NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION

PORTLAND FIELD HEARING

October 27, 2006

A Note on Sources

This summary report of the National Surface Transportation Policy and Revenue Commission's forum was compiled from a number of sources, including audio records of the forum, attendees' notes, written testimony provided by participants, and PowerPoint presentations. Given the limitations of the available sources, unintentional errors and misinterpretations may occur in this document.

National Surface Transportation Policy and Revenue Study Commission

Forum Held in Conjunction with the AASHTO Annual Meeting in Portland, Oregon

October 27, 2006

Members of the Commission Attending

Jack Schenendorf, Vice Chair
Frank Busalacchi, Wisconsin Secretary of Transportation
Steve Heminger, Executive Director, Metropolitan Transportation Commission
Tom Skancke, CEO, The Skancke Company

Participants

Harold E. Linnenkohl, Georgia DOT Commissioner and AASHTO President
Paula Hammond, Washington DOT Chief of Staff
Mary Olson, Port of Portland Commission Vice President
Doug Tindall, Oregon DOT Deputy Director, Highway
Hal Dengerink, Washington State University Chancellor and Columbia River Crossing Task Force Co-Chair
Henry Hewitt, Attorney, Oregon Transportation Commission Past Chair, and Columbia River Crossing Task Force Co-Chair
Missy Cassidy, Maryland DOT Director of Policy
Pete Rahn, Missouri DOT Director
Matthew Garrett, Oregon DOT Director
John Horsley, AASHTO Executive Director
Victor Mendez, Arizona DOT Director and AASHTO Vice President
Will Kempton, Director, Caltrans

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INTRODUCTION

Commission Vice Chairman Jack Schenendorf opened the forum by providing a brief history of the establishment of the Commission, which was created by SAFETEA-LU to look at transportation needs and financing. Schenendorf laid out the Commission's three missions:
1) To look at the needs to maintain the system and grow the system into the future so it can handle the freight and mobility needs of the American people 30, 40, and 50 years from today.
2) To look at the roles of government and the private sector.
3) To determine how to finance these needs by examining what financing options are available, and which make the most sense as we move forward.

According to Schenendorf, the last time the transportation system was in this kind of crisis was in the 1950s, during the days of the Clay Commission. That panel produced a vision of the Interstate system, a means to finance it, and the country has benefited enormously from that work. The Commission's goal is to come up with a vision and a way to finance it so that when Americans look back 50 years from today, they will see the same kind of success we had with the Interstate system.

GLOBAL GATEWAYS

A National Perspective on Freight Mobility
Harold Linnenkohl, Georgia DOT Commissioner and AASHTO President

AASHTO President Harold Linnenkohl, who serves as Commissioner of the Georgia Department of Transportation, cited examples from his home state to addressing the impacts of rapidly expanding international trade on the transportation system. Like Oregon and Washington, Georgia is also a global gateway. The Ports of Savannah and Brunswick are major southeastern ports, and Atlanta serves as one of the South's freight hubs for trucking, rail and aviation. The Port of Savannah is the fourth largest container port in the U.S. and the fastest growing port on the east coast. Its through-put doubled since 2001 and will double again over the next ten years. The Atlanta Interstate system carries a heavy volume of trucks. Studies show that truck freight on the Interstate system in Georgia is expected to increase 185% by 2035. To deal with this, in partnership with the trucking industry, Georgia is considering public-private partnerships, using toll funding to add dedicated truck-only managed lanes along Interstate routes, which may cut in half the time it takes a typical 18-wheeler to get through the Atlanta metropolitan area.

Speaking on behalf of AASHTO's members, Linnenkohl noted that, "We consider the Interstate Highway System to be America's Global Gateway." AASHTO will make several recommendations to the Commission on the future of the Interstate Highway System. First among those recommendations is to preserve and improve the 47,000 mile Interstate system built over the last 50 years so it will last for at least another half century. Second is to improve the performance of the Interstate system through advanced ITS technologies, which will make it operate smarter and move more traffic. Third, AASHTO recommends initiating the next phase of development of the Interstate system in order to add as much capacity in the future as we have built in the past.

Since the mid-1950s, vehicle miles traveled on our nation's highways has increased fivefold, from 600 billion to 3 trillion. It is expected to at least double again over the next 50 years. Substantial additional capacity will be needed for both people and freight. New capacity needs to be created in several ways: by adding new routes on new alignments, adding new routes on new alignments, adding new miles on existing corridors, correcting bottlenecks, improving intermodal connections, upgrading interchanges, and creating exclusive truck lanes. AASHTO will ask the Commission to recommend to Congress that strong federal assistance be continued to fund all three of these interstate needs – preservation, performance and capacity.

AASHTO will also call for the Commission to recommend a national rail transportation policy. The AASHTO Freight Rail Bottom-Line Report showed how important it is that freight rail continue to carry its 16% market share of the overall freight load. As rapidly as international and domestic freight is growing, the number of trucks on the road is expected to double by 2030. As congested as highways are already, this will pose a significant challenge. It is vital to the state DOTs who manage the highway system that the railroads have the ability to fund their system and modernize it so they can to hold onto their current market share. AASHTO's study documented it may require as much as $2.6 billion a year in public funding to complement somewhere in the range of $6 to $8 billion a year provided in railroad private capital for them to hold market share. Linnenkohl indicated they looked forward to working with the Commission and the railroads to see how this can be achieved, without tapping further into the Highway Trust Fund. Mechanisms such as investment tax credits may be the best way.

Washington State's Global Gateways
Paula Hammond, Washington DOT Chief of Staff

Paula Hammond, the Washington State Department of Transportation's Chief of Staff, provided information about Washington's freight systems; how its water and land global gateways are essential to the nation's economy and essential to the nation's security; Washington's global gateway infrastructure challenges; and the ripple effect of national freight rail system changes.

Washington State has been aggressively investigating and planning for the increased volumes of freight traffic in its state. Focusing on global gateways, she pointed out that about 6% of all U.S. exports and about 4.5% of all U.S. imports move through Washington's water and land gateways. About 70% of those imports that come through Washington are moving to other states and other parts of the nation, mostly via the rail system, which is becoming increasingly congested, not only in Washington, but nationally.

Washington also has an essential national security infrastructure. Fort Lewis is key to western regional conflicts, the Port of Tacoma is a strategic port for security movements, Port Hadlock Naval Ordnance Center is one of nine nationally, and there are key military installations that rely on freight movements in and out for major conflicts.

The Ports of Seattle and Tacoma are third nationally in the movement of container shipping. Ms. Hammond spoke briefly about forecasted increases for international freight movement in Washington; impacts of growth on their freight/rail system; and the state's ambitious $15 billion infrastructure program; delayed maintenance on their waterway systems; and how to better accommodate and minimize impacts to Washington's global gateway communities.

Ms. Hammond wanted to leave the Commission with a sense of the urgency her state is feeling with the growth in the Asian market for imports and exports. This rapid growth impacts the West Coast states as they try to accommodate the needs of the national economy and also keep their own state's economy moving. Hammond expressed the hope that freight systems would be recognized in the next reauthorization legislation and that incentives and research technology would be recognized as vital not only to each state's economy but to the national economy as well.

Oregon's Global Gateways
Mary Olson, Port of Portland Commission Vice President

Mary Olson discussed the role of the Portland-Vancouver metropolitan region as a gateway for global trade. One in five jobs in Oregon is linked to international trade, and 120,000 jobs, or 10 percent, of the jobs in the Portland/Vancouver region are involved in trade and transportation. Therefore, this region has a significant stake in maintaining and improving the flow of freight to local, regional, national, and international markets.

The Port of Portland, the Port of Vancouver, and other Columbia River ports are generally more oriented toward exports than imports. In particular, more wheat is exported through the Portland Harbor than through any other gateway in the United States. A large volume of bulk minerals and forest products is also exported through the Columbia River. Completing the region's export portfolio is container cargo, consisting mostly of agricultural and paper products. The Port of Portland exports more containers than it imports, which is rare among deep-draft container ports. The Port of Portland also owns and operates Portland International Airport, which is, comparatively, a larger cargo airport than a passenger airport: in 2005, it ranked 35th among passenger airports but 26th for air cargo. High-tech components, apparel, seafood, and fresh fruit are exported on all-cargo freighters and on passenger aircraft to European and Asian markets.

All of this marine and aviation cargo travels to and from Port facilities by one of three modes of transportation: barge, truck, or rail. The Port's marine and aviation facilities are similar to those elsewhere in the United States for their heavy reliance on trucking and rail, and the Port's facilities are only as efficient as the road, rail, and waterway connections that serve them. In that regard, the Portland/Vancouver region certainly has surface transportation challenges that hamper the flow of freight, including the I-5 bridge across the Columbia River.

This gateway and others in the United States will come under increasing strain as national freight volumes double over the next 20 years. To enhance the capacity and efficiency of this gateway, the Port of Portland and its transportation partners are struggling to make the necessary improvements to the local and regional surface transportation network. In light of these challenges, Olson sees a need for the federal government to retain the predominant role in setting national policy and funding transportation improvements. Regardless of how creative local jurisdictions and private parties are, they cannot provide a majority of the necessary funding.

Ms. Olson offered three recommendations for the Commission's consideration as it develops its report. First, the Executive Branch should focus more on freight mobility. It must recognize in its policymaking, programming, and funding that American businesses and farmers competing in the global marketplace rely heavily on the U.S. transportation system. She referred to the Executive Branch, and not just to the Department of Transportation, because the U.S. Army Corps of Engineers can make a vital contribution to freight mobility through its management of the country's navigable waterways.

Second, the Department of Transportation should improve its own focus on freight mobility by better coordinating the freight roles of the modal administrations. Although the Department's "stovepipe" structure may be unavoidable, stronger coordinating measures should be put in place to reflect the flexible and multimodal movement of freight.

Third, funding mechanisms should be available for large, complex projects that generate significant benefits for the national transportation system. A new I-5 bridge across the Columbia River is an example of such a "transforming" project.

The Oregon Transportation Investment Act
Doug Tindall, Oregon DOT Deputy Director, Highway

Doug Tindall, ODOT's Deputy Director for Highway, spoke about ODOT's experiences and what the state learned from Oregon's bridge crisis.

Mr. Tindall briefly discussed the three Oregon Transportation Investment Act funding packages, which focused on enhancing the state's economic health by maintaining and enhancing freight mobility on the state's highways, and resulted in a total investment of nearly $3 billion into the highway system. OTIA III provided $1.6 billion to repair and replace bridges on state highways and local routes. Because of the need to fix failing bridges quickly to avoid weight limits, the Legislature required ODOT to move quickly. ODOT turned to the private sector to meet the challenge, which meant ODOT went from primarily an in-house design/outsource construction model to an outsource design/outsource construction model. ODOT also looked to the private sector for innovative contracting and design-build methods. ODOT is hopeful that the next authorization bill will allow flexibilities such as these so states can continue to move quickly.

The OTIA programs are examples of effective programs that use innovative approaches to deliver projects and meet important goals, and OTIA demonstrates the importance of meeting the challenge of investing in aging infrastructure. OTIA has been crucial to Oregon's strong recovery from the significant job losses suffered in the last recession. At its peak, OTIA will sustain 5,000 jobs annually, but it is far more than just a construction jobs program. By maintaining freight mobility on the Interstate 5 Corridor, as well as other important state and regional routes, OTIA plays a vital role in preserving the competitiveness of Oregon's trade-dependent economy, and these investments will benefit the entire West Coast and the nation as a whole.

The Columbia River Crossing: The Challenges of Megaproject Delivery
Hal Dengerink and Henry Hewitt, Columbia River Crossing Task Force Co-Chairs

Henry Hewitt and Hal Dengerink provided an overview of the Columbia River Crossing project, an effort by Oregon and Washington to improve transportation over the Columbia River on the critical I-5 corridor. Congestion is beginning to choke this key freight corridor, and the states are working cooperatively to develop and deliver this megaproject that will include multimodal solutions to congestion.

The project faces a number of very large challenges, including financing the multi-billion dollar cost, developing a multi-modal project, and designing a bridge that enhances the human and natural environment. The challenges associated with all of these issues are magnified by the need to move forward on a very fast timeline. These challenges are likely common to many megaprojects, and the way the two states are addressing each challenge offers insights to the national conversation over how to complete these complex projects.

The Columbia River Crossing faces a wide array of regulatory and environmental issues, including issues related to salmon listed as threatened under the Endangered Species Act, navigability of the Columbia River, and protection of historic and cultural resources. In order to move this project forward quickly, the project developed an innovative environmental streamlining effort designed to speed up the review and permitting process without lowering the bar on environmental protection. The project's environmental streamlining effort brings regulatory agencies into the project development process, ensuring that they can raise issues at an early stage of development and allow the bi-state project team to address these issues.

To appropriately address congestion on the I-5 corridor, the Columbia River Crossing project needs to be a multimodal project that incorporates high-capacity transit, which is currently lacking on the existing bridges. Determining the right transit elements for the bridge will be one of the greatest challenges.

Beyond working out local political issues surrounding which transit option best meets the region's needs, coordination between the Federal Highway Administration and Federal Transit Administration will also be a significant challenge because these agencies have different processes, timelines, and cultures.

Assembling a financing package for the Columbia River Crossing will be a significant challenge. The project's large cost—far beyond the ability of even two states to fund—will require piecing together funding from a variety of sources and looking beyond traditional means of highway project funding. Tapping all available public funding sources will likely leave a significant shortfall, so tolling is under consideration as a financing method.

The two states jointly submitted an application to the U. S. Department of Transportation asking to designate the I-5 Corridor through the Portland – Vancouver metropolitan regions as a "Corridor of the Future" under the new program created under the department's congestion relief initiative. This designation could be an important step toward helping Oregon and Washington overcome the inherent challenges of delivering a complex megaproject. The two states hope the Commission, the Administration, and Congress will wrestle with these issues and take additional steps that will ensure that crucial projects such as the Columbia River Crossing are not bogged down by regulatory roadblocks and funding challenges.

Discussion Highlights

Commissioner Schenendorf opened the discussion by posing a philosophical question about the federal government's role in transportation: Do we need a strong federal role with a strong vision, or is it time for the federal government to back off and let the states handle it themselves?

Ms. Hammond thought everyone was in agreement that more money needs to be invested in the system. States will have to step up, but the federal government needs to provide more funding, especially in light of the freight pressures in the West Coast states and nationally. Washington would like to see a freight program created, but they would also like to retain some flexibility within the states to use those funds and other tools, like tolling, on whatever systems the states deem necessary. Tolling and pricing can be used as tools not only to invest in the system, but also to manage the traffic on system.

Henry Hewitt noted that projects like the I-5 Columbia River bridge are too large and complex for states alone to solve. States aren't structured to deal with multimodal issues, particularly freight rail. How we integrate heavy rail and the freight issues associated with it is beyond what any state can handle; it's not a state issue—it's a federal issue in his view. It is imperative, at the federal level, that people acknowledge the reality that freight is not local and start paying more attention to these issues.

Mr. Dengerink echoed what Mr. Hewitt said, and pointed out that the answer to Vice Chair Schenendorf's question may be somewhere in between. To some extent we need the federal government to simply not just pay the bills or get out of our way, but rather, to be a partner in helping solve the issues. That's certainly the case with the multimodal pieces here. It's also an issue when it comes to policy. He stated current federal policy about tolling on these types of facilities causing some difficulties. As an example, if they were to toll the I-5 bridge, would it simply shove traffic off to the I-205 Bridge? Can we toll the I-205 bridge to solve an I-5 bridge problem? Mr. Dengerink's understanding is the current law does not allow that.

Harold Linnenkohl noted that when looking at all 50 states, there are different characteristics, different needs, and he felt we do need federal involvement. In Georgia, he relies on the federal side to give him some backing, so he can go back to the politicians in Georgia to get things done.

John Horsley provided comments from an AASHTO perspective. The joint venture Columbia River Crossing Project is a good example of how AASHTO would recommend that the Commission and the Congress address multi-state projects. The states have applied for the status and federal recognition of this as a Corridor of the Future and, what the U.S. DOT has proposed is expediting the NEPA process, giving priority for TIFIA credit assistance, so the federal government is stepping up and providing assistance with processes and financing. AASHTO thinks the best way to address multi-state projects is to have the states take the lead, but in partnership with the federal government. Rather than having congressional earmarks or the U.S. DOT try to lead the process, the states should formulate consensus.

Mr. Horsley also noted that a group in U.S. DOT had asked the Transportation Research Board (TRB) to put together a freight framework. Mr. Horsley strongly recommended that group be asked to brief the Commission on their framework, which he found very promising.

Commissioner Busalacchi suggested there might be a middle ground answer to Commissioner Schenendorf's question. Needs in the country are growing substantially. The projects that were $50 million projects decades ago are now billion dollar projects. He has heard the message that states need a federal partner, and he believes the federal government needs to step up more and that the federal partnership is needed now more than ever. He wanted to know whether the states really think that tolling and public-private partnerships can fill the need.

Doug Tindall thought the question Commissioner Busalacchi asked was two pronged, with one part centered around policy and the other around funding. Commissioner Busalacchi asked about public-private partnerships and tolling, and he asked about federal participation and state participation. What has changed, Mr. Tindall believes, is there's no single funding answer anymore. There is no silver bullet, and it will take a patchwork of all of those things. What the Commission was hearing was that states need strong federal funding, but we recognize that probably won't be enough to cover the entire bill. As a result, states need the flexibility to use the other tools like tolling in addition to federal and state funding.

Commissioner Skancke mentioned the Corridors of the Future Program, which will provide regulatory streamlining and financing tools. He posed the question why US DOT would force states to compete for this special treatment rather than offering these processes and tools to everyone. He would like to find ways to streamline the project development and delivery process to save states money.

Mr. Tindall thought that federal policy should focus on what the outcome of the processes should be. If you can define the outcome the process is designed to produce, you wouldn't have to prescribe the process used to achieve that outcome.

Ms. Hammond felt the questions raised by Commissioner Skancke were good ones and ones they should be thinking about every day. She questioned whether those who have been involved in transportation for decades are so indoctrinated into the way things have always been done that they tend to get into the competition at the federal level and learn how to play the games. The Columbia River Crossing project is a good example of something we should be able to fix, but somehow haven't. How can we ensure that our federal agencies, such as the FHWA offices in both states, can be nimble enough to adapt to two states doing a project together, to learn how to play their role and not trip over each other? Just within the Federal Highway Administration, Federal Transit Administration, and all the federal agencies, Washington and Oregon are having a problem just trying to figure out how they play their roles and how the states play theirs, but it shouldn't be that difficult.

Missy Cassidy spoke about a successful streamlining process on the Intercounty Connector Project, which is a major toll and transit facility in Maryland that is about to be constructed. Based on their experience, it is an extremely intensive process. Ms. Hammond's comments about agencies having to be nimble is an understatement. It is not just the DOT, it is all the federal agencies involved: the Army Corps of Engineers, U.S. Fish and Wildlife Service, and every other partner at the table. It is necessary to bring everyone literally to the table to have day-long meetings with all of the top key players from every single federal agency working hard to make this happen. Maryland felt it was breaking new ground, raising the bar considerably. Unfortunately, from what Ms. Cassidy sees, the federal agencies do not have the staff time or the resources to spend that amount of time on every single project, so what happens is they take the most complex and important projects. She thought, over time, we will see this trickle down happen and we will advance these things more quickly. Prior to this they had reached a point that they felt they were knocking heads instead of cooperating.

John Horsley asked Commissioner Skancke to ask that question at every hearing because the system is broken. The Maryland project that Ms. Cassidy mentioned was elevated to one of the highest priorities in the President's system. To help Maryland's Governor achieve the Intercounty Connector Project, they were able to complete the NEPA document within one Governor's term. Typically, it takes six years to complete a NEPA document, and then nine years or more to build a significant project, but there has to be a way to do a sound, solid job in less time. However, every time the state DOTs try to expedite the process, environmental groups throw more process at projects.

Commissioner Heminger brought the discussion back to freight. He noted that if there is any issue that justifies a continued federal program it is freight. There is widespread dissatisfaction with the current structure of the federal approach—which is basically none. If we are going to head down the path of a more structured federal role with a freight program, it seemed to him that will come with less flexibility, not more. One thing that struck him in AASHTO's freight bottom line report is that the aggressive investment scenario only increases rail's share of freight tonnage by 1%, from 16 to 17%. He questioned whether the aggressive scenario was aggressive enough. He questioned whether we should be looking at disincentives that would make truck travel more expensive and make rail travel look more attractive.

John Horsley raised the question over whether tax incentives are the right way to invest public resources in the freight rail system. If Congress provides Class I railroads a 25% tax credit for investments in capacity expansion, what assurances do the states have that their investments will benefit the highway system by helping move containers rather than coal? State DOTs want to somehow be at the table because, if Congress is going to give massive funding assistance to the railroads, we want to see that it will somehow help move freight and help the broader highway system. AASHTO wants to work with the railroads and the Commission to craft some recommendation.

Commissioner Heminger thought Mr. Horsley had put his finger on one of the problems that has prevented a freight policy, and that is the institutional questions are very complex. The Interstate was basically a federal-state relationship. Freight, on the other hand, involves ports that are owned by municipalities, private railroads, private trucking companies, and interests in passenger rail on some freight lines. This area cries out for national federal leadership because it is not a subject that individual states or states collectively can take on.

Henry Hewitt agreed with that statement. The highway world and the rail world don't meet. In the northwest, one track between Seattle and Portland tries to carry all the freight and all the passengers. It is capacity constrained and nobody is really viewing the transportation issues holistically in finding comprehensive solutions. Until we figure out how to elevate it to a place where all of these issues are being considered by some group, he didn't think it would be solved.

INTERCITY PASSENGER RAIL

Cascade AMTRAK Service
Paula Hammond, Washington DOT

Ms. Hammond provided information on the Amtrak *Cascades* Service, which operates along the I-5 corridor between Eugene, Oregon and Vancouver, British Columbia and is funded by Washington and Oregon. Ridership more than tripled, to 665,000, between 1994 and 2000. However, congestion on the freight rail system limits the number of passenger trains the states can run and causes on-time performance problems that could impact ridership. While the two states have invested in substantial upgrades to this corridor, Ms. Hammond sees the need for a dedicated federal funding program to complement state investment; states cannot succeed alone.

National Passenger Rail Policy
Missy Cassidy, representing Robert Flanagan, Maryland DOT Secretary, AASHTO Standing Committee on Rail Chair, and AASHTO Intercity Passenger Rail Leadership Group Chair

Missy Cassidy presented AASHTO's perspective on passenger rail on behalf of Robert Flanagan, who could not attend. AASHTO believes that intercity passenger rail service is a basic element of the nation's multimodal transportation system, and that there should be federal legislation to establish a national rail policy that creates a stable structure for the development of intercity passenger rail service.

A national rail policy, in AASHTO's view, should:
- Establish a sound foundation for passenger rail service partnerships between the states and the federal government.
- Create a dedicated, sustainable source of funding for intercity rail passenger infrastructure improvements that provides an 80/20 matching program for infrastructure investment. AASHTO sees a need for $60 billion in investments in high-speed rail corridors.
- Provide a stable and fiscally-responsible system for funding rail passenger operating costs.
- Create opportunities for win-win partnerships with the freight railroads. Passenger service can't be expanded without expanding freight rail capacity.

Discussion Highlights

Commissioner Heminger commented that the needs for investments in transportation infrastructure that the Commission had heard during the forum were adding up, but no means of paying for these needs had been identified. He inquired whether AASHTO had any ideas about paying for these proposals given the organization's historic opposition to using funding from the Highway Trust Fund.

Mr. Horsley answered that some rail projects are already funded out of the Highway Trust Fund, and AASHTO and the Association of American Railroads (AAR) are exploring together some additional techniques, such as the investment tax credit concept that both organizations believe has tremendous potential. If the groups can reach an accommodation of how to make sure states' perception of the public interest is being met, they will come together and strongly support it.

Commissioner Heminger asked if it would be appropriate to use a higher federal fuel tax to fund these needs. Harold Linnenkohl replied that in Georgia, and probably all the other states as well, transportation needs just on the highway system are probably 30 to 40% higher than the revenues they have for the system. If there was a substantial enough funding increase that they could still meet the needs of their highway system, then AASHTO might not object to using the additional funds for passenger rail. However, right now the needs are just too great on the highway side.

Commissioner Heminger asked whether AASHTO has a policy on Amtrak itself. Ms. Cassidy referred the Commissioner to her background material, which included a policy on intercity passenger rail which does address long-distance trains and service as well. AASHTO's supports intercity passenger rail service and long-distance trains. Each year the annual appropriations cycle goes back and forth about whether or not there will be enough money for Amtrak. Speaking as a northeast state on the corridor, Maryland has suffered tremendously because of the indecision of Congress. Clearly, the issue of federal investment on the northeast corridor must be addressed because it has fallen into disrepair. Even if a solution came along that involved a private owner-operator for the northeast corridor, they would insist the corridor be brought up to a state of good repair before they would take it over. On the other hand, if this valuable piece of infrastructure were fixed up and brought back to a state of good repair, then a number of partners might come forward and show more interest.

Commissioner Busalacchi indicated that the heart of the issue that Washington and Oregon are facing with on-time service is capacity on the freight rail system, and if we don't increase capacity, we will lose train ridership because of delays.

Ms. Cassidy discussed how many of the northeast's rail tunnels are over a century old and are in need of repair, and this deteriorating infrastructure causes problems throughout the system when issues arise. Fixing these problems will be incredibly expensive, but without investments, on-time performance will continue to decline.

Will Kempton commended AASHTO and the Commission for their active role in this issue. He sees a need for an increased federal role in freight and intercity passenger rail. CalTrans' experience indicates that the problem is on-time performance issues caused by conflicts with freight trains rather than the frequency of service. California is looking at providing more money for passenger rail. Despite all the investments they have made, they still have problems because of connectivity. He sees a need for the federal government to either do away with Amtrak or step up and adequately support it. It is an essential, needed investment and states cannot handle it on their own.

Commissioner Schenendorf indicated that he believes we can't just discuss endless needs. From the conversation, it sounds like the federal government needs to spend more money on the transportation system, but he does not feel that more money is forthcoming from the federal government. Instead, states need to be looking at innovative approaches and financing alternatives. The discussion on surface transportation policy needs revolutionary ideas that redefine the vision for the system and recast the federal role. Transportation advocates need a national purpose akin to construction of the Interstate system that is compelling to citizens and elected officials to develop political support.

Commissioner Heminger talked about the need to show the public the benefits provided by increased investment. We are not going to have something as neat and tidy as the Interstate system, but improving the system's performance is a worthwhile goal, and we can demonstrate to the public the benefits in terms of mobility and safety. Being able to communicate to people is critical, and he hopes AASHTO can help them develop that message.

PERFORMANCE BASED MANAGEMENT

Washington State's Approach to Performance Based Management
Paula Hammond, Washington DOT Chief of Staff

Paula Hammond of Washington State DOT shared her state's story of successfully implementing performance-based management. In 2001, WSDOT was an agency in crisis and suffered a poor reputation among the public. Just five years later, the agency has secured two revenue packages that have increased the gas tax by 14.5 cents per gallon and helped WSDOT deliver the largest infrastructure program in state history. The turnaround came about as a result of implementing an accountability program that emphasized transparency, performance analysis and reporting, and honesty with the public. Largely because of the results yielded through the Department's performance, a ballot initiative to repeal a 9.5 cent per gallon gas tax increase was defeated. However, Hammond expressed concern about federal performance and reporting standards. Instead of adding another layer, she suggested using existing state accountability measures.

AASHTO's Perspective on Performance Based Management
Pete Rahn, Missouri DOT Director

Pete Rahn explained that he has become an absolute believer in performance measures and the roles they can play in fine-tuning an organization and providing true accountability to office holders and to the general public. He believes that the role of performance measures is critical to the future improvement of transportation. From his own experience, he has found that to impose a performance measure on any organization is counter-productive. The measurements need to be meaningful to that state and that organization in order for them to have a true impact on organizational behavior, and ultimately on performance. Consequently, the idea of the federal government imposing a national performance standard that each state would respond to would not be very effective. Allowing each state to develop their own performance measures that are important to them is the way to go. Federally-imposed performance measures are not something AASHTO supports, and from his own experience, not something he would support.

Discussion Highlights

Commissioner Schenendorf queried panelists about their views on having the federal government set performance measures for a highway corridor that would provide states flexibility in meeting the standard and help guide federal investments. Pete Rahn replied that he believed that if the mechanisms to measure that performance are developed by the states themselves, it would be more productive than to have a performance measurement system imposed by the federal government.

Commissioner Schenendorf questioned whether letting states define the measurements would be effective because each state would have different standards and it would be difficult to allow that to guide the federal investment. Ms. Hammond said she believed in letting performance drive investments. That's the premise behind a lot of what WSDOT does on their safety systems and other areas such as asset management. She did not know if she agreed that the federal government requirement of more strings around how the limited money can be used would be productive. Ms. Hammond thought it was a slippery slope to set a standard to reduce congestion because states are having difficult doing that. States can make operational investments that help improve travel times, but growth is causing roads to be more and more congested and we can't build our way out of that. She thought the question would be the kind of performance benchmark that you are trying to set, and whether or not it's even achievable. She indicated there is a fear among states that if the federal government decides to set what the standard is, and attaches strings to it, they will lose some flexibility.

Commissioner Skancke stated that we have to be able to sell the American people on improvement over what they currently have, and we have to do that at a time when we will have to move more people and more freight on the same system. We've got to find multimodal ways to improve and handle the future increases. Otherwise, they are not going to support big increases in funding.

Commissioner Heminger discussed how since ISTEA the nation has made no progress on any of the significant performance measures, except for maintenance. The system now is better maintained than when ISTEA passed, but fatalities haven't changed, and congestion has grown dramatically worse. He expressed concern that going back to Congress or to the voters and asking for more money without promising any performance improvements would yield the same results we've gotten in the last few years. We will not be successful unless we are able to promise some improved level of performance and be accountable to that improved level of performance if it is not delivered. He urged AASHTO to rethink its position on this matter because improved performance and some kind of way of measuring it could be the best way to secure additional revenue and additional investment in the system.

Commissioner Heminger noted he was astonished that Washington State was able to get two gas tax increases passed through the Legislature and wanted to learn the secret of their success.

Ms. Hammond indicated there were a number of factors. First, the public recognized the need. In addition, projects that would be funded were picked in advance so communities knew what they would get. When a recent initiative was put before voters to repeal the 9 ½ cent gas tax increase, it failed because WSDOT had proven that it was able to deliver those projects and had demonstrated accountability and credibility with the public with the first nickel of gas tax revenue.

John Horsley pointed out that with many local funding measures for transportation people are told exactly what they will get for the investment in terms of the projects that will get built. They know they will get a project, but they aren't promised that five years after the project is built there won't be any congestion. They intuit that things will get better if they have more capacity, for either rail or transit or highway, because that probably will be the result. But what is dangerous is for us to promise performance change rather than a project investment list.

Commissioner Heminger replied that Mr. Horsley was correct about the effectiveness of the project based approach, but it wasn't very good government. Picking projects for political appeal is potentially destructive of having a good system result, whether or not the projects solve a problem. He sees a need to promise some level of performance and then allow states to achieve it through a variety of strategies.

Commissioner Schenendorf commented this gets back to what he has been calling the vision for the federal program. At the federal level he would hope that this wouldn't devolve into the federal government saying, "We want to increase revenue and here are the projects we are going to build." What transportation officials are grappling with is what to tell the voters about the system we want to build when we go to them for the need for increased funding.

Will Kempton found the discussion very instructive. At the time, California had a $19.9 billion bond proposal before the voters. They tried to sell it on the basis of a specific performance metric of reducing congestion in the state by 20% over a period of time. They used a measurement for daily vehicle hours of delay, but that did not sell the proposal well with most of the voters. However, when they started talking about specific projects that would be built, the proposal became more popular. Local sales tax programs, which have raised billions of dollars in the state, are sold by the projects they will build, and performance is measured by whether those projects get built during the scheduled timeline. Kempton agreed that we need to talk more from a standpoint of system performance, but the challenge is communicating that. If the state were to talk to the voters about improvements on the Interstate 880 Corridor between Oakland and San Jose, they would say they could knock 10 minutes off of drive time during the commute period because that's something people can relate to. Too often we use too complex measures for system performance. For example, nobody understands what daily vehicle hours of delay are. California made a commitment to try to get to that 20% congestion reduction, but he didn't really think people relate to that either. However, talking about system performance measures in specific corridors might be a more effective means. He suggested finding ways to translate information about a project's impact into system performance information that the voters and highway users can understand.

Victor Mendez spoke from the Arizona DOT perspective about the Phoenix area where they were very successful in getting a half-cent sales tax for transportation. That measure was successful in part because its supporters discussed the impact of congestion on tourism. That example demonstrates that there are a lot of other benefits and issues that need to be placed on the table other than just the highway performance itself.

ALTERNATIVE FINANCE

Oregon's Public–Private Partnerships and Road User Fee Pilot
Matthew Garrett, Oregon DOT Director

Matthew Garrett, Director of the Oregon DOT, discussed how Oregon has turned to alternative finance out of necessity. Oregon needs $1.3 billion in additional revenue each year to properly maintain and expand the state's transportation system. Rapidly growing population, particularly in the Portland metro region, as well as projected increases in freight volume will put further pressures on an already strained system, and current funding streams can't meet these needs. This large gap between transportation system improvement needs and the state's ability to pay for them has led Oregon to look at innovative financing sources, including public-private partnerships and road user fees, as a way to pay for operating, maintaining, and building highways.

Oregon's testing of road user fees as a potential replacement for the gas tax arose from concerns over the impact fuel efficiency increases will have on gas tax revenues. While the overall fuel efficiency of cars in the U.S. has stayed essentially flat for years, the long-term rise in gas prices as well as likely federal mandates to improve fuel efficiency will almost certainly increase mileage substantially in the next several decades. As vehicles become more fuel efficient, gas tax revenue per vehicle mile traveled will decline, eroding the ability of the gas tax to sustain adequate financing of transportation.

ODOT's Road User Fee Pilot Program is currently conducting a small-scale feasibility study to test the system and the technology involved and determine what additional issues need to be addressed. This pilot program kicked off in March when 260 volunteers in the Portland area had their vehicles equipped with on-board mileage-counting devices. Using GPS technology, these devices will count the number of miles driven in Oregon and the number driven during rush hour. Two service stations in the Portland area have been equipped with mileage reading devices. For one year, the volunteers are required to purchase gas at the participating service stations twice per month. While refueling, the on-board mileage counter communicates with the mileage readers placed at the pumps. When the purchase is totaled, the gas tax is deducted and the road user fee of 1.2 cents per mile is added automatically. The system is seamless, and users don't notice much of a difference.

Some people have expressed concerns about privacy because the program has placed GPS-based mileage counters in cars. However, the state won't be tracking the movements of motorists. The devices on the cars will count the number of miles driven but will neither gather nor store specific information on where people drove, or when they drove there.

Another concern arises because charging a per mile fee will reduce the incentives to purchase fuel efficient vehicles. Currently a Hummer costs much more to drive per mile than a Prius, and the fear is that equalizing the transportation taxes each pays would reduce the incentive to purchase a Prius. Mr. Garrett believes the effect would likely be very small, particularly because the gas tax has become such a small part of the cost of a gallon of gas as prices have skyrocketed in recent years. Oregon's 24 cent per gallon gas tax is currently about 10% of the cost of a gallon of gas, so making modest changes to the way transportation taxes are assessed would likely have only a minimal impact on behavior. What's more, legislators could establish a rate structure that would address these concerns by providing a reduced per-mile rate for fuel efficient vehicles.

To date, the pilot program is working well and has proven that the technology can work. However, there are many challenges to be worked out before it can be deployed in Oregon, much less at a national level. Additional development, study, and testing needs to take place for road user fees to come to fruition, and support from the federal government could help move this effort forward.

Oregon is also in the early stages of exploring the possibility of financing additional highway capacity through public-private partnerships and tolling. Last year, ODOT identified three significant highway projects as possible public-private partnership projects. Funding the three projects—which together would cost well over $1 billion—will be very challenging using the resources the state currently has available.

ODOT is working with the Oregon Transportation Improvements Group (OTIG), a consortium led by Macquarie, in a pre-development phase to evaluate the financial and technical feasibility of building each project through a public-private partnership. If the pre-development work demonstrates that the projects are technically and financially viable, OTIG will have exclusive rights to enter into negotiations with ODOT to implement the projects. OTIG has proposed to finance, construct and operate these new facilities as toll facilities for a period of years that has yet to be negotiated. ODOT is reintroducing the concept of tolling to Oregon, which has been largely forgotten in a state that has had few toll roads in recent decades.

Oregon has turned to public-private partnerships primarily for financial reasons. The private sector brings the ability to access a tremendous amount of private capital and can provide funding up front to get a project moving much more quickly than if the project relied on public sector funding.

Despite ODOT's turn toward innovative finance, it is unlikely that either public private partnerships or road user fees will provide an immediate much less complete solution to our funding challenges. Road user fees, though promising, are years away from implementation, and they may never fully replace the gas tax. Public-private partnerships and tolling will likely have relatively limited use, potentially addressing the need to expand some higher-volume highways while doing little to address the problem of increasing costs to preserve and rebuild our existing infrastructure. Nonetheless, Garrett believes it is important for states to explore these options.

Washington State's Alternative Finance Efforts
Paula Hammond, Washington DOT

Ms. Hammond discussed Washington State DOT's perspective on alternative finance. WSDOT tried one public-private partnership in the 1990s but abandoned it before completion, and they still have concerns about the public-private partnership model. They see a need to keep open the option of pricing the entire system in the Seattle metropolitan region to manage it appropriately and improve system performance, and they aren't sure whether having a private firm operating a portion of the system would leave them that option. WSDOT sees a need for expanding tolling flexibility so states can manage the system appropriately. For example, while WSDOT may use tolling to replace the 520 bridge, leaving I-90—a nearby parallel route—untolled might cause significant diversion. However, federal law may preclude tolling I-90. Hammond also sees a need for exploring ways to make public alternative financing methods fill needs so states won't feel compelled to turn to public-private partnerships.

AASHTO's Perspective on Alternative Finance
Victor Mendez, Arizona DOT Director and AASHTO Vice President

Victor Mendez, speaking on behalf of AASHTO, made two primary points. First, AASHTO supports providing states all the options possible to use tolling, private-public partnerships, and innovative financing tools at their discretion. AASHTO hopes the Commission will support the use of tolls and public-private partnerships as means to supplement traditional sources of transportation revenues. Second, we should recognize that the contributions from tolling and public-private ventures will be limited and cannot possibly substitute for the need for a strong and sustained federal funding role. While tolls currently contribute about 4.5% of transportation funding nationwide, under the most optimistic scenario AASHTO envisions, tolls could reach only 9% of total revenue. While high growth states may be able to use tolling for some projects, expanded tolling won't make up for cuts that will come when the Highway Trust Fund exhausts its balances. Just keeping funding at SAFETEA-LU's levels in the next authorization bill would require revenue equivalent to a 3 cent per gallon gas tax increase.

Transportation Vision and Strategy for the 21st Century
John Horsley, AASHTO Executive Director

Mr. Horsley commented that AASHTO is taking seriously Commission Schenendorf's charge to develop a vision for the transportation system and to redefine what the country needs and what the federal role should be. AASHTO plans to put together a national, industry-wide "visioning" conference in May or June 2007. AASHTO will invite all twelve members of the Commission to participate.

Mr. Horsley outlined AASHTO's two-phase "visioning" game plan. Phase 1 would develop a strawman proposal to take into the conference being held in May or June; Phase 2 would use the conference itself to refine the proposal and, to the degree possible, reach a consensus. Seven subject areas of the transportation "vision" were identified as:

1. The Big Picture – Intermodal Freight System
2. Highway System – Preservation, Performance, Capacity
3. Smarter System Management
4. Transit and Intercity Passenger Rail and Bus
5. Metropolitan Mobility and Congestion
6. Sustainable Transportation – Energy, Land Use, Environment
7. Funding

Discussion Highlights

Commissioner Busalacchi commented that the Commission had not heard much on the downsides of public-private partnerships and asked Paula Hammond to elaborate further on Washington's concerns with this model.

Ms. Hammond indicated that WSDOT's initial public-private partnership program in the early to mid-90's failed for several reasons. There were legislative concerns about the cost of private financing versus public financing, and these continue through today. The other downside for them in the 1990s was they didn't have projects developed to the point where the concept of a public-private partnership, which really equals tolls, had been discussed well enough with the public for them to be comfortable with the "T" word. Washington's believes that there is no free money in this world. Hammond sees benefits to public-private partnerships in terms of jump-starting projects by getting funding early on a project they couldn't otherwise start using public funding sources. The ability to finance a project across up to 50 years, or even more, through concessions or other methods is necessary to build some of these high cost projects, and the private sector has an advantage with this. In Washington, they bond for only 25 years, which is a hindrance for them to publicly bond and finance these projects. The private sector has some tax advantages and other financing methods they can do to make it more desirable. People in Washington are starting to question whether there is a way the public could do some of this longer-term bonding. WSDOT also believes that to manage congestion better, they need to use more of the system, other than at peak periods. That means congestion management through system-wide pricing, although they can't say that out loud too much yet. If they give up the ability to control pricing on a corridor due to a concession to a private entity, that type of system-wide pricing could be difficult.

Commissioner Heminger asked Mr. Horsley about the timing of the AASHTO "visioning" conference, indicating concern that Spring 2007 was pretty far along the way in terms of their commitment to have a complete report to Congress by December 2007. He also encouraged AASHTO to consider a performance focus in these various issue areas, in terms of what the vision is for intermodal freight, preservation, and other areas. He understood that AASHTO was going to address safety in a separate exercise, and he urged AASHTO to reconsider that too. Heminger indicated the Commission hasn't really started to grapple with the safety issue. Too often safety gets a lot of air time in policy discussions and then not a whole lot is done about it because most of the steps that are needed are very politically difficult. The notion of separating safety doesn't strike him well; it would be better to integrate it because it can be affected by a lot of these other issues as well.

Mr. Horsley responded that they are embarking on the project to be of help to the Commission. They will try to hold their conference sooner, however, there is a lot to do between the drafting of a strawman proposal and convening a group like this, but they will try to accelerate that effort.

Vice Chair Schenendorf commented that he is interested in the Indiana Toll Road project, and he would like to get a sense of how this approach would work on a national basis. On one hand it seems too good to be true. A company offering the Governor $3.8 billion to fund a ten-year program of highway improvements is almost irresistible. What he hasn't heard is a real discussion of the implications of that kind of financing over the long term. What this forum has discussed is the need for a sustained investment in our national system over a long period of time to meet the needs. With a mortgaging of the Indiana Toll Road for 75 years to fund a 10-year program, what happens in year 11, 15, and 20, when there is still that investment need, but all of a sudden you've taken and locked this asset up for 75 years? Where's the money going to come from then? Are you going to be able to increase the gas tax or vehicle mileage fee if people are also paying tolls? The public will be even more resentful that you're coming back to them. How do these techniques work over a long period of time? Two-thirds of the people that drive on the Indiana Toll Road are interstate travelers, so what some have described as free money is going to be paid by the interstate traveler. What are the implications of that if every state is gearing their tolling to sock it to the interstate traveler? As we look at all of these different financing options, we have to look at more than just what options are available, how we can implement it, and how much money it can generate. We need to examine some of the public policy questions about these options: Are they sustainable over time? Do they make sense? What are the overall economic implications of these various techniques? Answering those questions will help the Commission make more informed recommendations.

John Horsley commented that he hoped Victor Mendez' statistics did not just blow by the Commissioners. Currently, 4 to 5% of the current system is supported by tolls. With every restriction removed at the federal level, and the truckers and AAA embracing tolls, AASHTO projects toll revenue could grow to no more than 9% of the total. Tolling can be a very helpful addition for projects in rapidly growing metro areas with heavy traffic generation, but it doesn't work elsewhere, so it's a limited solution. AASHTO will document for the Commission soon the broader picture of what it will take to maintain and preserve the system that's in place. Nearly every dollar of gas tax revenue will be required just to preserve the system that's in place. Then what we will be looking at is how to grow the system to add capacity, much of which will be added through tolling. Growth areas are turning to tolling to add capacity. But what isn't being taken into sufficient consideration is what it will take to keep the current system in a good state of repair.

Pete Rahn noted that what the Commission heard today was that the politics of passing increased revenue packages with the legislators and voters has been to attach new revenues to new projects. The problem is that is about one-third of the problem. Two-thirds of the problems that states face are related to keeping intact what we already have. The improvements we have seen since ISTEA in the condition of our roadways are real, but those are short term: the maintenance we have done to our system is being used up. If we don't come up with a way to continue to invest in what we already have, we're going to lose the ground we've gained. As the Commission is looking at a way to sell increased investment in our transportation system, the sizzle comes from the new projects; there's no sizzle to maintenance. A majority of the states are in effect conducting triage on their systems. The states need the Commission's assistance to help them come up with the solution to that problem.