

LET THE DEBATE COMMENCE

A Primer on the National Commission of Surface Transportation's Report

January 15, 2008, is the date when the debate over America's highways and transportation infrastructure emerged from the realm of "inside the beltway" punditry and policy wonks to the public at large. Accompanied by conspicuous amounts of media attention, the **National Commission on Surface Transportation unveiled its long anticipated report that had been mandated as part of last transportation reauthorization package, SAFETEA-LU.** While headlines nationwide zeroed in on the eye-popping recommendation that the federal gas tax be raised between 25-40 cents (or 5-8 cents per gallon, per year) and indexed for inflation, that was by no means the only dramatic idea promoted.

Given the fact that it seems every state is already struggling with challenges associated with transportation funding at their level, the expected looming shortfalls in the Federal Highway Trust Fund (HTF) has clearly created a palpable sense of anxiety about how to avoid gridlock, move freight in an increasingly globalized economy and enhance public safety. That is the milieu into which the Commission's report dove headfirst.

The Commission concluded that a **simple reauthorization of SAFETEA-LU is insufficient to meet the demands for a vibrant 21st Century transportation system.** The report explicitly calls for a "Federal Compact" that is "performance driven" and "mode neutral."

The **Commission** recognized the challenges of the slowness with which major projects are delivered and **recommended a dramatic revamping and**

The National Commission of Surface Transportation's report includes a Federal Compact, which calls for:

- A strong Federal role in surface transportation that will evolve to meet the national interest;
- Increased expenditures from all levels of government and the private sector to compensate for past investment failures while addressing significant increases in future demand;
- A commitment to make more effective use of taxpayers' funds for the national interest;
- Federal funding that is performance-based and focused on cost-beneficial outcomes with accountability for the full range of economic, environmental, and social costs and benefits of investments; and
- Far-reaching program reform to eliminate waste and delays in Federally funded program delivery.

speeding up of project approvals. Part of this effort would focus on eliminating redundancy in regulations, particularly environmental regulations, and by requiring greater coordination between all federal agencies that have a hand in transportation project approval.

Another key reform advocated by the Commission envisions a dramatic consolidation of 108 current federal transportation-related programs into 10 broad, but thematically coherent, programs.

The last major reform advanced by the Commission was the **creation of an independent National Surface Transportation Commission (NASTRAC) to oversee a national investment plan** for

Here are 10 program areas being recommended to Congress for federal surface transportation investment:

1. A national asset management program that focuses on maintaining the nation's infrastructure at an appropriate level
2. A program to enhance U.S. global competitiveness by zeroing in on key chokepoints through which significant amounts of freight must move on the nation's highways
3. A program to improve metropolitan mobility focusing on those cities with populations of 1 million or greater
4. A national safe mobility program establishing national standards for safety including the halving of surface transportation deaths by 2025
5. A national access program for smaller cities and rural areas that would allow federal funding for state plans that meet approved performance standards
6. A program to serve high-growth corridors by rail that would provide federal funding for an "intercity" passenger rail network intended to connect locations within 500 miles of each other
7. An environmental stewardship program that would be funded at an equivalent of 7 percent of the total funding for the Federal surface transportation program. The funds would be distributed to states with a minimum of 10 percent being used to address air quality, retrofitting of existing diesel vehicles, transportation enhancements and additional mitigation efforts (including land banking)
8. A program to accelerate the development of environmentally friendly replacement fuels that would work with U.S. Department of Energy research programs. Estimated funding is recommended to be around \$200 million annually over the next decade
9. A program for providing public access to federal lands that would allow closer integration with state authorities
10. A transportation research program focusing on new technologies that would have full dedicated federal funding

and recommendation to Congress regarding what types of revenue adjustments would be necessary to accomplish the overall strategic goals.

Given the ambitious scope of the changes suggested by the report, the question of its funding mechanism is

pivotal. Beyond the political lightning rod raised by the prospect of increasing the federal gasoline tax, the **Commission recommended existing federal truck taxes be adjusted**, a federal ticket **tax be levied on all transit trips**, a federal freight **fee** be implemented **to help finance freight-related improvement along with a portion of customs duties**, and a new federal **ticket tax be levied on users of passenger rail** to expand that network.

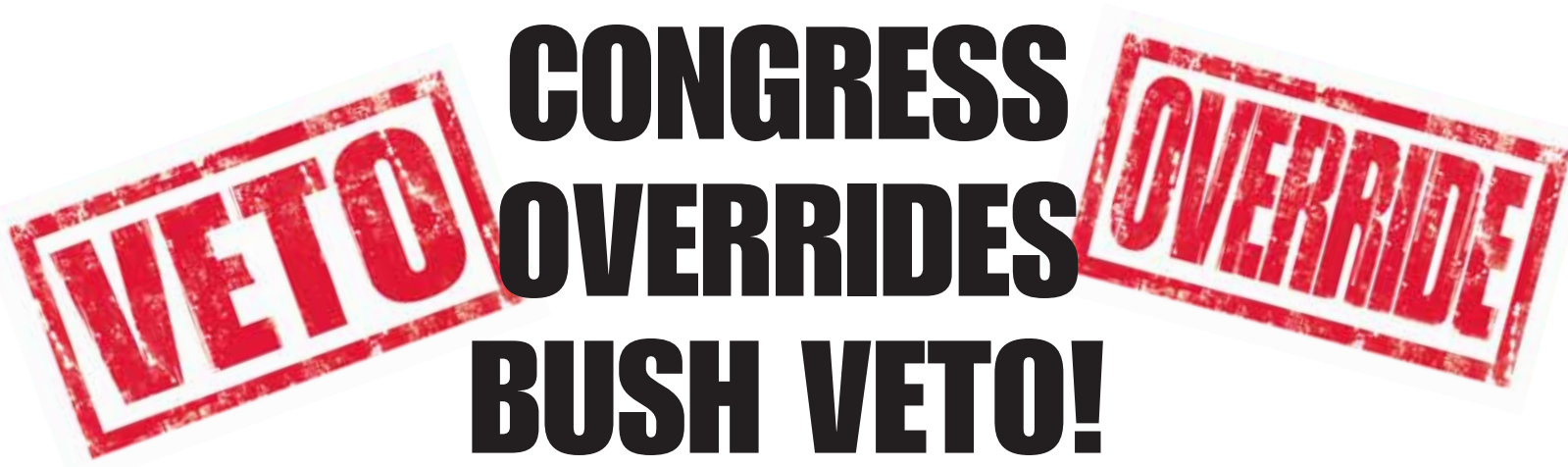
The Commission also called for state fuel tax increases and for **more flexibility in state tolling mechanisms**, along with a conceptual outline of tolling on Interstates as well as some form of **congestion-based pricing on Interstate roads** in major metropolitan areas of more than 1 million residents. To facilitate such tolling, the Commission calls for a nationwide, uniform system of electronic tolling so traffic logjams could be reduced. It also touted the use of **public-private partnerships (PPPs) to add more flexibility to funding options**.

One other intriguing proposal is the direct request that Congress authorize a study committee to examine long-term financing options that do not rely on fuel taxes, especially a mileage-based fee akin to the pilot program in Oregon.

As far as massive reports go, the Commission report contains many interesting ideas along with many that are clearly controversial. The degree of the contentiousness was illustrated by a 10-page minority report that was authored by the current Secretary of Transportation, Mary Peters. Among her comments was a direct criticism of raising the federal fuel tax, where she indicated that such a maneuver would only continue dependence of fossil fuels and would conflict with the National Energy Policy of reducing consumption. She also emphasized, to a much larger extent than the majority, the role that could be played by PPPs.

So there it is, the opening salvo in a debate that will rage from Washington D.C. to Columbus to Sacramento. Higher fuel taxes, more tolling, mileage-based fees, PPPs. All of these ideas are now on the table and will be discussed at all levels of government over the next several years, as both Congress and state legislatures grapple with how to expand and maintain the entire American transportation system.

CONGRESS OVERRIDES BUSH VETO!

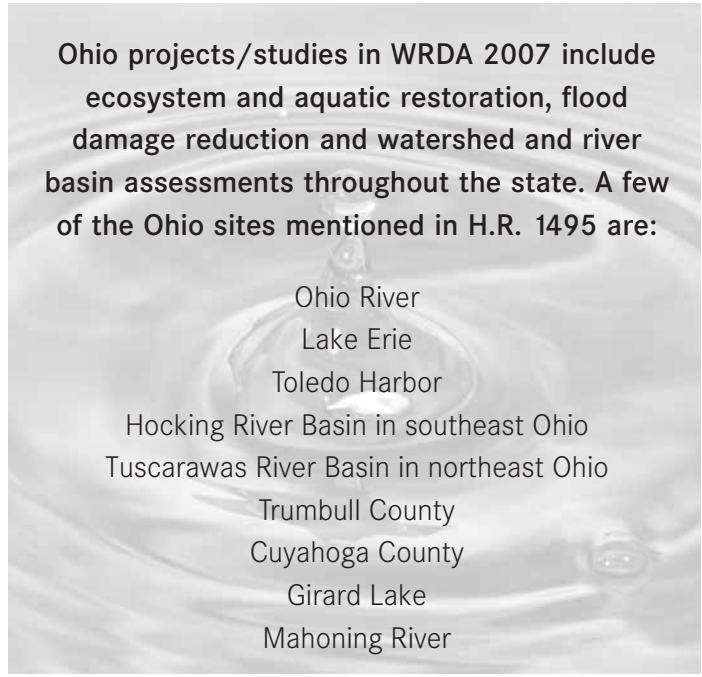


Oh, by the way – this is first Water Act passed since 2000

Finally, the Water Resources Development Act (WRDA) of 2007 is reality, but instead of the legislation's first reauthorization since 2000 being celebrated, it was a true case of not being able to see the forest because of the trees.

Or, in this case, not being able to see the water because of the current.

It seems the bigger news out of Washington D.C. on Nov. 8, 2007, was President Bush experiencing his first veto override, after he was overruled 361-54 and 79-14 by the U.S. House and Senate, respectively. Pres. Bush, on November 2, called the \$23-billion bill too expensive and used his veto power for the fifth time in his seven years in office.



Ohio projects/studies in WRDA 2007 include ecosystem and aquatic restoration, flood damage reduction and watershed and river basin assessments throughout the state. A few of the Ohio sites mentioned in H.R. 1495 are:

- Ohio River
- Lake Erie
- Toledo Harbor
- Hocking River Basin in southeast Ohio
- Tuscarawas River Basin in northeast Ohio
- Trumbull County
- Cuyahoga County
- Girard Lake
- Mahoning River

So, while the undercurrent seemingly grew swifter between the president and Congress, what is in the body of WRDA 2007?

In a summary of **House of Representative legislation (H.R.) 1495** by the House Transportation and Infrastructure Committee, the bill:

- **Authorizes initial projects for the restoration of coastal wetlands in Louisiana.** Since the early 1900s, Louisiana has lost approximately 1,900 square miles of wetlands that provide natural protection from hurricane storm surges.
- Authorizes raising and **enhancing flood protection levees around New Orleans.**
- Authorizes **improvements to New Orleans' drainage canals** that contributed to the city's post-hurricane flooding.
- Authorizes **construction of seven, 1,200-foot locks on the Upper Mississippi River-Illinois Waterway System** to reduce overall transportation costs in the U.S. inland waterways.
- Authorizes systematic **environmental restoration along the Upper Mississippi River-Illinois Waterways System.**
- Authorizes the first three projects in the **Florida Everglades Restoration Plan**, which has been labeled as the largest environmental restoration undertaking in the U.S.

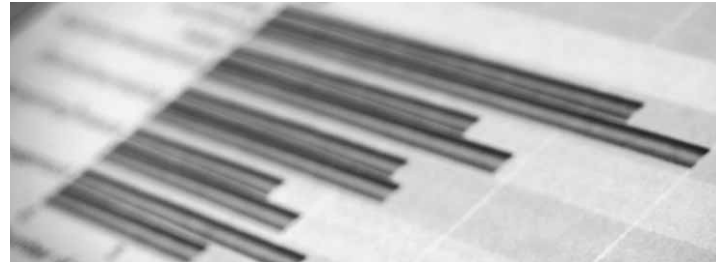
- Authorizes development of an **emergency response plan to address the Great Lakes' viral hemorrhagic septicemia (VHS) virus**, which has caused a large amount of freshwater fish kills.

Prior to its passage, **opponents of the legislation said the funding level was lacking "fiscal discipline" and failed to provide changes to the often maligned Army Corp. of Engineers**, which would do most of the work outlined in the bill.

Proponents of H.R. 1495 said the legislation included important reforms to the Army Corp. of Engineers' oversight that will improve its effectiveness, and that WRDA 2007 is actually WRDA 2002, 2004, 2006 and 2007 all rolled into "one long-overdue measure."

WRDA 2007 provides much-needed funding to study and improve our nation's waterways. In promoting the bill, the Associated General Contractors of America listed several reasons for a healthy waterways program, which mirrors those of advocates stressing the importance of a strong transportation system. **Strong infrastructure systems, whether it's by road, rail, water or air, foster economic development, facilitate trade and commerce, aid international competitiveness, stimulate employment, enhance agricultural and industrial productivity and augment national defense.**

ODOT BUSINESS PLAN EYES \$3.5 B SHORTFALL BY 2015



What's black and white and soon to be red all over? The Ohio Department of Transportation's (ODOT) 2008-2009 Business Plan.

Released this past November, the two-year prospectus required by Ohio law details ODOT's game plan for the next two years. It also paints a red (for debt) picture for the department through 2015.

According to the report, **three challenges have led to ODOT's bleak forecast – construction costs; inflation, combined with flattening revenue; and "past program decisions."**

Costs – After more than 13 years of averaging 1.6-percent annual increases in the cost of highway construction materials, a series of events have resulted in costs increasing 41 percent since 2003, such as: the rising price of oil; the increased demand of raw materials; and the lingering effects of hurricanes Katrina and Rita.

Flattening revenue – The increasing cost of gasoline and Ohio's stagnant population growth, combined with the influx of more fuel-efficient automobiles – allowing people to drive farther on less gas, resulting in less motor-fuel revenue being generated – has meant ODOT is receiving less revenue to work with.

Past decisions – The Transportation Review Advisory Council, which is comprised of nine members who decide what Major New projects ODOT will pursue, overcommitted program funding by 47 percent. "This

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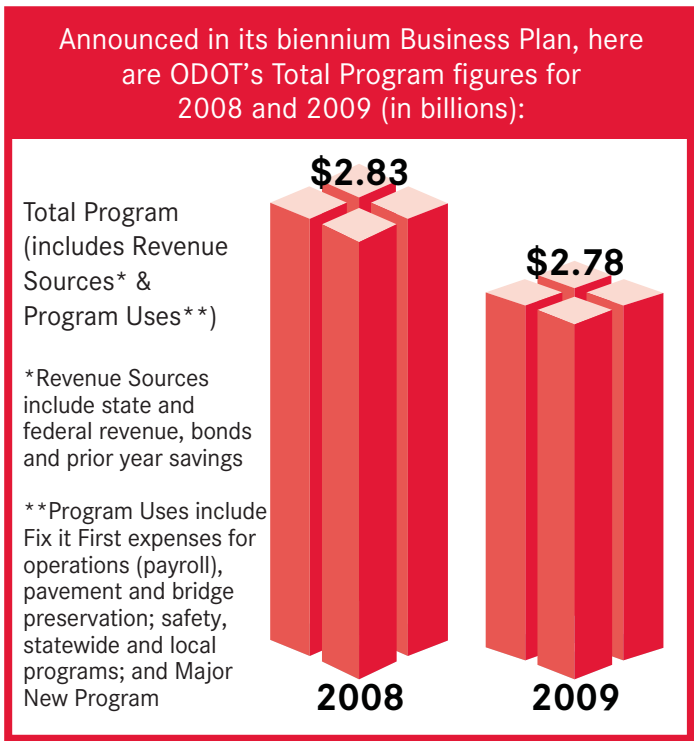
over-commitment, when combined with construction cost inflation and increased debt services, totals approximately \$2 billion that was not budgeted in previous business planning,” the ODOT Business Plan stated.

The result is ODOT predicting a \$3.5-billion short-fall for the department through 2015, beginning in 2009 with an estimated \$114-million shortfall in the Major New Construction program. **In 2008, Major New Construction resources are \$710 million – nearly \$130 million less than in 2007 – and fall to \$566 million in 2009.**

To circumnavigate the bleak forecast, the ODOT Business Plan calls for the creation of a 21st Century Transportation Priorities Task Force “to assure broad participation and leadership on these significant funding issues.”

In addition to the creation of the task force, **2008-09 initiatives for ODOT are:**

- **Restore fiscal responsibility**, which will entail “improved procedures” in the Major New Construction program that better matches revenue and construction cost trends
- **Promote and advance Gov. Strickland’s “Turnaround Ohio” transportation initiatives** that includes developing a strategy for federal



reauthorization; working with the General Assembly in exploring new and innovative ways to fund transportation; and implementing programs and actions enacted under the budget process

- **Broaden criteria for project selection**, especially for Major New Construction, that will include safety, congestion reduction, economic development, cost/benefit analysis, multi-modal integration and urban revitalization
- **Establish smart growth initiatives** to ensure growth and land-use issues are taken into account
- Implement and advance **cost-effective pavement preservation strategies**
- Implement more strategies to **improve traffic flow and traveler information**
- **Embrace environmental stewardship** internally by promoting clean air and energy independence



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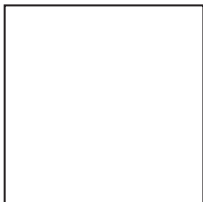
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