices and strategic decision-making to the grantees. Second, we called for a similar bottom-up approach to consolidated formula programs. The federal government's role would be to take stock of

measured outcomes and reward grantees that best advance the national interest according to a set of predetermined performance measures. In return grantees would retain a high degree of flexibility with respect to how they used the funds. Finally, we called for funding to be more closely linked to performance through the development and implementation of better user-fee mechanisms.

Recognizing that the transition to a performance-driven system will be challenging and potentially disruptive, NTPP brought a group of industry professionals, stakeholders, and experts together in March 2010 to discuss what the next logical, incremental steps in such a transition might be. The group concluded that a cautious approach was needed and that the federal government could not immediately begin to hold grantees accountable for performance when adequate data or tools to evaluate performance were still lacking. However, we also concluded that several concrete steps could be taken immediately to begin moving things in this direction. Examples included piloting national performance measures with willing grantees and using asset management and safety programs to begin transitioning to performance-based programs.



## Changing Policy Trends

In 2007 many still assumed that Congress would eventually pass another large multi-year surface transportation bill. Previous legislation, including the successive “TEA” bills (ISTEA, TEA-21 and SAFETEA-LU) had always increased federal funding for transportation. Indeed, additional dollars had historically been used to gain support for new initiatives and ensure passage of the surface transportation program.

The political landscape has since changed considerably, and so has the expectation of continued funding growth. Several factors have contributed to this change, and many of them point to the fact that it will be extremely difficult, if

not impossible, to raise additional revenue in the near term for federal transportation investment:

- **Prolonged economic downturn.** The sharp economic downturn that began in 2008 has had several impacts on transportation policy and on the prospects for reform. First, revenues to the HTF have declined in real terms, in part due to people driving less and thus paying less in fuel taxes. Other HTF revenues have also fallen as a consequence of the economic downturn. Second, the focus for transportation spending, particularly in the American Recovery and Reinvestment Act, has been on job creation and shovel-ready projects rather than on reforming the existing program to achieve more sustainable, long-term benefits. Finally, the downturn and high unemployment have made it much more difficult to ask Americans to pay more in fees to fully cover the costs of maintaining or improving transportation infrastructure.
- **National debt crisis.** While warnings about the nation’s deficit and debt problems were emerging in the early years of the last decade, this issue has now risen to the level of a full-blown political crisis. In 2010 there were several high-profile efforts to develop solutions, including a BPC Commission, as well as a Presidential Commission, both of which recommended major changes in taxes and spending to put the country back on a sustainable fiscal trajectory. With the national debt as the top domestic policy issue, it is extremely difficult to generate support for increased spending on any federal program, even one—like transportation—that promises long-term economic benefits and overall cost savings.
- **Greater hostility to taxes.** The 2010 elections shifted the balance of political control in Washington, making Congress much more hostile to any increase in federal

taxes or in spending to stimulate the economy. This makes finding new revenue for transportation, which is not at the top of current national priorities, even more of a challenge.

Each of these factors has contributed to continued delay in passing a new surface transportation bill, which in turn has necessitated a series of extensions to expired federal surface transportation authorization legislation. When debates began on a future direction for new legislation, and as repeated extensions have been enacted, NTPP has consistently made the case for pressing forward with reform even in the absence of a long-term authorization bill. For example, substantial research could be done using existing research funds so that when the time is right for new legislation there is a better understanding of the data and tools necessary to successfully introduce performance measurement. But each extension of existing surface transportation law so far has been “clean” and has not allowed for any policy changes. The result has been no further progress toward articulating clear national goals or providing a better direction for research funding. This is unfortunate. Regardless of the overall funding situation, the United States cannot afford to delay the reforms needed to bring performance and accountability for results to our surface transportation programs.

## The Opportunity of Constrained Resources

The new reality we confront today is one of severely constrained resources for transportation investment. The HTF is solvent only because of infusions from general revenues, but using general revenues means more borrowing due to continued budget deficits. With growing

## Fewer dollars mean more pressure to spend each dollar wisely.

pressure on every aspect of government spending, the transportation sector will have to be nimble and learn how to survive with fewer federal resources.

NTPP recognizes that chronic underinvestment in our transportation systems has the potential to put American lives and America’s economy at risk, but that the current environment of fiscal austerity also creates opportunities for reform. Fewer dollars mean more pressure to spend each dollar wisely. Budget constraints can also help spur innovation by forcing a closer look at how to better leverage funds from non-federal sources.

But most importantly, constrained resources are the new reality. No matter how many commissions recommend increasing fuel taxes, or how many analyses conclude that increased transportation investment can pay for itself in the long-run, it is hard to imagine there will ever be enough to meet all investment needs and desires. The point is therefore to ensure that what is spent is invested more effectively and in a way that maximizes total system benefits. This report provides specific suggestions for how that can be done immediately.



## Chapter 2: Criteria for Prioritizing Transportation Investments

For several decades the model for federal surface transportation legislation has been to increase the size of the program with each re-authorization. This made it possible for most stakeholders to receive more money each year. Increased spending was supported by steady growth in HTF revenues as vehicle miles traveled (VMT) increased and by occasional increases in the federal fuel tax rate.

Today's situation is different. Leaders from both parties have made it clear that an increase in the motor fuel tax is highly unlikely (the tax was last changed in 1993). Even after the economy revives, revenues from federal highway user fees are expected to grow more slowly than in previous decades. Automobile fuel economy is increasing again and current federal mandates require the new car and light truck fleet to reach a combined fleet average of 35.5 miles per gallon by 2016. More efficient vehicles, a reduced rate of growth in VMT, and a continued transition away from gasoline as our primary motor fuel, inevitably means that the current highway funding mechanism will generate fewer new dollars than in the past.

General fund subsidies in the past two years have allowed the HTF to continue without cuts to highway and transit programs. For 2009, highways received about \$42 billion and transit received about \$10 billion in funds from the federal HTF while incoming revenue was roughly \$40 billion. Estimates show that future trust fund expenditures will need to be capped at between \$35 billion and \$40 billion per year starting in 2012 in order to avoid future general fund infusions. A lower funding baseline will mean tough choices when allocating funds across programs.

To more effectively focus federal programs, it will be important to articulate the federal interest in national transportation spending in a clear and compelling way. Federal spending on transportation must not only go further to advance a more focused and better defined set of national purposes, it should be designed to maximize total investment from all levels of government and the private

sector. Specifically, the U.S. Department of Transportation (U.S. DOT) and/or Congress could actively promote highway and transit funding at all levels of government by making changes—to both the federal program structure and federal policies—aimed at:

1. Moving toward a more performance-based and self-sustaining federal program with explicit national goals
2. Expanding opportunities and actively encouraging increased state, local, and private investment in transportation and more sustainable, user-based funding sources

The goals and performance measures developed for the 2009 NTPP report were intended to be applied to proposed or implemented arrays of projects and policies. For example, they could be used to evaluate an urban area's proposed program of transportation investments. Or they could be used to evaluate a state's progress towards improving performance over a certain period of time. They were not originally intended to be used to evaluate the existing federal program.

For this report, NTPP used the national purposes and performance measures developed for the 2009 report to decide which programs should be cut, modified, or combined. In this section, we discuss how goals and performance measures were translated into specific criteria for evaluating existing programs. We also discuss the criteria used to evaluate how well existing programs leverage non-federal sources.

### Economic Goals: Economic Growth, National Connectivity, Metropolitan Accessibility

The economic performance measures recommended in NTPP's 2009 report included accessibility (for work and non-work trips), network utility, and corridor congestion.

## Energy and environmental goals must be integrated into the larger transportation decision-making structure.

None of these measures are easily predicted, existing programs are clearly directed toward a national transportation system. Even though a national program clearly targets a national program, that the federal government has funded, maintained. By contrast, Transportation Economic Ranking support investments that are in the national interest, it is not targeted to infrastructure that is part of a national system.

to demonstrate whether existing programs advance the nation's economic interests:

- 1. Part of a Nationally Connected System.** Programs are clearly directed toward a national transportation system. Even though a national program clearly targets a national program, that the federal government has funded, maintained. By contrast, Transportation Economic Ranking support investments that are in the national interest, it is not targeted to infrastructure that is part of a national system.

- 2. Require a National Perspective.** Programs that may not fund a national system but address needs that fall squarely within the federal government's jurisdiction or responsibilities. Often these are programs that could not exist without federal participation and that involve scale economies or long-term national commitments. For example, roads in national parks may not be part of a nationally connected system and they may not serve a vital economic interest, but maintaining these roads clearly requires federal support and commitment.

- 3. Focus on Preservation.** Given that it makes sense to prioritize fixing and improving the operations of existing infrastructure over building new infrastructure. This echoes a theme from the 2009 report, wherein we proposed dedicating all federal funds to infrastructure preservation. Otherwise there is the risk of

### Energy and Environmental Goals

<sup>2</sup> All federal funds to Transportation Investments and Economic Growth. Bipartisan Policy Center, January 2011. <<http://bipartisanpolicy.org/library/research/transportation-investments>>

surface transportation programs are not intended to reduce petroleum consumption and CO2 emissions and may in fact work against both objectives. For example, programs to increase highway capacity could arguably increase gasoline consumption and emissions. At the same time, other programs that may be implemented, at least in part, on the basis of their energy or environmental benefits, may not actually be accomplishing either objective very cost-effectively (although they may provide other benefits). For example, even though transit programs could theoretically be saving fuel and reducing emissions, it is unclear how well they are doing so measured against their cost.

NTPP has consistently taken the position that energy and environmental goals must be integrated into the larger transportation decision-making structure. Traditionally in transportation, they have been addressed through programs like Congestion Mitigation and Air Quality Improvement (CMAQ), or as an explicit goal of a narrowly targeted program or project (sometimes to the exclusion of other transportation goals). Rather than evaluate existing programs and their worth based on whether they advance national energy or environmental objectives, we recommend adding these goals into existing programs where possible. Therefore, programs that can also reduce petroleum consumption or CO2 emissions—and that can account for these benefits—should receive higher priority from a funding standpoint. By the same token, programs that are specifically designed to advance energy or environmental goals should be preserved only if they can also be held accountable for advancing economic and safety goals.

### Safety Goals

Like energy and the environment, safety is an overriding national objective. In contrast to those more recent concerns, however, safety has always been recognized as an essential component of federal transportation policy.

While not every program needs to explicitly advance safety goals, NTPP generally favors integrating safety concerns into the decision-making process rather than having separate safety-focused programs. In other words, we should look for opportunities to preserve a focus on safety where it is already indicated, and include it in programs that do not recognize it explicitly.

### Criteria for Leveraging Federal Investment

More resources are needed for transportation than are likely to be provided by the federal government. Therefore we have sought to identify options for legislative or executive action that could leverage scaled back federal resources to support progress toward the national goals previously discussed.

These actions should meet the following criteria:

- 1. They can demonstrably increase the overall resources available for transportation investment.** Any attempt to leverage additional revenue should be accompanied by analysis and measures of how much additional revenue is actually being raised.
- 2. They have minimal federal budgetary impact.** Given that we are looking at a reduced federal program, it is unrealistic to expect that the federal government can increase spending without some accountability that doing so would be expected to leverage additional non-federal resources.
- 3. They can be implemented relatively quickly.** In other words, these are actions that should be included in the next surface transportation bill.
- 4. They advance NTPP's proposed national goals.** No matter how funds are leveraged, if they are leveraged using federal resources then they should be used to the maximum extent possible to advance national goals.

All programs regardless of their level of contribution to national purposes, should be more accountable for demonstrating how they achieve national goals.

Using these criteria, we considered the following questions:

1. What features could be integrated into federal programs or what federally-oriented barriers could be eliminated or reduced to facilitate increased state, local, and private investment in transportation?
2. How could the federal program be revised to actively promote state and local initiatives and strategies that sustain or increase surface transportation spending? What can the federal government do to support a transition to more sustainable highway and transit funding mechanisms?
3. What policies and processes would need to be established or revised to support the implementation of some of the proposed initiatives and strategies?

### Applying National Interest and Leveraging Criteria to Existing Programs

To develop a proposal for specific, near-term reforms to the federal transportation program, NTPP applied the above criteria to all existing programs funded under current surface transportation authorization. For each program, we evaluated the potential to (a) advance national objectives and (b) leverage non-federal resources. Not surprisingly, we favor programs that advance multiple national benefits over those that may be focused on just one.

Running through this analysis is the idea that all programs, regardless of their level of contribution to national purposes, should be more accountable for demonstrating how they achieve national goals. Therefore, our proposal includes numerous changes to existing law that are designed to increase transparency, accountability, and the ability to make investment decision tradeoffs. While getting to the ideal level of accountability may take more than one

authorization cycle, there are steps that can be taken immediately to advance down that road. These steps are identified in the next chapter.

Finally, NTPP's proposal makes several assumptions, two of which are particularly important. First, it is assumed that the level of federal spending for surface transportation will be approximately \$40 billion annually. This assumption is based on the level of projected revenues into the HTF, as well as on our sense of the political feasibility of changing current funding levels. Second, we assume a greater emphasis on formula over discretionary programs. Although NTPP's 2009 report called for an expansion of competitive discretionary programs, this recommendation is unlikely to be implemented at a time of limited resources and in the current political environment.

Even if our assumptions about the policy environment for the next several years prove wrong, the substance of these recommendations would be unlikely to change. Whether the funding available for surface transportation turns out to be more or less than \$40 billion per year, for example, we believe this work still provides useful guidelines for how to prioritize resources and should be applied in any event. Similarly, whatever the balance of funding between formula and competitive programs, it will still be important to determine which investments are most important from a national perspective.

The process of making hard decisions about transportation spending is not scientific. There is not the data or the resources to rigorously evaluate each of the hundred-plus transportation programs that currently receive federal funding. Regardless, we have sought through this exercise to highlight how national surface transportation policy and programs might be more effectively focused on achieving national goals and leveraging new sources of investment.



## Chapter 3: The NTPP Proposal

The existing federal surface transportation program should be consolidated to better focus on advancing defined national objectives, regardless of the overall funding amount. We propose a structure for upcoming surface transportation legislation that will more directly align federal resources with compelling national interests, and move the nation towards a more performance-based surface transportation system.

NTPP developed this proposal by using the criteria outlined in the previous section to evaluate existing federal transportation programs. These recommendations are consistent with recent calls for program simplification and streamlining from the leadership of the House Transportation and Infrastructure Committee, the leaders of the Senate Committee on Environment & Public Works, and from the president in his proposed FY 2012 budget. The analysis and recommendations discussed in this chapter (including all dollar amounts referenced in this proposal) are based on 2009 funding levels. Our recommendations attempt to fit the federal program as authorized for 2009 into a smaller, more focused effort with \$40 billion in total federal spending. While earlier work by NTPP and others supports higher levels of transportation investment, our proposal assumes that spending is scaled back to approximately existing revenue levels. We hope that this constraint gives added impetus to reform efforts and refocuses the existing program.

In the interest of brevity all 100+ existing federal transportation programs are not listed here.<sup>3</sup> Rather, we focus most of this discussion on the larger programs that received at least \$100 million of funding or more in 2009. If a program is not mentioned explicitly, it most likely falls below this funding threshold.

### Definition of National Goals

Before moving forward with any program cuts, consolidations, or other changes, Congress should first articulate the national goals of the federal transportation program. In the two years since the 2009 NTPP report was issued there have been numerous discussions, papers, and meetings about the details of reforming the federal transportation program to focus on performance. In all of these discussions one clear theme emerges: A program or policy cannot be performance-based without defining what is meant by performance. Until Congress clearly articulates national goals through legislation, it will be impossible to move towards a performance-based system.

Such goals have been enumerated before, typically in the preambles of authorizing legislation and as vague statements in press releases. This is insufficient. Goals must be explicitly stated in future legislation with the clear intent that over time federal grantees will be held accountable for achieving them. Even if grantees are not strictly held accountable in the next highway bill, there should be a defined path toward holding them accountable in the foreseeable future.

We developed this proposal around the five national goals articulated in its 2009 report: economic growth, national connectivity, metropolitan accessibility, energy and the environment, and safety. While we believe these are the appropriate goals, it is vital that Congress speak directly to this issue. Policymakers and the broader public need to have a conversation about what we are trying to accomplish with federal transportation funds—and ideally settle on a limited set of purposes that can best be accomplished through federal leadership. If Congress does nothing else in the next transportation bill, it should explicitly state the national goals of this program.

### Bringing a Performance Emphasis into the Existing Framework

Translating NTPP's long-term vision into a short-term proposal meant accepting several realities. An important one is that there is likely to be greater emphasis on formula funding than on competitive grants, at least in the near term. While NTPP accepts this reality, and it is reflected in the proposal below, this does not diminish the potential value of competitive programs. The current mutual mistrust that exists between the executive and legislative branches in terms of either's ability to objectively select projects in a way that optimizes national benefits should not be addressed by relying exclusively on formula programs. The growing proliferation of earmarks in recent transportation bills signals a lack of confidence on the part of Congress in the ability of state and federal agencies to make objective funding decisions. Concern about the evidentiary basis for legislative earmarks has recently been matched by Congressional concern about the objective merits of "executive earmarks" under the TIGER and passenger rail programs.

NTPP is confident that an equitable and efficient middle path can be found through the current impasse. We support a joint process whereby Congress articulates clear national interests and specifies broad performance criteria, and then oversees their rigorous, focused and objective application by funding recipients and the U.S. DOT. This approach builds on the most successful elements of the process used for the New Starts program,<sup>4</sup> a discretionary program that has been managed as a joint legislative-executive partnership in which Congress makes final appropriations decisions based on rigorous analyses completed by U.S. DOT using Congressionally-defined criteria to analyze funding applications.

Regardless, a greater emphasis on formula programs means that performance improvement will depend to a greater extent on reforms to the existing planning process. If the proposed approach is to be effective in making better use of scarce federal resources, then the "rules of the game" must change. This is why NTPP has not only called for an increase in the amount of funding set aside for planning, but for a reformed, streamlined, outcome-oriented and performance-based planning process that moves beyond box-checking to engage in real priority setting. This step is described in greater detail in the description of the planning program.

### A Diminished Federal Role

A program of approximately \$40 billion in annual investment implies a smaller federal role in transportation spending going forward. By contrast, the current program structure assumes an ever increasing federal contribution. This means that cuts to the federal program will necessitate several changes to existing regulations and processes.

These changes are described as:

#### Reduced Restrictions on Funding Tools

A smaller federal program means that states will have to play a bigger role. But if states lack the tools to fill the gap as the federal role declines, the result could be a large drop in performance. Thus, states must gain the ability to price their highways—including Interstates. In other words,

<sup>3</sup> Programs not mentioned here are listed in Appendix A, which includes a full list of additional programs which NTPP recommends cutting from SAFETEA-LU.

<sup>4</sup> Emerson, Donald and Ensor, Jeff. New Starts: Lessons Learned for Discretionary Federal Transportation Funding Programs. Bipartisan Policy Center, January 2010.

if the federal government is going to cut funding, it must lift current restrictions on how states can raise revenues. In particular, regulations that prevent states from raising revenues on the federal-aid network and creating their own innovative financing tools should largely be eliminated.

**Adjustments to Match Requirement**

Current federal program formulas typically call for an 80% federal and 20% state/local contribution on any given project. This ratio arguably discourages states and localities from pushing the envelope in searching for local revenue sources. A higher match requirement from grantees could incentivize greater state and local contributions.

However, a higher match requirement will also be a burden for many states and localities, especially those facing substantial fiscal problems of their own. This is why it is essential for any increase in matching requirements to be accompanied by a streamlined grant process (see below) and greater flexibility in terms of what counts as a match. Currently, every individual project has to include local match. NTPP recommends shifting to a system in which matches are evaluated on a program basis. For example, instead of having each project under the Highway Safety Improvement Program meet the 20% match requirement, we propose that the matching requirement only apply to the program as a whole (meaning that individual projects could have a local match above or below 20%, provided the 20% requirement was met overall). This will allow states much greater flexibility in meeting the match requirement. It will also reduce the burden on U.S. DOT to evaluate every individual project and instead allow U.S. DOT to review entire programs. A focus on programs rather than projects also fits well with the idea that we are funding a mode-neutral, performance-based transportation system, rather than a series of individual mode-specific investments.

**Streamlining of Processes**

The existing federal transportation program is built on process requirements for grantees. The planning program, for example, is largely about ensuring that grantees have gone through specific process requirements. But under a diminished federal program, it may no longer make sense to ask states to continue to go through such an elaborate process to receive federal funds.

Instead, NTPP takes the view that federal oversight should shift to an emphasis on outcomes rather than processes. This shift should apply to federal planning requirements and to others. An emphasis on outcomes will reduce burdensome regulations while increasing the ability of states and localities to be innovative in their financing and investment decisions. Such an approach is consistent with the idea that much of transportation decision-making involves bottom-up, local considerations. The current federal program has the hallmarks of a top-down approach because it was originally designed to create the interstate highway system. But with that system complete and a new smaller federal role likely, the role of the federal government should be to reward those local initiatives that maximize progress toward national goals.

**New Program Structure**

NTPP’s proposed new surface transportation program is outlined below and summarized in Figure 3. Each of these new programs represents a consolidation of existing programs under SAFETEA-LU. The table compares funding for these programs under SAFETEA-LU in 2009 and under our proposal.<sup>5</sup> A third column shows the percent change in funding proposed relative to 2009 funding levels for the unconsolidated programs.

The allocation of resources proposed in Figure 3 reflects the principles articulated in the 2009 NTPP report and

Figure 3: NTPP’s Proposed Federal Surface Transportation Program Funding Levels

New Program	2009 Funding	Recommended Funding	Change
Asset Management Program	\$20,677,600,127	\$20,000,000,000	-3%
Metropolitan Accessibility Program	\$12,034,873,542	\$11,000,000,000	-9%
Freight Improvement Program	\$967,650,000	\$2,350,000,000	143%
Safety Improvement Program	\$1,479,474,396	\$1,700,000,000	15%
Federal Transportation Program	\$1,555,217,640	\$1,600,000,000	3%
Rural Connectivity Program	\$526,250,000	\$800,000,000	52%
Federal Support for Supplemental Revenue	\$122,000,000	\$750,000,000	515%
Planning Program	\$442,466,565	\$700,000,000	58%
Data, Research, and Education	\$503,050,000	\$600,000,000	19%
Essential Access Program	\$390,500,000	\$500,000,000	28%
<b>Total</b>	<b>\$38,699,082,270</b>	<b>\$40,000,000,000</b>	<b>3%</b>

is aimed at delivering a more focused, mode-neutral, and performance-based federal program. However, it requires cuts in other programs to continue providing relatively stable funding for the major core programs while substantially increasing support for programs that leverage new resources and advance a performance foundation—all in the context of a much reduced overall federal budget for transportation spending. Specifically, our proposal calls for the outright elimination of several current programs for a total savings of more than \$14 billion. The programs we propose cutting are described later in this report.

**Programs to Be Cut (Savings)**

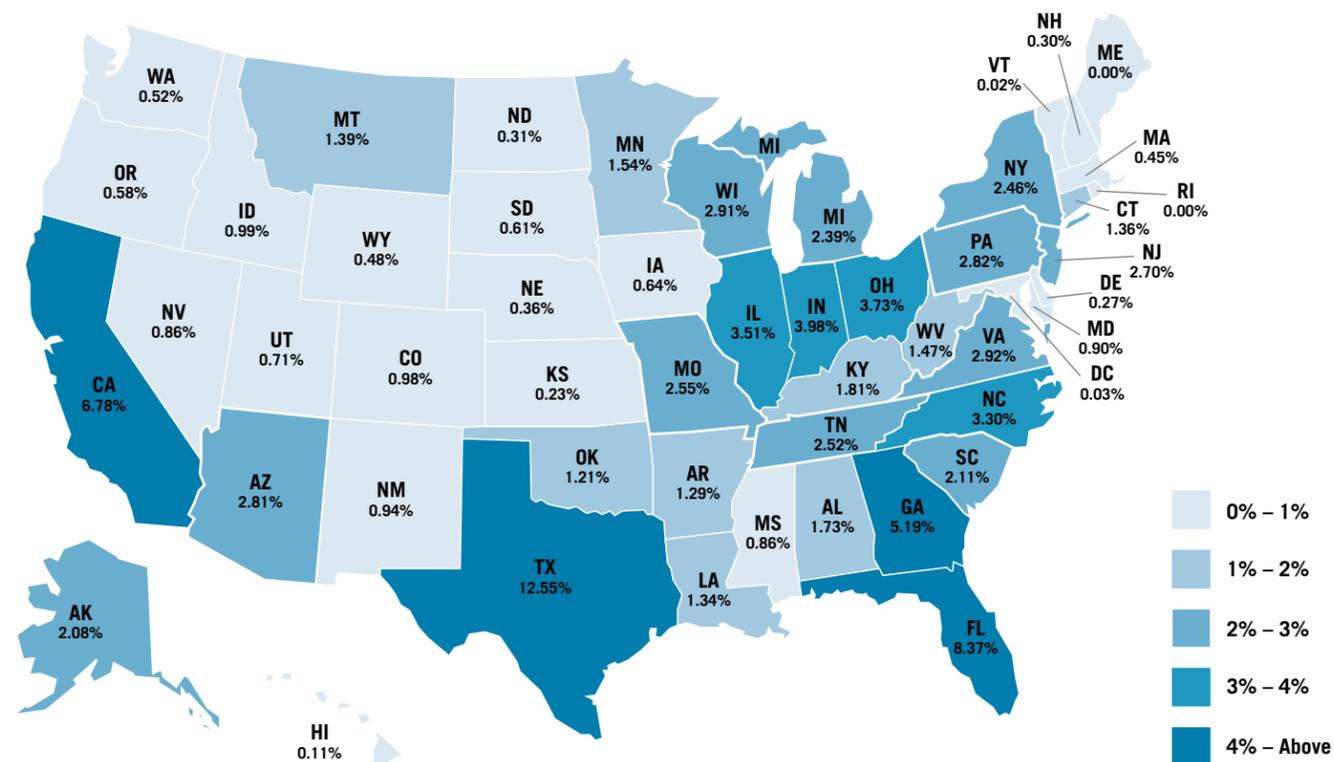
There are a few existing surface transportation programs that have no clear national purpose and yet spend billions in federal grant money. This does not imply that all money from these programs is wasted—in fact most of the funds from these programs are likely put to good use for worthy investments. But because of the way these programs are designed, there is no mechanism for ensuring that they are used for the most beneficial investments and more importantly, to advance national purposes. If there is no guarantee that funds are being used effectively, the federal government cannot assure accountability for taxpayer dollars. And if funds are being used for projects that are worthy, but purely local in nature, there is reason to question the efficacy of including these investments as part of a federal program. Figure 4 lists the programs NTPP is proposing to cut; an explanation for each of these cuts is provided in the next section.

<sup>5</sup> Note that NTPP used 2009 numbers because this was the last year of the original SAFETEA-LU legislation.

Figure 4: Programs to Be Cut Under NTPP Proposal

Cut Program	2009 Funding
Equity Bonus Program	\$9,093,265,575
High Priority Projects and Transportation Improvements	\$3,477,447,200
Other Programs <sup>6</sup>	\$1,010,060,000
Appalachian Development Highway System Program	\$470,000,000
<b>Total</b>	<b>\$14,050,772,775</b>

Figure 5: Percent Share of Total Equity Bonus Funding in 2009 by State



**Equity Bonus**

This program may be the most obvious example of a federal transportation program with no clear national purpose except returning HTF revenue to the states where it was raised. Admittedly, the program serves to balance the geographic distribution of federal resources and has been key to winning overwhelming bipartisan support for past transportation bills (Figure 5). But given the current scarcity of resources and the need for repeated infusions of general fund subsidies into the HTF, it is difficult to justify this program any longer, especially in light of the fact that it is the single largest (most costly) federal highway program.

Moreover, identifying where gas was purchased is a very poor proxy for assessing the geographic distribution of current transportation needs. Repealing this program entirely saves enough money so that Congress may well be able to keep all other programs at existing levels without raising new revenue.

It is true that without the Equity Bonus program or something similar, the politics of passing a new authorization bill become even more complicated. But if we are serious about reforming the existing program and targeting spending towards national purposes, there is no substantive justification for this program and it should be eliminated. Nonetheless, we recognize that eliminating this program will be very difficult politically. We therefore developed an alternative proposal in which the equity bonus program is retained. While that is not the course we recommend, it is instructive to see what a reformed program structure could look like if savings from eliminating the Equity Bonus program are not available.

**High Priority Projects Program and Transportation Improvements**

The High Priority Projects (HPP) and Transportation Improvements programs consist of specific projects that

have been earmarked for federal funds by members of Congress. While some of these projects may be in the national interest, giving grantees the flexibility to pursue these investments under programs that advance specified national purposes could both improve equity from a national perspective and establish meaningful accountability for performance.

Earmarking has become a conduit for steering federal dollars to many projects that otherwise would have been unlikely to receive funding. Our proposal to eliminate this program is premised on the idea that this will free up funds to be more effectively and equitably channeled towards national purposes.

Finally, NTPP recognizes that earmarks, like the Equity Bonus program, play an important role in getting the votes needed to pass transportation legislation. If earmarks are necessary to win support for a broader program that otherwise succeeds in directing funds to investments with strong national benefits, then earmarks may be a price worth paying. But as the overall program stands today, there is little policy justification for continuing either the HPP or Transportation Improvements program.

**Other Programs**

Many existing federal surface transportation programs serve purely parochial interests or very specific purposes—our plan would eliminate them. Of course, this does not preclude some elements of these programs being retained under new program headings in the reform proposal. But all told we found more than \$1 billion in annual spending on such programs that could be cut. These cuts are detailed in Appendix A.

<sup>6</sup> See Appendix A for a list of “Other” Programs.

**Appalachian Development Highway System Program**

This program’s stated purpose is “the construction of the Appalachian corridor highways in 13 states to promote economic development and to establish a State-Federal framework to meet the needs of the region.” While we strongly support economic development as a central goal for transportation investment, we have little assurance that this program is accomplishing this objective. More importantly, the Appalachian corridor highway network has by now been largely completed. Future transportation investments in the region will be funded under the consolidated programs in our proposal.

**An Alternate Proposal Including the Equity Bonus Program**

As noted in the foregoing discussion, we recognize that eliminating the Equity Bonus program to free up funding for performance-oriented programs with better defined national purposes will be politically difficult. Figure 6 presents an alternative allocation of resources if the Equity Bonus program is retained at a level of funding proportionate to its current share of overall transportation spending.

Figure 6 shows what happens if we include the Equity Bonus program and apportion the remaining funds to other programs using the same proportions as in our main proposal. Equity bonus retains the same percentage in our new program as it has under the existing program. Including Equity Bonus in the new NTPP structure would have a huge negative impact on the funding available for other programs, most dramatically on the Asset Management and Metropolitan Accessibility programs, which would see substantial drops compared to current funding. With Equity Bonus eliminated, funding for these programs would be largely unaffected.

As already noted, NTPP recommends eliminating the Equity Bonus program and instead focusing attention on programs that address areas of national interest. There was some justification for including Equity Bonus when the size of the national program was increasing and states were concerned that their share was growing at an equal rate. But with a smaller, more focused national program, Equity Bonus is hard to justify. When all can expect to see their funding levels cut, the concept of adding more money to bring everyone’s increase to a similar level doesn’t fit.

Our proposal, which eliminates Equity Bonus, flows from the logical application of principles articulated in the 2009 NTPP report to produce a more focused, mode-neutral, and performance-based federal program. Each of the ten programs included in our proposal is described below. In each case we explain which existing programs have been consolidated into the new program. Note that half of one program—the Surface Transportation Program (STP)—was consolidated into the Asset Management program, while the other half was merged with Metropolitan Accessibility. This approach made sense given the dual nature of the existing STP program.

For all of the programs included in our proposal we assume that current funding formulas will remain relatively unchanged. This will provide some measure of continuity and should reduce the political hurdles to passing legislation. Some of the programs described below hold particular promise for advancing a performance-based approach and for leveraging greater resources from state, local, and private entities. In such cases we have provided longer descriptions of how the program can accomplish these dual goals.

Consolidating existing core programs into a formula-based asset management program offers the opportunity to move toward a more performance-oriented federal transportation policy.

Figure 6: NTPP’s Proposed Program with Equity Bonus

New Program	2009 Funding	Recommended Funding	Change
Asset Management Program	\$20,677,600,127	\$16,552,306,896	-20%
Metropolitan Accessibility Program	\$12,034,873,542	\$9,103,768,793	-24%
Equity Bonus	\$9,093,265,575	\$6,895,386,209	-24%
Freight Improvement Program	\$967,650,000	\$1,944,896,060	101%
Safety Improvement Program	\$1,479,474,396	\$1,406,946,086	-5%
Federal Transportation Program	\$1,555,217,640	\$1,324,184,552	-15%
Rural Connectivity Program	\$526,250,000	\$662,092,276	26%
Federal Support for Supplemental Revenue	\$122,000,000	\$620,711,509	409%
Planning Program	\$442,466,565	\$579,330,741	31%
Data, Research, and Education	\$503,050,000	\$496,569,207	-1%
Essential Access Program	\$390,500,000	\$413,807,672	6%
<b>Total</b>	<b>\$38,699,082,270</b>	<b>\$40,000,000,000</b>	<b>3%</b>

**Proposed Programs**

**Asset Management Program (AMP)**

**Consolidates**

Interstate Maintenance, National Highway System, Bridge Program, ½ Surface Transportation Program,<sup>7</sup> Fixed Guideway Modernization

**Summary**

This consolidation of several core programs emphasizes NTPP’s commitment to a greater focus on preserving existing transportation assets and resources. This focus made sense even before we faced the current budget crisis, but it is even more important now. We are not the first to propose consolidating the large core highway programs, but we note that our proposed Asset Management Program also includes a Federal Transit Administration asset preservation program. The intent is to create a preservation program that gives states and metropolitan regions the flexibility to preserve

assets they judge to be priorities, regardless of mode. In this sense, our proposed program replaces the current STP program. Funds would be distributed using a formula that combines existing formula factors for each of these programs. However, the program also includes a set-aside to reward states that begin to report not only asset condition data, but information on performance and broader intended outcomes with respect to their federal investments. This will facilitate an eventual transition to a system that rewards improved performance with respect to defined national goals.

**Performance and Leveraging Potential**

Asset management is a consistent theme in previous proposals for a new surface transportation bill. The Obama Administration, in its’ budget for Fiscal Year 2012, has

7 All set asides from the Surface Transportation Program have been eliminated through the consolidation of this new program, including transportation enhancement activities; however, the eligibility for these activities under this newly proposed program remains intact.



proposed combining these same programs, minus Fixed Guideway Modernization, into a National Highway Program with a focus on asset management. In addition, the Administration has proposed creating a separate Bus and Rail State of Good Repair Program. We take the president's approach one step further by proposing a mode-neutral program and describing a specific route to making it truly performance-based.

NTPP proposes to create a mode-neutral asset management program (AMP) with a strong performance emphasis, including an incentive to leverage non-federal funding. NTPP's AMP would be a formula-based program with an incentive bonus to reward effective asset management by grant recipients. It would be paired with a reformed planning process, funded as a takedown from AMP (described later in this chapter). Although NTPP does propose specific formula factors, the AMP could effectively combine and refine apportionment factors from the existing Interstate Maintenance, National Highway System, Bridge, and Fixed Guideway Modernization programs to produce a focused asset management formula.

An improved asset management program and the proposed incentive bonus can be implemented only in conjunction with

a reformed planning process and research to develop the data, capacity, and tools necessary to measure performance effectively. Many states and metropolitan regions are already capable of measuring key performance indicators using existing tools and technology. We propose a reformed planning process later in this chapter. We also recommend that U.S. DOT work with states and metropolitan regions to establish appropriate performance measures for asset management and other federal programs.

#### Incentive Bonus

The AMP we propose would provide for an additional incentive bonus to reward effective asset management on the part of grant recipients. The incentive bonus would be phased in to begin rewarding states for performance, after Congress takes the initial and crucial step of directing U.S. DOT to define appropriate performance measures based on national goals. Initially states would only need to show, as judged by their peers and by the U.S. DOT, that they have an effective asset management strategy embedded in their planning process that accounts for these measures. However, they would soon need to begin reporting their performance in order to receive bonus funding. At some point in the future, the program would begin to award bonuses based on a state's actual performance compared to other states.

Consolidating existing core programs into a formula-based asset management program offers the opportunity to move toward a more performance-oriented federal transportation policy. The cornerstone of such a transition will be the inclusion of incentives that reward attention to preserving assets of national interest and optimizing the performance of existing highway and bridge systems. This means encouraging operational initiatives such as intelligent transportation systems and demand management techniques that can improve the performance of existing assets without substantial capital expense. Although grant recipients could only be rewarded for effective planning and

This program is largely intended to give states and metropolitan regions the ability to preserve the infrastructure and systems they already have.

reporting in the initial phase of the program, the aim would be to eventually reward states for performance, not only with respect to asset management, but across the board for all surface transportation programs.

The concept of a bonus program would be to reward grant recipients for using their asset management funds effectively by providing a 10% bonus on top of their formula distribution as an added incentive. The amount of this bonus could be increased over time, with less money being distributed by formula, as grantees become comfortable with the concept. States that fail to receive their bonus will see it redistributed to the other states by formula.

We have suggested a “three-rung” bonus program that could be rolled out slowly throughout the duration of the next authorization bill. The first step would focus on publishing information as a means to motivate grant recipients to maximize the returns on federal investments. Specifically, states could qualify for a bonus by collecting baseline data on all performance measures outlined in the planning process, and by publishing these data on publicly accessible websites.

The next rung of the bonus program would provide an incentive for grant recipients to move beyond reporting toward making decisions based on principles of asset management. To be eligible for a bonus, recipients would need to have a plan in place—subject to review by their peers and U.S. DOT—that prioritizes investments based on criteria related to national goals.

Finally, the last rung of the bonus program would require recipients to report progress against performance measures outlined by U.S. DOT. By this phase of the program we would expect that the performance measures will have been revised by U.S. DOT based on earlier feedback from grant recipients, which is the entire point of the “three-rung” roll-out. By this point, recipients should also feel much more

comfortable with reporting the requisite data, having had several years to get their tools and analytical frameworks in place. This sets the stage for an eventual transition to a system that awards bonuses based on demonstrable performance improvements.

#### Metropolitan Accessibility Program (MAP)

##### Consolidates

Half of Surface Transportation (STP) Program,<sup>8</sup> Congestion Mitigation and Air Quality (CMAQ), Urbanized Area Formula (UAF) Grants, New Starts, Small Starts, Bus and Bus Facilities, Value-Pricing Pilot Program, Ferry Boats and Terminal Facilities

##### Summary

NTPP identified metropolitan accessibility as one of five key national goals because of the national economic benefits metro areas generate. This proposed program would consolidate several existing programs that have a top-down focus on metropolitan areas to create a single, larger, outcome-oriented program. The new MAP would rely primarily on formula factors (consistent with those in the existing combined programs) to distribute funds. Similar to the existing STP, the new formula would distribute some funds directly to metropolitan regions. However, the program would also provide a set-aside to reward states and metropolitan regions based on how they use their formula funds. The aim would be to move metropolitan funding beyond the concept of merely investing in new capital infrastructure projects and towards more programmatic investments that emphasize a combination of capital investments, operating improvements, and policy changes.

<sup>8</sup> All set asides from the Surface Transportation Program have been eliminated through the consolidation of this new program, including transportation enhancement activities; however, the eligibility for these activities under this newly proposed program remains intact.

## A component of connectivity is ensuring access across all geographic areas.

The new program we propose would not provide a specific competitive pot for large capital projects. But there is also nothing to prevent the funds within this program from being used to support major long-term capital investments in new systems across modes, and there are certainly places where that will be appropriate. Nevertheless this program is largely intended to give states and metropolitan regions the ability to preserve the infrastructure and systems they already have. Public transit alone has a deferred maintenance backlog that, according to some estimates, already totals more than \$75 billion.<sup>9</sup> Preservation must be a focus of the federal program.

### Performance and Leveraging Potential

Existing programs aimed at improving transportation in metropolitan regions are either formula programs that direct funding to individual metropolitan regions with little accountability for national goals, or discretionary programs that provide funding for specific types of capital projects. The MAP would continue to use formulas to provide some funding directly to metropolitan regions. But this new formula program will be entirely mode-neutral and accompanied by a reformed planning process intended to provide greater accountability. This tradeoff of greater flexibility in return for an improved and performance-based metropolitan planning process should help encourage more innovative and multimodal ideas, using existing technology and data solutions, for solving transportation problems.

A portion of MAP funds will be set aside for a performance bonus program that rewards innovative, programmatic metropolitan transportation investments. Unlike discretionary programs that target specific projects—in the way that the New Starts program, for example, targets rail transit—this new set-aside program will provide flexible funding as a reward for using other MAP funds in ways that advance national goals. States and metropolitan regions will submit applications for the MAP bonus funds based on what they

have achieved using their original MAP funds. Rewards could be provided on the basis of the following types of considerations:

#### ■ Level of Non-Federal Investment

States and metropolitan regions that come to the table with their own revenue sources should be rewarded with additional federal revenues through the MAP bonus program. This means that part of MAP's success will depend on the loosening of certain restrictions regarding states' abilities to raise transportation-related revenues. An obvious example is the restriction on imposing tolls on interstate highways. Because these facilities frequently pass through metropolitan regions, states and metropolitan regions should be permitted to use tolls to generate needed revenue streams.

Another example involves joint development around transit stations. This kind of development can generate significant revenue for transit agencies, but may face hurdles if the facility being redeveloped (such as a parking facility) was originally constructed using federal funds. While the Federal Transit Administration (FTA) does encourage the incidental use of property (such as air rights), it also requires an in-kind replacement for assets that are disposed of prior to their useful life, effectively making many such initiatives cost-prohibitive. These requirements should be waived in cases where an agency is committing the resulting revenues to transportation investment. Meanwhile, states and metropolitan regions that use development opportunities to effectively generate new revenue should be rewarded through the MAP bonus program.<sup>10</sup>

#### ■ Use of Variable Pricing

There is almost universal agreement among transportation planners and transportation economists, as well as among liberal environmentalists and conservative libertarians, that without appropriate pricing of our urban roadways,



it is unlikely we will be able to solve our metropolitan transportation problems. Capital investment, either in highways or transit, will not be sufficient to improve accessibility within large metropolitan regions. These are the same regions in which the majority of the American population lives and where the most economic growth is generated. Therefore it is in our national interest to encourage variable pricing, along with appropriate capital improvements, in these regions.

Pricing programs also offer a potentially large resource for states and localities to generate additional revenues for investment, while achieving other goals such as reduced greenhouse gas emissions, lower congestion, and more efficient use of the transportation system. New York City nearly implemented a Manhattan-based pricing program and other jurisdictions have explored similar approaches, but such initiatives face formidable barriers. These include implementation costs, lack of technical capacity, and low public/political support. Federal funding for targeted research or pilot projects (e.g., pricing pilot development grants) together with federal technical support could expand the viability of new pricing initiatives.

Under our proposal, MAP grants could be used to establish toll and other user fee collection mechanisms (as well as virtually any other transportation initiative). In addition, the bonus program will reward the use of grants in this manner. This way, grantees will continue to enjoy the flexibility they currently have under STP, but will have access to additional funds if they use MAP resources to advance leveraging and national performance goals.

### Freight Transportation Improvement Program (FTIP)

#### Consolidates

National Corridor Infrastructure Improvement Program, Coordinated Border Infrastructure Program, Projects of National and Regional Significance (PNRS), Truck Parking Facilities, Freight Intermodal Distribution Pilot Program

#### Summary

A strategic national freight transportation policy is needed to address our national interest in the efficient flow of freight across the country and through and between metropolitan centers. Effective freight movement is a cornerstone of our ability to compete in the global economy. Absent strategic investments, rising freight transport costs will create a drag on productivity, efficiency, and the nation's economic growth. Targeted policies and programs are needed to address the existence of severe freight bottlenecks in some parts of the country, and to provide the increased capacity to efficiently handle a projected doubling of freight traffic over the coming two decades. We propose combining a small, focused formula program with a larger results-optimizing competitive program to address these challenges.

The new program would combine multiple existing programs that currently have a substantial freight focus. U.S. DOT should be directed to develop and refine a performance-focused national freight policy so that both the formula and competitive components of the new program

<sup>9</sup> Rogoff, Peter. Remarks of May 18, 2010.

[http://www.fta.dot.gov/news/speeches/news\\_events\\_11682.html](http://www.fta.dot.gov/news/speeches/news_events_11682.html)

<sup>10</sup> For a comprehensive review of various options for improved value capture as well as reviews of many applications nationwide, see "Value Capture for Transportation Finance: Technical Research Report" CTS Project # 2009016, 2009017, 2009018 by Lari, Adeel, David Levinson et al (2009), University of Minnesota Center for Transportation Studies, Minneapolis, MN.

## Effective freight movement is a cornerstone of our ability to compete in the global economy.

can be targeted to address clearly defined national goals and priorities. This policy should address the scope of the core system/network, how priorities need to be assessed, and how success should be measured.

### Performance and Leveraging Potential

#### National Freight Strategic Plan

U.S. DOT should be directed to develop a National Freight Strategic Plan (NFSP) for Congressional review and action. The point of this coordinated effort within the Office of the Secretary would be to assure better targeting of formula funds and to assist states and regions in developing proposals for competitive funding that address major national priorities and yield the highest possible returns. Recently, the Government Accountability Office (GAO) conducted detailed reviews of the Projects of National and Regional Significance (PNRS), Border and Corridor programs,<sup>11</sup> as well as freight rail grants.<sup>12</sup> The studies found that neither process was effectively targeting investments to achieve the highest returns, and that awarded funds often have remained unspent.<sup>13</sup> GAO recommended that to enhance federal freight-related programs,<sup>14</sup> Congress should define the national and regional transportation priorities that the Federal Transportation Improvement Program (FTIP) is supposed to address. For example freight policy goals could be linked to trade policy targets. With these priorities in place, and an appropriate use of existing technology that can effectively measure volume, delay, productivity, and reliability, U.S. DOT can work to develop the NFSP.

As part of that effort, consensus is needed on how to define the national transportation system. Previously, NTPP called for Congress to appoint a bipartisan commission modeled after the Defense Base Closure Realignment Commission (BRAC) to analyze the parameters of a truly national core system and report back to Congress with specific recommendations. A wholesale re-examination of what is and what is not part of the federal surface transportation



system is needed and should include freight rail as well as ports and airports, in addition to an updated definition of the nationally significant highway infrastructure. While the BRAC model was relatively successful in objectively deciding which military bases to close, a quicker strategy could be for Congress to direct that U.S. DOT undertake such a reassessment—as part of the development of a national freight plan—and bring the results to Congress for consideration and action.

#### Formula Program

Federal dollars are best leveraged through programs that effectively address true national priorities and produce measurable national benefits. A dedicated formula program will incentivize all states to institutionalize routine analysis and strategy development to address the declining performance of our freight transport system. Formula funds will also retain a state match to help leverage federal resources and achieve maximum returns on investment.

FTIP formula factors should be based on existing factors for the Border and Corridor programs, PNRS, Federal Highway Administration (FHWA) data on critical intermodal connectors, and factors reflecting the economic significance of freight flows and bottlenecks in various states. One

quarter of the proposed level of funding for the FTIP funds would be distributed by formula, which would represent more than a doubling from current funding levels for the combined programs. The formula program should be accompanied by specific performance measures that can begin to measure program effectiveness so that states may eventually be held accountable for performance in this area.

Formula funding should be mode-neutral in order to facilitate a solutions-oriented analysis of alternatives and complementary multi-modal investments. Many of the most evident bottlenecks in the freight sector are the result of a history of mode-specific funding that left essential connectors between ports and inland distribution options, rail and truck, truck and distribution centers, and airports and trucks unaddressed and often ineligible for funding. These existing problems can only be effectively addressed by providing funding for investment in all freight sectors.

#### Competitive Discretionary Program

Federal freight dollars can be leveraged most effectively through an analytically focused competitive program. While benefits from freight investment may be substantial—indeed they may provide some of the highest returns of any transportation investments—the benefits are usually diffuse while costs are often predominantly local. This makes a competitive program the best way to incentivize states and regions to collaborate in identifying cross-border bottlenecks and proposing innovative and efficient strategies to achieve measurable results. Freight investments are lumpy by nature—they tend to involve large capital outlays to address specific bottlenecks. A formula program is designed to spread funding more evenly throughout the nation, but addressing major national freight priorities demands a strategy for making large investments in targeted locations.

A competitive freight program should be guided by analytical and selection factors that focus directly on ensuring that federal dollars are only subsidizing truly

national benefits. It should also establish a process to provide an evidentiary basis for assuring that non-federal and private partners make contributions commensurate with the benefits they receive. A program framework grounded in this type of analysis can help optimize the economic returns to federal investment. In the near term, competitive criteria outlined and published after a public proceeding for the PNRS can be applied to a new competitive program. Longer term, eligibility, criteria, and mechanisms for comparing proposals and setting priorities should be informed and improved by the development of the NFSP.

#### Safety Improvement Program (SIP)

##### Consolidates

Highway Safety Improvement Program (HSIP), Safe Routes to School<sup>15</sup>

##### Summary

NTPP's 2009 report identified safety as one of five core goals for national transportation policy. Under our proposal the former HSIP and its existing formula structure would be moved into a new mode-neutral safety program in which safety investments can be made on the basis of how much they reduce fatalities and injuries. This more performance-based program would utilize mostly existing data to reward states that achieve measureable safety improvements. It

<sup>11</sup> Surface Transportation: Clear Federal Role and Criteria-Based Selection Process Could Improve Three National and Regional Infrastructure Programs, GAO-09-219 February 2009.

<sup>12</sup> Intercity Passenger and Freight Rail: Better Data and Communication of Uncertainties Can Help Decision Makers Understand Benefits and Trade-offs of Programs and Policies, GAO-11-290, February 2011.

<sup>13</sup> GAO reported that as of December 2008, FHWA had obligated only 33% of the \$3.6 billion for projects.

<sup>14</sup> Designated in SAFETA-LU for the three programs—and that a number of states never even submitted applications for designated projects.

<sup>15</sup> All set asides from the Surface Transportation Program have been eliminated through the consolidation of this new program, including railway-highway grade crossings; however, the eligibility for these activities under this newly proposed program remains intact.



would eliminate forced set-asides for specific activities and instead focus on results across modes. Thus the former Safe Routes to School program fits in here well, as grant recipients could still use safety funds for that purpose if they so choose.

### Performance and Leveraging Potential

Although NTPP views safety as just one component of a suite of national goals, it is a logical place to begin transitioning to a more performance-based federal policy. Unlike other performance areas that will require new tools and intensive new data collection efforts, states have established safety data collection methods and are already held accountable to a limited extent by the federal government for delivering on safety outcomes. In fact the existing highway safety program already provides a framework for a performance-based program, so fewer reforms are required.

In 1998 the *Transportation Equity Act for the 21<sup>st</sup> Century* (TEA 21) required state plans to include specific strategies to increase safety rather than simply setting safety as a priority.<sup>16</sup> SAFETEA LU formalized these efforts in the Highway Safety Improvement Program (HSIP). To receive federal transportation funds through HSIP, states are required to submit a Strategic Highway Safety Plan (SHSP). The SHSP is intended to guide state investment decisions with a goal of lowering the number of injuries and deaths on public roads. The plans include safety outcomes, as agreed upon by transportation stakeholders at the municipal and state levels.

HSIP has begun the transition to an outcome and performance-driven highway safety program, but there is room to do better. We propose the following improvements:

#### ■ Outcome-Oriented Planning

HSIP tends to have an output rather than outcome orientation because performance measures are determined

by the states. This leads to the use of output measures that states have available, rather than driving toward uniform national outcome measures. Although the output measures are useful, they are not necessarily well matched with national safety goals. An outcome-oriented approach, similar to what NTPP recommended in our 2009 report, could greatly increase the utility of a new safety program by providing states with a useful decision-making framework for prioritizing investments and enacting policy changes. An outcome-orientation allows for a longer-term, more comprehensive and more systematic view of the issue and desired results; it also aligns better with policy objectives.<sup>17</sup> Such an approach can only be instituted if Congress defines national performance measures for safety and if the U.S. DOT works with states to ensure that they can effectively collect and report these measures.

#### ■ Competitive Program Structure

The existing HSIP structure does little to encourage competition or innovation and focuses instead on physical construction improvements. States set goals for safety improvements, which means they are likely to set goals they believe they can achieve without substantial innovation or political risks. However, many opportunities to improve safety involve policy changes rather than construction projects, such as changes in the enforcement of drunk driving laws, seatbelt laws, and driver's license requirements. Even capital improvements could be made more targeted and efficient, and perhaps cost less, if there were built-in incentives for innovation within HSIP. Thus, HSIP should be restructured so that states compete against each other for federal funding by demonstrating percentage improvements toward established performance metrics. Such a funding structure would give states incentives not only to prioritize safety investments, but also to think creatively about solutions for improving safety. Given the paucity of federal funds, a competitive program structure would allocate scarce resources most effectively.

Some of these benefits could also be achieved through a formula funding structure if states were awarded “bonus” funds based on the amount of progress made toward national safety metrics. For example, the state that has the largest percentage reduction in fatalities and injuries per capita would be ranked highest while the state with the lowest percentage reduction would be ranked lowest. Higher-ranking states would receive a greater proportion of bonus funding, which could be used for any transportation

### Existing highway safety program already provides a framework for a performance-based program.

purpose including but not limited to safety. States are likely to have concerns that a competitively structured safety bonus could create an uneven playing field, as states starting from lower safety levels could achieve greater percentage improvements than states that already have comparatively safer transportation systems. These concerns could be overcome by giving states that start from a higher safety baseline greater flexibility to transfer safety funds to other programs.

#### ■ More Flexible Framework

Within an outcome-oriented, competitive framework with defined national goals and performance measures for safety, flexibility is essential. It would allow states to focus on improving safety outcomes rather than meeting specific certification requirements. The overall result would be better safety outcomes on a national basis. HSIP currently allows states to spend 10% of their total funding on behavioral programs or on emergency service enhancements if they can certify that their surface infrastructure meets FHWA standards.<sup>18</sup> This requirement should be relaxed if the overall goal is improved safety and if that goal is

being monitored effectively. Similarly, the rail-highway grade crossing set-aside forces states to spend money on something that may or may not improve their safety performance. There is no need to designate funding for specific projects as long as these types of investments, including rail-highway crossings, continue to be eligible for federal funds. If states determine that improving rail-highway crossings is one of the best ways to meet a particular safety goal, such as reducing fatalities, they can choose to use their safety funds for this purpose. If not, they should have the flexibility to use their funds in the way they deem most effective.

### Federal Transportation Program (FTP)

#### Consolidates

Indian Reservation Roads, Indian Reservation Road Bridges, Park Roads and Parkways, Refuge Roads, Public Lands Highways, Administrative Expenses (highways and transit)

#### Summary

There are a few federal programs that serve a national purpose in the sense that only the federal government is equipped to operate them. These programs, all of which relate to specific federal responsibilities, remain intact in this proposal under the new FTP. The advantage of consolidating these existing programs is to differentiate them, as a group, from other grant programs that provide resources for federal assets.

<sup>16</sup> “Highway Safety Improvement Program Manual—FHWA Safety Program.” Home - FHWA Safety Program. Web. 2 July 2010.

<<http://safety.fhwa.dot.gov/hsip/resources/fhwasa09029/sec1.cfm>>

<sup>17</sup> Stecher, Brian M. et al. *Toward a Culture of Consequences: Performance-based Accountability Systems for Public Services*. RAND Corporation, 2010.

<sup>18</sup> “HSIP Funds 10 Percent Flexibility Implementation Guidance—FHWA Safety Program.” Home - FHWA Safety Program. Web. 22 June 2010.

<<http://safety.fhwa.dot.gov/safetealu/guides/guide122606.cfm>>

### Rural Connectivity Program (RCP)

#### Consolidates

Transportation Community and System Preservation (TCSP), and Formula Grants for Other than Urbanized Areas

#### Summary

NTPP identified national connectivity as one of five proposed national goals in our 2009 report. A component of connectivity is ensuring access across all geographic areas. This new formula program would provide funds to specifically improve connectivity to rural areas. It would essentially maintain, but increase funding for and make mode-neutral, the existing formula factors that are used to distribute funds through FTA to rural areas. The TCSP program would remain an eligible activity within the Rural Connectivity Program. Aside from shifting to a rural focus, this FHWA program would maintain its existing mission of providing funds to improve connections between communities.

### Federal Support of Supplemental Revenue (FSSR)

#### Consolidates

Transportation Infrastructure Finance and Innovation Act (TIFIA), Existing Technical Assistance

#### Summary

In light of looming federal budget constraints, the federal government needs to do more to facilitate, incentivize, and reward sustainable state, local and private funding streams. We propose a more substantial and comprehensive set of loan and other financing assistance programs than currently exist at U.S. DOT. FSSR would be a suite of programs dedicated to maximizing the potential of federal resources to leverage non-federal resources. This effort could form the basis for a broader initiative to establish a consolidated national infrastructure bank or similar delivery platform.

### Performance and Leveraging Potential

The new program structure NTPP proposes could greatly enhance the ability of the federal government to support state, local, and private funding in a way that advances national transportation goals including the national interest in sustainable non-federal funding. The essential features include three distinct but complementary steps:

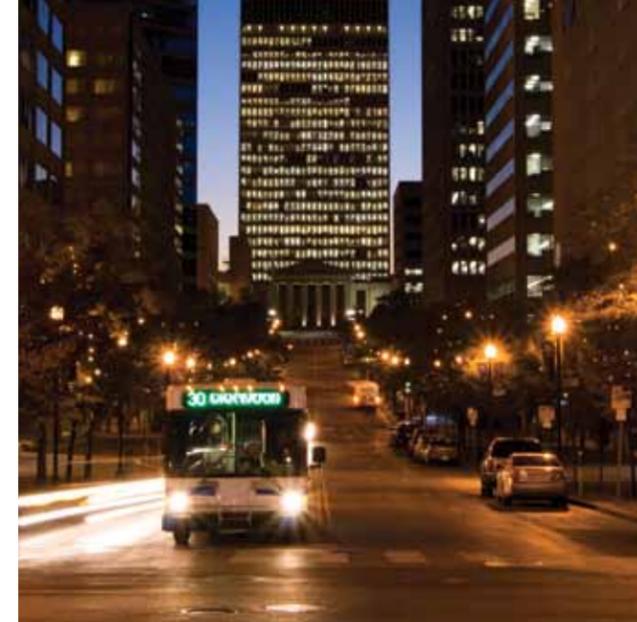
- Removing barriers to non-federal investment, in particular barriers to tolling and pricing;
- Expanding and improving TIFIA and other financing tools to support revenue-generating projects; and
- Rewarding the generation of sustainable revenue and investment by non-federal entities.

Before discussing each of these elements, it is important to voice caution about expecting too much from innovative financing measures (such as TIFIA). First, financing does not represent new revenue. Whether in the form of TIFIA loans or tax-preferred bonds or private equity, financing tools all require underlying revenue to repay the debt incurred or to provide a return on equity. Second, these measures must be carefully designed to supplement and not supplant other (non-federal) investment.<sup>19</sup> If expanded too precipitously, these initiatives risk undermining the objective of increasing leverage.<sup>20</sup>

#### Removing Current Barriers to Non-Federal Investment

##### Supporting Innovations in Tolling and Pricing

In order for states to be successful in developing sustainable revenue streams for their surface transportation investments, current limitations on tolling the existing interstate highway system should be largely removed. In many states, and particularly in large metropolitan regions, tolling is a potentially viable mechanism for improving performance by managing congestion and for generating increased transportation revenues that could



be used to back project financing, including TIFIA loans. However, federal restrictions and requirements associated with tolling existing facilities limit the potential for this revenue stream, as do the constraints to U.S. DOT's capacity to approve tolling proposals in the context of current discretionary pilot programs. Allowing tolling by states and metropolitan regions would give them access to the capital markets for toll-backed tax-exempt debt as well as taxable debt and equity. In addition, the tolling provisions for Interstates could be conformed to policies for federally-assisted non-Interstates designed to protect users and allow any residual toll revenues to be used for other surface transportation purposes (after meeting the operating and capital requirements of the tolled facility).

#### Relaxed Federal Requirements for Certain Projects

In certain cases, private interests may be willing to invest in transportation facilities, such as making improvements to an existing highway, infill transit stations, or other expansions when they can benefit from resulting higher property values. In these circumstances, federal requirements that restrict state and local governments or authorities from capturing some portion of the value created by these public investments should be eliminated.<sup>21</sup> Currently, if a project is funded even in small part through federal dollars, all federal requirements have to be followed, and some of these serve as a barrier to private investment. Establishing a threshold beneath which federal requirements could be relaxed would facilitate additional private investment in transportation facilities. Of course, projects that receive federal support in the form of credit assistance should comply with the same rules and requirements associated with federal-aid grant funding. These requirements should be relaxed under this program when federal credit assistance is repaid with non-federal dollars.

### Expanding and Improving TIFIA and Other Financing Tools to Support Revenue-Generating Projects

#### Expanding and Improving TIFIA

The TIFIA program is currently funded at \$122 million per year (SAFETEA-LU authorization level), which typically supports about \$1.0 billion to \$1.5 billion per year in nominal credit assistance. At this funding level, there is far more demand for loans or guarantees from this program than can be accommodated under the current funding cap. The new program should be substantially increased in size, by a factor of four, to potentially support \$4 billion to \$5 billion per year in credit assistance. This would require annual subsidy funding (budget authority) of \$450 million.<sup>22</sup> For the \$450 million subsidy, over \$11 billion of total investment could be supported (assuming average 40% TIFIA share) or about \$13.6 billion (if the TIFIA share remained at the 33% share limit).

Beyond additional funding, program reforms could further enhance the leveraging potential of this credit program. Potential reforms include making contingent commitments for large programs; providing development phase advances;

<sup>19</sup> This has long been a topic of scrutiny—specifically whether federal funds may have the unintended effect of displacing or substituting for non federal funds. See an early review by GAO (“Transportation Infrastructure: Alternative Financing Mechanisms for Surface Transportation Infrastructure”, <<http://www.gao.gov/new.items/d021126t.pdf>> and a careful evaluation of these issues by the National Surface Transportation Infrastructure Financing Commission <<http://financecommission.dot.gov/>>.

<sup>20</sup> In particular, these measures can inefficiently subsidize and distort what should be largely “market-based” investment decisions if the federal subsidy is too generous (such as by making the federal financing share too large or by combining the financing assistance with large amounts of capital grants) or when “creditworthiness” requirements are weakened.

<sup>21</sup> See “Value Capture for Transportation Finance: Technical Research Report” CTS Project # 2009016, 2009017, 2009018 by Lari, Adeel, David Levinson et al (2009), University of Minnesota Center for Transportation Studies, Minneapolis, MN

<sup>22</sup> This assumes the TIFIA program's historical average subsidy rate of about 10%, meaning \$450 million of subsidy funding could support about \$4.5 billion of lending activity each year, or four times the current level. Increasing target funding levels substantially beyond this level, given the pace and quality of projects in the pipeline, creates a risk of reducing the creditworthiness of projects, increasing de facto subsidies, and undermining the very objective of better leveraging scarce federal funds.

increasing the maximum share of project financing, under strict conditions, to 49%; and eliminating the non-subordination provision for projects receiving less than 33% of project financing from the program (especially those with more secure revenues and higher credit ratings). The leveraging impact of this program—when managed properly—can be substantial.

The TIFIA program could also benefit from a clearer link to national priorities and goals. The U.S. DOT does attempt to go well beyond technical eligibility and credit requirements when implementing the TIFIA program currently—for example, by evaluating whether federal loans will be used to further certain national policy goals. However, national goals, as mentioned earlier, have not been well-defined. Moreover, having begun as a narrowly-targeted loan program intended to help major projects gain access to the capital markets for most of their financing needs, TIFIA is more oriented toward assessing project risk and providing niche financing. Requiring accountability for advancing broad national policy goals is legitimate given that federal money is being used—therefore a better definition of “national significance” is required to justify the federal credit subsidy. But the new program should continue to focus on credit-worthiness and on the market discipline afforded by requiring a significant non-federal (including private) co-investment.

#### **Expanding Pre-Development Assistance and Other Financing Options**

In addition to the enhanced federal loan program (TIFIA), we recommend a new program to provide technical and pre-development assistance to increase the number of sound projects in the pipeline and to develop new financing tools in the form of tax code incentives to further stimulate infrastructure investment. Tax incentives could include an expanded and more flexible Private Activity Bond program, a new Public Benefit Bond program modeled after the highly effective Build America Bonds, and a new Qualified Tax Credit Bond program. There is also a role for a



reinvigorated State Infrastructure Bank program and several other streamlined initiatives.

#### **Toll and User Fee Technical Support and Discretionary Federal Funding Assistance Program**

Well targeted grant funding of up to \$200 million annually should be made available to promote sound pricing projects. This new discretionary program would provide grants to assist in the development of new toll and other user fee projects. Initially, small grants could provide a means for agencies (or even the private sector) to pay for early project development and feasibility analyses. Such feasibility assessment (pre-construction) grants can be an efficient mechanism to help “prime the pump.” To preserve the quality of projects and prevent federal funds from supplanting contributions by others, however, a cost-sharing provision should be required—potentially no more than 50% grant funding from the federal government in such cases, and perhaps a nominal cap of \$10 million per project. A carefully structured assistance program could support the assessment and development of 10 to 20 potential projects of national significance per year.

#### **Targeted Tax Code Incentives<sup>23</sup>**

##### *Private Activity Bonds (PABs)*

The Secretary of Transportation is currently authorized to allocate bonds within a \$15 billion bond issuance volume cap to help finance highway and intermodal facilities that have private participation in their ownership or operations (Private Activity Bonds or PABs). The cost-effectiveness of PABs from the standpoint of project sponsors is highly dependent on Congress extending the holiday on the applicability of the alternative minimum tax (AMT).<sup>24</sup> At present, there is \$10.3 billion of available bond capacity

## The proposed FSSR Program would create a new program to facilitate and reward states and metropolitan regions that develop sustainable revenue flows.

in the PABs program, and while an expansion of the volume cap may not be immediately necessary, it should be increased or lifted to ensure sufficient capacity in the future. Further, the current policy is inconsistent with that for airport and seaport facilities, where there is no volume cap for PABs. Eliminating the AMT and reducing borrowing costs for infrastructure projects with private participation that benefit the general public, such as highway, transit and intercity passenger rail projects, is good public policy.

##### *Public Benefit Bonds (PBBs)*

Under the American Recovery and Reinvestment Act (ARRA), state and local issuers had the option between February 17, 2009 and December 31, 2010 to issue taxable municipal “Build America Bonds” (BABs) for governmental purposes (private activity or P3 projects were ineligible) and receive a 35% federal interest subsidy. Over the short duration of the program, over \$180 billion of BABs were issued,<sup>25</sup> with average savings of about one half of 1% on net long-term borrowing rates as compared to tax-exempt issues. Congress, however, recently decided not to extend the BABs program. The BABs program should be reestablished and expanded to cover projects with private participation that benefit the general public, such as highway, transit and intercity passenger rail projects (“Public Benefit Bonds”). Since most of these projects would otherwise be financeable through the tax-exempt market, including the Highway/Intermodal PABs program, Public Benefit Bonds would incur little additional cost to the U.S. Treasury over “regular” tax-exempt government bonds or private activity bonds.

##### *Qualified Tax-Credit Bonds (QTCBs)*

Qualified tax credit bonds (QTCBs) are intermediate-to-long-term taxable rate debt securities for designated capital purposes that are sold by state and local governments or other entities.<sup>26</sup> In lieu of cash interest, bondholders receive a tax credit that can be applied against the investor’s federal income tax liability, which essentially subsidizes the interest

costs a borrower must pay. Principal repayment is the issuer’s responsibility, using non-federal revenue sources.

While the interest rate on QTCBs is set by the market, the maximum federal subsidy is established daily by the U.S. Treasury at a level designed to allow the bonds to be sold at their face (par) amount, without interest cost to the issuer. In addition, unlike BABs, the purposes for which each category of QTCB can be issued are specifically targeted. Congress should establish a new QTCB category for major surface transportation projects in the approximate magnitude of \$50 billion, issuable over a five- to ten-year period.

##### *State Infrastructure Banks (SIBs)*

While some view the State Infrastructure Bank (SIB) program as somewhat ineffective because of its limited scope, it has, nevertheless, successfully demonstrated to

<sup>23</sup> Under current budgetary treatment, the cost to the Treasury of “tax expenditures” associated with tax incentives is not well understood or very transparent (for example, tax incentives intended to subsidize surface transportation investments are not directly paid for in the Federal transportation budget—either by the HTF or otherwise). At a time of great scrutiny of all government spending, including tax expenditures, there may be some merit in developing a mechanism for increasing the transparency and oversight of the costs to the Treasury of such provisions as well as their relative effectiveness in achieving specific national goals.

<sup>24</sup> Under the American Recovery and Reinvestment Act (ARRA), interest on PABs issued between February 17, 2009 and December 31, 2010 was not subject to the alternative minimum tax (AMT). With the expiration of the “AMT holiday”, it has been estimated that PAB issuers will pay a yield premium of approximately 0.70% per year. A compelling argument can be made that the AMT holiday could be permanently extended without material revenue loss to the U.S. Treasury. The reason is that PABs generally are not held by investors who pay AMT (the 0.70% yield premium does not adequately compensate a bondholder if the PAB interest is treated as fully taxable income, thus it is not an attractive investment for them).

<sup>25</sup> BABs appealed to categories of institutional investors that typically do not purchase tax-exempt municipal bonds because of their tax status, such as pension funds and life insurance companies.

<sup>26</sup> QTCBs differ from other federally-subsidized bonds such as Build America Bonds in several key respects. BABs were not volume-constrained, were designed principally to stabilize the market for general municipal bond issuers after it had been severely disrupted by the credit crisis of 2008, and could be issued for any type of general governmental projects through year-end 2010. In contrast, QTCBs are intended to provide a deep federal subsidy for certain specific sectors with high spillover benefits to the general public.



many states the potential benefits of providing incentives to local project sponsors to develop self-financing highway and transit projects. Through this demonstration, the federal SIB program spurred more than three dozen states to create their own state-funded revolving loan fund programs using just \$150 million of federal capitalization funding made available in the mid-1990s. States for several years were also authorized to designate a portion of their formula-apportioned federal-aid funds to capitalize their SIBs.

In the new fiscal environment, states should be allowed to continue to use a portion of their federal apportionments to further capitalize their SIB programs. Providing additional discretionary incentive capitalization grants could further incubate these state-level programs. Finally, lifting some of the federal restrictions on recycled funds could give states even greater incentives to work with localities to develop self-financing projects, thereby further leveraging of federal dollars.<sup>27</sup>

#### Rewarding Revenue Generation by Non-Federal Entities

In addition to and as a complement to the program elements discussed above, which would directly support new pricing projects, the proposed FSSR would create a new program to facilitate and reward states and metro regions that develop sustainable revenue flows. Several measures should be developed as part of the new program to directly encourage and reward state and local agencies that sustain or increase the net amount of non-federal funding they contribute to highway and transit investment.

#### Maintenance of Effort Funding Program

To reward jurisdictions for increasing non-federal funding, whether these funds come from private/user sources or public tax/fee mechanisms, it will be necessary to develop and apply a meaningful and equitable test to show that a non-federal partner or agency is truly sustaining or increasing its net transportation investment. Such a

methodology is known as “maintenance of effort” (MOE) test, and while it will not be simple to establish, this represents an important task for a substantially scaled back federal program. An MOE test or evaluation should be developed for formula-based programs, meaning that various complexities that stem from a number of basic elements of formula programs will need to be addressed. One issue will be assuring equitable treatment when more emphasis is intended to be put on preservation than new capacity, since tracking simple expenditure patterns would likely favor the latter. Measures may need to address the blurred line between capital and maintenance. Equity will also require accounting for projects that are extremely large in scale and scope, with expenditures that play out over long periods of time. Policies will need to address federal budget peculiarities that blur commitments (obligations) with “spending” (cash outlays). Establishing an MOE test that focuses on non-federal spending as a surrogate for sufficient investments for improved performance may offer promise but may also risk unintended consequences that will need to be mitigated. For example, it will be essential not to penalize states that are already raising high amounts of revenue for transportation. See Appendix B for further discussion of the scope of needed efforts to develop, apply, and refine a well performing MOE test.

We propose that up to \$100 million be made available to U.S. DOT under the FSSR program to develop measures, data, and tools to implement meaningful MOE tracking with

<sup>27</sup> Despite the potential value of these proposed program enhancements, it is important to note that unlike most water and sewer systems which are locally-furnished (as opposed to state-provided) and inherently structured with a relatively uniform user charge revenue system, transportation projects do not generally share these characteristics and thus the concept of “graduating” many projects from grants to low-interest loans is less widely applicable. A successful SIB program, therefore, cannot be expected to have as widespread an application as the State Revolving Fund (SRF) programs for water and wastewater facilities, but it is still a viable model to encourage expanded local investment.

sufficient reliability that it can be used to provide rewards and incentives to states and possibly other non-federal partners. This would include defining whether eligible uses for supplemental funds would be targeted to specific purposes as a further inducement or be treated as a broad block grant.

In addition, further programmatic incentives can be developed to reward states or metropolitan regions that demonstrate minimum MOE levels.

#### Preferential Treatment for Discretionary Program Awards

U.S. DOT could explicitly consider a jurisdiction’s overall maintenance of effort “score” as part of the selection criteria used to evaluate applications and make awards for all discretionary grant programs or for performance awards called for in the new core programs. A major advantage of this approach is that it would send a message that jurisdictions should be willing to increase non-federal program contributions to stand a better chance of receiving added federal financial assistance. This is essentially a variant on what has been perceived as “requiring” a higher non-federal share.

#### Programmatic Flexibility and Regulatory Relief

Jurisdictions could be granted greater programmatic flexibility or regulatory relief in return for achieving a given maintenance of effort “score” or for making a specified increase in their non-federal contribution to surface transportation funding. Such a program could be structured in a variety of ways, such as setting thresholds for gaining different levels of flexibility/relief or providing jurisdictions with a “menu of rewards” from which they could choose. State DOT’s could be offered the ability to waive compliance for certain federal regulations and policies (e.g., procurement requirements). A similar incentive could be established by adopting program level agreements to “de-federalize” certain projects with modest federal funding contributions.

#### State and Metropolitan Planning Program (SMPP)

##### Consolidates

Metropolitan Planning Program (takedown from core programs), Planning Programs (Metropolitan and Statewide), Alternatives Analysis Program

##### Summary

As noted in NTPP’s 2009 report, it is difficult if not impossible to imagine that the comprehensive reforms we recommended can be achieved without substantial and fundamental changes in transportation planning processes and institutional structures at the metropolitan and state levels. We need a planning process that is comprehensive and strategic, and empowered to recommend the investment of constrained federal resources in a manner that is both targeted and outcome-oriented. This type of reform is even more important in the context of the program simplification and consolidation recommended in this report.

It will be difficult to transition from the current federally mandated planning process to one that emphasizes goals, outcomes, and accountability. However, there are incremental steps that can be taken in the intermediate term to begin moving to a more comprehensive approach to planning—an approach that will enable better and wiser capital investments and operational improvements.

In the long-term the federal transportation planning process should be structured in a way that prioritizes strategic capital and operating programs. A reformed process would target investments, incorporate performance measurement, and instill accountability, as essential elements. The federal planning program should prioritize federal, state, and metropolitan partnerships as the means by which national surface transportation programs are most effectively implemented. Long-term reform of the federal planning process in this manner will enhance the possibilities for wiser and better targeted—and therefore, more beneficial—investments of federal resources.

It is difficult if not impossible to imagine that comprehensive reforms can be achieved without substantial and fundamental changes in transportation planning processes.

In the short term, given that most federal surface transportation funding is likely to take the form of formula grants, broad discretion should be exercised by states and metropolitan regions in shaping programs that will be supported by federal grants. Federal funding should support national goals and purposes that are developed and articulated by Congress. Specifically, NTPP recommends that the federally-required planning process enhance opportunities for the wise investment of constrained federal resources in programs and projects that bring the greatest benefits and returns in terms of national economic, energy, environmental, and safety goals.

This new planning program will make strategic capital and operating programs, targeted investments, performance measurement, and accountability for outcomes essential values of the transportation planning process. Federal-state-metropolitan partnerships in national surface transportation programs will also be a core value of the process.

#### Performance and Leveraging Potential

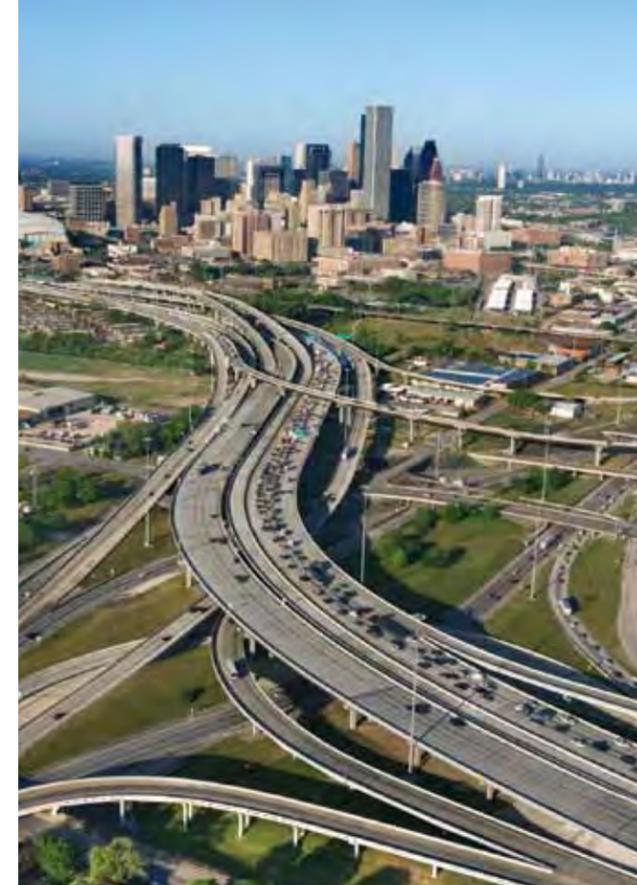
With some exceptions the transportation planning process that exists today at the state and metropolitan levels does not support strategic, performance-based, and accountable programming and decision-making. There is often no clear connection between transportation plans and strategic and targeted investments and systems management decisions. Too often, metropolitan and state transportation plans, heavily dependent on federal surface transportation funds, merely consist of lists of “ready-to-go” and/or locally politically driven projects with no reference to national goals or purposes. Neither the overall plans, nor the projects they envision, are required to demonstrate that they represent the “best” or most appropriate investment of effort and resources whether in terms of return on investment or benefit-cost analyses.

The federally mandated planning process is layered with requirements, the result of years of accommodating the desires of various stakeholders. In many ways, processes and requirements, rather than strategic outcomes, seem to have become the end as well as the means of transportation planning. Each federal surface transportation authorization bill has added new planning requirements, without assuring that these requirements will lead to better investment and operating outcomes. Moreover, the existing process does not provide the data and information necessary for good decision-making, nor does it achieve results that advance national interests.

#### Data and Analytical Improvements

The next transportation bill should lay the foundation for moving toward a performance-driven approach to the planning process. To that end, the federal government should provide incentives to states and metropolitan regions to put in place performance measures or metrics that will allow for the prioritization of investments and operational improvements. Such metrics should demonstrate that federal funds will be and have been used to achieve progress toward national goals. This may include greater use of pricing and other innovative information technology systems.

A successful performance-based planning process depends on reliable and consistent data and information and enhanced analytical tools. Therefore, one goal of a reformed transportation planning process should be to encourage state agencies and metropolitan organizations to track, on an ongoing basis, how investments and actions within strategic programs have contributed to achieving national goals and purposes and have generated benefits and returns. This can be accomplished through the development and collection of timely, reliable, and relevant performance data.



#### Programs for Improved Planning Processes

Planning at the metropolitan and state levels should not only be about capital investments, but also about the role of operations management and pricing policies in influencing demand. U.S. DOT should work with states and metropolitan regions to provide guidance on improving transportation planning and capital programming processes. Analysis and evaluation of the results of various approaches should be used to inform future federal planning requirements (whether by statute, regulation, or guidance) and to improve state and metropolitan planning and programming through peer exchanges and technical assistance. This approach builds on, and should be modeled after, the approach we outlined in the Asset Management Program (AMP) section of this report.

It is probably neither possible nor appropriate to introduce new federal planning requirements, applicable to all states and metropolitan regions, in the next authorization bill. Such broadly applied planning laws and/or regulations, carrying with them the possibility of penalties or the risk of non-funding, might not only arouse resistance but also could lead to unintended consequences. Variations in planning and programming from region to region and from state to

state are to be expected and should be welcomed because a diversity of approaches will encourage innovation. Reforms in the planning process should allow for differences between states and regions and encourage innovation and experimentation in planning and programming.

#### Supplemental Planning Grants

Supplemental planning grants can help to improve state and metropolitan planning processes. To qualify for these funds states and metropolitan regions should be required to continually demonstrate improvements, such as greater collaboration across traditional modal, agency, and jurisdictional lines; programmatic, as opposed to project-based, planning; and innovative solutions to complex transportation problems. Supplemental incentive grants would, in the initial phase of this program, encourage (rather than require) effective planning processes, including rewarding collaboration across state lines to develop programs that serve multi-state corridors.

Certain planning processes—such as the requirement that transportation plans be fiscally constrained—are already effective. Incentives for planning, including scenario planning to explore the linkages between land use planning and capital investments, can foster accountability for the achievement of national goals.

## A focus on metrics and data collection will immediately improve the coherence and value of current research efforts.

### Data, Research, and Education (DRE)

#### Consolidates

Surface Transportation Research Program, Training and Education, Bureau of Transportation Statistics (BTS), University Transportation Research, University Centers Program, Intelligent Transportation Systems, National Transit Database, National Research Programs, Transit Cooperative Research, National Transit Institute

#### Summary

We propose a new consolidated research program that will move from a large number of closely interrelated but disparate programs that are currently scattered across different departments and include a heavy reliance on earmarking, toward a targeted research agenda that is designed to accomplish specific goals. As efforts are made to emphasize performance and accountability across the entire program, the overriding goal of research, data, and education efforts should center on developing and applying the information and tools needed to aid states and the federal government in the move towards a more performance-based federal program. This proposal aligns with a number of proposed initiatives and research priorities identified in the president's FY2012 Budget Proposal for Research and Innovative Technology Administration (RITA), FHWA, and FTA. Examples include a focus on performance data and tools, freight statistics, Intelligent Transportation Systems (ITS), and a competitive University Transportation Centers (UTC) program focusing on multi-modal research.

This new research program will integrate the overlapping and interrelated research and data collection activities that are currently dispersed across the FHWA, FTA, and RITA. Although more than \$1.2 billion in research is theoretically being coordinated by RITA, virtually every major policy analysis or evaluation of federal surface transportation programs begins and ends with concerns about the limitations of available data and the inadequacy

of information to support the decisions being made about how and where to invest public resources.<sup>28, 29, 30</sup> While every program needs to include a data collection component to support effective programming, results analysis, and future improvements, the current dispersal of data, research, and education programs undermines effective coordination and inhibits the strategic use of scarce research and data-collection dollars.

Total FY09 funding for the programs NTPP recommends consolidating in this report was just over \$500 million dollars. The recommended funding level for these combined activities is \$600 million, recognizing that while some savings may be obtained by consolidation, it is imperative to build a solid foundation for a more performance-based and accountable surface transportation program.

#### Performance and Leveraging Potential

A well-targeted data, research, and education program is in many ways the single most important component of a strategy to improve the impact and effectiveness of federal transportation spending, particularly at a time of severe resource constraints. These efforts hold promise for supporting more evidence-based, informed and effective investments in the future. Many players and participants will be involved—both within U.S. DOT and, more importantly, across states, metropolitan regions, universities, and research and engineering firms. Specific components of this program are:

#### Performance Data Research and Capacity Building Program

Following the release of our 2009 report, NTPP sponsored research and an intensive expert workshop to develop an effective strategy for managing a transition to a performance-based system.<sup>31</sup> Results from the workshop pointed to the importance of comprehensive and collegial research and trial efforts in developing true outcome-based performance measures.<sup>32</sup>

A critical first research priority is to conduct a baseline inventory and assessment of where we are as a nation in terms of having the institutional capacity and data collection techniques to begin making the transition to a performance-driven system. Together these inventory and evaluation baseline studies will help us understand the timeline, resources, and strategies needed to bring about the full-scale development and implementation of a truly performance-driven transportation system.

Concurrently, federal research funds should be dedicated to developing tools for establishing metrics and collecting data. Such tools would assist policy and decision makers at all levels of government in better understanding and refining a performance-driven framework, and in building the necessary institutional capacities. Some of this research and development can be done at the federal level, but substantial efforts can also be undertaken in partnership with states and universities. A focus on metrics and data collection will immediately improve the coherence and value of current research efforts, which have more often been driven by geography and politics than by a programmatic emphasis on developing the tools to support better planning and decision-making.

#### Performance Measurement, Planning and Implementing a Pilot Program

An essential step in advancing viable and robust, but implementable, performance-based reforms is to support a pilot program for experimenting with and refining new metrics with a small number of willing states and metropolitan regions. The focus should be on supporting more rigorous testing of national goals and performance measures. If the aim is to develop measures that can begin to capture, for instance, the linkages between transportation investments and larger national outcomes such as economic growth,<sup>33</sup> then ongoing development, testing, and refinement of data and methodology will be needed. The pilot program should explore new tools for assessing

outcomes, integrating these assessments into the planning process, and applying the results to develop an integrated mix of projects and policies that effectively advance national goals like promoting economic growth, energy and environmental sustainability, and safety.

Evidence from a recent RAND study<sup>34</sup> of domestic policy programs that have tried to move toward performance-based accountability suggests that performance-based reforms should be introduced cautiously and in a staged manner that allows for pilot testing, partial implementation, and ongoing adjustment. This approach would reduce the risk of locking in rigid measures or targets until they are well refined and tested. Otherwise poorly designed performance-based accountability systems could create unintended incentives to “teach to the test” or otherwise distort investment decisions.

28 National Surface Transportation Policy and Revenue Study Commission, 2007, p. 6-27.

29 “How We Travel: A Sustainable National Program for Travel Data”, NCHRP, 2011 available at [bit.ly/TRB-How We Travel](http://bit.ly/TRB-How We Travel). Also see multiple GAO reports, TRB studies; Data for Decisions: Requirements for National Transportation Policy Making (TRB Special Report 234), 1991 (specific cites to be added).

30 “Transportation Research Program Administration in Europe and Asia”, International Technology Scanning Program, July, 2009. P.2.

31 National Transportation Policy Project. Workshop Summary Report: Transitioning to a Performance-Based Federal Surface Transportation Policy. Rockefeller Conference Center, Bellagio, Italy. Bipartisan Policy Center. March 16 – 20, 2010. <http://www.bipartisanpolicy.org/library/report/transitioning-performance-based-federal-surface-transportation-policy>

32 A notable example is the need for a full scale National Household Traffic Survey—not updated for over 15 years despite the critical evidentiary foundation the data provides for understanding current traffic flow and evaluating the potential benefits of alternative modal and operational improvements.

33 National Transportation Policy Project. Strengthening Connections Between Transportation Investments and Economic Growth. Bipartisan Policy Center, January 2011. <http://bipartisanpolicy.org/library/research/transportation-investments>

34 RAND Corporation. Toward a Culture of Consequences: Performance-Based Accountability Systems for Public Services. Santa Monica, CA: 2010.

## The limitations of the current fuel tax as the primary mechanism for funding the nation's transportation program are becoming increasingly evident.

### National Freight Plan and Analysis and Recommendation of Core National Freight Network

A fundamental component of the federal surface transportation reform agenda we have proposed is the development of a clear, accountable, and efficient national strategy for addressing current and future freight transport demand. This will require efforts to address major data and research needs.

One major hurdle to developing a national freight policy is the absence of a clear national consensus on how to define the current surface transportation “system.” The interstate highway network was laid out over 50 years ago and does not always align well with more recent development and trade patterns. In addition, the national highway system, which is broader and includes more of the de facto core national network system, is not a reliable proxy for critical freight flows since the system includes many facilities that provide primarily local benefits. The major limitation of either of these “system” definitions is that they only include highways, when the essence and strength of the nation's freight network is its many modes, nodes, and connectors including ports, freight corridors, and major distribution centers. A strategic national freight program requires a new, more comprehensive definition of what constitutes the core U.S. freight network.

Effectively integrating freight issues into transportation planning and investment decisions also requires a concerted education, training, and capacity development program. While a few regions have made important progress toward integrating freight considerations in their planning processes, it has repeatedly been documented that planners and decision makers need assistance in understanding—and communicating to the public—the vital importance of dedicating scarce public transportation dollars to improving the performance and reliability of the freight transportation

network. Additionally, because most major freight challenges span broad corridors, addressing them almost always requires new forms of collaboration and partnership across planning and political jurisdictions. A targeted education, training and capacity development program is critical to make inroads in these areas of complex political collaboration to address public and private interests.

### Research and Trials of More Sustainable, User-Based Funding Mechanisms

Consistent with recommendations developed by two commissions created under SAFETEA-LU and by NTPP in our 2009 report, the U.S. DOT should be directed to coordinate a set of strategic analyses and trials to test new, more sustainable revenue-raising options. While VMT-based fees face substantial technical and political challenges from an implementation standpoint, they can potentially provide operational benefits and better align incentives for efficient use of the transportation system than fuel taxes. Mileage-based user fees merit careful study and trials to assess their potential for correcting the growing inability of fuel taxes to fully capture the varying costs imposed by users of transportation infrastructure.

At the same time, other potential revenue mechanisms that move away from user-based fees should also be considered. Any examination of such mechanisms, including mileage-based fees, should include an analysis of whether they provide a viable platform for reforming transportation policy and investment in this country.

A new research effort should focus on several specific objectives:

1. Coordinating and assisting regional bodies and state and local governments that are committed to exploring improved user fees as potential mechanisms for raising revenue in the future.

2. Revitalizing effective federal-state partnerships in a sustainable funding system.
3. Developing strategies to assure the protection of privacy, income and geographic equity while also improving interoperability and preserving state flexibility.
4. Advancing national understanding and capabilities to implement more equitable and sustainable revenue mechanisms to support the use, maintenance, operations, reconstruction, and performance of the national transportation infrastructure network.<sup>35</sup>

Congress should direct U.S. DOT to initiate this new research program as soon as possible, regardless of the length or nature of the next substantive Congressional action on U.S. DOT funding and authorization. Such a program is critical to empower and support state and local governments that are already undertaking independent measures to develop a next-generation user fee system. The limitations of the current fuel tax as the primary mechanism for funding the nation's transportation program are becoming increasingly evident, and immediate action is needed to support efforts by states and regions that are already interested in and committed to testing a next generation of user fees.

### Core Data and Research Program

There are many remaining research, data and education programs and objectives that may not fit within the broadly defined priorities we have identified but that still merit serious federal support. Examples include the continued operation of the Transportation Research Board within the National Academy of Sciences, safety research, new materials, ITS operational applications, etc. While we support continued funding for these programs, we believe they should be consolidated and organized more effectively around clear objectives and priorities. This would mean combining overlapping and interrelated efforts being conducted by RITA, FHWA, and FTA.

In particular, problems with freight data—which are frequently inadequate, unreliable, incomplete, and outdated—have been repeatedly cited as a major barrier, even for states and local governments, to understanding how freight investment strategies could best be incorporated in project funding priorities and operations decisions. A major national push is needed to address these long-standing concerns and to develop a sound foundation for analyzing critical freight bottlenecks and identifying high-return investment opportunities.

### Essential Access Program (EAP)

#### Consolidates

Job Access and Reverse Commute (JARC) Program, Formula Grants for Elderly and Disabled, New Freedom Program

#### Summary

NTPP recommended a program similar to this new EAP in our 2009 report, in part because there are currently numerous separate programs that attempt to address transportation-related social equity concerns. A recent GAO study confirms that there are 80 existing transportation programs for the disadvantaged including several programs at U.S. DOT.<sup>36</sup> The proposed new EAP program consolidates two existing FTA programs that are intended to improve access for disadvantaged members of society. While a portion of this program should be set aside for the economically distressed and another portion for the elderly and disabled, both portions should be distributed in the manner prescribed by the existing JARC program.

<sup>35</sup> See RAND, NCHRP Web Only Document 161: System Trials to Demonstrate Mileage-Based Road Use Charges National Cooperative Highway Research Program which provides the best current assessment of how to conduct such trials and should be a resource for setting them up.

<sup>36</sup> Government Accountability Office. Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue. Report GAO 11-318SP, March 2011.

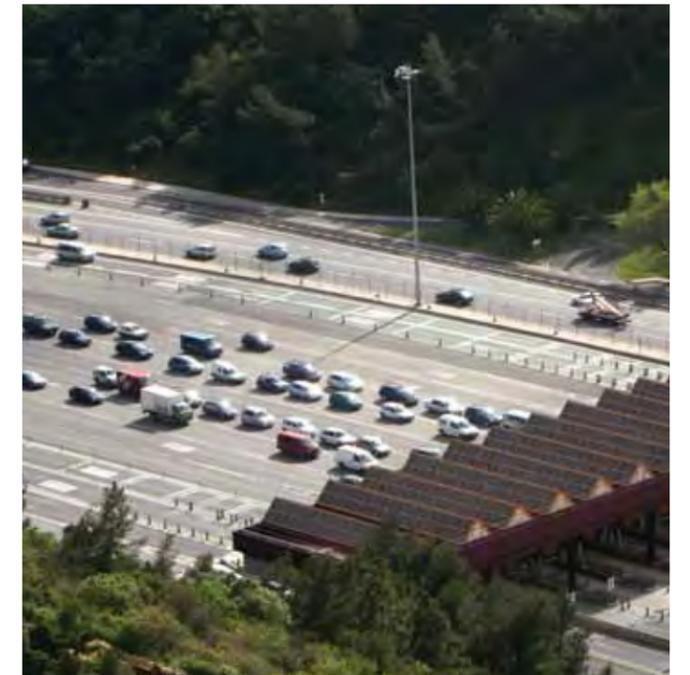


## Closing Words

In June 2009 NTPP articulated a vision for the future of surface transportation in the U.S. that is more performance-based, innovative, and accountable for results than that currently in place. The need for such a system is even more urgent today than it was in 2009. With limited resources and zero political appetite for increased public spending it is even more imperative that we ensure that whatever funding is available for transportation investment be used in ways that deliver maximum national benefits.

The program outlined in this report is consolidated, focused, and performance-based. By their nature, the recommendations contained in this report are pragmatic and immediately implementable. They represent steps that NTPP believes can realistically be taken in the current political environment to move toward a performance-based surface transportation system.

The politics of the current situation may change. But one thing that is certain not to change is the imperative to make transportation investment decisions armed with the best possible analysis of potential returns on investment. Anything less will compromise our nation's long-term competitiveness and prosperity. Emphasizing wise investment in our transportation system is a concept that should permeate national debate and thinking on these issues—not just in the short run, but on a permanent basis.



## Appendix A – “Other” Programs

The table below lists all programs in the “Other” category that NTPP proposes be cut but were not specifically mentioned in the text of the main report. A decision to retain one or two of these individual programs would not have a major budgetary impact, but together they do amount to a substantial amount of funding.

Other Programs	FY 2009
<b>HIGHWAYS</b>	
Puerto Rico Highway Program <sup>37</sup>	\$150,000,000
Recreational Trails Program	\$85,000,000
National Scenic Byways Program	\$43,500,000
Deployment of Magnetic Levitation Transportation Projects	\$30,000,000
Nonmotorized Transportation Pilot Program	\$25,000,000
Highways for LIFE	\$20,000,000
Rail-Highway Crossing Hazard Elimination in High Speed Rail Corridors	\$15,000,000
Denali Access System Program	\$15,000,000
Highway Use Tax Evasion Projects	\$12,000,000
Delta Region Transportation Development Program	\$10,000,000
National Historic Covered Bridge Preservation	\$10,000,000
Going-to-the-Sun Road, Glacier National Park, Montana	\$10,000,000
Grant Program to Prohibit Racial Profiling	\$7,500,000
Work Zone Safety Grants	\$5,000,000
Multimodal Facility Improvements	\$5,000,000
Road User Fees Field Test - Public Policy Center of University of Iowa	\$3,500,000
America’s Byways Resource Center	\$3,000,000
Great Lakes ITS Implementation	\$3,000,000
Additional Authorization of Contract Authority for States with Indian Reservation	\$1,800,000
Pavement Marking Systems Demonstration Projects in Alaska and Tennessee	\$1,000,000
National Work Zone Safety Clearinghouse	\$1,000,000
Operation Lifesaver	\$560,000
Road Safety (Data and Public Awareness)	\$500,000
Bicycle and Pedestrian Safety Grants (Clearinghouse)	\$500,000
<b>TRANSIT</b>	
Growing States and High Density States Formula	\$465,000,000
Clean Fuels Grant Program	\$51,500,000
Alternative Transportation in Parks and Public Lands	\$26,900,000
Over-the-Road Bus Accessibility Program	\$8,800,000
<b>TOTAL</b>	<b>\$1,010,060,000</b>

## APPENDIX B – Approaches to Developing a “Maintenance of Effort” (MOE) Test to Reward Sustainable State Funding

If federal highway-related programs remain dominated by formula structures, it will be important for U.S. DOT to adopt flexible MOE tests as part of any effort to assess whether an agency is meeting the “spirit of sustainable funding.” By contrast, it would be counter-productive to establish a rigid approach that fails to accommodate appropriate exceptions and unique considerations or (worse) creates barriers and disincentives to certain types of funding initiatives and approaches.

Given both the intended purpose of a new MOE test and the level of funding and other incentives that could potentially be at stake, a more complex and comprehensive test will need to be developed that deals with several important considerations:

- How could a test fairly treat agencies that have just recently increased or are currently in the process of increasing their non-federal funding mechanisms?
- How should increases from non-recurring funding sources be treated (e.g., extra general fund appropriations from a state legislature)?
- What non-federal spending should be considered as part of an agency’s MOE?
- Should an MOE test focus on maintenance of tax rates (and thus effectively exempt declines in net funding levels due to economic cycles) or simply focus on net non-federal transportation spending?
- How should the test account for the unique revenue raising capabilities of different jurisdictions?

In light of these considerations, the development of an MOE test should be built around three objectives. First, the focus of the test should not be to create a paper drill that entities can manipulate in their favor, but rather to clearly show that a state or local agency is making a good faith effort

to sustain and/or increase its level of non-federal surface transportation investment. Second, the test should be as straightforward, transparent, and flexible as possible. Third, the application of the test and the implementation of related initiatives must avoid creating unwanted consequences, such as erecting barriers to one-time funding opportunities or other types of worthwhile funding initiatives that create spending spikes.

To best achieve these three objectives, a two-tiered test could be established. The first level of the test could be binary (i.e., pass/fail): it could focus solely on an entity’s capital expenditures and would simply aim to establish whether an entity has sustained or increased surface transportation funding. This could be based on one or more of the following tests, depending on an agency’s unique funding structure:

- Maintenance of Tax Rates – For entities where dedicated revenue sources are used to fund all non-federal capital expenditures, an MOE test could simply assess whether (1) all applicable tax rates and fees have been maintained or increased from the prior year and (2) that all of the associated revenues from those sources continue to be dedicated to capital investments.
- Total Capital Funding – For all entities, and particularly those that use general fund or other non-dedicated revenue sources for some or all of their capital spending activities, a test that compares current-year capital spending to prior years could be applied (perhaps similar to the multi-year average approaches used for the Toll Credit Program MOE Test).

<sup>37</sup> Cutting the Puerto Rico Highway Program is done under the assumption and recommendation that formula programs distribute funds to Puerto Rico in a similar manner to which funds are distributed to states.

- **Comparative Funding Effort Analysis** – Entities could chose to be evaluated relative to one or more national benchmarks, such as per capita non-federal spending, non-federal spending per lane mile, non-federal spending per million vehicle miles traveled (MVMT), or non-federal spending as a percent of GDP (formulae could even be established to incorporate multiple considerations). For example, a state that does not pass one or both of the first two tests might still be considered to meet the spirit of sustainable funding if its per capita, non-federal capital surface transportation spending is in the highest quartile for all states.

Entities that pass any of these first-tier tests could be considered to be meeting the general spirit of funding sustainability. And for programs or initiatives where the magnitude of funding increases would be relevant, the results from these tests could be used to inform associated decisions (e.g., amount of grant awards or level of preference provided). Entities that do not pass the “tier 1” test would then have the option to be evaluated by U.S. DOT on a more detailed, subjective basis. The intent of this process would be to ensure that entities that meet the spirit of sustainable state and local funding but that have unique circumstances that prevent them from passing the tier-1 test, are not unduly penalized. Several additional factors might be considered as part of a tier-2 test:

- **Inter-jurisdictional Transfers** – State and local agencies frequently share revenue sources or otherwise transfer funds from one to the other. For example, many states allocate a portion of their fuel tax revenues or other dedicated highway funding sources to cities and counties. The question is how a change in transfers should be treated for MOE purposes. If the federal goal is sustainable transportation funding at all levels, and the resulting change in transfers does not decrease the total



non-federal funding committed to transportation (i.e., the additional funds transferred from one entity to another are not then diverted for non-transportation purposes), the change should not affect an agency’s MOE status.

- **Operations Spending** – Determining what types of operational spending should and should not be counted as part of an MOE test could prove difficult. While a strong argument can be made that shifting funding from capital construction to activities such as basic highway maintenance or running traffic operations centers is consistent with the spirit of sustained highway funding, the relationship of spending in other areas such as law enforcement, multi-use buildings, and transit operations subsidies is less clear. If spending on operations is to be considered part of the MOE test, clear guidelines will

need to be developed to define what is and is not counted as spending. It is important, too, to avoid a capital bias in state funding decisions.

- **Bonding** – Proceeds from bond issues and associated debt service costs could potentially have a negative effect on an agency’s MOE determination (e.g., a one-year spike in spending due to bonding might cause an agency to fail its MOE test in the subsequent year). Assuming agencies are using debt responsibly and efficiently, a methodology will need to be established to determine how bonding revenues and costs should be treated for purposes of an MOE test.
- **Short Term Funding Initiatives** – While federal incentive programs should encourage state and local governments to adopt long-term, sustainable funding sources for transportation, entities should not be penalized for pursuing short-term funding solutions as well. In cases where an entity makes a one-time added contribution to transportation (e.g., a state with a budget surplus allocates general fund revenues for highways, a state DOT raises funds through an asset sale, or there are other forms of one-time private investment), it would be fairly straightforward and justifiable to negate the associated revenues for purposes of an MOE analysis. Ongoing ad-hoc contributions and multi-year funding initiatives that have a sunset date, however, will likely prove more difficult to deal with and guidance will be needed to define how associated revenues should be treated for MOE assessment purposes.
- **Performance Focus** – Finally it should be recognized that an MOE test may be considered a proxy for maintaining system performance, as opposed to maintaining non-federal funding. As the capacity for measuring system performance is refined an MOE test may be transitioned to a progressively greater emphasis on overall performance results.

- **Other Factors** – Jurisdictions may face other extenuating circumstances that might cause them to fail the tier-1 test, even though they are meeting the spirit of sustainable non-federal surface transportation funding. Examples might include a sharp economic downturn or major demographic changes. To address these or other potential eventualities, guidelines should be developed for incorporating unique factors into an entity’s MOE findings.

Implementing an MOE test and associated incentive programs will require significant policy development and capacity building. While the approach outlined above provides a good starting point, policy makers will need to adjust the approach based on a few key considerations:

1. In cases where incentives are provided for increased funding, is the intent to reward agencies for organic growth (e.g., increases in fuel consumption), increases in tax rates, or both?
2. Is the intent to only encourage increases to user fees, or is the addition of any new funding source (including non-user fees) considered desirable?
3. Is the focus on net new government revenue or on net new funding for surface transportation only?
4. Will the MOE test be used in conjunction with a shift from current non-federal project-level matching to program-level matching?

