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www.PWFinance.net
PWFinance@aol.com

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Performance-Based Transportation Policy

By Robert W. Poole, Jr., Director of Transportation Studies, Reason Foundation

A common theme has emerged in discussions of reauthorizing the federal surface transportation program. Besides the much-discussed problem of insufficient investment, we also face the serious problem of misdirected investment. This point was made eloquently by JayEtta Hecker of the Bipartisan Policy Center in recent testimony before the Senate EPW Committee (March 11, 2010). This has also been a key theme of the Policy & Revenue Commission (2007), the Mary Peters DOT report on reauthorization (2008), and a number of GAO reports.

In a nutshell, federal highway and transit funding is almost entirely formula-based, with little accountability for results (i.e., projects that actually achieve meaningful performance measures). Moreover, Congress earmarks increasingly large shares of both highway and transit funds for their pet projects, which often rank low on state and local priority lists. The solution put forward by all of the above is to replace some or all formula funding with (1) a performance-based approach, in which (2) mode-neutral funding is focused on (3) truly federal needs. That sounds great on paper, but my purpose here is to take a careful look at this formulation to see if it would really address the problem.

Let's look first at the idea of a "performance-based" approach to funding. Despite the dreams of some planners, we are not going to have a national board of wise and disinterested transportation wizards who define a top-down national transportation infrastructure plan and hand out funds only for projects that score highest on some set of performance metrics. I say this after watching a number of developments over the last several years.

SAFETEA-LU created a discretionary grant program called "Projects of National and Regional Significance (PNRS)," which many viewed as a prototype for the performance-based approach.

Every single project under PNRS was earmarked by Congress. And when the Mary Peters DOT created the Urban Partnership Agreement competition, using funding from a number of discretionary programs, outraged members of Congress from cities that did not win insisted on a GAO investigation and denounced the program in speech after speech.

More recently we have three examples from the Obama administration. The TIGER grants have been lauded by some as examples of "merit-based" selection. But if you look at the announced selection criteria, they are so vague and general that just about any kind of project could and did get selected—multi-modal goods movement, bike paths, streetcars, you name it. There was not a single quantitative transportation performance measure in TIGER. Then there is the Administration's policy change within the Federal Transit Administration, eliminating a previously required cost-effectiveness hurdle for New Starts funding. This was clearly aimed at permitting locally desired streetcar projects that have, if anything, a negative impact on traffic congestion, to qualify for FTA funding. And there is also the Administration's all-out support for large federal funding of high-speed rail projects based on no analysis, no outcome measures, and no benefit/cost requirements.

Examples like that make me very anxious about the idea of "mode-neutral funding"—the second plank in this reform agenda. In surface transportation, the only mode that currently generates net user-tax revenues is highways. So proposals for mode-neutral funding mean, in practice, that auto drivers and truckers will be tapped to pay for any number of projects that will not benefit them at all. Hecker was honest enough to acknowledge that this is a problem: "Adopting a mode-neutral approach to new investments will remain extremely difficult in practice as long as most of the funding is coming from one mode." But she went on to advocate doing so anyway.

This issue raises the question: Whose money is this? For the most part, state DOTs and governors consider the federal highway user-tax revenues as theirs, to be returned to their states to help them meet their surface transportation needs. Highway users, understandably, consider these funds as held in trust for their benefit by the Highway Trust Fund. But over the last several decades, the executive and legislative branches of the federal government have come to regard these monies as their own, to dispense as they see fit. While almost everyone still gives lip service to the idea that users-pay/users-benefit is a sound principle for infrastructure funding, that principle is directly at odds with "mode-neutral" funding.

What about creating user taxes for the other modes? How about a 10% transit-user tax and a 10% high-speed rail user tax, with the proceeds used to fund the federal share of those projects? You only need to spend a few minutes playing with real numbers on capital and operating costs to appreciate that such taxes would be a drop in the bucket for those modes. On the other hand, for creating intermodal connections for goods movement (ports, rail, trucking), it would be quite feasible to implement new port and freight-rail user taxes, along with the additional truck user-tax that industry is supporting (on condition that all revenues go for goods-movement infrastructure investments).

The third element of the reform agenda is one I support: refocusing the federal program on what is truly federal, rather than state or local. In a forthcoming Reason policy paper, I make the case that

interstate commerce and international trade are truly federal purposes, justifying continued federal investment in the Interstate highway system and other national goods-movement infrastructure, on a users-pay/users-benefit basis. If intercity high-speed passenger rail made any kind of economic sense, it, too, would be an appropriate federal purpose. But state highways, local streets and roads, urban transit, sidewalks, bikeways, etc. are decidedly not federal. Yet those calling for sweeping reform have been unwilling to say this, just when we need exactly that kind of line-drawing.

So where does all this lead us? While spelling out a complete revamp of the federal program is beyond the scope of this column, here are several guidelines. First, we must refocus and narrow the scope of the federal program to truly federal purposes. Second, we should strengthen—rather than undermine further—the very sound users-pay/users-benefit principle. Third, where federal funding does continue, we should insist that all such projects demonstrate a benefit/cost ratio of at least 1.5. And obviously, we should remove rather than increase federal obstacles to tolling, pricing, and public-private partnerships.

A new federal program based on those four principles would be performance-based in fact, not just in rhetoric.