REMARKS PREPARED FOR DELIVERY BY
DEPUTY SECRETARY OF TRANSPORTATION MORT DOWNEY
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(Sponsored by PTI Journal, this is an audience of transportation officials, planners, technical people as well as vendors and consultants and manufacturers of transit equipment.)

INTRODUCTION

I want to thank Steve Rooney for that generous introduction. I also want to add my congratulations to the award winners (who were just honored). Their work and the striking array of exhibits at TechTrans '94 are proof positive that public transportation's time has come.

TOPIC OF SPEECH: ADMINISTRATION'S SUPPORT FOR TRANSIT, TECHNOLOGY

And I'm delighted to bring the message to you that the Clinton Administration champions your creativity and shares your commitment to moving people and goods in the safest, most convenient, most cost-effective way. This is a new Administration with a new outlook and an absolute determination to strengthen the federal government's support for mass transit and for the new technologies that drive it. We believe that public transportation and the technological innovation which supports it are an integral part of America's economy and a key to our global competitiveness.

There is certainly no more or recent dramatic illustration of how crucial mass transit is than the

earthquake in Los Angeles. Ridership on the Metrolink shot from 13,000 to 33,000 almost overnight. Single occupancy vehicles clogged the damaged freeways...vivid proof that communities can not afford to be locked into one mode of transportation.

On a more positive note, public transportation will play a key role in Atlanta as that city prepares for the 1996 Olympics with plans to put 2,000 more buses on the streets. There is a growing desire for public transit all across America in communities large and small.

With increased flexibility provided by the Intermodal Surface Transportation Efficiency Act known as ISTEA, communities get more say on how to use their federal transportation dollars. And investment in transit is increasing -- to attain Clean Air Act goals, to provide more convenient and efficient service to travellers, to relieve congestion and for many other reasons.

But beyond the flexible funding of ISTEA, this Administration is putting its own funding into transit.

<u>The fact is</u> there has never been an Administration more committed to investing in mass transit. The Fiscal Year 1994 budget is the largest federal transit budget in history. The even better news is that the second Clinton Administration budget -- the proposed FY '95 package -- raises transit investment even more. It increases formula capital assistance by 40 percent from $1.6 billion to $2.3 billion. It fulfills a promise of full funding for ISTEA

formula capital projects. And while transit is 12 percent of the DOT '95 budget -- it is targeted for 23 percent of next year's overall increase.

What's more, in the spirit of reinventing government, the Federal Transit Administration has revamped its programs to make them "user friendly," that means less paperwork and hassle.

In one case, FTA eliminated a whole step from the grant process. In another case, the routine release of grant funds was speeded up. And FTA is working on an automated grant making process that is completely paperless.

In this era of tightly constrained budgets, there are hard decisions we all must make. When faced with the choice between transit capital investment and transit operating subsidies, we chose to invest in capital. When you get down to it, dollars spent by a public agency on capital investment produce more jobs and do more to stimulate the economy than dollars spent on operating subsidies...I've been in the transit business. I know it's tough to give an inch in any area. But I also know finding 1 percent is hard but doable. In New York, the MTA will see a $25 million drop in operating subsidies ... that's 1/2 of 1 percent of New York's operating expense budget. If ever there was a time when transit agencies could absorb this loss, it's now. Fuel costs are dropping, the cost of debt service is dropping, and the economy is picking up.

And, as I said, because of the large increase in capital spending every transit agency will be receiving more funds overall.

Unlike previous Administrations, our actions should not be viewed as ideological assaults on operating assistance. The fact is that federal funding is tight now and will remain that way for years. In this context, we simply must invest our limited federal dollars where they will produce the best return for this nation. In our judgment, that happens to dictate concentrating on capital investments. I should add that in trying to provide the best return on the investment dollar, innovative technology takes on added importance. And there's an even brighter first year success story in the Administration's technology initiative.

The commitment to new technology -- all the way from research and development to deployment and commercialization -- extends all the way from the White House to the Department of Transportation. We are building a new technology partnership with the transportation industry.

Why is this new direction so important?

Transportation constitutes 21 percent of the nation's economy. Transportation accounts for 50 percent of America's petroleum consumption. That means a 10 percent increase in public transit ridership nationwide would save 135 million gallons of gasoline each year.

Transportation accounts for 51 percent of ambient air pollution. That means one person using mass transit for a year instead of driving saves 76.5 pounds of air pollutants.

We can't simply build our way out of traffic jams. Technology offers new solutions.

The potential for technological breakthroughs in transportation is enormous. Technological innovation will not only enable the United States to have a steadily improving transportation system, it will also permit us to create whole new American industries, employing American workers, paying American wages and enhancing America's international competitiveness.

Global demand for transportation technology is creating one of the fastest growing markets in the world and we want U.S. industries to be equipped to compete for business in Mexico ... in Russia ... in China ... and all around the world.

For example, the family of technologies known as Intelligent Vehicle Highway Systems is limited only by the scope of the imagination of people in this room and we are eager to see more mass transit applications of IVHS technology.

IVHS includes electronic data transfer that permits trucks to cross borders without stopping, in-vehicle maps and navigation aides, management of transit vehicles,

collision avoidance systems, and -- on a longer timeframe -- automated highways.

Ultimately, the extent to which IVHS technologies are used will depend on the commitment of the private sector. As in our support for other technologies DOT is looking to market forces -- the free choices of millions of users -- to define winners and losers. But government does have a clear role in helping to develop technologies which show promise of success.

To do that, we need the best possible information tools so that available information can be used effectively in planning and operating transportation systems. For example, we have been especially impressed by the power of the Geographic Information Systems.

We used GIS in developing the National Highway System, a forerunner and the core of the National Transportation System which will fully integrate all modes of transportation into one strong unified system.

Uses of the Global Positioning System satellites are equally as limitless. They allow us to navigate here on earth with extraordinary precision and new applications of GPS are sprouting up everyday. Coupled with advanced communications, computer, and display technologies, GPS is having a growing impact upon every mode of transportation.

GPS will allow precise real-time navigation and fleet management virtually anywhere. And the cost of GPS receivers is rapidly coming down to levels that make them available not only for major commercial operators like airlines, but also for private aircraft, boats, buses, railcars, trucks and automobiles.

For our part, at DOT we've energized our entire technology research and development program.

We have reorganized the technology function in the department and hired a new Director of Technology Deployment, Noah Rifkin -- who comes to us after serving as a consultant with NASA -- to integrate R&D programs in the Department into one cohesive package.

We have made technology one of the seven core strategic goals of DOT and reshaped our budget to reflect a bigger role for research and development. Our total budget authority for R&D has risen from $559 million in FY 1992 to a proposed $692 in FY 1995.

And we have looked beyond DOT. We have reached out to other federal agencies to form partnerships in search of new transportation technology opportunities. For example, Secretary Federico Peña insisted that DOT play a lead role in the Technology Reinvestment Program, precisely because we could see so many rich opportunities for applying advanced defense technology in transportation. The TRP program is designed to spur research and deployment of new dual-use technologies

potentially applicable to both defense and civilian uses. It is administered by the Defense Department's Advanced Research Projects Agency, but DOT is at the table reviewing proposals for TRP funding.

And we are already seeing results for transportation and technology industries.

Last week I was present when the third round of TRP awards were announced and over 50 percent of those awards were targeted to transportation. Twenty-three new technology development projects totalling $357 million were announced. Twelve of these new awards are transportation-related and total approximately $220 million.

Of the 69 awards made this year, 27 have been transportation related. That's nearly 40 percent of the total amount awarded under the TRP program.

The new projects awarded last week are for technology development for automatic collision avoidance systems, affordable composite materials for use in jet engines, autonomous aircraft landing guidance systems, microwave technology for IVHS systems and automated toll booths.

One of the grants last week was for $8.3 million to Transportation Manufacturing Corporation to adapt military vehicle and aircraft subsystem technologies for commercial applications in mass transit buses.

Another grant was for $39 million to the BART/HMK Alliance to develop an Advanced Automated Train Control System. This system, based on the defense communication technology called Enhanced Position Location Reporting System will provide the precise location of each train even in tunnels. This will allow trains to operate with reduced separation distance, thereby doubling the passenger carrying capacity. At the same time, this system will offer unprecedented safety, reliability and ease of retrofit to existing transit systems and will be applicable to rapid transit systems at half the cost of conventional technologies.

We have moved to build partnerships to provide a more direct link between R&D programs and the critical needs facing our country's transportation system.

The President's Clean Car Initiative -- launched last September -- aims to develop the technologies necessary to create an automobile up to three times more fuel efficient than today's cars -- and virtually emission free. These are very ambitious targets which are beyond the limits of existing technologies. But I believe these targets are achievable, will spur exciting innovations and new technologies, and will have immense economic and environmental ramifications. It is the best kind of example of government and industry working together for the public good.

CONCLUSION

So let me call you to action if I may. We have a President who is committed to providing the American people the best, most cost effective transportation system in the world.

I see the core purpose of the transit and technology effort we've discussed today as creating a seamless national transportation system for America; a system that achieves a balance among and within interconnected individual modes of transportation. We want to build a globally competitive system -- and we will need your help and the help of the public transportation community to accomplish that.

This transportation system's very reason for being is to enhance the quality of our lives, to promote economic growth, to create and sustain jobs, and to enable American industries -- including transportation manufacturers -- to compete and win in a very tough global marketplace.

That's quite a challenge. We'll need your support. I'm convinced that we can do it -- together.

Thank you very much.

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LOUISE FRANKEL STOLL
ASSISTANT SECRETARY OF TRANSPORTATION FOR BUDGET AND PROGRAMS

REMARKS BEFORE THE
NATIONAL ASSOCIATION OF STATE TREASURERS
MARCH 2, 1994

FUNDING INFRASTRUCTURE - INNOVATIVE APPROACHES

I APPRECIATE THE OPPORTUNITY TO BE WITH YOU TODAY TO TALK ABOUT WHAT WE ARE DOING TO MEET THE NATION'S TRANSPORTATION INFRASTRUCTURE NEEDS AND, SPECIFICALLY, WHAT WE ARE DOING TO SUPPORT INNOVATIVE APPROACHES TO FINANCING OUR TRANSPORTATION INFRASTRUCTURE

FIRST, LET ME SET THE STAGE. WE ARE GOING THROUGH A TIME OF TREMENDOUS CHANGE AND RENEWED HOPE IN OUR COUNTRY'S FUTURE. WHETHER IT'S BRINGING FORTH A PLAN TO ENSURE THAT ALL AMERICANS ARE ABLE TO RECEIVE THE HEALTH CARE THEY NEED -- A SUBJECT CLOSELY RELATED TO TRANSPORTATION, INCIDENTALLY, BECAUSE AUTOMOBILE ACCIDENTS ARE A MAJOR CONTRIBUTOR TO INJURY AND HEALTH CARE COSTS -- OR "REINVENTING GOVERNMENT" TO MAKE IT WORK BETTER AND COST LESS, OR PUSHING FOR INCREASED INVESTMENT IN OUR NATION'S INFRASTRUCTURE, WE ARE SETTING IN PLACE THE STRUCTURES THAT WILL DETERMINE THE QUALITY OF BOTH OUR AND OUR CHILDREN'S FUTURE.

FROM THE VERY BEGINNING, THIS ADMINISTRATION RECOGNIZED THE IMPORTANCE OF TRANSPORTATION INFRASTRUCTURE TO THAT FUTURE, AND MADE IT PART OF THE FOUNDATION FOR ECONOMIC PROGRESS IN THE UNITED STATES AND FOR IMPROVING OUR COMPETITIVENESS ABROAD.

TODAY, ONE OUT OF EVERY SIX DOLLARS OF OUR GROSS DOMESTIC PRODUCT IS SPENT IN TRANSPORTATION-RELATED ACTIVITIES, AND TRANSPORTATION CAPITAL STOCK IS VALUED AT OVER $1.4 TRILLION DOLLARS. THE ADMINISTRATION'S COMMITMENT TO INFRASTRUCTURE AS A CRITICAL INVESTMENT IN OUR FUTURE HAS NOT CHANGED; NEVER HAS IT BEEN MORE IMPORTANT, AND NEVER HAS IMPROVING OUR TRANSPORTATION INFRASTRUCTURE COUNTED AS MUCH AS IT DOES TODAY. AS A SIMPLE EXAMPLE, IF WE ARE TO MAINTAIN ECONOMIC LEADERSHIP IN THE WORLD, WE CANNOT AFFORD CONTINUED CONGESTION IN OUR 50 MAJOR CITIES THAT REDUCES OUR GROSS DOMESTIC PRODUCT BY AN ESTIMATED $39 BILLION A YEAR THROUGH PRODUCTIVE TIME LOST AND UNNECESSARY FUEL CONSUMPTION. AND, WE CANNOT AFFORD THE DENIGRATION OF OUR QUALITY OF LIFE -- OF AIR QUALITY, FOR INSTANCE THAT ACCOMPANIES THIS CONGESTION.

WE ARE ALL AWARE OF THE FEDERAL BUDGET DEFICIT -- AND IT IS ESSENTIAL THAT WE FOCUS ON IT, BUT WE ALSO MUST BE AWARE THAT THERE IS ANOTHER DEFICIT -- THE INFRASTRUCTURE DEFICIT. I'VE SEEN THAT DEFICIT NOW FROM THREE SIDES: FIRST AS A USER -- FRUSTRATED BY SOMETIMES DANGEROUS TRAVEL CONDITIONS, BY DISCONNECTED MODES OF TRANSIT, BY TRAFFIC JAMS. THEN, DURING MY YEARS IN THE CONSTRUCTION MANAGEMENT BUSINESS OVERSEEING THE BUILDING OF NEW TRANSPORTATION FACILITIES, IN RAILROADS, PUBLIC TRANSIT, HIGHWAYS, AIRPORTS, AND WATER AND SEWAGE TREATMENT PLANTS. NOW, AT THE DEPARTMENT OF TRANSPORTATION, I AM CONFRONTED ON A DAILY BASIS WITH THE DEFICIENCIES IN THE ABILITY

OF OUR TRANSPORTATION INFRASTRUCTURE TO MEET THE DEMANDS OF OUR NATION'S TRAVELERS -- THOSE WHO TRAVEL FOR PLEASURE OR BUSINESS, OR HAUL THE PRODUCTS OF THE COUNTRY FROM COAST TO COAST. IN THIS CAPACITY AS ASSISTANT SECRETARY OF BUDGET AND PROGRAMS, I AM ON A QUEST FOR THE RESOURCES -- THE PUBLIC AND PRIVATE FUNDS -- TO SEE IT MADE RIGHT.

TO DEMONSTRATE THE MAGNITUDE OF THE PROBLEM I SEE, LET ME HIGHLIGHT STATISTICS FOR OUR LARGEST SURFACE TRANSPORTATION PROGRAM -- FEDERAL-AID HIGHWAYS -- AND FOR THE AIRPORTS PROGRAM. FOR THE SURFACE TRANSPORTATION PROGRAMS, TO MAINTAIN THE CURRENT CONDITION AND PERFORMANCE OF THE NATION'S MAJOR HIGHWAY SYSTEMS AND BRIDGES, WITH ALL THEIR EXISTING POTHOLES, DETERIORATING BRIDGES, AND CONGESTION, REQUIRES ABOUT $51 BILLION PER YEAR. IF WE WANT TO IMPROVE CONDITIONS ON OUR HIGHWAYS AND BRIDGES WE NEED TO SPEND -- OR INVEST, THE MORE APPROPRIATE WORD FOR THERE IS A RETURN ON THIS SPENDING -- ABOUT $67 BILLION PER YEAR. YET, WE ESTIMATE THAT STATE, LOCAL, AND FEDERAL CAPITAL SPENDING TOGETHER IS ONLY ABOUT $32 BILLION -- A $19 BILLION SHORTFALL JUST TO MAINTAIN THE STATUS QUO AND A $35 BILLION SHORTFALL IF WE WANT TO IMPROVE CONDITIONS.

FOR AVIATION, TO PRESERVE THE SAFETY AND EFFICIENCY OF OUR AIRPORT SYSTEM, WE ESTIMATE THAT $7 BILLION SHOULD BE SPENT IN FISCAL YEAR 1995 ON CAPITAL PROJECTS ELIGIBLE FOR FEDERAL GRANT ASSISTANCE. THE FEDERAL GOVERNMENT WILL PROVIDE ABOUT $1.7

BILLION, OR ALMOST 25% OF THE ELIGIBLE PROJECT COST. TO SUPPLEMENT THE FEDERAL FUNDING, EXISTING STATE AND LOCAL ASSISTANCE, AND AIRPORT REVENUES, PASSENGER FACILITY CHARGES (PFC'S) ARE AVAILABLE FOR MORE THAN 170 AIRPORTS THROUGHOUT THE COUNTRY. WE BELIEVE OVER $1 BILLION WILL BE COLLECTED THROUGH PFC'S IN FISCAL YEAR 1995.

NEEDLESS TO SAY, IGNORING MAINTENANCE OF THESE FACILITIES ONLY LEADS TO FURTHER DETERIORATION AND, THUS, TO INCREASED COSTS IN THE FUTURE WHEN CONDITIONS COULD REACH A CRISIS SITUATION.

SO, WHAT ARE WE DOING? AS I WILL EXPLAIN, WE ARE ADDRESSING THE PROBLEM.

1995 BUDGET

FIRST, OUR BUDGET. OUR BUDGET REFLECTS THE THREE THEMES THE PRESIDENT SET OUT FOR ALL OF THE FEDERAL DEPARTMENTS THIS YEAR:

- REDUCING THE DEFICIT,
- SPURRING GROWTH IN THE ECONOMY AND CREATING JOBS, AND
- MAKING THE TOUGH DECISIONS.

I CAN SAY FROM FIRST HAND EXPERIENCE, DOT'S BUDGET ESPECIALLY SUPPORTS CREATING JOBS, AND WE'VE DONE OUR PART IN MAKING THE TOUGH CHOICES. OUR BUDGET REFLECTS BOTH THE PRESIDENT'S THEMES AND THE SECRETARY'S STRATEGIC GOALS FOR DOT. THESE STRATEGIC GOALS ARE:

- O TIE AMERICA TOGETHER,
- O INVEST STRATEGICALLY IN TRANSPORTATION INFRASTRUCTURE,
- O PROMOTE NEW TECHNOLOGIES,
- O FOSTER SAFE AND SECURE TRANSPORTATION,
- O ACTIVELY ENHANCE OUR ENVIRONMENT,
- O MAKE TRANSPORTATION RELEVANT AND ACCESSIBLE TO USERS, AND
- O TRANSFORM DOT.

IT IS THE SECOND OF THE SECRETARY'S GOALS THAT WE ARE ALL PARTICULARLY INTERESTED IN TODAY -- INVESTING STRATEGICALLY IN TRANSPORTATION INFRASTRUCTURE. THIS GOAL INCLUDES BOTH INCREASING OUR DIRECT INVESTMENT IN BUILDING AND MAINTAINING TRANSPORTATION INFRASTRUCTURE AND COMMITTING OURSELVES "TO DEVELOP A COMPREHENSIVE, CONTINUING, AND RELIABLE FUNDING PROGRAM FOR INFRASTRUCTURE, INCLUDING EXPANDED USE OF INNOVATIVE FINANCING MECHANISMS AND PRIVATE SECTOR INVESTMENT TO MAXIMIZE THE BENEFITS OF FEDERAL INVESTMENT."

WE ARE PROVIDING MORE. THE DEPARTMENT'S BUDGET INCLUDES OVER $28 BILLION ($28.2B) FOR INFRASTRUCTURE INVESTMENTS -- 83% OF ALL FEDERAL INFRASTRUCTURE INVESTMENT ($34B) AND 71% OF THE TOTAL DOT BUDGET ($39.7B). THE DOT-WIDE INFRASTRUCTURE INVESTMENT BUDGET HAS GROWN BY 24% SINCE FY 1991 (from $22.7B to $28.2B).

WE ARE FUNDING THE CORE HIGHWAY PROGRAMS ($18.3B) AND TRANSIT FORMULA GRANTS ($2.9B) AT THE FULLY AUTHORIZED LEVELS PROVIDED IN

ISTEA (THE INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT OF 1991) -- THE LAST CONGRESSIONAL AUTHORIZATION FOR THE FEDERAL HIGHWAY, TRANSIT, AND HIGHWAY SAFETY PROGRAMS. WE ARE FUNDING A LARGER PERCENT OF ISTEA THAN EVER BEFORE -- 94% VERSUS 81% IN 1993. WHAT THIS MEANS IS THAT STATES AND LOCALITIES -- YOU -- WILL HAVE $3.6 BILLION MORE IN FEDERAL FUNDS TO SPEND ON HIGHWAYS AND TRANSIT THAN YOU DID IN FY 1993.

FOR AVIATION, WE ARE ASKING FOR A 7% INCREASE OVER LAST YEAR FOR OUR EFFORT TO IMPROVE AND MODERNIZE THE NATION'S AIR TRAFFIC CONTROL SYSTEM. IN ADDITION, WE ARE RECOMMENDING ALMOST $1.7 BILLION ($1.69B) FOR THE AIRPORT IMPROVEMENT PROGRAM, TO ENHANCE CAPACITY AT THE NATION'S AIRPORTS AND IMPROVE AIRPORT SAFETY AND SECURITY. WE HAVE ALSO SUBMITTED REAUTHORIZATION LEGISLATION TO PROVIDE A SUPPLEMENTAL SOURCE OF FUNDING FOR AIRPORT DEVELOPMENT BY ESTABLISHING A NEW PROGRAM OF INNOVATIVE FINANCING, INCLUDING LOANING OF FEDERAL FUNDS, USING FEDERAL FUNDS TO GUARANTEE LOAN REPAYMENTS OR TO PURCHASE OF BOND INSURANCE.

I THINK YOU WOULD AGREE THAT WE HAVE REALLY SHOWN OUR COLORS WITH THIS BUDGET. WE ARE LEADING THE CHARGE AND ARE SERIOUS ABOUT IMPROVING OUR NATION'S BASIC TRANSPORTATION INFRASTRUCTURE.

IN ADDITION TO BASIC INFRASTRUCTURE FUNDING, OUR BUDGET ALSO FOCUSES ON MAKING THAT INFRASTRUCTURE BETTER AND USING IT MORE EFFICIENTLY. WE ARE SPENDING ALMOST $700 MILLION ($692M) ON

TRANSPORTATION-RELATED RESEARCH AND DEVELOPMENT -- MORE THAN 40% OF WHICH IS GOING TO THE INTELLIGENT VEHICLE/HIGHWAY SYSTEMS PROGRAM.

NOT ONLY HAS DOT PUT A HIGH PRIORITY ON BETTER MANAGEMENT OF OUR EXISTING INFRASTRUCTURE, BUT THE WHOLE ADMINISTRATION HAS TOO. IN JANUARY, THE PRESIDENT SIGNED AN EXECUTIVE ORDER THAT REQUIRES FEDERAL INFRASTRUCTURE AGENCIES TO ASSESS THE COST/BENEFIT OF THEIR CONSTRUCTION PROGRAMS AND TO ASSURE THAT THEY ARE MANAGING THE EXISTING INFRASTRUCTURE EFFICIENTLY AND EFFECTIVELY. WE ARE DEVELOPING A PLAN TO FULFILL THE REQUIREMENTS OF THE ORDER IN EACH OF DOT'S INFRASTRUCTURE PROGRAMS.

INNOVATIVE FINANCING

AS YOU ARE UNDOUBTEDLY AWARE THOUGH, EVEN WITH THE BUDGET WE HAVE PROPOSED, THE FEDERAL GOVERNMENT CAN'T DO IT ALL. NEITHER CAN YOU OR YOUR LOCAL GOVERNMENT COUNTERPARTS. EVEN TOGETHER, WE CAN'T CLOSE THE GAP BETWEEN OUR TRANSPORTATION INVESTMENT NEEDS AND CURRENT INVESTMENT LEVELS. WE ALL NEED TO LOOK FOR NEW WAYS TO GO BEYOND OUR DIRECT FEDERAL, STATE, AND LOCAL FUNDING AND LOOK TO EXPAND THE SOURCE OF AVAILABLE FUNDING TO INCLUDE THE PRIVATE SECTOR. WE AT DOT, AND OTHERS, ARE WORKING HARD TO DO JUST THIS. EACH OF OUR OPERATING ADMINISTRATIONS WITH INFRASTRUCTURE GRANT PROGRAMS HAS FORMED A WORKING GROUP TO LOOK AT THE POSSIBILITIES FOR PURSUING OUR INNOVATIVE FINANCING GOAL

AND I HAVE BEEN ASKED BY THE SECRETARY TO SPEARHEAD DOT'S EFFORT TO DEVELOP A NEW COMPREHENSIVE APPROACH TO FINANCING TRANSPORTATION INFRASTRUCTURE. WE ARE IDENTIFYING AND EXPLORING THE FEASIBILITY OF VARIOUS INNOVATIVE FINANCING TECHNIQUES, INCLUDING SUCH THINGS AS USING FEDERAL GRANT FUNDS AS A CAPITAL RESERVE OR TO BUY BOND INSURANCE, CREATING LOANS WHICH MIGHT BE REPAID BASED ON INTEREST ONLY FOR THE FIRST SEVERAL YEARS -- SIMILAR TO WHAT IS GOING ON IN WASHINGTON -- AND ALLOWING SHORT-TERM LOAN GUARANTEES WITH FEDERAL MONEY.

I DON'T WANT TO IMPLY THAT WE AREN'T ALREADY HEAVILY INVOLVED IN INNOVATIVE, PUBLIC/PRIVATE PARTNERSHIPS. PRIVATE SECTOR INVOLVEMENT IN TRANSPORTATION IS NOT NEW. JOINT DEVELOPMENT PROJECTS WITH BOTH PUBLIC AND PRIVATE PARTICIPANTS AND PRIVATE BOND FINANCING HAVE A LONG HISTORY IN TRANSPORTATION. JOINT DEVELOPMENT, FOR EXAMPLE, WAS PURSUED THROUGHOUT THE `80'S TO HELP FINANCE PUBLIC TRANSIT IN PLACES SUCH AS THE WASHINGTON, D.C., AREA, DADE COUNTY, FLORIDA, AND NEW YORK. SUCH JOINT DEVELOPMENT PROJECTS GENERALLY INVOLVE A PRIVATE COMPANY OR ORGANIZATION PUTTING UP FUNDS TO HELP BUILD SOME PUBLIC INFRASTRUCTURE SUCH AS A PORTION OF A NEW TRANSIT SYSTEM OR A TRANSIT STATION IN EXCHANGE FOR THE RIGHTS TO DEVELOP ON TOP OF OR AROUND THE NEW FACILITIES.

PRIVATE BOND FINANCING HAS BEEN USED TO HELP FINANCE OUR INFRASTRUCTURE. FOR EXAMPLE, THE TREND IN THE MUNICIPAL MARKET

IS GROWTH, FROM LESS THAN $100 BILLION ISSUED IN 1983 TO ABOUT $325 BILLION IN 1993. THIS IS THE SECOND LARGEST SEGMENT OF THE U.S. CAPITAL MARKET (the first is general obligation bonds). THE TRANSPORTATION BOND MARKET HAS GROWN EVEN FASTER, WITH TRANSPORTATION ISSUES GROWING BY OVER 500% BETWEEN 1983 AND 1993 FROM ABOUT $5 BILLION TO OVER $30 BILLION AND NOW REPRESENTS OVER 10% OF THE MUNICIPAL MARKET. THE GROWTH BETWEEN 1991 AND 1993 ALONE WAS OVER 70% (from $17.5B to $30B). HIGHWAYS AND TOLL ROADS REPRESENT THE LARGEST PART OF THE GROWTH, INCREASING FROM ABOUT $750 MILLION IN 1983 TO $11 BILLION IN 1992. BUT MASS TRANSIT ALSO SHOWED SIGNIFICANT GROWTH, EXPANDING BETWEEN 1983 AND 1992 FROM LESS THAN $2 BILLION TO OVER $5 BILLION. ALL REGIONS OF THE COUNTRY PARTICIPATED IN THIS GROWTH, WITH THE NORTHEAST EXPERIENCING THE MOST, GROWING FIVE-FOLD OVER THE COURSE OF THE DECADE. THE MIDWEST EXPERIENCED THE SLOWEST GROWTH, AND EVEN IT GREW BY OVER 300%. WE'RE IN A GROWTH INDUSTRY HERE. MUCH OF THE RECENT GROWTH HAS RESULTED FROM REFINANCING OF EXISTING DEBT, AS INTEREST RATES DROPPED, BUT EVEN WITH THIS, THE MUNICIPAL MARKET HAS SHOWN US WHAT CAN BE DONE TO GET PRIVATE FUNDS TO HELP US MEET OUR PUBLIC INFRASTRUCTURE NEEDS.

GENERALLY, A BOND ISSUANCE IS LIKELY TO INVOLVE THE DEDICATION OF SOME REVENUE SOURCE, SUCH AS FAREBOX REVENUE, OR SOME CREDIT ENHANCEMENT TECHNIQUE SUCH AS BOND INSURANCE, LINES-OF-CREDIT, OR SPECIAL GUARANTEES WHICH CAN MAKE THE ISSUE ATTRACTIVE TO PRIVATE

INVESTORS. IN ADDITION, TOLL ROADS AND BRIDGES AND OTHER STATE- AND LOCALLY-OWNED ROADS HAVE BEEN FUNDED THROUGH THE MUNICIPAL BOND MARKET FOR YEARS. AND, IN THE WASHINGTON, D.C., AREA, IN THE LAST YEAR, A PRIVATELY OWNED AND FINANCED TOLL ROAD FROM DULLES AIRPORT TO LEESBURG, VIRGINIA, GOT UNDER CONSTRUCTION. ALSO, LAST YEAR, WE SAW THE START OF CONSTRUCTION ON THE PUBLIC/PRIVATE SR-91 TOLL ROAD IN CALIFORNIA AND THE PUBLIC SAN JOAQUIN HILLS TOLL ROAD. SR-91 INVOLVES A PRIVATE FIRM BUILDING AND OPERATING A TOLL ROAD ON STATE-OWNED LAND, AND THE SAN JOAQUIN HILLS PROJECT COMBINES A NEW PUBLIC AUTHORITY ISSUING $1.2 BILLION IN BONDS BACKED BY TOLL REVENUES WITH CONTINGENT FEDERAL SUPPORT.

THERE HAVE ALSO BEEN ADDITIONAL PARTICULARLY NOTEWORTHY CREDIT ENHANCEMENT TECHNIQUES THAT HAVE INVOLVED THE FEDERAL GOVERNMENT, AND WHICH COULD HAVE A POSITIVE IMPACT ON STIMULATING NEW BOND ISSUES FOR INFRASTRUCTURE. THE SAN DIEGO METROPOLITAN TRANSIT DEVELOPMENT BOARD HAS DEDICATED FUTURE FEDERAL TRANSIT SECTION 9 FUNDS AS A CREDIT ENHANCEMENT TO BACK THE ISSUANCE OF BONDS TO PURCHASE NEW BUSES

SO THINGS HAVE BEEN GOING ON, AND WE HAVE INVOLVED THE PRIVATE SECTOR IN BUILDING TRANSPORTATION INFRASTRUCTURE. BUT, WHAT WE AT DOT AND ELSEWHERE IN THE FEDERAL GOVERNMENT AND ALSO IN THE PRIVATE SECTOR ARE LOOKING AT IS WHAT ADDITIONAL ACTIONS WE CAN TAKE TO INCREASE THE AVAILABILITY OF THESE RESOURCES TO HELP MEET

OUR UNMET OR "DEFICIT" INFRASTRUCTURE NEEDS.

LET'S LOOK AT SOME SPECIFICS, PARTICULARLY WITH REGARD TO OUR SURFACE TRANSPORTATION PROGRAMS. WITH THE PASSAGE OF ISTEA IN 1991, THE STATES WERE PROVIDED WITH NEW FLEXIBILITY FOR FUNDING THEIR SURFACE TRANSPORTATION CAPITAL PROGRAMS. IT PROVIDED NEW REVENUE OPTIONS IN THE FORM OF TOLLS; A WAIVER OF STATE MATCH; AN ABILITY TO USE TOLL REVENUES THAT ARE GENERATED AND USED BY PUBLIC, QUASI-PUBLIC, AND PRIVATE AGENCIES AS THE "SOFT" MATCH FOR FEDERAL HIGHWAY AND TRANSIT FUNDS; AND THE ABILITY TO RECYCLE TRANSPORTATION-RELATED GRANT FUNDS THROUGH A STATE HIGHWAY REVOLVING FUND (funds also can be used for transit). IT ALSO ALLOWED GREATER PRIVATE INVOLVEMENT IN BUILDING, MAINTAINING, AND OPERATING TOLL ROADS AND BRIDGES, AND ALLOWED FEDERAL FUNDS TO BE SPENT ON PRIVATE TOLL ROADS. IT GAVE THE STATES UNPRECEDENTED FLEXIBILITY IN USING THE FEDERAL HIGHWAY AND TRANSIT FUNDS THEY RECEIVE BASED ON THEIR OWN PRIORITIES.

WHILE THE STATES HAVE BEEN STRONG SUPPORTERS OF THE FLEXIBILITY PROVIDED BY ISTEA, AND HAVE DEMONSTRATED AN INCREASING USE OF THIS FLEXIBILITY, THEY HAVE BEEN LESS INTERESTED IN USING THE INNOVATIVE FINANCING PROVISIONS. OF COURSE, OUR INTERACTION WITH YOU IN THE STATES HAS PRINCIPALLY BEEN THROUGH YOUR STATE TRANSPORTATION DEPARTMENTS OR AGENCIES. BUT, WHAT WE HEAR IS THAT THE STATES ARE CONCERNED ABOUT A NUMBER OF ISSUES, INCLUDING, FOR EXAMPLE, THE COMPLEXITY OF THE NEW ISTEA-PROVIDED OPPORTUNITIES, IMPACTS ON STATE LAWS AND REGULATIONS, EFFECTS OF ENVIRONMENTAL AND PLANNING REQUIREMENTS, AND, NOT NECESSARILY THE

LEAST IMPORTANT, EFFECTS ON THE TRADITIONAL WAYS OF DOING BUSINESS.

WE HAVE ALSO HEARD THAT TAX LAW CHANGES MIGHT BE NECESSARY TO MAKE ISTEA-RELATED INNOVATIVE FINANCING A WHOLESALE REALITY. FOR INSTANCE, WE HAVE BEEN TOLD THAT THE ABILITY OF STATES AND LOCALITIES TO ISSUE TAX FREE BONDS TO HELP FINANCE NEW "PRIVATE" TOLL PROJECTS SHOULD BE BROADENED. IN ADDITION, WE UNDERSTAND THAT SOME STATES ARE CONCERNED ABOUT THEIR ABILITY TO ISSUE TAX FREE BONDS IF THEY WANT TO ENTER INTO LONG-TERM LEASE WITH A PRIVATE ENTITY TO OPERATE THE TOLL FACILITY. CURRENT LAW LIMITS THE TERM OF SUCH LEASES TO 5 YEARS.

FROM THE EARLY DAYS OF OUR ADMINISTRATION, DOT HAS RECOGNIZED MANY OF THESE ISSUES AND WE HAVE BEEN PURSUING AN EXTENSIVE OUTREACH AND EDUCATION EFFORT, AND WE HAVE BEEN EXPLORING NUMEROUS OPTIONS TO MAKE IT EASIER FOR YOU TO USE THE ISTEA PROVISIONS. FOR EXAMPLE, WE (FHWA) HAVE ISSUED A HANDBOOK TO THE STATES WITH PRACTICAL GUIDANCE ON HOW TO IMPLEMENT THE LAW AND WITH SUGGESTED LANGUAGE FOR CHANGES IN STATE LAWS TO ALLOW BOTH PRIVATE EQUITY CAPITAL AND DEBT TO FINANCE PROJECTS ("Guidance for State Implementation of ISTEA Toll Provisions in Creating Public-Private Partnerships"). WE ALSO HAVE HELD A NUMBER OF MEETINGS AND SYMPOSIA TO HIGHLIGHT AND DISCUSS EXISTING BARRIERS TO PUBLIC-PRIVATE PARTNERSHIPS AND ASSESS IMPLEMENTATION OF THE LAW. WHILE WE HAVE NOT YET BEEN ABLE TO OVERCOME ALL THE PROBLEMS AND MEET ALL THE NEEDS OF THE STATES, I CAN ASSURE YOU THAT WE ARE WORKING DILIGENTLY ON THIS. WE ARE LOOKING FOR NEW

WAYS WE CAN HELP YOU AT THE STATE LEVEL MAKE USE OF ALL THE OPPORTUNITIES AVAILABLE.

ALSO, RECOGNIZING THAT ADDITIONAL APPROACHES ARE NEEDED, BOTH WE AND CONGRESS HAVE BEEN ACTIVELY EXPLORING IDEAS TO MAKE THE ISTEA PROCESSES EASIER, MORE UNDERSTANDABLE, AND MORE ATTRACTIVE TO STATES AND THE PRIVATE SECTOR AND TO COME UP WITH OTHER WAYS TO MAKE ADDITIONAL INFRASTRUCTURE MONEY AVAILABLE.

SOME EXAMPLES OF EFFORTS THAT HAVE BEEN UNDERWAY:

THE VICE PRESIDENT'S NATIONAL PERFORMANCE REVIEW SUGGESTED THAT ISTEA BE AMENDED TO ALLOW THE USE OF FEDERAL FUNDS TO SERVE AS CAPITAL RESERVES TO GUARANTEE DEBT. ISTEA ALREADY ALLOWS THE STATES TO LOAN THE FEDERAL SHARE OF HIGHWAY CONSTRUCTION MONEY FOR PRIVATE TOLL ROADS. AS MONEY FLOWS BACK TO THE STATES FROM THESE LOANS, THE FUNDS ARE RECYCLED AND BECOME AVAILABLE TO HELP IMPLEMENT OTHER TRANSPORTATION-RELATED INFRASTRUCTURE IMPROVEMENTS. THE VICE PRESIDENT'S PROPOSAL WOULD GO AN ADDITIONAL STEP AND PERMIT GRANT RECIPIENTS TO USE FEDERAL FORMULA GRANT FUNDS AS CAPITAL RESERVES TO BACK DEBT FINANCING FOR ELIGIBLE PROJECTS. FEDERAL-AID COULD EVEN BE POOLED IN REVOLVING FUNDS TO LEVERAGE PRIVATE INVESTMENTS. THE OBJECTIVE IS TO PROVIDE THE STATES WITH ADDITIONAL WAYS TO USE THEIR FEDERAL FUNDS IN CREATIVE WAYS.

THE DOT-FUNDED COMMISSION TO PROMOTE INVESTMENT IN AMERICA'S INFRASTRUCTURE ISSUED A REPORT ON THE FEASIBILITY AND

DESIRABILITY OF CREATING A TYPE OF INFRASTRUCTURE SECURITY INSTRUMENT TO ENABLE THE INVESTMENT OF PENSION FUNDS IN INFRASTRUCTURE PROJECTS. THE COMMISSION, AUTHORIZED BY CONGRESS IN 1991, WAS CHARTERED TO LOOK BEYOND THE TRADITIONAL SOURCES OF INFRASTRUCTURE FUNDING -- FEDERAL GRANTS AND LOANS, TAX-EXEMPT BONDS, AND PRIVATE CAPITAL -- TO ASSESS THE POTENTIAL FOR TAPPING INTO THE MORE THAN $4 TRILLION IN ASSETS HELD BY THE OVER 22,000 CORPORATE, PUBLIC, AND UNION RETIREMENT PLANS IN THE U.S. THE COMMISSION MADE THREE RECOMMENDATIONS INCLUDING:

- O ESTABLISHING A NEW, FEDERALLY-CHARTERED FINANCING ENTITY, A NATIONAL INFRASTRUCTURE CORPORATION, TO OFFER CREDIT ENHANCEMENTS SUCH AS BOND INSURANCE AND GUARANTEES, AND DIRECT LOANS;
- O CREATING NEW INVESTMENT OPTIONS FOR INSTITUTIONAL INVESTORS, INCLUDING SECURITIES ISSUED OR GUARANTEED BY THIS CORPORATION; AND
- O DEVELOPING A MORE CONSISTENT, UNIFORM FEDERAL POLICY TREATMENT FOR PRIVATE INVESTMENT IN INFRASTRUCTURE DEVELOPMENT, INCLUDING MODIFYING THE EXISTING CAPS ON TAX-EXEMPT PRIVATE ACTIVITY BONDS AND CREATING A NEW TAX-EXEMPT PUBLIC BENEFIT BOND TO FUND THE PUBLIC BENEFITS ASSOCIATED WITH PROJECTS FINANCED BY THE PRIVATE SECTOR.

THE INDEPENDENT FEDERAL ADVISORY COMMITTEE, THE COMPETITIVENESS POLICY COUNCIL, THROUGH ITS PUBLIC INFRASTRUCTURE SUBCOUNCIL, ISSUED A REPORT LAST YEAR LOOKING AT WAYS TO ENHANCE U.S. INTERNATIONAL COMPETITIVENESS BY IMPROVING THE EFFECTIVENESS AND

EFFICIENCY OF OUR TRANSPORTATION SYSTEM. ONE OF THE ISSUES DISCUSSED IN THE SUBCOUNCIL REPORT WAS A MECHANISM TO HELP OVERCOME "A MASSIVE UNDER-INVESTMENT IN U.S. INFRASTRUCTURE," AND IT SUGGESTED THE POSSIBLE DEVELOPMENT OF A NATIONAL INFRASTRUCTURE BANK. THIS BANK WOULD SERVE AS A REPOSITORY AND MANAGER OF FEDERAL INFRASTRUCTURE TRUST FUNDS AND WOULD BE ABLE TO ISSUE SECURITIES TO LEVERAGE ADDITIONAL INFRASTRUCTURE INVESTMENTS.

SENATOR BAUCUS, CHAIRMAN OF THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS, AND OTHERS HAVE INTRODUCED BILLS THAT ARE DESIGNED TO BUILD ON ISTEA AND MAKE IT EASIER FOR STATES TO COMBINE FEDERAL, STATE, AND PRIVATE MONEY FOR INFRASTRUCTURE PROJECTS. SENATOR BAUCUS' BILL WOULD GIVE STATES DISCRETIONARY AUTHORITY TO ESTABLISH STATE REVOLVING LOAN FUNDS BY USING PORTIONS OF THEIR FEDERAL-AID HIGHWAY (SURFACE TRANSPORTATION PROGRAM AND MINIMUM ALLOCATION) PROGRAM FUNDS TO CAPITALIZE THE FUND. THE FUND COULD MAKE DIRECT LOANS, REFINANCE OUTSTANDING INFRASTRUCTURE DEBT, PROVIDE CREDIT ENHANCEMENTS, SUBSIDIZE INTEREST RATES, AND PROVIDE LOAN GUARANTEES. IT WOULD ALSO GIVE STATES AUTHORITY TO MAKE LOANS TO PUBLIC OR PRIVATE ENTITIES UNDER CERTAIN CIRCUMSTANCES (i.e., if they can demonstrate the ability to repay using a dedicated revenue source such a dedicated tax).

AND, I DON'T WANT TO LEAVE OUT THE STATES THEMSELVES. MANY OF THEM ARE, IN FACT, PUSHING THE ENVELOPE AND IMPLEMENTING INNOVATIVE APPROACHES TO INFRASTRUCTURE INVESTMENTS. STATES SUCH

AS VIRGINIA, CALIFORNIA, MISSOURI, ARIZONA, FLORIDA, WASHINGTON, MINNESOTA, AND TEXAS, FOR EXAMPLE, HAVE MOVED TO ENHANCE THE POTENTIAL FOR PUBLIC/PRIVATE PARTNERSHIPS, INCLUDING PASSAGE OF LAWS TO ALLOW PUBLIC/PRIVATE PARTNERSHIPS -- BOTH BEFORE AND AFTER PASSAGE OF ISTEA. WASHINGTON STATE HAS BEEN THE MOST AGGRESSIVE IN TERMS OF GOING BEYOND JUST HIGHWAYS TO INCLUDE TRANSIT, MARITIME, RAIL, AND AIRPORTS, WHILE OTHERS HAVE FOCUSED ON EXPANDING THE MORE TRADITIONAL TOLL HIGHWAY SYSTEMS, BUT INVOLVING THE PRIVATE SECTOR TO A GREATER EXTENT.

CONCLUSION

THE ONE CAVEAT THAT WE ALL MUST KEEP IN MIND, HOWEVER, IS THAT THERE IS NO FREE LUNCH. IF WE GET OUR MONEY FOR INFRASTRUCTURE NEEDS THROUGH THE PRIVATE SECTOR, WE WILL HAVE TO PAY IT BACK, AND WITH INTEREST. WE WILL HAVE THE MONEY TO USE NOW, BUT THERE IS A COST TO US AND A RISK AS WELL. THE COST IS PAID BY FUTURE USERS OR TAXPAYERS, AND SO COMMITS THEM TO A DEBT THAT THEY MUST SHOULDER. THERE IS RISK OF DEFAULT AND A SERIOUS IMPACT ON THE BORROWER'S CREDIT RATING, AND EVEN, POTENTIALLY, GOVERNMENTAL TAKEOVER OF THE DEFAULTING ORGANIZATION. LONG-TERM FINANCING FOR CAPITAL PROJECTS CAN ALSO HAVE OTHER UNANTICIPATED COSTS, INCLUDING REDUCED CREDIT AVAILABILITY FOR OTHER WORTHWHILE PROJECTS AND DISPERSED ACCOUNTABILITY AS FUTURE TAXPAYERS BECOME ACCOUNTABLE FOR SPENDING DECISIONS THEY DIDN'T MAKE. WE MUST MAKE SURE THAT PROJECTS WE WANT TO FUND ARE HIGH-QUALITY, VIABLE PROJECTS THAT MAKE BOTH ECONOMIC AND PUBLIC POLICY SENSE. WITHOUT THIS, WE IN THE PUBLIC SECTOR WILL NOT BE FULFILLING THE PUBLIC TRUST.

I KNOW YOU, AS STATE TREASURERS, KNOW THIS.

FINALLY, I WANT TO ASK FOR YOUR HELP. AS I MENTIONED EARLIER, SECRETARY PEÑA HAS ASSIGNED ME THE TASK OF REVIEWING THE FULL RANGE OF OPTIONS OPEN TO THE DEPARTMENT TO HELP INCREASE THE ALREADY EXTENSIVE PRIVATE SECTOR INVOLVEMENT IN MEETING OUR TRANSPORTATION INFRASTRUCTURE NEEDS. THIS EFFORT IS UNDERWAY AND I AM LOOKING FOR IDEAS, ANALYSES, AND RECOMMENDATIONS, AND WELCOME YOUR SUGGESTIONS. WHILE WE HAVE WORKED EXTENSIVELY WITH STATE DOT'S, WE HAVE BEEN LESS INVOLVED WITH OTHERS. THE DOTS, OF COURSE, ARE THE EXPERTS IN THE TRANSPORTATION INFRASTRUCTURE NEEDS OF THEIR STATES, AND ARE LIKELY THE STATE OFFICIAL MOST FAMILIAR WITH THE INTRICACIES OF ISTEA AND THE FEDERAL LEGISLATIVE ISSUES RELATING TO TRANSPORTATION. THEY MAY NOT BE, IN FACT, ARE LIKELY NOT TO BE, THE MOST FACILE STATE OFFICIALS WITH RESPECT TO PRACTICAL FINANCIAL MATTERS -- YOU ARE. IT WAS FOR THIS REASON THAT SECRETARY PEÑA ASKED THE GOVERNORS ATTENDING THE NATIONAL GOVERNOR'S CONFERENCE IN JANUARY FOR THEIR HELP IN THIS AREA. AND I AM DOING THE SAME TODAY -- ASKING YOU, STATE TREASURERS AND FINANCIAL OFFICERS FOR YOUR HELP. I AM ASKING YOU TO PARTICIPATE WITH US IN A FORMAL WAY ON THIS EFFORT. I WOULD LIKE TO COUNT ON NAST TO WORK WITH US ON A TASK FORCE EXPLORING THE ISSUES, HELPING US SELECT OPTIONS WE ALL COULD SUPPORT, AND, IN CONJUNCTION WITH STATE DOTS, LOOKING FOR SPECIFIC PILOT PROJECTS. I HAVE ASKED MY STAFF TO EXPLORE WITH YOU THE LOGISTICS OF SUCH A PARTNERSHIP.

THANK YOU.

STATEMENT OF

MORTIMER L. DOWNEY

U.S. DEPUTY SECRETARY OF TRANSPORTATION

BEFORE THE SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT

OF THE HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

ON THE NATION'S TRANSPORTATION INFRASTRUCTURE NEEDS

March 15, 1994

I am pleased to appear before this Subcommittee to discuss transportation infrastructure needs, and I commend you for holding this series of hearings to highlight the importance of infrastructure to the Nation's economic well-being and to the quality of life for all Americans.

The Infrastructure Deficit

A well functioning transportation infrastructure is a basic requirement for a mobile and prosperous society. The ability to move people and goods safely and efficiently affects the price of goods in our markets, our ability to sell our products overseas, and the quality of life of Americans who travel--virtually all Americans. Our dependence on transportation infrastructure is demonstrated constantly--as we commute back and forth to work and travel to meetings in distant cities, as our children travel back and forth to school, as produce is delivered from farm to market,

as we travel to the grocery store, as grain and fuel moves along our waterways, as our exports cross the oceans.

If we let the condition or performance of our infrastructure deteriorate, it costs us more--in time and money--to move from place to place. That is why Governor Clinton made "Rebuilding America" a major theme of his campaign for the presidency. As he and Senator Gore wrote in Putting People First,

> In the 1980s, the concrete foundations of the United States crumbled as the investment gap widened between America and our global competitors.
>
> ...
>
> To build a twenty-first century economy, America must revive a nineteenth century habit--investing in the common, national economic resources that enable every person and every firm to create wealth and value. The only foundation for prospering in the global economy is investing in ourselves.

Estimates of Infrastructure Investment Needs

You have said that the purpose of your hearings is to review our country's highway, transit, and aviation infrastructure needs; detail the importance of the infrastructure to the nation's economic competitiveness, productivity, and environment; examine past and current funding levels; and explore alternative financing methods.

The Department has been developing infrastructure investment needs estimates for more than twenty years. But we must be careful in assessing needs: such estimates are not simply derived from laws of physics; they have much to do with principles of

human behavior and they can vary with changes in the economy.

How Our "Needs" Estimates are Derived

Early last year, the Department submitted its biennial report on "The Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance." That report was the twelfth such report on highway and bridge conditions and the first to formally combine information on our highway systems with information on our transit systems.

The Department's highway capital investment estimates are developed using data from the Highway Performance Monitoring System (HPMS). The HPMS was developed jointly by the Federal and State governments in the late 1970s to provide a continuing source of standardized data on highway conditions and performance. The data system includes a statistically drawn sample of about 105,000 highway sections representing approximately 1.2 million miles of highway functionally classified as arterials or collectors. Bridge condition information is obtained from the National Bridge Inventory, which contains detailed data on the structural, deck condition, and performance characteristics of all bridges and culverts 20 feet or greater in length. Transit information is developed from the data reported to the Federal Transit Administration (FTA) by transit agencies as required by Section 15 of the Federal Transit Act and from results of the Nationwide Personal Transportation Survey.

Highway investment estimates come from an engineering-based simulation using

HPMS data to estimate future highway deterioration and the effects of capital improvements. Bridge requirements are estimated by a similar simulation model using the Bridge Inventory data. Transit estimates for buses and paratransit are developed by applying generally accepted equipment and facility replacement rates to the existing transit stock and adding costs for new stock to meet increasing demand. Rail estimates are taken from the "Rail Modernization Study," a separate FTA engineering study covering each of the Nation's rail transit systems on an individual basis.

While highway and transit information was combined in last year's report, it was not truly integrated, but that must be our goal. A key factor in estimates of investment requirements is future demand, both in total and by mode. Performance of the highway system--and, to a lesser extent, its condition--is almost entirely a measure of congestion, which is directly influenced by traffic growth. Projections of how many people will use highways and how many transit in the years to come are obviously interdependent and influence estimated investment requirements.

We have to see our surface transportation system as a whole and assess the interrelationships as we estimate investment needs. Your committee can help in that regard: the highway and transit conditions and performance reports are on different cycles by statute. In order to meet the transit reporting requirement, we will issue another report this year, which will have updated transit information but old highway information. Next year, when we will owe you a highway report, we will issue

another report with updated highway information to meet your requirement but year-old transit information. You could help by putting the requirements on the same time basis, so that we can not only be timely, but be realistic in evaluating the interrelationships between the modes.

But we are making improvements. Last year's report estimated investment needs based on maintaining current conditions and performance for highway and transit systems independently. This year's report will be based on maintenance of overall conditions and performance. Since we do not believe that all projected highway travel demand can or will be met by adding highway lanes, but, instead, that a portion will have to be handled by transportation system management, transportation demand management, and transit, this year's report will explore implications of an increasing market share for transit as a measure of transit investment needs.

Our airport needs estimates are developed from data reported by airport operators and compiled in the "National Plan of Integrated Airport Systems." The data they report is basically the capital improvements they are tentatively planning for the next five years. The Federal Aviation Administration reviews the project lists and removes projects that seem unlikely to be advanced, but the report is not a performance-based analysis of investment needs. It is our goal to move in that direction in the years to come.

What Our Needs Estimates Tell Us

The highway and transit report submitted to Congress last year indicated that the average annual capital investment needed to maintain 1991 (the year the data were collected for the report) conditions and performance on highways, bridges, and transit systems totaled $55.5 billion. The average annual capital investment needed to improve conditions and performance to specific cost-effectiveness engineering guidelines associated with moderate performance was reported as $73.7 billion. Those are expressed in 1991 dollars and do not reflect inflation. In contrast, the report indicated that a total of $36.4 billion from all levels of government was spent in 1991 on the kind of highway, bridge, and transit capital needs that the report includes.

A consequence of investing at a rate lower than required to maintain and improve conditions and performance has been a backlog of highway pavement, capacity, bridge, and transit deficiencies. The estimated 1991 cost to eliminate those deficiencies was reported as $290 billion. In 1991, approximately 234,500 miles of arterial and collector roads were rated as "poor" or "mediocre." In 1992, about 118,500 of the Nation's 575,000 bridges were rated as structurally deficient. With respect to transit, 40 percent of urban rail infrastructure is in less-than-good condition, but that percentage has declined from 60 percent when the 1987 Rail Modernization Study was conducted. In addition, over 10, 000 urban transit vehicles are past their normal replacement age; that figure has remained stable in recent years.

With respect to airports, total annual investment needs just for projects eligible under the Federal Airport Improvement program are estimated at $7 billion; total annual investment for such projects (including Federal funds) is estimated at $6.2 billion, leaving a shortfall of $800 million per year.

The bottomline of our various needs assessments is clear -- we have been investing at levels that do not permit us to maintain the conditions and performance of our transportation systems. The consequences of the shortfall have primarily been in performance of the systems -- delays. For example, there are 23 airports currently experiencing annual delays of more than 20,000 hours. Without improvement, there will be 33 airports experiencing this degree of delay by the year 2002. And delays are expensive: the Federal Highway Administration (FHWA) estimates that congestion in the Nation's 50 most populous urban areas costs over $39 billion a year in time and fuel wasted. The conditions of our highways and rail transit facilities have been improving somewhat. But if adequate funding is not available to maintain conditions, the backlog of investment needs goes up dramatically: deferring one dollar in highway resurfacing can mean up to $4 in highway reconstruction costs in two years.

But, at the same time that we face an "infrastructure deficit," we face a "budget deficit." There is a limit to what the Federal government can do and, in truth, what State and local governments can do. We need to do our parts, but we need to do two other things: manage and invest in infrastructure more wisely and make infrastructure

investment more attractive for the private sector.

Federal Investment

The President stressed the need for infrastructure investment, and he proposes to ensure the Federal government does its part. His budget for the coming fiscal year proposes to fully fund the formula capital programs in the Intermodal Surface Transportation Efficiency Act of 1991--ISTEA. Under his proposal, States and local governments will have $3.6 billion more to spend on highways and transit next fiscal year than they had in FY 1993. The Budget proposes to maintain airport grant funding at this year's level even as airports derive an increasing amount of revenue from passenger facility charges to help close the gap between needs and investment. Altogether nearly 71 percent of our proposed spending within DOT is for investment in infrastructure, up from 69 percent in 1990.

At the same time he proposes to increase infrastructure investment, the President also proposes that we invest more wisely. On January 26 of this year, the President signed an Executive Order on Infrastructure Investments. That Order requires that Federal agencies conduct systematic analysis of the expected benefits and costs of proposed infrastructure investments, periodically review operation and maintenance of facilities to ensure their efficient use, encourage greater private sector participation in financing and managing infrastructure, and encourage the recipients of Federal grants to apply the same principles to their program administration. The Executive Order will not

disturb the traditional relationship between DOT and the recipients of our formula grant funds. While we will encourage them to use our funds wisely, we will not second-guess them on specific project decisions. The Order does direct us to do system-level reviews of our formula programs, and that information will help us and Congress identify the extent to which our programs are meeting their objectives.

We are taking steps now to implement the President's directive. We are at work on new criteria for selecting transit new start projects, as required by ISTEA, and for awarding discretionary airport grants. We are aiming to improve our ability to conduct system-level reviews across all modes. In particular, FHWA is developing a new Highway Economics Requirements System (HERS) that will bring cost-benefit analysis into the analytical model to evaluate highway investment needs, and we see the potential for application of the model to other modes.

Infrastructure Management

There are exciting new technologies to improve infrastructure management that we are hard at work on. Infrastructure can be divided into physical infrastructure and information infrastructure. Improvements in information infrastructure have great potential to promote more efficient use of the physical infrastructure. Intelligent Vehicle-Highway Systems--IVHS--is the most prominent. It covers a whole range of diverse information and control technologies to make highway use safer and more efficient. Self-diagnostic sensors on, for example, "smart" bridges, report when a

bridge needs repairs and can help target maintenance and renewal when it is most timely.

ISTEA took a major step forward to improve infrastructure management with its mandate for States to have management systems in place for pavement, bridges, highway safety, congestion, public transportation facilities and equipment, and intermodal transportation facilities and systems. The management systems are a tool for the States to use to identify the priorities for investment. ISTEA also gave a stronger role to metropolitan planning organizations (MPOs) in making transportation decisions and new flexibility in the use of Federal funds to support projects that best satisfy real transportation needs, without regard to the Federal pot of money from which the funds come. Congestion pricing, for which ISTEA authorized a pilot program, also has potential to reduce demand and, therefore, investment needs.

ISTEA also established the National Highway System (NHS). As you know, Secretary Peña submitted our proposal for the NHS last December and announced at the same time the start of an effort to identify a National Transportation System (NTS). Both concepts are important for helping to set priorities for investment and for focusing our attention on a whole system. Individual investments have payoffs, but, if we approach investment on a system-wide basis, the benefits of our investments will be greater than the sum of the benefits of each individual project because each improvement supports the others. For example, replacing a bridge on one highway with one of greater

capacity and widening a segment of another highway may both be cost-beneficial, but, if those improvements are made on the same nationally significant route, greater overall capacity may be achieved and benefits may exceed the total of the two separate investments.

Greater Private Sector Involvement

Comparison of assessments of investment needs with estimates of current investment levels makes clear that more investment is needed. We need to make our transportation projects more attractive to private investors. Again, ISTEA broke major new ground in this area, most notably with its provision for much broader mixing of Federal funds with toll revenues to build and improve highways, bridges, and tunnels. The Secretary has directed us to explore innovative financing techniques, and we have been holding meetings with representatives of State and local governments and the investment community. The Vice President's National Performance Review suggested permitting Federal surface transportation funds to be used as a capital reserve. There have been innovative proposals in Congress, including one by you, Mr. Chairman. There is great interest in promoting more investment and clearly there is the need.

Our first priority is ensuring that the authority already provided in ISTEA is understood and used. Then we want to understand what barriers there are to more investment, and we will be working with this Committee on those as we identify them.

Roles of the Various Partners in Infrastructure Revitalization

ISTEA helped clarify the partnership between the Federal government and State and local governments. The Federal partner is primarily the investor ensuring that key national priority needs are met. State and local governments are our partners in those investments, but they are also the operators and maintainers. If we at the Federal level are doing our part--and we believe the President's Budget for FY 1995 is our most aggressive step yet in that direction--then we have the right to ask that our State and local partners do their part. Are they maintaining the facilities we have helped them build? Are they operating them efficiently? Data from the management systems as they are put in place will provide answers.

An issue for this Committee and for us at the Department is whether the design of our capital assistance programs, especially in the case of bridges, may create a perverse incentive to defer maintenance and accelerate the need for eligible reconstruction or replacement. As I said, total investment for capital falls short of capital needs, and I would not want to see diversion of Federal funds away from meeting those needs, but we must work with our State and local partners to assure that regular maintenance is indeed performed so that the fullest useful life of every facility built is realized.

ISTEA also provided new opportunities for the private sector to join the public partners. The private sector has a significant role both as investor and manager. We look forward to working with you to exploit the opportunities ISTEA provided and to

identifying new ones to advance our common goal of an improved infrastructure that can support economic prosperity and a better life for all Americans.

That concludes my prepared testimony. I would be pleased to answer any questions you may have.

REMARKS PREPARED FOR DELIVERY
DEPUTY SECRETARY OF TRANSPORTATION
MORTIMER L. DOWNEY
"THE CLINTON ADMINISTRATION'S COMMITMENT
TO TRANSPORTATION INFRASTRUCTURE"
THE MUNICIPAL FORUM OF NEW YORK
NEW YORK, NEW YORK MARCH 16, 1994

(Introduction to be made by John Haupert of the Port Authority of New York and New Jersey, President of the Municipal Forum)

Thank you, John, for that introduction. I appreciate the Municipal Forum's invitation to come home to New York and discuss what the Clinton Administration is doing to meet our nation's transportation infrastructure needs.

We live in an era of renewed hope for our country's future. Whether it's working to ensure that all Americans are able to receive the health care they need, "reinventing government" to make it work better and cost less, or creating the educational and job training opportunities Americans need, we are building the structures which will determine the quality of our future.

From its beginning, this Administration has recognized the importance of transportation investment to that future, recognizing transportation's role as a foundation for economic prosperity and global competitiveness.

Today, one-sixth of our gross domestic product is spent on transportation-related activities, and our transportation infrastructure is valued at over $1.4 trillion dollars. This

Administration's belief in that infrastructure as a critical investment for our future is firm.

We are all aware of the Federal budget deficit, and are working hard to reduce it. But we also must be aware that there is another deficit: the infrastructure deficit. We all feel its impacts: directly, as users frustrated by traffic jams, by poorly-connected travel modes, and by unsafe travel conditions. Indirectly, through lost productivity, increased business costs, and higher prices.

To demonstrate the magnitude of this problem, let me highlight statistics for our Federal-aid highways. Just to *maintain* the current condition of our major highways, with today's level of potholes, congestion, etc., requires about $51 billion per year. If we want to *improve* conditions, we need to spend -- or invest, since there is a return on this spending – about $67 billion per year. Yet we estimate that *all* governmental highway spending today -- federal state and local -- *together* is only about $32 billion annually.

Needless to say, ignoring these facilities only leads to further deterioration and to increased costs in the future. The Clinton Administration recognizes this, and is taking steps to address the problem.

Our FY1995 budget reflects the President's themes of spurring growth in the economy and creating jobs, and of setting critical priorities. It also incorporates Secretary Peña's goals for the Department of Transportation,

especially his goal of investing strategically in infrastructure.

We have dramatically increased our investment in transportation. With 71 percent of our budget, over $28 billion, going for infrastructure investment. That is a 24 percent increase just since FY1991. Indeed, more than four-fifths of *all* Federal infrastructure investment is for transportation purposes.

This budget shows we are leading the charge to improve our nation's transportation infrastructure, but the Federal government alone cannot close the gap between our needs and our resources, even in concert with other levels of government. We need to look for new ways to go beyond direct government funding, and we need to involve other governments and the private sector in that effort.

Each of the DOT operating administrations with major investment programs has formed a working group to look at possibilities for pursuing innovative financing, and we are developing a new, comprehensive approach to financing infrastructure.

We are exploring the feasibility of innovative financing techniques, including such ideas as using Federal grant funds as capital reserves or to buy bond insurance, and allowing short-term loan guarantees.

This new look doesn't mean we are not already heavily involved in innovative, public-private partnerships.

Financing infrastructure investment in transportation is not new.

Joint development has helped finance public transit here in New York and across the nation. Bond financing as you well know has been used in a major way to help finance our infrastructure needs.

We clearly are in a growth industry here. Although much of the recent growth in transportation financing has resulted from refundings, as interest rates dropped, the municipal market still has shown what can be done to meet public infrastructure needs.

There have been additional noteworthy credit enhancement techniques that have involved the Federal government, and which could shoow the way towards more new bond issues for infrastructure. The contingent federal support that facilitated the $51.2 million bond issue for the San Joaquin Hills highway project, or the dedication of future Federal transit grant funds as partial support for bonds to finance San Diego bus purchases are just two examples.

So, things have been progressing, and we have involved the private sector in transportation infrastructure. But we are looking for additional actions we can take to increase the availability of these resources to help meet infrastructure needs.

Let us look at some specifics, particularly with regard to our surface transportation programs. With the passage of ISTEA, the States were given new flexibility for funding transportation. ISTEA provided for Federal spending on private toll roads; an ability to use toll revenues that are generated by public, quasi-public, and private agencies as the "soft" match for Federal highway and transit funds; and the ability to have greater private involvement in building, maintaining, and operating toll facilities.

However, States have not been as active as we might wish in using the innovative financing provisions. We hear that they are concerned about a number of issues, including, for example, the complexity of the new ISTEA-provided opportunities and impacts on State laws and regulations.

We also have heard that tax law changes might be necessary to make ISTEA-related innovative financing a reality. We have been told that the ability of States and localities to issue tax-free bonds to help finance new "private" toll projects should be broadened. In addition, we understand that some States are concerned about their ability to issue tax-exempt debt if they want to enter into long-term leases for the private operation of toll facilities.

From the early days of this Administration, we have recognized many of these issues and have been pursuing an extensive outreach and education effort. We also have been exploring numerous options to make it easier for States to use the ISTEA provisions.

In addition, we and Congress, recognizing that new approaches are needed, have been actively exploring ideas to make the ISTEA processes easier, more understandable, and more attractive to States and the private sector.

For example, the Vice President's National Performance Review suggested that ISTEA be amended to allow the use of Federal funds to serve as capital reserves to guarantee debt. This proposal would permit grantees to use Federal grant funds as capital reserves to back debt financing for eligible projects. Federal-aid could even be pooled in revolving funds to leverage further investments. The objective is to provide States with ways to use their funds in creative ways.

Another example came from a Congressionally-authorized commission to promote investment in America's infrastructure. It looked beyond the traditional sources of infrastructure funding, and assessed the potential for tapping into the $4 trillion in assets held by 22,000 corporate, public, and union retirement plans in the U.S. The commission made a variety of recommendations to access both pension funds and the more traditional sources of municipal market capital for mixed public and private investment.

An independent Federal advisory committee, the Competitiveness Policy Council, issued a report last year looking at ways to overcome "a massive underinvestment in U.S. infrastructure," and suggested the possible development of a national infrastructure bank. This bank would serve as a repository and manager of Federal

infrastructure trust funds, able to issue securities to leverage additional infrastructure investments.

Senator Baucus, Chairman of the Senate Committee on Environment and Public Works, has introduced legislation designed to build on ISTEA and make it easier for States to combine public and private money for infrastructure projects. They would give States discretionary authority to establish State revolving loan funds by using portions of their Federal-aid highway funds for capitalization. The fund could make direct loans, refinance outstanding infrastructure debt, provide credit enhancements, subsidize interest rates, and provide loan guarantees.

It also would give States authority to make loans to public or private entities under certain circumstances, such as demonstration of the ability to repay using dedicated taxes or other revenue sources.

The one caveat that we all must keep in mind is one that all of us in this room recognize very well. If government gets its money for infrastructure needs through the private sector, it will have to pay it back, and with interest.

We must make sure that projects we want to fund are high-quality, viable projects that make both economic and public policy sense. Without this, we will not be fulfilling the public trust that warrants this long term commitment.

In closing, I want to ask for your help. Secretary Peña has asked the Department to review the full range of

options to increase private sector involvement in meeting our transportation infrastructure needs. This effort is underway, and I welcome your suggestions. While we are working closely with public agencies, we believe it is also important to have the creativity of the municipal market as we embark upon this effort. I look forward to hearing your ideas during this afternoon's discussion, and to a productive relationship in the future. We need to show some success in this area, and I think the best way to do that is to encourage experimentation and flexibility.

I've asked our agencies to be responsive to proposals and concepts for our involvement. We've asked Congress in our airport aid bill to consider new forms of federal financial involvement along the lines of our ISTEA authorities.

We've asked states and localities to consider greater use of pricing mechanisms to manage the supply of transportation facilities and services, and you know that such mechanisms can translate into viable revenue shares for financing.

We are working with governments along the Mexican border to see how increased traffic demand for goods movement in a post-NAFTA environment can be met through self-financing mechanisms.

In all of these areas, and more, our door is open and I hope you will bring in your ideas and work with our agencies to see what the limits of our abilities might be.

Recognizing the extent of our investment needs, anything that will help us stretch our limited dollars is welcome.

Thank you very much.

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DEPUTY SECRETARY OF TRANSPORTATION MORT DOWNEY
HEALTH AND PERSONAL CARE DISTRIBUTION CONFERENCE
MARCH 17, 1994
WASHINGTON, D.C.

INTRODUCTION & TOPIC OF SPEECH

- I was delighted when Bill Moran (executive director) invited me to speak to you on "Transportation Issues for 1994" because the future of transportation and health care are inextricably linked in two ways.

  -- Transportation safety is a health care issue, and I know your organization is a valuable supporter of our highway safety programs where efforts are being redoubled to bring death and injury statistics down.

  -- Secondly, our fortunes are also linked because transportation must move health and personal care products to market on time and at reasonable costs. This requires adequate infrastructure, a healthy regulatory environment and technological advances.

- So I'm glad to have this opportunity to discuss where we are going on these two areas in 1994.

TRANSPORTATION SAFETY AS A HEALTH CARE ISSUE

- It's pretty obvious that reducing death and injury on the highways can significantly lower the direct load

on the nation's health care system, but I don't think many of us realize what a tremendous impact we really can have.

- Motor vehicle crashes in 1990 were the fourth leading cause of premature death in the U.S., and the leading cause of death for Americans aged 5 to 34.

- The cost of motor vehicle crash injuries in 1990 was $137 billion, including $11.4 billion for health care expenditures.

- Last year Secretary Peña set tough goals for increasing safety belt use and reducing drunk driving.

  -- He asked us to reduce alcohol related fatalities from 45 to 43 percent by 1997. This would save 1,200 lives a year, reduce the total cost to society of alcohol-related crashes by $2.2 billion, and $74 million in direct publicly funded health care costs -- every single year.

  -- The Secretary also set the goal of 75 percent safety belt use by 1997. This would save 1,700 lives and reduce total cost to society by $3.6 billion and direct publicly funded health care costs by $180 million -- every single year.

- There is good news on the highway safety front. With the help of organizations like yours, local law enforcement officials and judges, and the array of

citizens activist groups that have led the highway safety campaign for over a decade, we are well on the way to achieving those goals.

- Other recent DOT actions should affect highway safety in a positive way.

- DOT announced final Drug and Alcohol Testing rules on February 3, pursuant to the Omnibus Transportation Employees Testing Act of 1991. They affect over 7.4 million transportation employees who perform safety-sensitive functions.

  -- Drugs. The random rate for drug testing is lowered to 25 percent from 50 percent for those industries in which a positive rate for random testing has been less than 1percent for two consecutive years.

  -- Alcohol. Testing procedures are set for all modes -- including random, pre-employment, post accident, reasonable suspicion, return to duty and follow-up. Random testing, at an initial rate of 25 percent, can be lowered to 10 percent if data for two consecutive years show the random violation rate is less than 0.5 percent, and can increase to 50 percent if the violation rate is 1.0 percent or higher in any year.

  -- Radar Detector Ban for Trucks. Beginning this past January 19, radar detectors are banned in all

trucks weighing over 10,000 pounds and operating in interstate commerce. DOT took this action after finding that about 35 percent of trucks checked in May 1992 were equipped with radar detectors. The main benefit will be a reduction in severity of accidents because of generally lowered speeds, saving about $68 million per year.

-- Antilock Braking Systems for Trucks. In September 1993, DOT proposed requiring medium and heavy trucks, tractors, and trailers to be equipped with ABS to improve their stability during braking. We estimate that the proposed rule could prevent some 600 fatalities and 34,000 injuries per year. We expect to issue a final rule by this summer.

-- ABS for Cars and Light Trucks. About a month ago we also proposed requiring ABS for passenger cars and light trucks. The comment period closed on March 7, and we will be analyzing comments and conducting studies of ABS effectiveness before any decision is made to require them.

TRANSPORTATION & THE MARKET
REGULATION, INFRASTRUCTURE, & TECHNOLOGY

- The second connection between DOT and your industries is the impact we can have on how you get your products to the drug stores, the hospitals, the clinics and medical centers. I know most of you use

trucks -- small package service such as United Parcel Service and less- than- truckload carriers. Some of you use air express, but most of your products move by truck. This means the work of DOT affects you through infrastructure, regulation and technology.

INFRASTRUCTURE

NATIONAL HIGHWAY SYSTEM

- The National Highway System was mandated in the legislation known as ISTEA. We submitted our NHS proposal to Congress in December. It contains about 159,000 miles of highways that handle 40 percent of auto traffic and 70 percent of commercial truck traffic.

- Probably more future highways will be made from fiber optic cable than from asphalt, but however important such an "information highway" will be for ordering goods, tracking them and billing for them, someone still has to pick them up and deliver them on a truck.

- Not only have we let our highways deteriorate, but connections between highways and facilities such as ports and airports are no longer adequate, and others do not adequately serve emerging international trade corridors, especially in light of the North American Free Trade Agreement.

-- NHS will allow us to better target our transportation investments in the coming years.

- Over $23 billion of ISTEA funding will be directed toward NHS. It is a primary component of President Clinton's initiative to "rebuild America," providing the means to sustain economic growth, productivity growth, and competitiveness in the global marketplace.

National Transportation System: Linking America

- At the unveiling of the NHS, Secretary Peña announced that we are expanding to include a National Transportation System with a goal of linking up America.

- The NTS goes beyond the NHS to include not only roads but also airports, seaports, waterways, railroads, transit systems, and even pipelines, as well as their intermodal connections. It will include systems for both personal and freight transport, and both public and private facilities.

- The NTS will serve as the guide for funding transportation infrastructure, providing direction for comprehensive, coordinated investments geared to the efficient intermodal movement of people and goods.

- In order to encompass the right elements in the NTS, we will be starting a comprehensive public

outreach program sometime in the spring. We will value your participation and your views.

TRANSPORTATION TECHNOLOGY & ECONOMIC GROWTH

- President Clinton's new initiative, Technology for America's Economic Growth: A New Direction to Build Economic Strength, provides the basis for long-term economic growth and an enhanced quality of life through public-private cooperation on technology development.

- This enterprise recognizes the critical role improvements in technology must play in achieving these goals, and the necessity of public-private partnerships in such areas.

- For example, President Clinton's Clean Car Initiative is aimed at strengthening U.S. competitiveness by developing technologies for a new generation of virtually emission-free vehicles with triple the fuel efficiency of today's cars.

- In addition, the Defense Reinvestment and Conversion Program coordinates the transfer of defense technology to civilian use and invests in worker retraining, community redevelopment, and advanced technology.

- The Department of Transportation is a major player in this effort which is spearheaded by the Technology Reinvestment Project (TRP).

- The TRP offers grants to private business with 50 percent project cost-sharing. The recent competition for $472 million in grants elicited 2,850 proposals requesting $8.5 billion from teams consisting of more than 12,000 businesses, colleges, and state and local governments.

- Transportation-related research came away with 40 percent of the funding thus far.

- How does this relate to your industry? Technology will make travel more efficient and safe in the future. Intelligent vehicles and highway systems will allow drivers to see farther ahead in the dark, regulate the flow of traffic, and do a thousand things we have not dreamed of. Simply put, efficient and effective transportation systems are vital to our long-term economic health and global competitiveness.

REGULATION

HAZMAT

- RSPA is proposing to extend the application of the Hazardous Materials Regulations to all intrastrate transportation of hazardous materials in commerce. This rulemaking is necessitated by the Hazardous

Materials Transportation Uniform Safety Act of 1990, which mandated that RSPA regulate the safe transportation of hazardous materials in intrastate, in addition to interstate and foreign commerce.

- The goal of this action is to raise the safety level of hazardous materials transportation by promoting a uniform nationwide systems. Currently, the federal regulations do not apply to intrastate carriage by highway, with the exception of hazardous wastes, hazardous substances, and flammable cryogenic liquids in portable tanks and cargo tanks.

    -- Extension of the HMR to intrastate commerce will have a preemptive effect on some existing state regulations.

    -- Unless carefully crafted, the HMR may affect certain intrastate activities such as pesticides for farming and delivery of petroleum products that historically have not been subject to our regulations.

SHIPPER UNDERCHARGE

- One of the most peculiar outgrowths of the competition spurred by deregulation in 1980 was the so-called "shipper undercharge"

problem which we thought was settled by enactment of the Negotiated Rates Act of 1993.

-- We were happy to have been of some assistance in securing enactment of that bill.

- Just when we thought we had the undercharge problem under control -- albeit temporarily -- there are other challenges to its basic validity in dealings with bankrupt carriers. Just who did they thing we were talking about?

-- I sincerely hope the opinion of Judge Higgins is sustained and the law is upheld. The contention that the Act does not apply to bankrupt carriers is "absurd and patently at odds with Congress' intent."

-- I just want you to know that if we have to go back and do it again, you can count on us.

CONCLUSION

- So in conclusion, our goals for 1994 and beyond are:

-- to make highway safety a major player in health care security by reducing accidents and therefore injuries;

-- to concentrate on infrastructure improvements that produce a National Highway System, a National Transportation System and do it with

IVHS and other technological wonders to make the movement of your goods more efficient;

-- and to support shippers in the courts, in the Congress and in regulatory proceedings.

- These lofty goals cast a strong vision for America. They are achievable. They will bring strength to our economy and make us more competitive in global markets. But to be successful, they require your support. I ask you to work in partnership with an Administration dedicated to strengthening the economy and creating more and better jobs for all Americans.

- In asking for your support, I promise you my own.

- Thank you very much.

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REMARKS PREPARED FOR DELIVERY
DEPUTY SECRETARY OF TRANSPORTATION
MORTIMER L. DOWNEY

1994 SAE GOVERNMENT/INDUSTRY MEETING
WASHINGTON, D.C. MARCH 29, 1994

PARTNERS FOR PROGRESS IN TRANSPORTATION:
THE CLINTON ADMINISTRATION AND THE PRIVATE SECTOR

(Introduction to be made by Michael J. Stanton of the American Automobile Manufacturers Association, SAE General Chairman)

Thank you, Michael, for that introduction. I also would like to thank the SAE for inviting me to address this meeting. Over the years, the SAE has proven itself as a leader in developing the technological advances that America needs to succeed in the global marketplace. This week's sessions reinforce that commitment.

The theme of this meeting is "Partners for Progress," and that is just how the Clinton Administration views its relationship with America's private sector. Within DOT, we are expanding our cooperative activities and changing the way we do business. This afternoon, I would like to talk about some of the goals we hope to meet through such

public-private partnerships.

This week's meetings have focused on how the automotive industry addresses consumer and societal concerns beyond those of basic mobility. Issues such as vehicle safety, emissions, and fuel economy have become center-stage matters over the past two decades.

And that is how it should be. The private automobile is one of the greatest instruments of personal freedom ever developed. It allows people to live where they want, to work where they choose, to come and go as they please. But, as always, with freedom comes responsibility.

The automobile has brought us social and environmental challenges which we only now are beginning to fully understand. We have the responsibility to clean our air, attack congestion, conserve energy, and reduce greenhouse gas emissions. We need to ensure that our cars and the roads on which they travel are as safe as we can make them.

The motor vehicle industry and its partners have made tremendous strides in many of these areas over the past generation. Cars are now 90 percent cleaner than they were in the 1970s. Fuel economy has nearly doubled, saving us billions of dollars annually and reducing greenhouse gas emissions. Automobiles are safer than ever, and fatalities have dropped to the lowest rates in history. These are achievements of which you can be proud.

But we still have further to go. We must build upon our accomplishments to develop vehicles which are even safer and which have still lower emissions and higher fuel economy. The reasons for this are simple: our increasing population and growing economy have generated a rising demand for automobile travel. You have been more successful with the vehicle issues than we have been at attacking congestion.

Vehicle miles traveled have more than doubled since 1970, and are still increasing rapidly. We in the

transportation sector are taking steps in a variety of areas to meet the challenges created by this growth.

The President's FY 1995 budget for transportation is the largest in history, with 71 percent of it devoted to infrastructure. That is over $28 billion for the new or rehabilitated transit lines, railroads, airports, and improved highways America needs. At the same time, we are advancing demand management strategies such as telecommuting, improved mass transit, and congestion pricing.

But neither new capacity nor demand management can solve the biggest challenges. In areas such as air quality, energy conservation, and safety, much of the improvement is going to come through technology, just as it has over the past twenty years. So, this Administration is actively supporting the technological revolution already underway here in America. We are consciously steering resources towards meeting our country's demand for safe, environmentally-friendly transportation.

The role of technology at DOT has been given comparable support under Secretary Peña's leadership, and the development and deployment of technology are key elements of Secretary's Strategic Plan.

A major technology initiative which involves all of our major transportation goals is the President's Partnership for a New Generation of Vehicles Program, which was covered in yesterday's plenary session. Although it is commonly known as the "Clean Car Initiative" or the "Super Car," depending on your point of view, it really is much more than that.

This program is the prototype for sensible cooperation between the Federal government and the private sector, in this case the three major domestic auto manufacturers. The American auto industry has made a remarkable comeback. And it can continue to maintain a preeminent position by expanding its research and development. We in the government can help by providing technical expertise, shared funding, and an ambitious set of targets.

We also can help by taking strong action to ensure our automotive industry's global competitiveness and to open foreign markets to its products.

This initiative will significantly improve the Big Three's ability to succeed in increasingly-competitive global markets. We hope it will set the pace for similar cooperation in other areas of our economy.

The partnership's goal is the development, within a decade, of a prototype automobile, equivalent in price and comfort to today's vehicles, with reduced emissions, greater safety, and triple today's fuel economy. Advances and potential breakthroughs in materials, propulsion systems, and computerized controls have created dramatic opportunities to meet these objectives. This vehicle's benefits to our domestic quality of life are clear, and we also hope that it will provide the basis for the export of commercially-viable products.

This is an example of technology contributing to

"sustainable transportation" which meets the needs of this generation without compromising the ability of future generations to meet theirs. Indeed, increasingly-stringent environmental concerns, both here and abroad, make this effort even more essential and the need for innovation and new ideas even greater.

The Federal government's team includes the Departments of Commerce, Transportation, and Energy, NASA, and the EPA. Although we have clear interests in obtaining greater fuel economy and lower emissions, DOT's role derives primarily from our responsibilities in safety. So, we will work *with* the partnership to increase vehicle safety, using state-of-the-art techniques from our research programs. We also plan to redirect much of our safety research to this project, and to carefully coordinate ongoing research efforts to help this ambitious program succeed.

We also will bring to bear the department's extensive experience in transportation systems development. For

example, we intend to use this knowledge to determine how the new vehicle will fit into the transportation system with regard to mobility, tax revenue generation, and effects on the economy. And, in particular, we want to ensure that the initiative results in a prototype which takes advantage of the ideas being generated through our Intelligent Vehicle/Highway Systems research.

Within the Federal government, IVHS is primarily led by the Department of Transportation. We see its promise in several areas. IVHS has great potential for mobility enhancement through advanced traffic management, traveler information services, automatic vehicle control, and commercial vehicle operations.

We are also examining its feasibility in safety enhancement through such innovations as collision warning systems and even collision avoidance systems.

And IVHS also will serve mass transit through improved traveler information and systems controls.

Travel efficiencies created by IVHS could lead to reduced vehicle emissions and energy use.

From its beginning, our work on IVHS has been a partnership with the private sector. The initial interest in using advanced communications and high-speed computer technology to improve mobility and safety came from a volunteer group of interested private sector and DOT members. This group formulated the basic approach that is being followed today by the Intelligent Vehicle Highway Society of America - IVHS America.

IVHS America is the primary medium through which we are promoting the IVHS partnership, and it acts as a formal advisory body in this area. In cooperation with our staff, it has helped us to develop the DOT IVHS Strategic Plan - the very foundation of our efforts. IVHS America is now working with us on a broader national plan, one which will help focus the efforts not only of government but also of business.

In addition to these planning efforts, we are working with four public-private teams to create an open and national systems architecture for IVHS applications. It will be a framework that will describe how system components work together to achieve program goals. "Open" architecture will permit the flexibility we need to accommodate innovation in this rapidly-advancing area of technology.

We already are seeing some of the earliest examples of what can be achieved. The TravTek field test in Orlando has demonstrated early promise. While fully-automated highways are certainly not just around the corner, Congress has challenged us to have a test-track demonstration in place by 1997 - just three years from now. We recently released an announcement to form a partnership with a private consortium in order to implement this project.

Programs of this scope and complexity will not succeed without private participation - not only in providing

resources and carrying out tasks, but in offering vision.

Other IVHS-related programs - such as the development of collision avoidance technology - exemplify not only partnerships with business but also our commitment to defense conversion. The end of the Cold War has reduced the need for the high-tech weaponry that American scientific genius created, but has opened up opportunities for the transformation of much of this technology into civilian uses and into products for global export.

There will be opportunities for defense and aerospace companies to apply their technologies through IVHS. In fact, we will shortly announce several agreements for IVHS early deployment which will do precisely this.

The partnerships formed for IVHS and the New Generation of Vehicles initiative epitomize the formal alliances which we are promoting. But that is not the only way to involve the private sector in working towards

critical national goals. Our efforts on safety point to another, equally useful direction.

This partnership is based upon the public's demand for safer travel. Again and again in consumer polls, safety shows up as the leading concern.

It also is the government's concern, and not only for altruistic reasons. Apart from the terrible losses in human life and in pain and suffering, lifetime economic costs for motor vehicle accidents occurring in 1990 will total $137.5 *billion*. That was over $800 for every licensed driver in America. Of that $137 billion-plus, American taxpayers will pay $11.4 billion in health costs, lost tax revenues, and increased public assistance.

In an era in which health care costs have been skyrocketing, motor vehicle accidents are an extraordinary burden on our economy. The President's health care reform plan seeks to control such costs and to protect individuals through guaranteed, *private* coverage for all

Americans - coverage which can never be taken away.

This plan will ensure that *all* Americans receive the health care they need, while preserving their freedom to choose the health care plan and the doctors who meet their needs.

And in exchange, the Administration is asking Americans to take more responsibility for prevention and for maintaining their health through initiatives such as auto safety.

We at the Department of Transportation are working hard to encourage Americans to take responsibility for their own health and safety by never drinking and driving, by not letting friends drink and drive, and by using safety belts and motorcycle helmets. We can reduce this huge cost to society - through education, through law enforcement, and through safety regulations. It is a crucial element of the larger task that President Clinton has taken on in revamping America's health care system.

Consumer demand has now placed safety at the top of the motor vehicle industry's agenda, too. Manufacturers are competing on the safety advances they can offer. For example, Chrysler advertises that this year's minivans meet all 1998 passenger car safety standards. Safety *does* sell, and we are happy that the industry recognizes this and is helping to advance an important public policy goal at the same time.

Certainly, use of the marketplace to advance these goals usually is more efficient than regulation. We stand ready to assist the industry in researching new initiatives in safety. For example, we plan to participate in a public-private partnership to develop the National Advanced Driving Simulator.

This simulator is based on those now used for training astronauts and jet pilots. It will allow us to conduct highly accurate research on human responses to auto and truck driving situations - research which cannot be conducted in real life because of the danger.

Human factors are a contributing cause in up to 90 percent of all accidents, and this will help us to better determine how to prevent injury or loss of life in such situations. It also will provide the ideal test ground for developing IVHS, giving us information on how to best match advanced vehicle features with human capabilities.

In this and other initiatives we look forward to the continued protection of public safety. We in government should not hesitate to suggest reasonable, new goals for the next generation of vehicle safety engineering if market forces alone do not suffice. After all, government - or to be more precise, taxpayers - winds up paying for much of the medical costs, lost taxes, and added welfare spending that preventable crashes cause.

Government has played a role in the development of transportation and commerce since the Nation's founding. Government helped develop the Colonial post roads, the railroads which linked our expanding frontiers, and the Interstate Highways and airports which powered our

emergence as the world's largest economy. The programs which we are pursuing in cooperation with the motor vehicle industry are in this tradition.

They will help us meet critical public goals of environmental soundness, enhanced safety, and energy conservation. They also are advancing the Clinton Administration's objectives in defense conversion, the advancement of American-built high-technology, and the creation of high-wage jobs for the future.

The Clinton Administration looks to such innovation and to cooperation with both government agencies and business to speed up our ongoing revolution in transportation. Together with carefully-chosen investments in traditional infrastructure and innovative demand management, this new partnership will help America move and successfully compete well into the next millennium.

Now, on behalf of Secretary Peña, I have the pleasure

to present the National Award for the Advancement of Motor Vehicle Research and Development.

It is especially appropriate that we present this award today at a meeting with the theme "Partners for Progress." This award was established by ISTEA to honor a domestic motor vehicle manufacturer, supplier, or Federal laboratory employee for significant improvements in vehicle research and development in vehicle safety, energy savings, or environmental quality.

I am very pleased to present the first National Award for the Advancement of Motor Vehicle Research and Development to Dr. Priyaranjan Prasad of Ford Motor Company. Dr. Prasad is being honored for more than two decades of research in basic biomechanics, crash simulation and testing, and applied biomechanical research. His work has contributed greatly to vehicle safety over the past generation.

Dr. Prasad, I ask that you come forward ***(with any***

members of your family) **to receive this award.** ***(Award is an attractive silvery plaque.)*** **The award also includes a medal which is now being struck and which will be presented to you soon. On behalf of Secretary Peña and the Department of Transportation, I would like to congratulate you and thank you for your excellent work through the years.**

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