

SURFACE TRANSPORTATION INNOVATIONS

REASON FOUNDATION

ISSUE NO. 58 - AUGUST 2008

By Robert W.
Poole, Jr.

Director of
Transportation
Studies

Reason
Foundation

[Printer-friendly Version](#)

[Bob Poole's Bio](#)

[More Surface
Transportation News](#)

In this issue:

[USDOT's reform proposal](#)
[Congress stuck in old paradigm](#)
[Further thoughts on McKinsey GHG report](#)
[America's second HOT network](#)
[Reducing emissions at ports](#)
[How motorists are responding to high gas prices](#)
[Premium lanes for New Jersey Turnpike](#)
[Upcoming Conferences](#)
[News Notes](#)
[Quotable Quotes](#)

DOT's Audacious Reform Proposal

It would be understandable (though unfortunate) if Transportation Secretary Mary Peters and her senior policy people served out their remaining six months just keeping the wheels turning. Fortunately, after having championed new ideas during their time in office, they have decided to challenge Congress and the transportation community to go beyond simply "reauthorizing" the status quo federal surface transportation next year. The blueprint for this rethink, unveiled at the end of July, is called "Refocus. Reform. Renew. A New Transportation Approach for America." You can find its 73 pages at www.fightgridlocknow.gov, and I commend it to your attention.

To set the stage for such a rethink, the report briefly summarizes the problems with the current federal program:

- Loss of purpose;
- Decline in performance;

- Wasteful spending; and
- Dependence on a non-sustainable funding source: fuel taxes.

I won't belabor those points; they have been addressed in this and other newsletters, as well as in reports by the Government Accountability Office, the Policy and Revenue Commission, and others. Instead, let's focus on what DOT proposes, and how it would address those problems.

First, DOT calls for a more focused federal role, which would concentrate federal funding on a handful of major, national problems: enhanced interstate trade and commerce via a modernized Interstate highway system, a major assault on traffic congestion in urban areas, and continued improvements in highway safety. As tools for doing these things cost-effectively (i.e., ensuring real value for the federal investment), the report calls for:

- More direct pricing of roads;
- Establishing quality and performance standards;
- Institutionalizing benefit/cost analysis at the system and program level;
- Using federal dollars to leverage non-federal resources;
- Carrying out a coherent transportation research agenda, freed of congressional earmarking.

Those would be very dramatic changes, and they would put numerous sacred cows at risk. So it's hardly surprising that the report is already under assault from defenders of the status quo. But let's ignore those criticisms to examine how DOT proposes to implement these worthwhile principles.

The current 100+ federal highway and transit programs would be collapsed into two major programs—Federal Interstate Highway and Metro Mobility; two much smaller programs—Mobility Enhancement and Highway Safety Improvement; and a small set of others (including the operations of FHWA, FTA, NHTSA, FMCSA, plus New Starts, TIFIA, and Federal Lands).

The two major programs would be greatly simplified. In both cases, a significant fraction of the federal funding would no longer be allocated by formula but by competitive, performance-based grants (20% of the total in the case of Interstates, 30% for Metro Mobility). The DOT's recent Corridors of the Future and Urban Partnership Agreement programs are prototypes for such competitions. That would be a huge and welcome change. Under both major programs, states would be required to set performance targets and report their outcomes on a regular basis. For competitive grants, projects would have to be justified via benefit/cost analysis. And across the board, any project costing \$250 million or more would have to evaluate a public-private partnership alternative.

There is a lot more that I don't have space to cover here—enhanced

access to Private Activity Bonds, increased flexibility for TIFIA and for State Infrastructure Banks, and a pilot program for states to opt out of the federal-aid highway program (in exchange for loss of a small percentage of what they would otherwise get in federal funding and an agreement to expend all the returned funds on surface transportation projects).

The proposal deliberately makes no recommendation on the level of funding, which it leaves for the next president and Congress to debate. Rather, it focuses on the substance of transportation policy. As such, it provides an excellent starting point for rethinking the federal role in surface transportation.

[» return to top](#)

Congress Members Stuck in the Old Paradigm

How threatening a shift from allocation by formula to allocation via performance-based competitive grants would be is illustrated by recent reactions in Congress to the DOT's Urban Partnership Agreement (UPA) competition. To recap briefly, as a result of public outcries over "bridges to nowhere" and other earmarking-gone-wild in SAFETEA-LU, Congress held off on earmarking about \$850 million of transportation funds in fiscal year 2007. The Office of the Secretary, as part of DOT's Congestion Initiative (launched by former Secretary Norm Mineta), decided to use those funds to spur actual implementation of congestion pricing in a handful of highly congested urban areas.

After announcements in late 2006 and a workshop for potential applicants during the Transportation Research Board annual meeting in January 2007, DOT received 26 initial applications for UPA. Some did not fully comply with the requirements (e.g., by proposing to study, but not implement, pricing, or by including transit but not tolling). After weeding those out, the nine semi-finalists were eventually winnowed down to the five best: New York, Miami, Minneapolis, San Francisco, and Seattle. While the New York State legislature ultimately failed to give New York City the legal authority to implement area pricing in lower Manhattan, the other four are going forward, with Miami's new 95 Express lanes set to open this month.

It seemed to take quite awhile for members of Congress to notice what was going on. But those who spoke out were not at all happy about UPA. Rep. John Oliver (D, MA) called for a GAO investigation. And Rep. Joe Knollenberg (R, MI) raked Secretary Peters over the coals at a hearing in February, saying he had major concerns. "I've heard from a variety of people around the country who are very upset . . . because they didn't get it. I'm wondering if there wasn't [sic] some people that were overlooked, and frankly I don't know that that decision was one that was best for the entire country." He complained that a traffic reduction plan "in my own backyard" did not get funded. "They thought they were going to be able to compete, but they couldn't compete. They couldn't even get heard."

(*Traffic World*, Feb. 18, 2008) This really sounds to me like the entitlement mentality at work.

But what really takes the cake is a letter from Rep. John Mica (R,FL) published in the *Wall Street Journal* on July 30, 2008. Responding to a *WSJ* op-ed criticizing congressional earmarks in transportation, Mica equated a competitive grant program (UPA) with earmarking of pet projects by members of Congress. "Instead of sending funds to projects in nearly every state, unelected bureaucrats, through a closed process without public hearings or congressional consultation, sent every penny to just five cities for congestion pricing projects. . . . In the end, unelected bureaucrats spent more than \$1 billion on projects of their choosing."

So that is how the Republican leader of the House Transportation Committee describes a performance-based, competitive grant program. You can now appreciate how big of a change the Mary Peters DOT has proposed in its "Refocus. Reform. Renew" proposal.

[» return to top](#)

The McKinsey Greenhouse Gas Study, Continued

My article last issue welcoming the findings of a major study on how the United States could reduce greenhouse gas (GHG) emissions without major changes in lifestyle provoked a lot of reaction. The most common concern, vis a vis the transportation part (on which I focused) was McKinsey's claim that major increases in light vehicle (cars and light trucks) fuel efficiency could be obtained at zero or negative cost to consumers—i.e., that the savings in fuel costs would be more than the increased cost of the vehicles.

My former Reason colleague, environmental policy analyst Joel Schwartz of American Enterprise Institute (who's also a pretty good economist) noted that it's hard to take seriously claims that corporations and consumers are, in effect, "leaving tens of billions of dollars per year sitting on the table, unclaimed." There are cases where that could be true—he pointed to unenlightened electric utility rate regulation as one example. But in an area like vehicle purchase decisions, where choices of a huge range of fuel efficiency already exist, "if there were huge amounts of money to be saved by reducing CO2 [by increasing fuel efficiency], we'd already be doing it." He noted that the recent doubling of U.S. gas prices—from \$2 to \$4 per gallon—is equivalent to a \$200/ton carbon tax, which is four times the cut-off point of \$50/ton McKinsey used. Yet this change has produced only a few percentage point decrease in vehicle miles of travel in the short term, and a modest additional reduction in fuel use, thanks to changes in vehicle purchase decisions.

What he and all the other critics note most strongly is that it would take larger increases in fuel prices (either from underlying oil cost increases or from higher fuel taxes) to produce dramatic changes in vehicle purchase

and use—and those changes would have a cost (contra McKinsey). In Europe, gas has been over \$5/gallon in most countries for decades (and is now at \$7-8/gal.). That has led to most Europeans buying much smaller and lower-performing cars than Americans. That falsifies the McKinsey assumption of no reduction in consumer utility—assuming that Americans still want lots of interior room, luggage capacity, acceleration, and (in some cases) trailer-towing capability.

My correspondents also pointed out to me a seminar held on June 4, 2008 by Resources for the Future, at which McKinsey people summarized their study, and it was critiqued by Terry Dinan of the Congressional Budget Office and Richard Newell of Duke University. Their comments were generally consistent with what I have summarized above. You will find a recap of this seminar, with audio, video, and Powerpoint presentations, at:

www.rff.org/events/pages/US-GHG-Reduction-Price-and-Policies.aspx .

So, I conclude that I should have been more skeptical of McKinsey's broad conclusion that (at least in the transportation area) some large GHG reductions can be something of a free lunch. On the other hand, if gasoline prices remain in the \$4 range for several years (and as I write this they are heading downward), consumer utility, on average, may well shift toward smaller, less-powerful, more fuel-efficient cars. That certainly seems to be what most of the auto companies top managements think, given their recent shifts in production away from pickup trucks and large SUVs.

[» return to top](#)

America's Second HOT Network Gets the Green Light

Five years ago, Ken Orski and I produced a policy study making the case for going beyond individual high-occupancy/toll (HOT) lanes. We proposed that metro areas with congested freeway systems aim to develop seamless networks of value-priced lanes that would do double-duty as (1) a congestion-relief alternative for drivers, and (2) an uncongested guideway for region-wide express bus/BRT service. We made ballpark estimates, for the eight most-congested metro areas, of the cost (converting existing HOV lanes, adding new lanes where no HOV lanes existed, and building flyover connectors at interchanges) and of toll revenues. We concluded that although none of the eight networks would be completely self-supporting, the majority of the capital costs could be financed based on toll revenues. (www.reason.org/ps305.pdf)

Last year at a Comptroller General's workshop on transportation infrastructure, I was pleased to learn of the Dallas/Fort Worth metro area's HOT network plan, included in their *Mobility 2030* long-range transportation plan. And in July 2008, the second such HOT network was approved by the Metropolitan Transportation Commission for the San Francisco Bay Area. The \$4.8 billion project will convert 790 lane-miles of

existing HOV lanes and build another 275 lane-miles of HOT lanes. This is a somewhat less ambitious plan than what Ken and I sketched out five years ago, because it leaves out several of what would be the most costly links—through Oakland on I-880 and through San Mateo, San Francisco, and southern Marin Counties on US 101. But with those limitations, the plan is projected to be self-supporting, based on modeling done by Parsons Brinckerhoff and ECONorthwest. A key feature of the plan—and one of its big selling points in the Bay Area—is extensive express bus service on the new network.

Planning for comparable networks is under way in Atlanta, Houston, Los Angeles, Miami, Washington, DC, and Seattle—the other six metro areas that Ken and I sketched out in 2003. And while Ken and I can claim a bit of the credit for this, a lot of the credit goes to the Federal Highway Administration's Value Pricing Pilot Program and the U.S. DOT's subsequent Congestion Initiative, launched under Secretary Mineta and expanded under Secretary Peters. Without their diligent efforts over the past decade to document the results of the early California HOT lanes, provide seed-money grants for feasibility studies, and remove barriers to and provide incentives for value pricing, HOT networks might still be just a policy wonk's dream, rather than an emerging reality.

[» return to top](#)

New Battles Over Air Quality at Ports

Having now researched toll truckways to serve two major ports (Los Angeles/Long Beach and Miami), I have an ongoing interest in intermodal goods-movement issues. In an increasingly globalized economy, ensuring that goods can move efficiently to and from major ports relates directly to economic growth. But for ports like those in Los Angeles that are located in non-attainment areas for air quality, continued growth depends on reducing port-related emissions. In particular, that means reducing particulate emissions from diesel trucks, locomotives, and ships. But here we run into jurisdictional problems, as dramatized by recent developments at the Los Angeles area ports.

The ports of LA and Long Beach are trying to put into effect a program to phase out pre-2007 diesel trucks, which includes providing financial assistance to help pay for the replacements. But the mechanism both ports have proposed includes a new regulatory approach that would permit only trucking companies that sign "concession agreements" to haul containers to and from the ports. (In the case of the LA port, one of the provisions would require the elimination of non-unionized owner/driver rigs in favor of trucking company fleets, which the Teamsters intend to organize.) Everyone has agreed that the old diesel trucks need to be replaced, but the trucking industry has filed suit against the concession agreement requirement, arguing that when Congress deregulated the trucking industry, it pre-empted economic regulation of trucking anywhere in the country, a position upheld in a unanimous Supreme Court case

earlier this year.

While that drama plays itself out, the legislature passed SB 974, which authorizes the LA and Oakland ports to charge a \$60 per 40-foot container fee, whose \$500 million per year proceeds would be spent on port-related emission reduction and transportation (rail and truck) infrastructure improvements. (That would be in addition to the LA ports' \$70 per 40-foot container fee, to assist with replacing pre-2007 diesel trucks.) Earlier versions of this plan lacked broad support, and one was vetoed by Gov. Schwarzenegger, but this one looks more defensible. It is better targeted, and its cost impact—\$500 million on the \$378 billion annual value of goods—is just 0.13%.

Meanwhile, the California Air Resources Board is trying to require all ships serving California ports to switch from dirty bunker fuel to low-sulfur fuel within 28 miles of shore. When fully implemented by 2012, that change would reduce ship particulate emissions by 83%, at a cost of \$30,000 per docking. The Pacific Maritime Ship Association argues that CARB lacks jurisdiction, hoping that the International Maritime organization will assert jurisdiction when it takes up the matter in October. PMSA blocked an earlier attempt by CARB by arguing that it could not proceed without a waiver from the federal EPA, which was not forthcoming.

As if diesel particulate emissions were not enough, California is also roiling truckers and ship operators over greenhouse gas emissions. On July 31, the state joined several other parties in suing the EPA for not granting it a waiver to regulate GHGs from ships and aircraft. And the trucking industry is considering litigation to block a CARB proposal, to be decided upon in October, to regulate GHGs from all trucks operating anywhere in the state.

In short, goods-movement companies are facing jurisdictional chaos over both particulates and GHGs. Since both international trade and interstate commerce are clearly federal interests, we're overdue for Congress and the EPA to straighten out this mess.

[» return to top](#)

How Are Drivers Actually Responding to High Gas Prices?

You know the old saw that “the plural of anecdote is data”? Nearly all the media coverage of how drivers are responding to \$4 per gallon gasoline has been of that nature—and therefore hardly representative of any real trends.

But we now have at least one statistical look at how drivers in three metro areas—Austin, Dallas/Ft. Worth, and El Paso—are coping. NuStats, a respected survey research firm based in Austin, did a telephone survey of 500 households in those three metro areas during the week of July 21,

2008 (results at www.nustats.com). Researchers asked them two open-ended questions: what changes in driving have they done in the last 12 months, and what do they plan to do that they haven't done yet? I'm naturally skeptical of the latter, since people are inclined to tell pollsters politically correct things on that kind of question, but are more likely to accurately report what they have actually done. So I will focus on the actual changes in this summary.

As you might expect, two-thirds reported some reduction in the amount they drive. The most common means of doing this (66%) was to combine multiple trips into a single trip. Some 39% said they have eliminated some trips, while a surprising 21% said they had downsized to a more fuel-efficient vehicle (3% switched to a hybrid). But where it really gets interesting is in the alternatives to driving to and from work. The most popular of these was telecommuting (12%), followed by joining a carpool (9%), walking (9%), bicycling (4%) and using public transit (4%).

That last point squares pretty well with my own and several other analysts' number-crunching to estimate what portion of reported decreases in VMT might equate to reported increases in transit boardings. And overall, the results demonstrate people's continued preference for automobile travel, thanks to its convenience and flexibility, despite higher gas prices.

To be sure, these results come only from Texas, and a similar survey in other metro areas might produce different results. But I suspect they'd be broadly similar in most large metro areas, where suburb-to-suburb commuting is the dominant pattern.

[» return to top](#)

Premium Lanes for New Jersey Turnpike?

Now that Gov. Jon Corzine's plan to "monetize" the New Jersey Turnpike to pay down state debt has been abandoned, the state still faces the need to come up with \$2 billion to fund a long-needed widening of 35 miles of the Turnpike's central section. Two senior legislative leaders have come up with an innovative proposal: let the private sector finance the expansion via premium tolls it could charge if the new lanes became premium lanes, either for congestion-relief (express toll lanes) or specialized truck-only toll (TOT) lanes. As Peter Samuel points out in a recent article, there is a strong case for the TOT lanes alternative (www.tollroadsnews.com/node/3623).

First, the planned widening would follow the same lane configuration that already exists north of that 35-mile section: a so-called dual-dual configuration in which there are two separate three-lane sections northbound and the same thing southbound (3/3/3/3). Currently, the inner three lanes each direction are cars-only, with mixed traffic in the outer lanes. But under a TOT lanes alternative, trucks (and buses) could be

required to use the inner lanes, which would be built strong enough to handle the heavy weights and axle loadings. The outer lanes, if reserved for light vehicles (cars, SUVs, pickup trucks), could easily be restriped to 11 feet instead of the current 12 feet, for a resulting configuration of 4/3/3/4.

What might make this plan appealing to truckers? As Samuel, co-author Jose Holguin-Veras, and I argued in our 2002 toll truckways study (www.reason.org/ps294.pdf), such truck lanes could offer not merely time savings and trip-time reliability but also the ability to operate turnpike doubles and short triples—bigger rigs now illegal in New Jersey (but operating routinely on the Indiana Tollway, Ohio Turnpike, New York Thruway, and Florida Turnpike). The combined productivity gains from higher payloads and time savings would be worth paying premium tolls to obtain. Trucks already pay tolls to get mediocre services on the New Jersey Turnpike, constituting about 12% of the traffic volume and 34% of toll revenue.

Politically speaking, the two legislators promoting the idea are both Democrats—Richard Cody (the state senate president) and Ray Lesniak (chairman of the senate economic growth committee), as is Gov. Corzine. The strongest congressional opponent of liberalizing federal truck size and weight limits is probably Sen. Frank Lautenberg, (D, NJ). His concern has always been the safety implications of mixing longer combination vehicles (LCVs) like turnpike doubles with automobiles. That concern does not exist with completely separated truck-only lanes.

So the potential is there for America's first long-haul TOT lanes. It will be interesting to see whether New Jersey Democrats can seize the opportunity.

[» return to top](#)

Upcoming Conferences

Just a reminder that I don't have space to list all possible conferences of interest; those listed here are only ones that I or a Reason colleague will be speaking at.

[Infrastructure Finance Summit, Infocast, Chicago, Sept. 8-10, 2008](#)
Sutton Place Hotel, Chicago, IL. Details at:
www.infocastinc.com/index.php/conference/102

[Partnerships in Transit](#), National Council for Public-Private Partnerships and Federal Transit Administration (two locations):

- Philadelphia: Sept. 17-18, 2008, Sheraton City Center Hotel
- Dallas: Oct. 22-23, 2008, Radisson Hotel Central Dallas

Details available at www.ncppp.org/calendars

ARTBA's 20th Annual Public-Private Ventures in Transportation, Washington, DC, Sept. 15-16, 2008, Hilton Washington Hotel. Details at: www.artba.org/meetings_events/2008/ppv/index.htm

[» return to top](#)

News Notes

Latest Annual Highway Report Card

The Reason Foundation has just released the 17th annual highway report by Prof. David Hartgen. It uses 12 indicators to assess the performance and cost-effectiveness of the highway systems of all 50 states. In terms of overall cost-effectiveness, North Dakota finished again at #1, while New Jersey again ranked last. The most improved state was Alabama (up 14 places since last year) and the biggest decline was Mississippi (down 13). You can download the report from www.reason.org/ps369.pdf.

Excellent Energy Overview

My favorite newsmagazine, *The Economist*, has produced a superb overview on current and potential sources of energy, covering carbon sequestration, wind and solar, geothermal, biofuels, and nuclear. The 28-page special report appeared in the issue of June 21, 2008 and is available at www.economist.com/specialreports.

Tolling Bill Advances in California

Although California pioneered HOT lanes in the 1990s, current state law prohibits charging tolls on any state highway or bridge not already tolled. So I am cheered to learn that AB 3021 by Pedro Nava (D, Santa Barbara), which would let a state agency approve toll-road and HOT lane plans by local agencies, has passed the Assembly and is given a good chance to pass the Senate (*San Jose Mercury-News*, July 28, 2008). No longer would each and every toll project require getting a bill through the legislature.

Comprehensive New Report on PPP Toll Roads

The U.S. DOT on July 18 released "Innovation Wave: An Update on the Burgeoning Private Sector Role in U.S. Highway and Transit Infrastructure." It's very well-done, providing a comprehensive overview of the major long-term concession toll projects thus far, an overview of state enabling legislation, and some good discussions of how such projects respond to flaws in traditional transportation policies and how risks can be managed in such projects. Highly recommended. (www.fhwa.dot.gov/reports/pppwave/index.htm)

Guide for BRT Planning

I have not read it, but this new guide to planning Bus Rapid Transit looks promising. It's called "Advanced Network Planning for Bus Rapid Transit: The 'Quickway' Model as a Modal Alternative to 'Light Rail Lite.'" It was

produced for the Federal Transit Administration by The Mission Group.
([http://ntl.bts.gov/lib/26000/26800/26875/BRT Network Planning Study -
Final Report.pdf](http://ntl.bts.gov/lib/26000/26800/26875/BRT_Network_Planning_Study_-_Final_Report.pdf))

Correction from Last Issue

I slipped a digit in giving you the URL for Randal O'Toole's important new critique of urban transportation planning—as many readers hastened to tell me. The correct URL is:

www.cato.org/pubs/pas/pa-617.pdf. Sorry for the error.

» return to top

Quotable Quotes

"[M]ost people, we think, both liberals and conservative, will approach Sec. Peters' initiative with an open mind. They will regard it as an honest and much-needed attempt to reform the nation's 'broken' approach to surface transportation – the first attempt to restructure the program and adapt it to the changing needs and circumstances of the 21st century."

--C. Kenneth Orski, "Reforming the Nation's Transportation Agenda," *Innovation NewsBriefs*, August 2, 2008

"Secretary Peters and I are on the same page. Every state is facing a certain level of inability to maintain their highways and bridges. But raising the gas tax is a complete non-starter. I don't think anyone out there will support a federal gas tax increase."

--John Njord, Director, Utah DOT, in "Peters' Highway Plan May Stall in Congress," by Erika Lovley, *Politico*, July 29, 2008.

"The point is we have had lots of 'energy decades' and society adjusts. Just as the great responses to the transportation air quality issues of the past decades were resolved by vehicle and fuel technologies rather than changes in behavior, I believe that that is what we will see again, where American lifestyle preferences will lead and technology will respond. It is fatuous to believe that because fuel costs \$4 a gallon today that we will all decide to live in apartment houses. (I was just in Europe and paid \$8 a gallon and was immediately stuck in a 40-minute traffic jam of commuters driving home from work—and Europe continues to suburbanize.)

Remember that there are more Americans living in trailers than in apartment houses with 50 units or larger. What will be changed is the calculus – the arithmetic – of decisions in the housing-transportation trade-off."

--Alan Pisarski, testimony regarding the future federal role in surface transportation, U.S. Senate Committee on Environment and Public Works, June 25, 2008.

"The National Surface Transportation Policy & Revenue Commission . . . advocated an investment strategy for intercity rail, noting [that this] 'would help meet important national energy and environmental goals by shifting travel to trains, which consume approximately . . . 21% less energy per

passenger mile than automobiles.' So we should spend decades and billions for intercity rail when the recently passed Corporate Average Fuel Economy (CAFÉ) standards will deliver an approximately 40% improvement in vehicle efficiencies perhaps well before there could be a meaningful degree of implementation of intercity rail?"

--Steve Polzin, "Energy Crisis Solved!" *The Urban Transportation Monitor*, July 11, 2008

"House Democrats in the New Direction Congress are committed to robust public investment in public transportation. In addition to this commitment, we must also look to innovative Public-Private partnerships to fund our increasing infrastructure needs. Private investment is playing an increasingly larger role in public infrastructure, and we must continue to offer innovative solutions at every level of government to face our transportation challenges."

--Speaker of the House Nancy Pelosi, letter to National Council on Public Private Partnerships, July 31, 2008.

[» return to top](#)