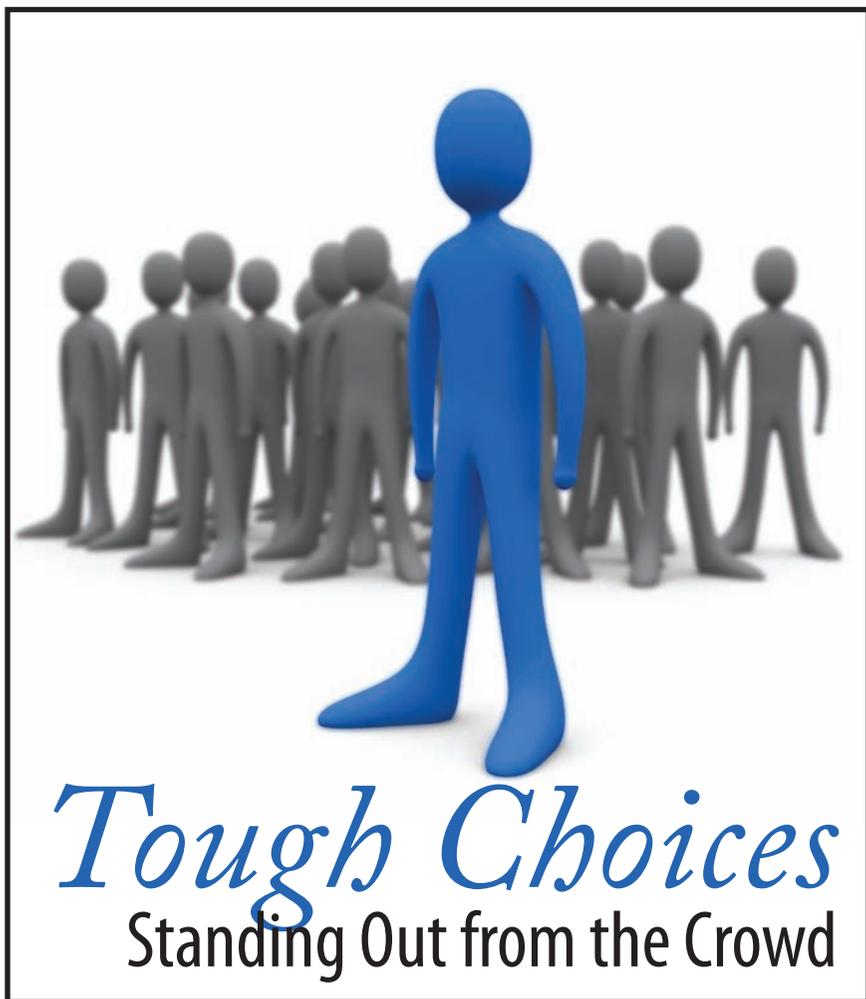


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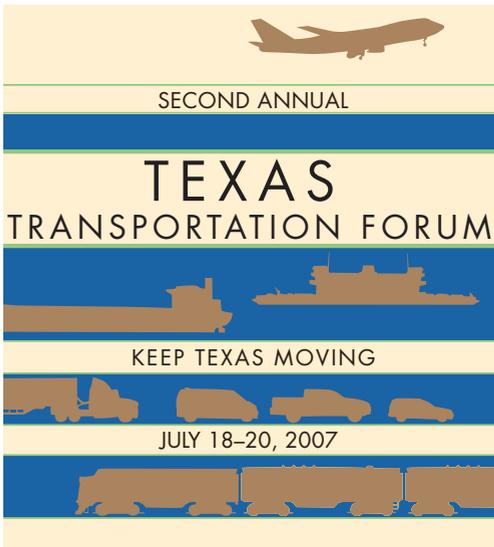
THE FUTURE OF TRANSPORTATION

A PUBLICATION OF THE TEXAS DEPARTMENT OF TRANSPORTATION

— SPRING 2007 —



Making Major Moves :: The Right Man at the Right Time ::
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THE FUTURE OF TRANSPORTATION

Courage is a trait we all value and admire, yet the most commonly held image is that of physical courage—a hero risking his life. But in public policy, there exists a brand of courage that also deserves recognition: the willingness of elected leaders to step in and do something when the choices are tough. These leaders refuse to allow unpopularity to prevent action on behalf of the broader interest. They are not content to simply talk about the major challenges of our time; they step forward and work to solve them.

In this issue, HORIZON profiles four elected officials who have demonstrated the will to change transportation policy. These leaders all faced the challenge of rising congestion and transportation funding shortages, yet they have chosen to take bold action to find ways to improve their transportation infrastructure. First, Indiana Governor Mitch Daniels proposed a daring plan to bridge the state's \$3 billion transportation funding gap by leasing the Indiana Toll Road to private investors. Next, Pennsylvania Governor Ed Rendell, facing his own billion-dollar shortfall, recently introduced a plan to lease the Pennsylvania Turnpike to fund overdue highway and bridge repairs. In California, the state with the country's most congested highways, Governor Arnold Schwarzenegger staked his political life on one of the state's largest infrastructure bond packages. Finally, this willingness to act is not limited to our own country: in the U.K., London Mayor Ken Livingstone fought off criticism to fulfill a campaign promise to tackle the gridlock that plagued central London, and his congestion charging plan has worked.

HORIZON appreciates the contributions of Phyllis Chandler-Gordon, John Sabala, Gretchen Stoeltje, and Dr. Michael Walton for providing this issue's profiles.

Also in this issue, On the HORIZON features a summary of last year's first annual Texas Transportation Forum. We offer this look back as we encourage our readers to register for this year's 2nd Annual Texas Transportation Forum, scheduled for July 18-20, 2007 at the Austin Hilton. Visit the Forum website at www.TexasTransportationForum.com for more details, including the preliminary agenda, hotel details, and registration information. Please join us and other transportation leaders from Texas and across the country for what is sure to be a lively and engaging discussion about the transportation policy challenges and opportunities facing Texas and the nation.

We hope you enjoy this issue of HORIZON and we welcome your comments.

Sincerely,



Michael W. Behrens, P.E.
Executive Director
Texas Department of Transportation



Making Major Moves: Mitch Daniels, Governor of Indiana

In 2001, when President Bush tapped Mitch Daniels to serve as director of the Office of Management and Budget, Daniels assumed what many believe is the second most powerful job in the U.S. government, with oversight of the federal government's \$2 trillion budget. As OMB director, Daniels prepared the federal budget, reviewed all significant federal regulations before they became law, and was the only cabinet member who also served on the senior White House team. Daniels developed a reputation for reining in excessive government spending and was both lauded and criticized for his attempts to instill fiscal discipline in Congress, a message not always well-received.

But it was his return to his home state of Indiana in 2003 to run for governor

where Daniels faced his greatest political challenge—enactment of his “Major Moves” plan. Major Moves is a 10-year, statewide transportation plan consisting of 200 new construction and 200 major preservation highway projects. It was not Daniels’ commitment to build Indiana’s long-promised transportation projects that generated controversy, but rather his innovative proposal to finance those projects by leasing the 157-mile Indiana Toll Road (ITR) to a private investor.

THE DUTY OF STEWARDSHIP

Governor Daniels describes the state government he inherited as one where dysfunction and inefficiency were rampant.¹ As the governor describes it, since most government service providers were not subject to a competitive bidding process, they were unmotivated

to control costs or enhance services, and thus delivered an imperfect service to the ultimate customer, the taxpayer. Turning his attention to transportation, Daniels found that this was the same case with the Indiana Toll Road, a tolled east-west highway that runs across the northernmost part of Indiana. It was the perfect opportunity for Governor Daniels to apply one of his trademark approaches to government reform—the “Yellow Pages” test: if you can find a service there, maybe government shouldn’t try to do it itself.²

Daniels says that the inspiration for revitalizing Indiana’s transportation system came during a barbeque in western

Indiana while campaigning for governor. A long-time highway department employee referred to the state’s many planned and promised transportation projects as a joke on the taxpayers, blueprints for development that would never break ground. Daniels saw this not as a dilemma but as an opportunity.

In economics, there exists a school of thought known as “dead capital,” a term coined by economist Hernando de Soto in which he describes a languishing asset whose full value is not being realized or enjoyed by its owners or users. According to de Soto, liberating this potential is essential to economic prosperity. Daniels saw Indiana’s transportation projects not

as “dead,” but rather as dormant, partially developed assets that simply needed a capital infusion to grow to completion.

He believed that these roadway projects, once finished, could be a tool for economic development, something Indiana’s anemic economy badly needs as it has been slow to recover from the declines in the manufacturing sector over the last 20 years.

. . . most government service providers . . . delivered an imperfect service to the ultimate customer, the taxpayer.

In 2005, shortly after taking office, Governor Daniels requested an assessment of the dormant projects and discovered that, but for a \$2.6 billion funding shortfall, these roads could be moving goods and people through the “crossroads of America” within 10 years.³

Independent estimates placed the value of the ITR, if left in state hands, at \$1.6 billion, assuming future politicians would raise tolls in line with inflation. But employing his “Yellow Pages” reform approach, the governor discovered that to a private operator, Macquarie Infrastructure Group of Sydney (Australia), the road was worth \$3.8 billion as a leasehold. Inarguably, this was more than the state would make by operating the ITR itself, and too large an amount for Indiana to refuse. In exchange

for a \$3.8 billion upfront payment, the state would cede operation of the ITR for 75 years to a consortium made up of Macquarie and a Spanish firm, Cintra Concesiones de Infraestructuras de Transporte, S.A. So Daniels christened his plan “Major Moves,” and with that, began what has been described as “one of the biggest fights the Indiana legislature has ever seen.”⁴

MISPLACED PATRIOTISM

Indeed, the enabling legislation necessary to put Major Moves into play finally passed during the last 15 minutes of the 2006 legislative session and by just one vote.⁵ With a 51 to 49 majority, Republicans barely dominated the legislature, and the vote was split down party lines. Lawmaker opposition was accompanied by intense public outcry against leasing the toll road to a foreign entity that would control the road and collect the proceeds for the term of the lease. In addition, counties along the toll road felt entitled to a larger share of the benefit than what the rest of the state would receive. The battle was fought in the media with expensive campaigns on both sides. In the streets and town halls where citizens rallied, the governor was unable to sway his constituents along the toll road, where opposition was the strongest.

Governor Daniels attributes the opposition to what he calls the “x-word,”



Governor Mitch Daniels announces a winning \$3.85 billion bid to lease and operate the Indiana Toll Road during a Monday news conference at Gary/Chicago International Airport. (Jon L. Hendricks / The Times).

or xenophobia.⁶ People did not like the idea that an Indiana asset and Indiana drivers would be generating money for companies based in Spain and Australia.⁷ Daniels noted that though this opposition was authentic and spontaneous,⁸ it was the result of genuine but “misplaced patriotism,” stemming from a real concern for the future of the state.⁹ By reacting out of what the governor perceived as a “sincere sense of responsibility”¹⁰ to the home state, Hoosiers (the nickname for Indiana citizens) were missing the real point.

What Hoosiers did not recognize was that the money freed from the ITR (in the form of the upfront lease payment), funds that the state itself was unable to generate, would be reinvested into long-term projects and future funding

mechanisms. In his 2006 State of the State address, the governor explained this concept as “Other People’s Money,” referring to the fact that two-thirds of the tolls paid on the ITR were paid by out-of-state motorists, and that the road itself could be improved and operated by a private firm, using its own money. The value of the lease payment alone was over \$2 billion more than the road’s current value in state hands, with the interest from that lump sum at \$500,000 per day. By leasing out one undervalued and neglected asset, the state would be able to jumpstart a statewide infrastructure project, creating jobs and drawing new business into its ailing economy.

Working closely with the legislature to craft a plan that would benefit the entire state, Governor Daniels prevailed.



Governor Mitch Daniels joined local officials in a groundbreaking ceremony for a new interchange at I-74 and the Ronald Reagan Parkway.

Counties both in and out of the toll road corridor were granted large, lump sum amounts for transportation projects, and higher toll rates for cars would be postponed until an electronic toll system was installed. In March 2006, the entire package was passed and signed into law.

MAJOR MOVES: THE WHOLE ENCHILADA

While the lease of the ITR has been the main focus of most news coverage about the governor’s plan, the lease was but a piece, albeit a crucial one, of a much larger revitalization project. Annual new construction, consisting of bridge replacements, existing highway lane additions, and new road projects, will quadruple during the period from \$213 billion per year to \$874 billion per year. Together, new construction and preservation projects will employ tens of thousands of Hoosiers directly and in industries related to new or relocated businesses drawn by improved infrastructure.¹¹

Major Moves also provides funds to counties for local transportation projects. Every county in Indiana will receive a share of \$150 million for local street transportation needs and the counties along the ITR will receive additional bonus payments in amounts of \$40 million each for local transportation and economic development projects. Those same counties were granted \$500

million for state highway projects as well. Major Moves also established a regional development authority for two northern counties with \$120 million. Job-training money was provided for economically struggling Gary, Indiana.¹² Finally, the plan also directs \$500 million in lease proceeds from the ITR deal into a “Next Generation Fund” for future transportation projects, addressing needs beyond Major Moves’ 10-year life span. The interest from this fund can be accessed every four years for additional projects.

Without a cash infusion from the ITR, however, none of this would be possible.

POLITICAL PHILOSOPHY

Perhaps the best way to describe the governor’s guiding principle throughout this process is to use his own words: “Competitive Sourcing.” It is an approach he used while running the OMB for President Bush. Daniels defines this as the “cost-reducing, service-enhancing power of competition that we seek to capture for government’s customer, the taxpayer.”¹³ The process he applies in soliciting bids, “judicious private contracting,”¹⁴ is not only effective in keeping standards and performance high, but it is also grounded in a solid philosophy of individual freedom: “Anything that strengthens the private sector versus the state is protective of personal freedom”¹⁵

But this seemingly straightforward pro-business approach is tempered by Daniels' own brand of home-state pride and public service loyalty. He confesses a personal gratification when the winner of any competitive bid is an incumbent public employee,¹⁶ and it is an unapologetic policy preference for Indiana firms and public employees that guides the government procurement processes.¹⁷ Regarding the lease of the ITR, he has described it as "the freeing of trapped value from an underperforming asset to be redeployed into a better use with higher returns."¹⁸ From a business perspective, this upholds his duty to the citizens of Indiana to manage their assets as any prudent businessperson would. Or in the words of Dana Levenson, Chief Financial Officer for the city of Chicago, the first to lease a transportation asset to a private entity: "What's the incentive to hang onto things we don't do well when there's a market that will pay the city lots of money for them?"¹⁹

STATUS REPORT

Although he was not the first to say it, in his 2007 State of the State address, Daniels remarked: "Nothing gives rise to great jobs more directly than great roads."²⁰ Just 4 months after the passage of Major Moves, the Honda Motor Company announced that it would build its newest plant in Greensburg, Indiana and employ 4,000 people. One reason Honda chose Greensburg was Indiana's

commitment to infrastructure.²¹ Since then, dozens of suppliers to Honda have begun looking into establishing facilities located within an hour from Honda's new Greensburg plant.²²

More recently, major Indiana businesses such as Nestlé, Airborne International and Toyota Motor Corp. have announced new facilities or expansion of existing operations.²³ Indiana has also made the short list of new locations for several companies considering developing new business.²⁴ Since 2005, the state has enjoyed record job growth, with the creation of over 35,000 new jobs.²⁵ By 2007, amidst a national crisis in transportation funding, Indiana was the only state that could claim a fully funded 10-year transportation plan.²⁶ If this is what they accomplished in one year, imagine what they could be claiming a decade from now.

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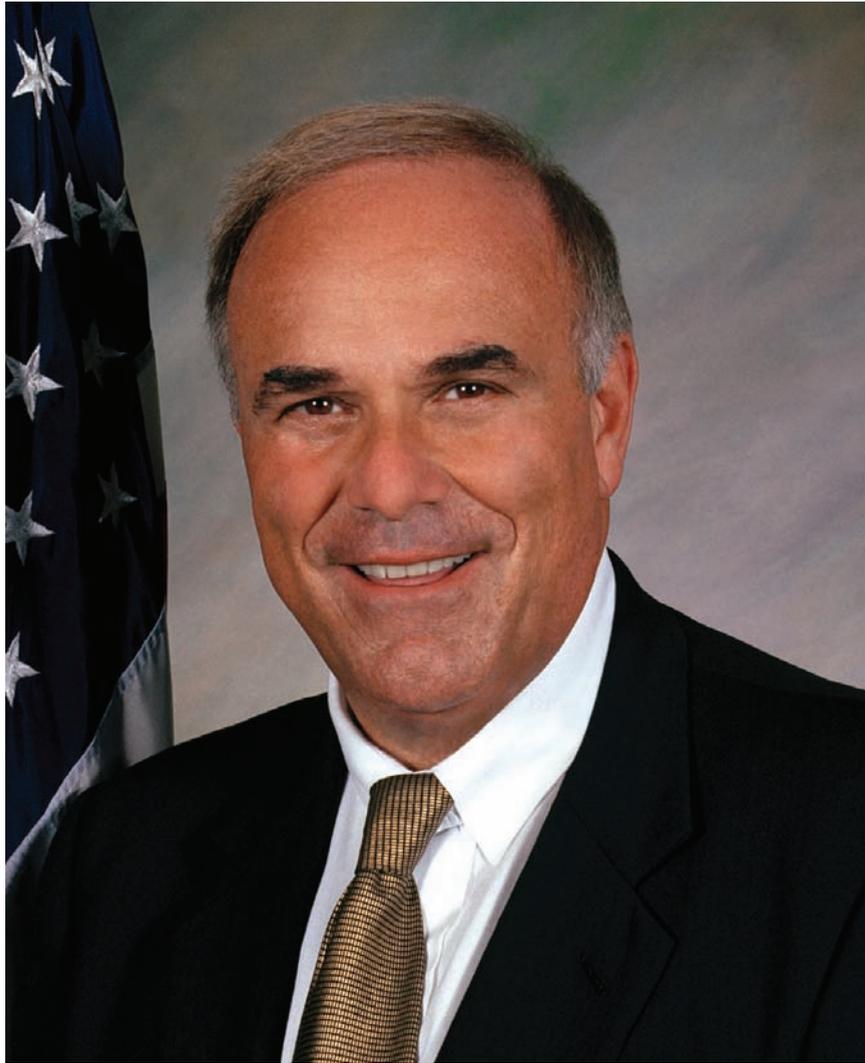
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The Right Man at the Right Time: Ed Rendell, Governor of Pennsylvania

Among the many benchmarks by which a state can measure its economic vitality is its mobility, or the movement of people and goods. Pennsylvania is no exception. But when Ed Rendell became the state's governor in 2003, he inherited a transportation system in crisis—miles of highways in poor condition, hundreds of bridges in disrepair, a neglected transit system, and an ongoing funding shortage.

Not content to continue the state's reliance on traditional revenue sources—gas taxes and vehicle fees—to build, maintain, and operate its infrastructure, Governor Rendell is blazing a trail for Pennsylvania, making fundamental changes to address

state transportation needs that have gone unresolved for too long.

Although Pennsylvania's transportation funding needs are no different than other states (adequate and predictable funding and dedicated sources of revenue that are inflation-sensitive), the state's past strife had hindered lawmakers' efforts. According to Rendell, "For too long, the public debate has been about choosing between funding transit or highways and bridges. It has pitted region against region, and Democrats against Republicans. On transportation funding, the time has come to put aside special interests in favor of the common interest. It is not enough to simply attack these ideas," the governor said.

“We must make a decision ...we must solve the problem now.”¹

Like other states, many of Pennsylvania’s roads and bridges are in poor condition and updates to its transit system are long overdue, costing its citizens time (inefficient movement of people and goods), money (auto repair costs for damaged vehicles), and potentially their lives (declining safety). But unlike other states, when it comes to regional decision-making and funding of the state’s diverse transportation systems, Pennsylvania funds its public transit system differently: it provides a large share of both capital and operating funds with little local or regional contribution.² The state does not give counties or local

governments the taxing authority for road and bridge building and maintenance, thus preventing regional decision-making entities from planning for their transportation needs.³

But for Rendell, coming into such tough situations is nothing new. As mayor of Philadelphia from 1991 to 1999, he inherited fiscal problems so massive that the state legislature had established a fiscal oversight board to monitor the city’s finances. The city was running a \$250 million deficit, suffered poor bond ratings, had stopped funding its pensions, and had raised taxes 19 times in little more than a decade.⁴



Governor Rendell outlines his plan to meet Pennsylvania’s unmet transportation needs.

AMERICA’S MAYOR

A native New Yorker, Rendell arrived in Philadelphia in the 1960s to attend the University of Pennsylvania. He stepped into city politics a decade later when he was elected district attorney for two terms. After losing the gubernatorial primary in the 1980s, he entered the Philadelphia mayor’s race in 1991. Rendell recalls, “I was determined to tell the people what I planned to do. If they didn’t want it, I was reconciled to not winning.”⁵

On transportation funding, the time has come to put aside special interests in favor of the common interest.

Given little chance to win by the local press, Rendell won the election and quickly put the political savvy and problem-solving skills for which he had become known toward fixing the city’s finances. Though many of his solutions were unpopular—persuading the city’s labor unions to accept benefit cuts, decreasing some city services, and eliminating 1,500 city jobs—Rendell’s “tough love” approach got results.⁶

Rendell eliminated the \$250 million deficit, balanced Philadelphia’s budget, slashed spending, introduced competitive bidding, brought in new business, and dramatically improved city services overall. In 1995, despite opposition from many in his own party due to his policies, Rendell won his reelection bid. The *New*

York Times called Rendell’s job as mayor as “the most stunning turnaround in recent urban history” and earned him the nickname “America’s Mayor.”⁷

STATE IN CRISIS

Political observers had always predicted that Rendell was meant for bigger things, and when he won the Pennsylvania gubernatorial race in 2002, he had proven them right. Upon assuming office in 2003, he faced yet another sea of red ink, this time in Pennsylvania’s state transportation system.

Just as he had done as mayor, Governor Rendell set to work cutting government spending, improving productivity, and implementing cost-cutting measures. By 2005, he announced an emergency plan for stopgap funding for transit and found an additional \$530 million for roads and bridges through savings, leveraging more federal funds, and other means.⁸

He also created the bipartisan Transportation Reform and Funding Commission to study and make recommendations concerning operations, structure, and funding of public transportation, highways, and bridges in Pennsylvania.⁹ When the commission presented its report in late 2006, their findings painted a grim picture. According to the report, the state faced a transportation crisis. The dramatic rise in construction costs and the lack of a

dedicated funding source were hurting Pennsylvania's ability to find a long-term solution to funding the state's diverse transportation system of highways, bridges, and public transit. In less than a decade, inflation and construction costs had worn away the \$400 million-a-year package of higher gas taxes and motor vehicle fees approved by the state legislature.¹⁰

The commission found that Pennsylvania's transportation woes shared a common theme with other states—aging infrastructure sitting in need of repair, operating and construction costs in the transportation sector outpacing inflation, and dedicated transportation revenues

lagging behind. Dealing with this problem, the commission found, would require \$1.7 billion to bring state-owned highways, bridges, and public transit up to safe, reliable status.¹¹ Without additional money, the report said, new construction would be limited, bridges would be closed, and the public transit system would see service reductions and fare increases. The panel's recommendations each contained a combination of tax hikes and fee increases and two called for leasing the Pennsylvania Turnpike.¹²

Following the report's release, the governor said: "Pennsylvania has been enduring a transportation funding crisis with no feasible, comprehensive solution."

With a target of raising \$1.7 billion a year, Rendell warned Pennsylvanians that some tax or fee increase would likely be needed. "We're looking at all options. Nothing is off the table."¹³

TURNPIKE LEASE PROPOSED

After a review of the commission's final report, Rendell unveiled his own plan as a solution. As part of his 2007-2008 budget address to the General Assembly, the governor said: "I have reviewed both traditional and non-traditional approaches, including a variety of taxes and fees and even the possibility of tolling Pennsylvania's interstates. I worked very hard to develop a solution that has the least impact on the people of Pennsylvania, keeping in mind that we must make critical transportation funding choices or face the real possibility of a transportation crisis of devastating proportions."¹⁴ The governor said that while there are more options, his plan is the only one that did not increase citizens' tax burden.

Dealing with this problem ... would require \$1.7 billion to bring state-owned highways, bridges, and public transit up to safe, reliable status.

The governor's plan takes a two-pronged approach. First, he proposed to take full advantage of the value of the 531-mile Pennsylvania Turnpike by exploring

a private lease agreement. Rendell estimated that such a lease would generate an estimated \$965 million a year for highways and bridges, creating a new, reliable revenue stream dedicated to fixing highways and bridges.¹⁵ The second part of his plan would levy a new 6.17 percent gross-profits tax on oil companies that do business in Pennsylvania. This new tax would take effect in March 2008 and produce \$760 million per year for public transit.¹⁶

OPPOSING PLAN

The reaction by his critics, however, was swift. Labor unions spoke out against the plan as anti-labor, fearing a reduction in turnpike employment if turned over to a private operator. Oil companies criticized the planned imposition of a new tax on them.¹⁷ But the most vocal opposition has been from the turnpike's current operator, the Pennsylvania Turnpike Commission (PTC). Not long after the governor's announcement, it submitted a plan of its own to retain control of the roadway. The commission made the case that it could offer more funding than a private buyer. If allowed to continue operating the turnpike, the commission would offer \$13.4 billion upfront and \$28.7 billion over the life of the contract, creating a "public ownership dividend" for the state.¹⁸ The PTC would borrow \$4 billion over 10 years, generating about \$400 million per year for highway and bridge repairs statewide.¹⁹ The debt would



In April, U.S. Secretary of Transportation Mary Peters spoke at a press conference to support Rendell's turnpike lease proposal.

be repaid with revenue from the state gas tax and from automobile registration fees. The offer also promises to aid mass transit through a combination of bonds, toll increases on the current system, “congestion fees” on exits and the use of tolls on Interstate 80.²⁰

Governor Rendell, however, was unconvinced, calling the commission proposal inefficient when compared to a private sector operator and inadequate for bringing in the revenue that the state desperately needs. He also opposes putting tolls on roads that are not currently tolled.²¹

PRIVATE SECTOR INTEREST

Estimates of the turnpike’s value range from \$2 billion to as high as \$30 billion.²² By December 2006, the state had received 48 “expressions of interest” from companies eager to lease the roadway.²³ Rendell recently hired New York-based Morgan Stanley & Co. for assistance in studying each of the proposals and advising his administration.²⁴

We cannot wait for someone to come to our rescue.

Speaking at locations across the state to gather public support for his idea, Rendell said he is determined to privatize the roadway, which he sees as a necessity given the state’s plight. At a briefing hosted by the Southwestern Pennsylvania

Commission (SPC), the governor said: “Strategic investments are needed here and across Pennsylvania to maintain our bridges and improve our roads as well as strengthen our public transit systems. Everyone in this region understands how far we have to go to reach these goals. My plan will deliver better transportation without imposing new taxes or fees on individuals.”²⁵

LEGISLATIVE ACTION

If Rendell is to deliver anything, however, he will require enabling legislation from the General Assembly to act on a lease, but reaction there has been mixed. No target date has been set for when the legislative body would approve such legislation. While some legislators struggle with the foreign ownership of the lease and others debate whether to consider tolling other roads as part of the bailout, many members of both parties say they are intrigued by the governor’s lease plan and willing to keep an open mind. Currently, there is enabling legislation before the state’s House Transportation Committee. The bill would allow a public entity, such as the Commonwealth of Pennsylvania or the Pennsylvania Turnpike Commission, to transfer interest in an existing transport facility to the private sector. It would also give other entities, such as metropolitan transport authorities, the opportunity to enter into public-private partnerships.

For Rendell, there is a sense of urgency for action on his proposal. “We cannot wait for someone to come to our rescue,” he said. Passage from the committee stage is expected within weeks. As the June 30 budget deadline approaches, the governor would like to sign legislation by mid-June so that the state can work out a lease deal that would begin generating revenue by July 1st, the start of the new fiscal year.

FEDS ISSUE WARNING

In April, Rendell’s sentiments were echoed by the Bush administration, whose top transportation official endorsed the governor’s concept. Mary Peters, the U.S. Secretary of Transportation, said that Rendell’s proposal has “enormous

potential because it recognizes fresh capital will lead to stronger roads and bridges, delivered faster, maintained better.” She also warned state legislators that by 2009 the federal highway trust fund would be depleted and the prospects for future federal funding after that were bleak. “Improved miles-per-gallon and efficiency make the gas tax an increasingly unreliable, unsustainable source of funding for needed transportation improvements in the long term,” Peters said. “Please don’t wait for the federal government to ride in and fix this—there’s not enough money to do that.”

As a small but growing number of states are discovering, finding ways to loosen their reliance on public dollars by



Unlocking the Pennsylvania turnpike's hidden value.

encouraging private-sector investment benefits taxpayers, consumers, and road users. Without private-sector support and the infusion of new capital, traditional revenue sources will not be enough. What is unfortunate, however, is that while many state leaders speak of the need to solve the problem, very few actually produce a plan, much less possess the political will to act on it. Governor Rendell is leading the way for Pennsylvania to make fundamental changes to their transportation system and set his state on a new course before it is too late.

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A Transportation Investment Risk-Taker Emerges: Arnold Schwarzenegger, Governor of California

California Governor Arnold Schwarzenegger made a movie career out of portraying action heroes, characters who save the day by performing seemingly risky stunts within the safe confines of a film set. In his new career in public service, Governor Schwarzenegger recently took a very real risk that could have cost him his career. Fortunately for California's transportation system, the voters chose to keep Governor Schwarzenegger in public service.

His handling of the risk and approach to the problem of crumbling transportation infrastructure reveals an opportunity for other leaders to take the same risk

and reap the same reward as the nation deals with an aging infrastructure and increasing transportation needs.

CALIFORNIA'S INFRASTRUCTURE NEEDS

Historically, most of California's transportation system was built between the 1950s through the 1970s. Since that time, the state has continued to spend increasing amounts on infrastructure, but it still needs substantial investments to:

- Maintain its existing infrastructure—investment is needed to preserve and rehabilitate the existing infrastructure as it ages, including a significant portion

of the state's highway system, which was mostly constructed in the 1960s.

- Build new infrastructure as population increases—California's population grows at a rate of about half a million persons annually, resulting in corresponding increase in demand for various transportation infrastructure, including additional roadways and transportation facilities to provide mobility.

California spends about \$20 billion annually through a combination of state, federal, and local funds to maintain, operate, and improve the transportation system. The primary sources of these funds are state gas taxes (\$6.3 billion), federal gas taxes (\$4.5 billion), local sales and property taxes, and public transit fees

(\$9.5 billion),¹ all of which are on a pay-as-you-go basis. Since 1990, voters have approved nearly \$5 billion in state general obligation bonds to fund transportation. These funds were dedicated to rail and transit improvements and earthquake safety projects. As of 2006, approximately \$355 million remains.²

California's 18 cents per gallon gas tax has been eroded by rising fuel efficiency and inflation, making it so that the state's fuel tax revenue per vehicle-mile-traveled is only about one-third of what drivers paid in 1970.³ Eighteen counties in California are using optional county sales taxes to help fill the gap, but securing voter approval for introducing or renewing these local taxes became more difficult after 1995, when the voter threshold

shifted from a simple majority to a two-thirds vote requirement.

...most of California's transportation system was built between the 1950s through the 1970s.

Just five years ago, California passed a proposition that earmarked state sales tax on gasoline for transportation purposes, but the act left a major exception allowing the government to transfer these funds to the General Fund if needed to resolve budget shortfalls.⁴

GOVERNOR'S CHALLENGES

This left Governor Schwarzenegger facing two significant challenges. The first was finding a way to pay for the state's aging infrastructure. The state's cessation of dedicating funds for transportation and infrastructure combined with a booming population and more than 21 million registered cars, trucks, and SUVs was a recipe for disaster.⁵ California roadways already accommodate among the highest and most demanding traffic flows in the country. Commuters in the state drive some of the nation's longest commutes; with the rapidly growing hybrid vehicle market, another 130,000 vehicles have flooded the once-restricted HOV (high occupancy vehicle) lanes.⁶ Estimates for the next 20 years predict California's population will grow to 45 million, adding more drivers and threatening to paralyze

travel, trade, and the state's economy.⁷

His second challenge was political support. The bipartisan backing that swept Schwarzenegger into office in 2003 soon put him at odds with the state legislature's Democratic majority when he tried to parlay his broad support into passage of a series of reform initiatives targeting some of his opponents' interests. The governor had also lost support among many in his own party who opposed his brand of Republican politics and felt betrayed when he cooperated with Democrats on certain legislative issues. As he looked ahead to his 2006 reelection campaign, the governor needed to outline an action plan that would rebuild bipartisan support, provide a political victory for legislators whose support he needed, and deliver tangible benefits for the state's electorate. This would mean taking a major political gamble.

BOND ISSUE

In 2006, the governor proposed a multi-billion dollar reinvestment in public infrastructure funded through a series of bond packages—the largest in the state's history.⁸ Central among these the bond measures was Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006.⁹ This authorized the state to sell \$19.9 billion in general obligation bonds to fund four key sectors of transportation:



A daily commute in Los Angeles.

- Congestion reduction—\$11.3 billion to increase capacity on state highways and local roads.
- Public transportation—\$4 billion to improve transit service and intercity rail service.
- Goods movement and air quality—\$3.2 billion to improve ports, rail systems, and to reduce emissions related to goods movement.
- Enhancing safety and security—\$1.5 billion to increase protection against security threats and to improve disaster response capabilities.¹⁰

Reaching out across the aisle in the state legislature, the governor secured approval to place his transportation infrastructure bond program before voters as an initiative on the November 2006 ballot.¹¹ The bond package was not the only thing on the line that fall—the governor also faced reelection. In California, bond initiatives allow the public to vote directly for or against matters that are important to them. If Schwarzenegger were to lose the bond vote, he ran the very real risk of the voters rejecting his bid for a second term.

In the months leading up to the election, opponents hammered the bond measure



The congested San Francisco Bay Bridge.

as flawed, ill-conceived, and burdening future generations with unnecessary debt. Critics of the measure warned that the additional borrowing will lead to budget deficits and that the legislature should instead continue the traditional pay-as-you-go approach for transportation needs, forcing fiscal responsibility in Sacramento.

Undeterred, Governor Schwarzenegger took to the streets to build support among skeptical media and voters.¹² Winning such support for infrastructure investment required framing the debate and fighting to get his message across. As he saw it, the problem was not spending, per se, but a lack of investment in the right areas.

... the governor proposed a multi-billion dollar reinvestment in public infrastructure funded through a series of bond packages ...

During an appearance on NBC's *Meet the Press* that year, the governor was accused by moderator Tim Russert of proposing to "spend, spend, spend." But the governor countered, telling Russert and a national audience—as he would later tell California audiences at countless events statewide, "No. It's invest, invest, invest. Tim, you're wrong, it's invest."¹³

Supporters of the proposition argued the state could wait no longer to address the backlog of transportation projects.

California had neglected transportation, and any further delay would make things more costly and the issues more serious. Voter approval of Proposition 1B, they claimed, would provide immediate funding to jump-start these projects and allow California to pay for them over the next 20 years, with existing state revenues and without raising taxes.¹⁴

POLITICAL VICTORY

Framing the debate in such simple terms worked. The public realized that while good roads cost money, bad roads cost more. A few months after taking his fight on national television, a *Wall Street Journal* columnist noted, "Voters are particularly impressed by his coup in persuading the legislature to approve a \$37 billion package of infrastructure bonds for the ballot...No wonder a whopping 68 percent support Mr. Schwarzenegger's call to rebuild."¹⁵

The governor had found a winning issue with voters. Five months later at election time, almost the same percentage of voters mentioned in the *Journal* article turned out to support the governor's program. They also voted overwhelmingly to reelect Governor Schwarzenegger to a second term.¹⁶

Passing a transportation bond is not a new solution—and to be fair, for many states it is not the only solution. However, in the face of significant challenges

like California's population growth, a rapidly growing economy and a decaying infrastructure, it was a step in the right direction to put the state's long-term investment programs back on track.

Governor Schwarzenegger's solution also created a new paradigm, one which should not be lost on elected officials around the country. When given the choice between good roads for a price and bad roads at a greater cost, voters will choose the wise investment in support of good roads.

The governor won the public's support by doing what he told the voters he would do when he was first elected: represent the state's taxpayers and take big risks to accomplish a big goal. Political leaders elsewhere would do well to follow his example and invest in our nation's transportation infrastructure.

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Turning the Corner on Congestion: Ken Livingstone, Mayor of London

When Kenneth Livingstone became London's first-ever directly elected mayor in 2000, the city was in the midst of a transportation crisis.¹ One half of its more than 7 million residents use the 13,600-kilometer network of streets for their daily commutes, logging some 30 billion vehicle kilometers each year on the streets and motorways.² Like so many American cities, London's traffic reality was severe congestion that threatened its economic prosperity and its citizens' quality of life.

Notwithstanding these mobility challenges, London has always been and continues to be a city on the move. Its population has steadily increased over

the past 20 years and projected estimates show that it will grow to more than 8 million people in less than a decade, due in large part to its growing economy.³ For other cities, these indicators would have been heralded as progress. Such would have been the case for London, if not for one fact: the city could not keep up with its own growth. London suffered from a case of transportation demand outstripping supply. By failing to infuse its transportation system with enough resources, it was scarcely able to sustain expected levels of service, much less meet future demand.⁴

Traffic in central London, the heart of the city, had become as well known for traffic congestion as its tourist attractions,

theaters and restaurants. Gridlock had become the norm during the workday and it was not uncommon for cars to move at less than 16 kilometers per hour.⁵ Every day, scores of vehicles full of people and goods sat stuck in traffic, damaging London's economy and environment. With the city's overcrowded buses and subway systems in desperate need of overhaul, users of public transportation had not fared much better.

LONDON'S FIRST MAYOR

This set the stage for the 2000 mayoral election, the first of its kind for London under the Greater London Authority (GLA), a strategic body with an elected

Mayor and Assembly, which dates only from May 2000. That year, the Labour government gave English cities the option to choose directly elected mayors, as part of a more general policy of regional devolution that included a Parliament for Scotland and an Assembly for Wales.⁶

No stranger to the London political scene, Livingstone was elected as a Labour member of the Greater London Council (GLC), a local government administrative body, in 1973.⁷ He was elected leader of the GLC in 1981, where he remained until 1986, at which point then-Prime Minister Margaret Thatcher abolished it. From 1987 to May 2000, he served as a Labour Member of Parliament

until losing his bid for selection as the Labour candidate. Running instead as an Independent, Livingstone was expelled from the Labour party but subsequently won the election.⁸

Whichever candidate won the mayor's seat would face a daunting choice in dealing with the city's infamous urban congestion: either build more capacity in central London, neither fiscally nor logistically feasible, or find a way to reduce the number of cars on the road. For decades, a viable solution had evaded city leaders, and although various methods and fee arrangements to reduce congestion had been studied, politicians were always slow to act on them.

During his mayoral campaign, Livingstone made transportation and congestion major platform issues. He stressed the importance of easing traffic congestion in central London by persuading people to switch from private cars to public transportation.⁹ As a candidate, he promised to do this by introducing a congestion charge while also dramatically increasing the number of buses on London roads. Livingstone's concept was simple: private-car drivers entering central London would pay a daily fee of £5 (\$8 U.S.), the same rate for heavy goods vehicles. Livingstone believed that if the aim was to reduce the number of vehicles on the road, then those who create the congestion should be required to pay for it. Fewer vehicles

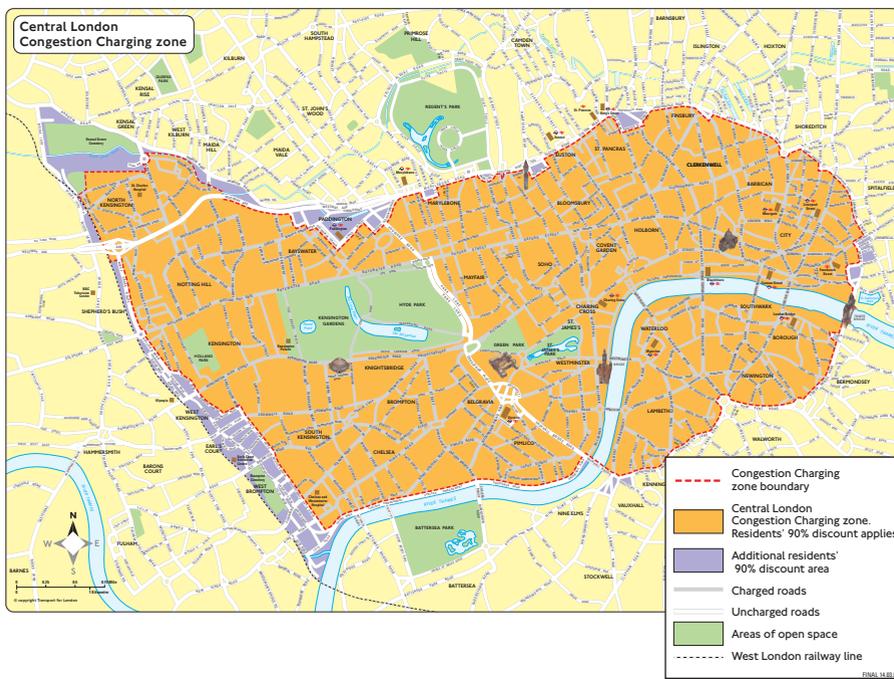
would mean less congestion, fewer traffic delays, and better travel times. As Livingstone saw it, the future of London's employment, housing, and environmental situations were all tied to transportation, but tackling it would require a step away from convention.

Livingstone believed that if the aim was to reduce the number of vehicles on the road, then those who create the congestion should be required to pay for it.

After he was elected mayor in 2000, Livingstone began work to make good on his promise. That year, a report prepared by a group of London's transportation professionals determined that a system to track travel in a defined area using vehicle registration numbers, coupled with a daily charge, and enforced by cameras could have a "significant impact on traffic conditions" in central London.¹⁰ With more than one million people working in and around central London, this was the perfect site to test his theory.

LIVINGSTONE'S PLAN

The mayor's proposal, called the Mayor's Transport Strategy, set the policy framework for transportation in London over a 10-year horizon and called on partnerships between London's transportation agencies, the public, and the business community.¹¹ His plan included steps to address several





London streets.

key transportation priorities: reducing congestion, improving bus routes and services, providing better pedestrian security, increasing traffic enforcement, increasing journey time reliability for drivers, reforming street maintenance, and raising revenue.¹²

But even after more than 20 months of study and lengthy public and government discussions, there was still plenty of skepticism and doubt. A media campaign was launched against the charge. Conservative members of the London Assembly (the city's municipal council) vigorously opposed the charge, as did the London media, who predicted negative impacts for business and chaos in the streets. Some felt that such a scheme would cause greater congestion while others criticized the expense and its potential effects on low-income drivers. Yet Livingstone, not one to shy away from a fight, was committed to the congestion charge's success and was willing to stake his political career on it.

In February 2002, Livingstone moved forward and charged Transport for London, the government agency that manages transportation services across the capital, to implement the program. So sure that this new scheme would work, the mayor predicted that traffic in the zone would be reduced by 20 percent¹³ and the city would raise an annual £133 million, which, by British law, must be reinvested in the city's transportation system.¹⁴

CHARGING BEGINS

On February 17, 2003, a day that coincided with a weeklong mid-term school holiday, Londoners struck their first real blow in the battle against congestion when the congestion charging scheme debuted. A 22-kilometer area in the heart of London was cordoned off as the congestion charging zone and included the centers of government, law, business, finance, and entertainment.¹⁵

The congestion charge is a daily charge for driving or parking a vehicle on public roads within the zone between 7 a.m. and 6:30 p.m., Monday through Friday.¹⁶ Drivers entering the area are given until 10 p.m. on the day of travel to pay the £5 charge. Once paid, the drivers register their individual vehicle registration number.¹⁷ Drivers who fail to pay the charge face an £80 fine. Certain categories of vehicles, such as buses, minicabs, taxis, and motorcycles are exempt from the charge and certain categories of drivers, namely the residents of the congestion charging zone, are eligible for 90 percent discounts.¹⁸

Within three months, London reported that morning rush-hour traffic had been cut by nearly a fifth, and rush-hour bus speeds had increased by 15 percent.

With no tollbooths or barriers and only red and white traffic signs to delineate the boundaries, enforcement is done by a network of 800 cameras¹⁹ set up to monitor the area. The cameras observe the vehicle registration numbers of the cars entering, parked, or driving within the zone and the numbers are checked against the payment database.²⁰

RESULTS ARE IN

By 8 a.m. on the first day, 34,000 drivers had paid the charge.²¹ Within three months, London reported that morning

rush-hour traffic had been cut by nearly a fifth, and rush-hour bus speeds had increased by 15 percent.

Livingstone's optimistic first-day predictions had been validated and Londoners agreed. Before the introduction of the charge, only 40 percent of the public was in favor of the congestion charge, but after 6 months of operation, almost 60 percent of the public supported it. Support also ran high within the business community. A poll by London First, an organization representing some of London's top companies, showed that 74 percent its members believed that the program had worked within the first month of operation and 30 percent reported a positive impact on their businesses.²² At the time, Livingstone said of the congestion charge: "It has helped get London moving again after years of choking traffic. London has become the first of the great world cities to set about substantially reducing congestion in the central area."²³

Four years and a £3 price hike later, congestion inside the zone is down by an average of 26 percent.²⁴ Although the city's hopes for an annual £133 million revenue stream from the congestion charge never quite materialized, Transport for London reported that 90 percent of that amount was generated in 2005.²⁵ The city has enjoyed other benefits resulting from the mayor's program. According to Transport 2000, the British

environmental transportation body, there were 65,000 fewer car movements being made in and through the zone per day, thus lowering vehicle emissions by 13 percent.²⁶ Also, the use of so-called “greener” transportation methods inside the zone, such as bicycling, has gone up by one-third inside the zone²⁷ and auto-related accidents have dropped between 40 and 60 percent.²⁸

All of this success, however, did little to silence the mayor’s critics. The large numbers of commuters who use suburban railway and underground stations as alternative parking lots to avoid the congestion charge angers Londoners living in the outer parts of the city. So many commuters use them, in fact, that parking zones have been created in these areas, usually at the expense of local residents. Other opponents have also suggested that congestion charging only shifts congestion (and jobs) to the suburbs.²⁹

FUTURE OF THE CHARGE

But as he had done before, Mayor Livingstone weathered this storm as well. In 2004, running against an opponent who threatened to abolish the congestion charge, Livingstone won reelection as mayor by a sizeable margin and with more votes than in the previous race. A year later, he set his sights on extending the boundaries of the charging area westward into Kensington, Chelsea, and

Westminster.³⁰ In February 2007, the western expansion went into effect.

Just as before, public opposition ran high and it remains to be seen if Londoners will change their minds about the expansion. But Ken Livingstone is no ordinary politician. Throughout his career in public service, he has never feared being unpopular if he felt the cause worthy and the decision right. Reducing congestion and maintaining London’s preeminent role in the world economy was just such a cause. As he told one reporter: “What’s the point of being in politics if you don’t do something with your position?”³¹

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ON THE HORIZON

As you make plans to attend the second annual Texas Transportation Forum on July 18–20 in Austin, we take this opportunity to look back on last year’s forum and remind you of the variety of issues to be addressed. For information on registering for this year’s forum, please visit www.TexasTransportationForum.com.

A growing number of states—including Texas—are facing significant challenges to their transportation systems. Growing populations, shrinking budgets, and an increase in demand for transportation infrastructure all have transportation leaders from around the state and the nation searching for real solutions.

Interest in Texas’ approach to these

challenges, coupled with the increased pressures on transportation across the board, brought more than 1,300 participants from local, state, and federal agencies and the private sector to the first annual Texas Transportation Forum, held in Austin, Texas on June 8 and 9, 2006. Not only did the event celebrate the 50th Anniversary of the Interstate System, but it also provided an opportunity to discuss the innovations available for addressing transportation challenges in Texas and across the country.

Although Texas was the major focus of the conference, its situation as a large state with rapidly growing urban centers is a perfect example for the dilemma that all states face—how to pay for the rising costs of transportation infrastructure with a shrinking amount of available funding.



First Annual Texas Transportation Forum: A Look Back

by Coby Chase and Christina Currier,
Government and Business Enterprises Division
Texas Department of Transportation

The Texas Transportation Forum is the first event to be co-sponsored by TxDOT, Associated General Contractors of Texas, the Texas Transportation Institute (TTI), and the Texas Good Roads Transportation Association. The Forum brought together professionals from the public and private sectors to discuss the key issues and opportunities shaping transportation today. One of these issues is the need to look at innovative financial options. In an effort to share information about these options and how they can work to address specific

transportation needs, TxDOT rolled out the agency's new "TxDOT: Open for Business" initiative, which stresses TxDOT's willingness to work closely with local communities and the private sector to achieve greater capacity and an improved transportation system. To increase awareness of the options available, the department created an informational booklet (available online at www.txdot.gov) that explains how it plans to utilize Regional Mobility Authorities, toll roads, pass-through financing, State Infrastructure Bank loans and Comprehensive Development Agreements to solve the problem of



Opening Session

congestion in Texas. The “TxDOT: Open for Business” booklet is full of options for other states to consider as they seek to solve similar challenges.

OPENING SESSION

The forum opened with remarks by event sponsor’s representatives, including TxDOT Executive Director Michael Behrens. These were followed by a video presentation on the history of the Interstate Highway System and TxDOT’s 50-year transportation plan to address the state’s transportation challenges.

BREAKOUT SESSIONS

Nine different breakout sessions were held for attendees on topics that included transportation economics, legislative agendas, the future of transportation

finance, and the future of road building. One particularly well-attended session, “The National Tolling Conversation,” featured Marshall Crawford, Managing Director for JP Morgan and Dave Kristick, Director of Operations for E-470 Public Highway Authority in Denver.

Moderator Stephen Mayer, past president of the International Bridge, Tunnel, and Turnpike Association (IBTTA), began the session by stressing that public perception toward tolling has started to change in recent years. “Now, elected officials and the public are realizing that tolling is a viable alternative. Surveys show that people aren’t really opposed to the cost of tolls, but to stopping to pay tolls.”

Marshall Crawford outlined the history of tolling in the U.S. and how it has



Marshall Crawford, JP Morgan

changed over the years. In the 1800s, more than 2,500 private toll road companies operated more than 30,000 miles of the nation’s toll roads, compared to today’s 5,100 miles of toll infrastructure that are operated by public authorities. According to Crawford, over the next few years, the possibility of long-term stable returns on investments will add an estimated \$50 billion of additional capital to the national transportation system through new toll road construction, and total infrastructure purchasing power from private sources will exceed \$200 billion.

Dave Kristick ended this session by explaining the collaboration between the E-470 Public Highway Authority in Denver, the Northwest Parkway, and the Colorado Tolling Enterprise. The agencies worked together to overcome state and federal funding shortages,

reduce congestion, and expedite bringing new capacity to the market.

... 3 to 5 million additional people projected to live in the Houston area by the year 2025.

Another popular session was “You Bet Your Assets: Leveraging Existing Infrastructure,” moderated by Texas Transportation Commissioner Ted Houghton. The panel included Harris County (Houston) Judge Robert Eckels; Geoffrey Segal, Director of Government Reform for the Reason Foundation; and Greg Carey, Managing Director of Goldman Sachs & Co.

Judge Eckels explained Houston’s need for new infrastructure to accommodate the



Geoffrey Segal, Reason Foundation

3 to 5 million additional people projected to live in the Houston area by the year 2025. Geoffrey Segal spoke of Texas as a model for other states that are interested in joining the private investment revolution going on in America. Segal highlighted the advantages of public-private partnerships (PPPs or P3s), including large-scale sources of new highway funding, new capacity built years sooner, the transfer of construction risk and revenue risk to investors, and changes in design incentives. Segal noted that states have begun to realize that their untapped or so-called “dead” capital in their transportation infrastructure can be leveraged to their benefit.

. . . congestion impacts virtually every aspect of people’s lives—where people live, work, and shop as well as the price they pay for goods and services.

Expanding on this discussion, Greg Carey gave the perspective of the financial institution. When investing in infrastructure, banks go beyond the financial implications, also examining political implications, labor issues, and the construction community. Carey observed that the U.S. is a huge growth area for international companies. Carey said that 10 years of market volatility has turned infrastructure into an “asset class” attracting pension funds and others searching for stability. In that vein, Goldman Sachs has created an equity

fund that invests solely in infrastructure projects.

KEYNOTE ADDRESSES

Among the highlights of the forum were the keynote addresses.

Dr. Joseph Giglio, Vice Chair for the Hudson Institute, highlighted the need for innovative funding strategies to deal with the rising costs of mobility projects. Giglio pointed to the Texas variation of the traditional concession model for the proposed Trans-Texas Corridor as the type of creative thinking needed in government to modernize and expand our national roadway system. He said that Texas’ decision to partner with private firms to build and operate toll roads sets an example for other state and



Dr. Joseph Giglio, Hudson Institute



Norman Mineta, former U.S. Secretary of Transportation

local governments to follow for their transportation needs.

Norman Mineta, then-U.S. Secretary of Transportation, spoke about how congestion impacts virtually every aspect of people’s lives—where people live, work, and shop as well as the price they pay for goods and services. Mineta also emphasized the National Strategy to Reduce Congestion on America’s Transportation Network. Patterned after congestion pricing systems in place around the globe, this plan seeks to reduce urban congestion through partnership agreements with cities willing to invest in tolling systems to spread traffic throughout the day.

Mineta also praised Texas for embracing innovative approaches for building and managing highway infrastructure, noting that Texas was the first to apply for waiver authority to overcome barriers to public-private partnerships and private investment in public transportation projects. Earlier, Secretary Mineta joined Governor Rick Perry and Texas Transportation Commission Chairman Ric Williamson in announcing that the \$3.6 billion Central Texas Turnpike Project was ahead of schedule and expected to be under budget.

During an evening address, Governor Rick Perry reemphasized congestion and the Texas solution to the challenge.



Texas Governor Rick Perry

Perry pointed to the rapid increase in Texas' population as the reason that Texas is pouring concrete faster than any other state in America. "We passed toll equity to accelerate construction and complement our traditional method of transportation financing. We expanded on the models of Houston and Dallas by creating the concept of Regional Mobility Authorities and we created a second constitutionally dedicated account for transportation called the Texas Mobility Fund. And voters approved these new

tools at the ballot box because they want to get Texas moving."

In the final keynote speech, Texas Secretary of State Roger Williams emphasized economic development. During a Texas-sponsored workshop on CDAs held in New York City, more than 200 people representing American and international firms learned how they can do business with TxDOT. Williams said that the current TxDOT public-private partnership program includes

seven transportation projects totaling approximately \$27 billion in development opportunities and another \$10 billion in projects open for competition.

... states have begun to realize that their untapped or so-called "dead" capital in their transportation infrastructure can be leveraged to their benefit.

By all accounts, the first ever Texas Transportation Forum was a success, bringing together transportation officials and professionals from around the country and the world to discuss options for decreasing congestion, increasing transportation funding

through innovative means, and bringing public and private involvement into the transportation process. Texas knows that it cannot wait on the federal government to solve its transportation problem, and its efforts to find innovative solutions has made it a model for other states seeking to deliver the infrastructure that citizens and businesses can depend on.

To register for the second annual Texas Transportation Forum, visit www.TexasTransportationForum.com.



Texas Secretary of State Roger Williams

Summer 2007 Issue Theme: Public Funding versus Private Financing—
What Makes Sense and When?

If interested, contact John Sabala at
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