

# Commission Briefing Paper 5C-03

## Development of Future Federal Surface Transportation Program Options

Prepared by: PB Consult  
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### Introduction

This paper is part of a series of briefing papers to be prepared for the National Surface Transportation Policy and Revenue Study Commission authorized in Section 1909 of SAFETEA-LU. The papers are intended to synthesize the state-of-the-practice consensus on the issues that are relevant to the Commission's charge outlined in Section 1909, and will serve as background material in developing the analyses to be presented in the final report of the Commission.

### Background and Key Findings

This paper presents a set of possible options for modifying the scope and scale of Federal aid surface transportation programs to support a new mix of consensus national goals and objectives as set forth by the Commission.

Within the overall Federal aid surface transportation program – and its individual modal programs – the Federal transportation interests are promoted through program structure and scale that can be designed to foster the development of national interest systems and facilities. The major dimensions that characterize the Federal aid system are described briefly – based on paper No. 07-003-2A. These dimensions include:

- *Changes in program scope including* the mix and emphasis of activities funded in the program in terms of their system or activity focus, mode, and eligible uses. A key variation is the relative balance among programs in their focus on national systems and needs versus those of state/local interest
- *Adjustments in program funding conditions, regarding the degree of* discretion/flexibility and performance or other conditions used to focus State/local use of Federal aid
- *Increases or decreases in overall Federal aid program scale (i.e. funding level)* making it more or less easy for State/local recipients to accommodate new Federal interest initiatives.

**These scope and scale dimensions have been combined into six distinct future program option themes described in this paper. The six program themes include:**

1. *Devolution* – downsizing the Federal aid program to a minimum of key federal interest support programs with the remainder of the program and funding left to state/local discretion.
2. *Maximum State discretion/flexibility* – maintain the current federal funding level but reduce the current constraints and convert much of the program to a flexible block-grant approach –

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3. *Business as Usual* – continue today’s program scope and program funding scale and federal role
4. *Current program expansion* – maintain the current program scope and federal role, but at an increased funding level
5. *National interest focus leveraged* – current funding level but using performance-driven requirements to increase the proportion focused on federal interest investments
6. *National interest focus enhanced by larger overall program* -- increase Federal funding level to support expanded programs for both Federal and State/local interests

These options track the principal concepts that have been discussed in the post-Interstate dialogue regarding the future of the Federal aid program. The options are then evaluated against the broad goal interests identified by the Commission and by their general effectiveness in projecting national interests. This comparison suggests that – compared with the current Federal aid program and funding level – a more targeted focus on systems or facilities of national interest would require either additional revenues or trade-offs with current programs that provide flexible funds for State/local priorities.

**Caveat:** *It should be noted that the six options presented and evaluated are selected based on their representation on significant alternatives discussed in past dialogue regarding the future of the federal aid surface transportation program. Other options may be reasonably put forward. In addition the six options have been described at a high level in terms limited to their major characteristics of scope regarding general federal needs and interest and level of federal funding. There are additional levels of program specification that would provide significant variations*

## **1. National Transportation Goals**

The Commission has identified a set of priority national interest goals for the future Federal aid surface transportation program. The goals identified by the Commission include:

1. Economy – with special emphasis on improving efficiency in an increasingly global competitive context and supporting economic development
2. Safety – addressing the continuing high number of highway-related crashes and fatalities
3. Environment/Energy – concern for natural and human environment including global climate change and energy dependency
4. Defense/Emergency Response – improvements that reduce risks from both natural and made-caused disruptions and disasters
5. Mobility – focused on relief provided by congestion management, added capacity, and modal/service alternatives

A key issue is how the future Federal aid program can be scoped, structured, and sized to pursue national interests effectively. In addition, the context for these goals will have shifted dramatically. Over the next 20-30 years, gross domestic product, household income and the demand for travel – both passenger and freight – may well have doubled. These increases must be accounted for in considering appropriate future transportation needs.

## **2. Activities that Support the Goals**

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Progress towards the above goals can be supported by a range of possible transportation improvements and activities that might be the focus of the future Federal aid surface transportation program. Some such Federal priorities are already built into the Federal aid program, but could be further emphasized by increased funding or more direct targeting, including:

- The expansion of the interstate or regional networks to maintain a high level of interregional, intermodal continuity, and connectivity.
- The development of new modal facilities that provide alternative service in congested contexts.
- The support of new technology applications that would improve safety, demand-responsiveness and operational efficiency
- Use of operational management and peak-period to maintenance service levels and raise additional revenues

The future Federal aid program might also include new priorities such as a shift of national goals and related transportation objectives. These new objectives might include:

- Improvements of intermodal connections to improve freight efficiency and reliability as well as passenger connections between public and private providers of local, regional, and intercity passenger service
- Elimination of bottlenecks that currently impede mobility
- Improvement in program performance including the use of asset management and operational management (including pricing) to maximize the effectiveness of the existing system
- Changes in regulations including those addressing: improved safety and environmental compatibility of modal operations; states’ ability to toll the Interstate; and, permission for operation of larger and more efficient trucks
- Expanded role of the private sector and new forms of public-private partnership to expand funding and improve market responsiveness for a range of improvements across modes – both passenger and freight

Exhibit 1 below illustrates how one goal – economic growth and competitiveness – can translate into transportation-related objectives and supporting Federal aid program components. As suggested, these new components might include an expanded national system-focused categorical program, an increase in program size, performance-based incentives, regulation, and indirect financial support, etc. Exhibit 2 provides a range of examples indicating how transportation policy objectives can be reflected programmatically. This exhibit can be used for more detailed evaluation than possible within the framework of this paper.

**Exhibit 1. An Example Goal: Promote Economic Growth and Competitiveness (logistics)**

<b>Transportation Objectives</b>	<b>Related Components of Future Program Options</b>
<ul style="list-style-type: none"> <li>• Support of Interstate Commerce including improvement of major connected interregional networks for freight and passengers</li> <li>• Promote appropriate modal balance (rail/port/highway), including intermodal</li> </ul>	<ul style="list-style-type: none"> <li>• Improvements and/or expansion of the interstate system</li> <li>• Special categorical program activities to alleviate major congested bottlenecks – highway and rail</li> </ul>

<p>interchanges and efficient truck size and weight regulation</p> <ul style="list-style-type: none"> <li>• Accommodate increasing level of high value/low bulk freight, just-in-time delivery service</li> <li>• Improve service to evolving geography (regional development and suburban-exurban patterns)</li> <li>• Improve access of workforce to jobs</li> </ul>	<ul style="list-style-type: none"> <li>• Performance measures to promote aggressive systematic application of systems operations, ITS, probe vehicles, and other advanced technology</li> <li>• Increased truck size and weight regulations to achieve improved efficiency and maintain modal competition</li> <li>• Federal lending, tax and credit support for State and/or private investment in intercity freight transportation</li> <li>• Federal lending, tax and credit support for State and/or private investment in freight intermodal facility development</li> </ul>
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### 3. Evolution of the Federal Aid Program Structure

As described in Paper 5C-01, *Federal Roles and Related Program Mechanisms*, the Federal aid transportation program has evolved over the last century in response to a combination of driving forces including; changing consensus regarding key transportation-related needs at the national level; broad cross-cutting trends in intergovernmental relationships; emerging differences among individual state and local interests and capacities – as well as the contemporary political willingness to raise revenues at the Federal and State levels. The Commission is now considering future evolution of the program in response to changing economic and demographic conditions in the U.S. and the rest of the world.

Paper 5C-02 *Characteristics of the Federal Aid Transportation Program*, presents the key mechanisms by which the Federal aid transportation program facilitates consensus national interests. The current federal aid program represents one point in the continuing evolution of the policy consensus regarding priority national transportation concerns and how they can be reflected in scope, scale and other key program characteristics.

### 4. Development of Alternative Future Federal Aid Program Options

The transportation goals and supportive program activities described above and in Exhibit 2 illustrate that a number of reasonable, but different options to the current Federal program may be considered. These options may be either modest or substantial departures from the current program.

There are three key dimensions of future Federal aid programs through which changes in focus of the program can be made. These include:

1. *Changes in program scope* – The specificity and strength by which national interest goals – such as the five goals listed in section 1 – are reflected in the mix and emphasis of activities funded in the program, include:
  - relative emphasis on programs supporting key *national* interest investments (systems and facilities) – as major categorical program activities (as distinct from programs supporting *individual State/regional* priorities)
  - changes in the modal focus appropriate to changing national objectives, such as new forms of cooperation with private sector freight and passenger transportation providers including commercial highway vehicles, transit/rail, and maritime
  - use of high Federal-State match and needs-based funding distribution to emphasize national systems and national interest investments.

Future scope options will reflect a change in the mix of support for consensus of national interests vs. varied State/local interests. Evolving national interests may suggest the need for consistent nationwide investments in either existing systems or in new systems or facility types.

2. *Adjustments in program funding conditions* -- The balance between serving national interests vs. State/local priorities can be influenced by the conditions attached to the use of Federal funds including:

- degree of discretion/flexibility provided by the State/local recipients in use of Federal funds intended to support national interest systems or facilities
- use of performance or other incentives to induce increased State use of both Federal and State resources in that program area for Federal interest
- removal of remaining constraints on the federal aid systems, such as truck size and weight and application of tolls

Funding flexibility and performance targets can be used to encourage State/local focus of program funds on a particular Federal interest program objective.

3. *Increases or decreases in overall Federal aid program scale* (funding level)—The level of Federal aid will make it more/less easy for States to accommodate new Federal interest initiatives -- without sacrificing their own interests and requiring difficult fiscal trade-offs.

When considering future options for structuring a national surface transportation program, variations across these dimensions can be mixed and matched together into different combinations in response to their ability to support various mixes of national program and funding objectives. The discussion above suggests that future program options responding most strongly to national needs would include:

- a high proportion of total federal funds on programs designed to promote and improve systems and facilities of national significance – especially those involving interstate and interregional systems of all modes – passenger and freight
- significant level of federal investment in programs as described above to achieve an identifiable performance level of improvement in a relevant time frame
- match level, eligibility definitions, standards, regulations and performance criteria designed to incentivize state/local program partners to focus their own investments – as well as federal aid on the national interest programs
- federal aid funding distribution based on allocating funds to locations of needed investment to make such improvements

## Exhibit 2: Commission Goals and Related Federal Aid Program Implications\*\*

Potential Policy Objectives	Federal Aid Program Dimensions
<p><b>1. Promote Economic Growth and Competitiveness (logistics)</b></p> <ul style="list-style-type: none"> <li>• Support of Interstate Commerce including improvement of major connected interregional networks for freight and passengers</li> <li>• Promote of appropriate modal balance (transit/port/highway), including intermodal interchanges and efficient truck size and weight regulation</li> <li>• Accommodate increasing level of high value/low bulk freight, just-in-time delivery service</li> <li>• Improve service to evolving geography (regional development and suburban-exurban patterns, including access to jobs)</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement and/or expansion of the interstate system</li> <li>• Expansion of transit with direct benefits to economic productivity</li> <li>• Special categorical program activities to alleviate major congested bottlenecks – highway and rail</li> <li>• Performance measures to promote aggressive systematic application of Systems Operations, including intelligent transportation systems (ITS) and vehicle-infrastructure integration (VII)</li> <li>• Modified truck size and weight regulations to achieve improved efficiency and maintain modal competition</li> <li>• PPP (Federal lending, tax and credit support, other) for State and/or private investment in intercity freight transportation</li> <li>• PPP (Federal lending, tax and credit support, other) for State and/or private investment in freight intermodal facility development</li> </ul>
<p><b>2. National Defense / Emergency Preparedness</b></p> <ul style="list-style-type: none"> <li>• Accommodate rapid defense mobilization through improvement of key fort-to-port movements (where no railroad service available)</li> <li>• Increase security, reduce Infrastructure vulnerability, and improve emergency response capability</li> </ul>	<ul style="list-style-type: none"> <li>• See all items under No. 1 above, plus:</li> <li>• Aggressive Emergency Transportations Operations program requirements and NIMS compliance</li> <li>• Cooperative program with US Department of Defense program for fort-to-port connections</li> <li>• Ensure ESF role includes adequate preparation for evacuation of all populations</li> </ul>
<p><b>3. Improve Mobility</b></p> <ul style="list-style-type: none"> <li>• Reduce congestion through cost-effective improvements in capacity and efficient operations and management of existing system</li> <li>• Improve service in congested corridors through investment in improved transit service</li> <li>• Improve transit in rural areas</li> <li>• Provide options for non-auto users</li> </ul>	<ul style="list-style-type: none"> <li>• See all items listed under No. 1 above, plus:</li> <li>• Continuation/expansion of FTA fixed guideway, bus, and formula programs with either increased program size, match or increased intermodal flexibility</li> <li>• Federal lending, tax and credit support for State and/or private investment in intercity passenger transportation</li> <li>• Develop congestion pricing program support</li> </ul>
<p><b>4. Improve Safety</b></p> <ul style="list-style-type: none"> <li>• Reduce US fatality rate (high compared to other countries)</li> </ul>	<ul style="list-style-type: none"> <li>• PPP with vehicle manufacturing industry (NHTSA programs for national exploitation of new vehicle/infrastructure integration technology for safety)</li> <li>• Federal program requiring systematic State safety programs</li> </ul>
<p><b>5. Reduce Energy/Environmental Impacts</b></p> <ul style="list-style-type: none"> <li>• Reduce air quality related health risks</li> <li>• Reduce global warming impacts</li> <li>• Improved energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• See all items under No 3 above, plus:</li> <li>• Vehicle fuel efficiency related incentives (fuel economy standards)</li> <li>• Promote ISO and other green standard setting certifications for public construction entities</li> <li>• Context Sensitivity requirements in program development</li> </ul>
<p><b>6. New Technology Leverage</b></p> <ul style="list-style-type: none"> <li>• Capitalize on new technology for unique safety, transit, &amp; traffic management</li> <li>• Improve US technology base with R &amp; D</li> </ul>	<ul style="list-style-type: none"> <li>• See all items under number Nos 3 and 4 above, plus</li> <li>• Enhanced strategic transportation research</li> <li>• Investment in DOT professional core capacity building</li> </ul>
<p><b>7. Preservation of Mature Infrastructure</b></p> <ul style="list-style-type: none"> <li>• Introduce life-cycle management of highway and transit asset investment</li> <li>• Support technical innovation in infrastructure construction and materials</li> </ul>	<ul style="list-style-type: none"> <li>• Use of Federal aid for preventative maintenance</li> <li>• Incentives for full application of asset management</li> <li>• Performance and conditions data systems development and reporting</li> </ul>

\*\*Note: The Federal-aid program dimensions included above are only illustrative and are not intended to reflect the entire range of potential Federal actions.

## 5. Future Federal Aid Program Scope and Scale Options

Exhibit 3 presents a framework for examining possible options for a future Federal aid program – in terms of scope and scale plus performance and incentives. The horizontal axis – A, B, C – is a range of program scopes, in terms of level-of-emphasis on national interest systems and issues. (Section 6 below suggests the general modal implications of such an emphasis) The vertical axis -- 1, 2, 3 -- represents program scale in terms of significant increases or decreases in the current Federal program level. The program level designation represents a “snapshot in time”: since the real value of any given program level is impacted by inflation and other factors. Furthermore, even the Current Program Level may not be supportable by current federal revenues

**Exhibit 3: Major Elements of Future Surface Transportation Program Options**

		← Range of Scope →		
		A. Reduced National Interest/ Increased State Discretion	B. Existing Program/Current Federal Role	C. National Interest Emphasis
Scale ↑ ↓	1. Decreased Federal Program Level	A.1. Devolution – minimal Federal program		
	2. Current Federal Program Level	A.2. Maximum State flexibility	B.2. Business as Usual	C.2 National interest focus leveraged by performance incentives
	3. Increased Federal Program Level		B.3. Current program expansion	C.3 National interest focus enhanced by larger overall program

Note: Current Program Level = gradual reduction in buying power

Along the horizontal Scope axis there are three program mix options shown. *Column B – Existing Program/Current Federal Role* represents the current Federal aid program for each mode. There are two options to the existing program in terms of focus on the national interest systems, facilities and issues:

- *Column A -- Reduced National Interest* includes options with a reduction in the national interest focus of the program with corresponding increased discretion of States to invest according to their own priorities
- *Column C -- National Interest Emphasis*, includes options with program mixes based on an increased investment in national interest systems and facilities – irrespective of total program size

Along the vertical Scale axis are three levels of investment that can be combined with the different scopes. *Row 2 -- Current Federal Program Level* includes options that are based on no change in Federal taxes, implying a decline in real value of Federal investment over time. There are two options to the existing level of Federal investment. These are:

- *Row 1 -- Decreased Federal Program Level* in which Federal-aid program and supporting revenues would be deliberately reduced to the level required for only minimal Federal activities. Support of the remainder of the program would be at individual State/local discretion.
- *Row 3 -- Increased Federal Program Level* including options with an increase in Federal funding and a presumed growth in overall Federal aid program size.

Each cell within the chart represents a possible program option in the form of a logical combination of program scope and investment scale, reinforced with a level of flexibility vs. performance incentives. For example, the intersection of Column C and Row C creates Option C.3 *National interest focus enhanced by larger overall program*. These options are discussed below.

As noted in the Introduction, there are other reasonable future federal aid program scope/scale combinations – some of them indicated by the empty cells of Exhibit 3. The options discussed in this memo are limited to those that have been subject to considerable discussion in the recent past. The future may suggest the value of considering additional options.

## **6. Future Federal Aid Program Descriptions**

Using the above combinations (outlined in section 5), six discrete Federal aid program options have been created, based on logical combinations of scope and scale.

The most logical combinations have been shown. As indicated by the blanks in the table, there are some other combinations that could be considered – but they appear to have minimal policy consistency. Most of these options have been considered at some time in the history of the Federal aid program and Federal-State/local roles. For example, there have been studies and legislative proposals favoring increased investment in a network of national interest such as the Interstate and the National Highway System (NHS). There have also been studies and proposals requesting greater investment in fixed guideway transit including both urban and intercity rail and high speed ground transportation. In addition, there have been proposals for devolution of the Federal aid program to State and local government both through tax turnback (revenue sharing and block grants) and tax and program turnback (devolution). More recently, there has been attention on adjustments in the potential public-private sector roles, as well, including both direct and indirect support of private freight and intermodal facilities.

The key differences among the options is the degree to which they use the principal mechanisms of the Federal aid program – scope, scale, and incentives --to promote national vs. State/local priorities. In particular, the options differ as to whether program activities targeted on the national goals and interests are to be achieved *along with* other (State and regional) goals as part of a larger overall program – or *in place* of them as part of a more targeted Federal-interest program.

The six program options are discussed in terms of their principal themes below. These options include:

- *Devolution (A.1)* -- involves downsizing the Federal aid program to a minimum – retaining responsibility only for activities that would not likely be assumed by State/local entities. These responsibilities are presumed to include the Interstate, NHS and related maintenance and bridges and other programs that are under direct federal administration (such as federal lands and emergency relief) and most transit programs. Responsibility other activities – including the funding would be left to individual state/local entities to assume as they see fit. This option, therefore, supports a very narrow range of (existing) national interest systems and facilities and might be expected to result in an overall reduced level of public investment.
- *Maximum State/local flexibility (A.2)* -- would provide expanded discretion in the use the existing level of Federal aid towards meeting individual State/local needs with minimal constraints, including the ability to use of Federal funds across all program activities and modes of their own choosing – on a block grant-like basis. The discretion provided would have the effect of reducing the national interest focus of the Federal aid program and, instead, would support individual State/local priorities. Over time, the existing program level would not be supportable by the current level of federal revenues
- *Business as Usual (B.2)* – represents the current Federal program and revenue levels. This option maintains the existing program structure and continues the existing core program. This option also would include the current core formula highway and transit programs and other programs with administrative program allocations and Congressional earmarks (including the modest level of support for freight rail and intercity passenger rail (See Paper 5C-02 *Characteristics of the Federal Aid Transportation Program* Appendix for list of programs). Given the impacts of rising costs and reduced revenues per mile of use, and reductions in the Highway Trust Fund balance, this program level could not be supported without some increase in federal revenues. .
- *Current Program Expansion (B.3)* -- would increase the size of all the current modal activities program activities via increased funding base on increased Federal revenues – in effect maintaining the current program structure with an increase in real Federal investment. As in *Business as Usual (B.2)* above, this option also would include the current core formula highway and transit programs and other programs with administrative program allocations and Congressional earmarks (See Paper 5C-02 *Characteristics of the Federal Aid Transportation Program* Appendix for list of programs). It also presumes that the Federal aid program related to freight rail and intercity passenger rail would be maintained at their current very modest level of Federal support.
- *National interest focus leveraged by performance-driven requirements (C.2)* This option uses Federal aid program mechanisms to encourage State/local government program participants to increase their focus on certain national interest systems and facilities. For example, new funding categories could be created that apportioned funding based on congestion reduction and effects on national mobility. A combination of higher match, performance incentives and disincentives would leverage an increased proportion of State/local investments on programs such as the

Interstate, bridge maintenance, and the National Highway System. Other current program activities would be funded, but at a lower level-- as there would be reduced Federal resources for programs of State/local interest. Over time, the existing program level would not be supportable by the current level of federal revenues

- *National interest focus enhanced by larger overall program (C.3)* -- would achieve its national interest objectives by increasing the total program size so that the Federal funding for systems and facilities of greatest national interest (such as the Interstate and major fixed guideway transit program) would grow as part of the total program. In addition, there would be enough total federal funding available to support the development of new national interest systems such as freight rail and intercity passenger rail. Other current Federal program activities would be included – both formula and administrative allocations. Growth in overall program size would accommodate simultaneous retention of the flexible programs serving particular State/local interests and reduce the need for difficult policy trade-offs.

## 7. Goal Supportive Implications of Options

The six options described briefly above have different inherent capacities for supporting the five national goals set forth by the Commission that are addressed in Exhibit 2. In part, this is related to the differences in scale and scope – especially the presumed balance of categorical programs with a specific federal interest orientation versus flexible funding for use at state/local discretion. Other characteristics of the options may be inferred from the program scale and flexibility as described including:

- *Program implications relating to regional interests* – ease with which program accommodates State/local variations
- *Performance Efficiency* – application of performance incentives related to Federal aid utilization
- *Innovation/Public-Private Partnerships* – involvement of new forms of public-private partnerships
- *Mobility option support* – multimodal/intermodal emphasis
- *Perceived fiscal equity* – cross-subsidy among states consistent with pursuing federal objectives
- *Revenue substitution effects* – maintenance of state/local share of total funding

Exhibit 4 at the end of this section provides an initial evaluation of the major differences among the six options and their respective relationship to the five goal areas and the six other policy implications. The evaluation is on a relative basis, comparing each of the options with today's program and funding levels -- *Business as Usual*, Option B.2 (shaded) as a neutral point of comparison. Each of the other five options are then compared on a "more" or "less" scale, ranging from "very supportive" (+++) to "detracting" (- - -).

For example: Option C.2 is defined as increasing the national interest focus in comparison to today's program. However, Option C.2 would also involve a decline in Federal investment. The evaluation shows that this option could promote national interest goals, but at the expense of State/local interests -- since a larger proportion of the funds would be distributed in pursuit of nationally-oriented systems and facility improvements. By contrast, Option C.3, *National*

*interest focus enhanced by larger overall program*, which involves an increase in Federal revenues, is positive regarding Commission goals and other implications except for local land-use and public resistance to increased revenue raising efforts.

A broad comparison across the six options and the initial judgments can be carried out at a very high level as a point of departure in considering future federal aid program. These initial judgments are set forth below:

- *Program scope as it more or less targets national needs and interests* -- National transportation functions that operate on a multi-state scale benefit from a consistent national approach that requires strong categorical Federal aid program activity. Today, the clearest expressions of national interest are program activities supporting network improvements for interstate-interregional connectivity (highway, rail and waterway) and major metropolitan area basic mobility. However, such programs represent only a portion (and a declining one) of the total Federal aid program. Much of the program provides flexible funds to state and local transportation to respond to needs defined at those levels.
- *Potential freight and intermodal interests in the private sector* -- While the major Federal aid categorical grant programs have been largely limited to highways, transit, and waterways, the combination of increased global competition with system congestion -- especially where freight and passenger systems overlap -- have indicated opportunities for new forms of public-private partnerships to support private investment in improved freight logistics. Exhibit 4 suggests some options for public sector programs that can assist the private sector on a public-private partnership basis to leverage their activities towards cooperative funding of infrastructural improvements. Several studies are looking at potentially promising approaches to expanding highway, transit, rail, and maritime infrastructure.
- *Distributional issues and program scale* -- Focus on national systems also introduces distributional challenges. Federal funding allocations for systems and facilities of national interest -- where continuity, connections or specific needs are involved -- are, by their nature, based on system needs and are unrelated to individual State or regional fiscal capacity. Furthermore, they introduce Federal cross-subsidies that may be seen as inequities that undercut support for a strong Federal program.
- *Program size as it accommodates both national and other State/regional goals* -- National goals can be pursued within the context of a range of program investment levels. If a program is maintained at the level sustained by current revenues -- or if revenue levels are reduced -- the national interests could only be projected by reducing and/or eliminating other less nationally-focused program elements -- thus reducing State discretion. If the overall program size increases, national interest program activities can be increased without trading off against other more flexible program activities less directly related to systems and issues of national significance.
- *Federal vs. State-local shares in funding the Federal aid program* -- The leveraging impact of increased Federal aid and reduced match levels appear to have operated to maintain the Federal share of the total Federal/State/local expenditures within a fairly narrow band (20-25 percent) over the last decade. It is not clear what impacts major increases or decreases in Federal aid would have on this pattern.

### Exhibit 4. Implications of Alternative Federal Aid Programs

Option and Characteristics	A.1	A.2	B.2	B.3	C.2	C.3
<b>Program Scope</b>	Reduced national interest/increased State discretion		Existing program scope/current Federal role		National interest emphasis	
<b>Federal Investment Scale</b>	Decreased Federal revenues (gradual reduction in program size)	Current Federal revenue-constrained	<b>Current Federal revenue-constrained</b>	Increase in Federal revenues	Current Federal revenue-constrained	Increase in Federal revenues
<b>Theme</b>	Devolution	Maximum State flexibility	<b>Business as usual current program</b>	Current program expansion	National interest focus leveraged by performance incentives	National interest focus enhanced via larger program
<b>Systems/Facilities of National interests</b>	Federal investment limited to minimal systems/facilities of national interest	Federal aid like block grant -- States free to pursue State/local specific interests	<b>Maintenance of current level of Federal support for Federal interests systems and facilities</b>	Increase in level of Federal support for current Federal interests systems and facilities	Maintenance of current Federal interest systems and facilities at expense of State/local interest investments	Expansion of Federal interest systems and potential new Federal interest systems/facilities initiatives
Commission Goals	A.1	A.2	B.2	B.3	C.2	C.3
1. Economy	--	-		++	++	+++
2. Safety	--	-		+	+	++
3. Energy/Environment	--	-		+	+	+
4. Defense/Emergency	--	-		+	+	+
5. Mobility	--	-		++	+	++
Other Implications	A.1	A.2	B.2	B.3	C.2	C.3
• Program Implications (regional interests)	++	+++		+	--	+
• Performance Efficiency	-	-		+	+++	++
• Innovation/PPP	+	+		+	++	+
• Modal Support/LU Impacts	+	+++		-	-	-
• Fiscal Equity		+		+	-	++
• Revenue Substitution Effects	++	-		-	+	--
• Public Support (for departure from tradition)	--	++		+	+	-

- *Fostering effective utilization of the Federal aid investment* -- Exhibit 4 suggests that larger programs most readily support Federal interest objectives that have substantial benefits and costs such as economic development, safety, defense and emergency response. The introduction of performance incentives and requirements – even at current revenue levels -- can also have a positive impact by targeting Federal investment more effectively on specific relevant investments. Improved program efficiency may require a significant increase in Federal leverage over systems performance achieved by use of performance criteria as an incentive or requirement with Federal aid. In addition, the federal aid program can be structured to leverage tolls and use loan and credit programs to partner with private investment. Some national interests are not systems-oriented, but relate to State operation and management of the Federal aid system – such as State initiatives to reduce fatalities. In the absence of utilizing a categorical funding program directly, program performance may be incentivized through increases in Federal match or other special consideration.
- *Flexibility in use of Federal aid to accommodate non-Federal interests* -- Greater discretion can be granted to the distinct interests of individual States by increasing the flexibility in the use of Federal aid (such as block grants with complete flexibility in use of funds by mode or type of investment). At the extreme, most of the Federal aid program could be “devolved” – eliminating all but minimal Federal functions and leaving States free to develop their own programs and revenues consistent with their own needs and capacities.

## **CONSOLIDATED COMMENTS FROM MEMBERS OF THE BLUE RIBBON PANEL OF TRANSPORTATION EXPERTS on PAPER 5C-03**

One reviewer commented as follows:

This paper reflects a logical and thoughtful look at the future of the federal surface transportation program. As with the other papers the brevity of presentation belies the complexity of the issue. It speaks to the fundamental roles of state and federal governments and how that relationship is governed by the amount of, delivery mechanisms for, and regulations associated with federal funds.

Exhibit 4 offers a good summary of the alternatives in matrix format which is useful for the discussion. The authors are quick to point out that there are options not reflected specifically in this matrix which constitute additional iterations of the same parameters. By varying the parameters there is a consequential impact on other elements of the matrix. For example, in the matrix it appears the authors believe that increasing federal involvement is the most promising means for addressing the commission goals of Economy, Safety, Energy/Environment, Defense/Emergency, and Mobility. Without a doubt, more money, regardless of the source, would improve the prospects of achieving the commission goals. However, there is nothing inherently more valuable about federal dollars as opposed to money from other sources in this regard. In fact, there is a case to be made that the states would be better stewards of greater investment than if all new monies were federally controlled. There is however, a divergence of opinion among the reviewers of this paper on this point.

The paper appears to be written from a “strong federal” point of view. For example, the matrix seems to indicate that in Option A.2 where funds are allocated to the states in a block grant program that this would be detrimental to achieving the commission goals and would reduce system performance. While there is a national dimension to the Economy goal of the commission, the matrix ignores the fact that the national economy is built on the economies of the 50 states and that these states aren’t waiting for the federal government to create viability within their borders.

The paper does not appear to adequately account for either *sustainability* or *global economic competitiveness* in setting forth an otherwise sound matrix of implications and criteria for comparing the range of options for federal involvement. As regards sustainability, there is a range of national policy goals embodied in federal mandates for transportation security, emergency planning, air quality, environmental justice, and other considerations that do not fluctuate with levels of federal transportation support.

As regards international economic competitiveness, the analysis framework should not fail to include this dimension. It represents among the most significant implications of the transportation policy options that reduce the federal role, and the most important benefits of a more expansive federal role that both focuses on national transportation system performance and continued support for local needs.

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The paper suggests that performance incentives may foster greater and more thoughtful investment on the part of the states. Some would hold the opposite to be true and argue that the states neither like incentives or disincentives when it comes to the utilization of federal funds.

Another reviewer commented as follows:

This paper's options and judgments seem to be limited to reorganizing existing federal programs within existing modal structures, and do not consider or analyze alternatives that break down modal and programmatic silos.

For example, a possible federal policy to address growing trade as part of the global economy could be for the federal government to consider investing in major multimodal corridors that distribute trade from major ports of entry (international borders, seaports and airports where large amounts or value of goods move) or connect major economic and population centers. This corridor focus would not be limited to highway or transit investments, but investments in any mode that improves the flow of people and goods. And investments could be made to improve the operations (throughput) of the corridor or for capital projects. This type of integrated surface transportation thinking does not come across in the papers developed to date.

In Exhibit 1, a key missing component of promoting economic growth and competitiveness is improved access to ports of entry (international border crossings, seaports and airports).

Section 5, more options for defining "national interest" should be presented to stimulate thinking on the range of alternatives to the existing surface transportation program structure.

Section 7, first bullet on "program scope as it more or less targets national need and interests" – cites the declining share of the federal program that "national interest" programs represent, but should also reference that this decline is due to a lack of a strong national vision/policy for surface transportation over the past several reauthorizations. Providing equity to states for their fuel tax contributions has been a major policy goal of the past two reauthorization bills, but this is not a national vision for the surface transportation system, rather just a turnback to states of funding and therefore transportation policy setting.

Another reviewer commented as follows:

On page 4, the top table states: "Increased truck size and weight regulations to achieve improved efficiency and maintain modal competition." This reviewer believes that rail-competitive trucks already underpay their cost responsibility by billions of dollars per year, an enormous market-distorting, efficiency-reducing competitive hurdle that railroads must overcome. Liberalizing truck size and weight limits would significantly exacerbate the existing inequity.