REMARKS PREPARED FOR DELIVERY
DEPUTY SECRETARY OF TRANSPORTATION
MORT DOWNEY
THE URBAN LAND INSTITUTE
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I want to thank my friend Lynn Sagalyn for that very generous introduction and thank the Urban Land Institute for inviting me. This Conference's subject, Public Investments for Future Growth, is a very timely one amid all the debate and action in Washington about how to leverage our transportation and infrastructure investments and encourage more private sector participation.

President Clinton, as you all know, has been fighting for greater investment in infrastructure and transportation projects from the first day of his campaign. He views such investment as critical to revitalizing our nation's economy -- creating jobs immediately and laying the groundwork for long-term development.

At the same time, he is keenly aware of the budgetary restraints that all levels of government face in "bridging" the infrastructure investment gap -- and is therefore seeking greater private sector engagement, minimal bureaucracy and maximum "leverage" in his major initiatives.

I want to discuss two recent examples of the President's approach briefly, because I believe that they illustrate these principles very well.

I'll then turn to the broader questions of transportation and infrastructure investment -- an area in which private participation is very definitely a growth industry -- and one which has huge potential.

First, though, let's consider two major programs the Administration has launched in just the past two weeks -- the Clean Car Initiative and the Climate Change Action Plan. Both aim to tackle the toughest problems that our love affair with automobiles causes -- the one-third of all greenhouse gases that cars and trucks emit and the fifty per cent share of all oil they consume.

These programs are also designed to promote economic development and a cleaner environment with a minimum of new spending and bureaucratic controls -- and a maximum of creativity.

Both aim at long-term, strategic change in basic transportation technologies and travel patterns. And they do so by engaging the private sector directly in partnership with government -- as in the Clean Car program -- or by providing incentives for voluntary private action as in the Climate Action Plan.

Very briefly, the Clean Car initiative involves shifting hundreds of millions of existing research dollars -- not new spending -- within the extraordinary laboratories built up during the Cold War to directly assist the research of the Big 3 in Detroit in a vast technological "leap forward" -- to a whole new generation of

automobiles, powered concievably by revolutionary new "green" engine technologies.

The long-term pay-offs of this public-private partnership should be enormous -- in terms of enhanced vehicle efficiency, lower emissions, and a revitalized U.S. industry which will find vast global markets for its products. The principle of "leverage" involved is very clear -- government labs will be pursuing the most advanced and risky aspect of this research, with Detroit's efforts focused on commercializing the results.

But while we're confident of medium-term breakthroughs toward a Clean Car, we need new tools in our policy kit here and now to ensure that transportation plans also mesh with air quality targets and reduce congestion -- which will still plague us even if we succeed in tripling auro mileage.

One of the most important of these tools is a simple tax law change that President Clinton has proposed as part of his Climate Change Action Plan. This will allow many commuters the option of "cashing out" the value of parking leased by their employers and receiving that money as taxable income -- while preserving the value of the deduction for their employers.

This is not small change. Nationwide, we estimate that employer-leased parking runs upwards of $52 billion annually. And in California, which passed a similar law in

1992, response by employees has been substantial -- with car and van-pooling up significantly.

We believe that this voluntary tax law change will reduce congestion and pollution -- while raising more than $1.2 billion in new tax revenue by the year 2000.

Although it is primarily designed to reduce greenhouse gas emissions, this change will also help improve the air quality in some of the cities facing the greatest challenges in reaching conformity.

It makes good sense for businesses -- which won't have to spend any more money than they do now -- and for employees, who will see their travel choices expand. And it requires no new bureaucracy or red tape.

I cite these programs as evidence of this Administration's search for ways to stimulate private sector engagement and economic growth and provide incentives to reach transportation and environmental goals.

This Administration, I believe, will bring the same creativity to infrastructure finance -- while fighting constantly to raise the levels of public support -- on which private investment can build.

Last week, I'm pleased to tell you, the President signed a 1994 appropriations bill for the Department of Transportation that will provide an 8% increase in infrastructure spending over last year, raise federal-aid

highway funding by 10.7% and increase transit capital grants by fully 79.7 %.

This legislation will increase road and bridge construction and repair and spur improvements in rail and mass transit all across this nation. And because just $156 million of the total $38.4 billion in this budget is earmarked for highway "demonstration" projects, states will have more flexibility in applying funds than they have in the past few years.

This budget represents solid progress, but we need more. Many of the challenges that state and local officials face in integrating transportation plans and air quality goals run well beyond their available means.

And the flexibility provided by the Intermodal Surface Transportation Efficiency Act counts for little if the money's not there. When state and local decision-makers have to work with less funds than ISTEA authorizes, it can force them to make difficult choices between mobility objectives and clean air goals.

As the former Mayor of Denver, who struggled hard with limited resources to improve air quality, Secretary Peña understands these challenges very well and will continue to support full funding of ISTEA next year and in years to come.

ISTEA presents us with major new opportunities for transportation investment in the post-Interstate era --

enhancing our flexibility between highway and transit funds, authorizing states to mix federal-aid and private toll-road financing; and encouraging states to contract with private firms for engineering and design services.

All of these openings to the private sector reflect the huge gap we have to fill between percieved infrastructure needs and available money.

There is simply not enough Federal, state, or local money to meet our current transportation infrastructure needs. Transit alone has an investment backlog of about $17 billion. The Department of Transportation has estimated that an annual capital investment level of about $7 billion per year over 20 years is required to eliminate this backlog and fund needed improvements.

In contrast, we estimate that we are spending currently about $5.1 billion per year from all sources (Federal, state, and local) for transit infrastructure. As you all know better perhaps than I, unmet needs have led to more expensive transit service because equipment and facilities are older and less efficient then they should be.

That circumstance is not unique: highways and bridges, ports, and airports, and other infrastructure sectors, like water and sewer facilities, have back-logs running to hundreds of billions of dollars.

Little wonder, then, that we are looking hard at

ways to increase the availability of resources from the private sector -- and we are finding them.

Last year, for example, the municipal bond market hit its highest level ever for new bonds issued, and surface and air transportation financing comprised the third largest segment of this market. The trend in the municipal market is up, and then up some more, from less than $100 billion issued in 1983 to about $250 billion in 1992. Even further growth is expected this year.

The transportation bond market has grown even faster, with transportation issues more than quintupling between 1983 and 1992 (from about $5 billion to over $26 billion). The growth between 1991 and 1992 alone was 49% (from $17.5 billion to over $26 billion).

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 in this 9-year period from less than $2 billion to over $5 billion. All regions of the country participated, paced by the Northeast where such financings grew five-fold over the course of the decade. Clearly, private transportation finance is a growth industry.

The increase in private financing reflects the expanded use of a wide range of financial tools provided by ISTEA to help make transportation infrastructure projects more attractive to the private market. In addition to dedicating specific revenue sources to repayment of

bonds, such as user fees, impact fees, and special sales tax receipts -- credit enhancement techniques such as bond insurance, lines-of-credit, and special guarantees can make public bonds more acceptable to the private investor by reducing risk and expanding the market for such bonds.

A couple of noteworthy examples where the dedication of specific income or credit enhancements have been used effectively include the dedication of New York City transit revenues, the fare box revenues, to help the City modernize and expand its subway, and the dedication of toll road revenues by the San Joaquin Hills Transportation Corridor Agency to support the issuance of $1.2 billion in bonds for a new toll road.

The San Joaquin Hills toll road is also an example of how the Federal Government can help make a project attractive to private investors. Using authority provided under ISTEA, the Federal Government provided a backup line of credit to pay debt service, if necessary, during the first five years of operation.

Another innovation used recently by a small number of agencies, including the San Diego Metropolitan Transit Development Board, is the dedication of future transit Section 9 funds as a credit enhancement to back the issuance of bonds to purchase new buses.

These financing options exist and are bringing private

capital into the expansion and modernization of transportation infrastructure. But we are also looking at options that go beyond these techniques and further open up the private financial markets to public infrastructure investments.

The Vice President's National Performance Review, for example, suggested that ISTEA be amended to allow the use of Federal funds to serve as capital reserves to guarantee debt.

As many of you know, 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 should become available to help implement transit-related infrastructure improvements, such as high occupant vehicle (HOV) lanes.

The Vice President's proposal would go one step further, and authorize grant recipients to use Federal formula grant funds as capital reserves to back debt financing for eligible projects, including transit projects. Federal-aid could be pooled in revolving funds to leverage private investments. The objective is to provide the states with additional ways to use their Federal-aid funds in creative ways.

Senator Baucus, Chairman of the Environment and Public Works Committee, is also proposing ways to make

money available through new state transportation revolving loan funds. Selected Federal-aid highway money would capitalize the funds, which could be used, for example, for direct loans, credit enhancements, and interest rate subsidies.

Both highway and transit capital projects would be eligible. Senator Baucus' bill would also expand the ISTEA provision allowing the loan of the Federal share for toll projects to also allow loans on non-toll projects which are supported by dedicated revenue sources, such as sales taxes.

Additional options being explored are the securitization of transportation debt issues such as is currently done with home mortgages; Government Sponsored Entities such as Sallie Mae (the Student Loan Marketing Association) or Connie Lee (the College Construction Loan Association) which provide credit enhancements through packaging and which guarantee loan and interest payments; Federal infrastructure banks to make loans or loan guarantees, or Federal insurance to provide a guarantee of debt payments on bonds.

These actions, like those proposed by the Vice President, will require some changes in Federal law to make them happen. But, as we all know, good ideas and enactment of legislation are not enough. Implementation must follow. We are soliciting ideas wherever we go -- and we welcome yours -- as we begin framing legislation. We

will do our part to deliver the mechanisms to make it happen.

I would be remiss, however, if I didn't add a note of caution about private sector expectations. Remember, there is no free lunch in the business world! The private sector expects repayment of its loans. State and local governments that borrow have to pay back with interest -- so there is a cost and a risk.

The cost is paid by future users or taxpayers, and so commits them to a debt that they must shoulder. The risk is of default by an agency that borrows, cannot pay back, and then finds its credit rating shattered, its ability to tap the financial markets lost for years and even its governmental autonomy taken away for a period.

Long term financing for capital projects can also reduce credit availability for other worthwhile projects. Obviously, credit and credit enhancements cannot make non-viable transportation infrastructure projects viable. If a project does not make sense, credit enhancements will not change the underlying economics of the project -- even if they do induce private investors to put up their money. A poorly-concieved investment, then, can have its negative consequences "leveraged" -- that is made worse -- by use of private credit.

Beyond the financial arena, there are other areas where partnerships may make sense. One of DOT's

highest priorities, for example, is the passage of a $1.3 billion High Speed Rail initiative (H.R. 1919) that would provide matching funds for states, cities and private investors to develop high-speed rail corridors between cities around the country.

Our key criterion for awarding grants if we pass this bill will be the share of local money that areas put up -- those with larger shares of a project's total will recieve preference and we will look favorably on private as well as public investment. We thus expect the roughly $1 billion federal share for high-speed rail corridors to generate total investment of $2.5 billion or more.

Using the private sector to help provide transit services has already been a focal point of the Federal transit program over the last decade, requiring periodic reviews of public transit services and determinations about whether the private sector might provide these services better.

While we still believe that the private sector can help, we are not approaching this issue from an ideological, anti-government perspective that seemed to be a fixation of the past 12 years. We believe that service providers at the local level, are in the best position to look at transit services and to decide where and when it may be appropriate and cost effective to develop private options.

In approaching private investment in transportation

and infrastructure, there are some guiding principles that you are likely to see in all of this Administration's policies:

- **o Maximum local flexibility -- states and cities should decide what's appropriate in their communities.**
- **o Minimum paperwork -- The past paperwork mill caused by Federal requirements should be reduced.**

- **o Neutral Federal policy -- The prior policy preference for private sector solutions should be deemphasized. Decisions should be based instead on balanced assessments of the strengths and weaknesses of all service providers -- public and private.**

In closing, I want to underscore to everyone interested in public and private financing of transportation and infrastructure projects that a new day has dawned at the U.S. Department of Transportation. The Clinton Administration is building a wide range of public-private partnerships -- from defense conversion to worker-training to the Clean Car project --
and transportation and infrastructure investments will be part of that.

Whenever it makes sense to enlist the help of private sector partners, we embrace the opportunity to do so. In an era of constrained budgets such partnerships may be

the only way of achieving our national goal of a safe, environmentally sensitive, and efficient transportation system across this great land, and the development of the infrastructure that will carry us with pride into the next century.

Thank you all very much.

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Draft Remarks

Signing Ceremony
at Cardozo High School
Tuesday, November 9, 1993

Good Morning.

I'd like to thank Mrs. Robinson **~~Stephanie~~ for that generous introduction.**

I am very pleased to be at Cardozo on behalf of USPOT and its Secretary, Federico Peña **this morning and join with other members of the ~~Nation~~'s transportation community** here in the nation's capital **in pledging support for the TransTech Academy Program.**

I see people here representing many parts of transportation, mass transit, airlines, labor unions, universities and transportation associations. All of them making themselves and their skills available to you students through the TransTech staff and the D.C. school system.

I think we all have something of value to pass on to you--something

that doesn't necessarily cost a lot, but that can make a difference in your lives. Something that you, at some time in the future when you are working as we are, can give back to other students, not yet born, who will be standing here as you are now. That is the way the system works best, when each of us can add value to someone else's life and help sustain a basic humanity and concern for others in this school and

this Nation.

I thank you for making me a partner to these proceedings. and I look forward to our continued partnership with The Academy.

But, at the same time, don't think we are all doing this out of pure social motives. In fact, as employers in this region, with extensive needs for a skilled management and labor, it's very much in our interest to work with you ~~towards a Stronger~~ to assure our future as well as yours.

New skills for a technology-based transportation system.

REMARKS PREPARED FOR DELIVERY BY
DEPUTY SECRETARY OF TRANSPORTATION MORTIMER DOWNEY
SOCIETY OF AMERICAN MILITARY ENGINEERS
NEW YORK, NEW YORK
NOVEMBER 17, 1993

Thank you very much for that generous introduction. Back in July when Gene Fasullo invited me here, I had just left New York after several years as executive director of the MTA. And I was delighted at the prospects of returning to talk to a group of engineers about transportation, the "Pathway to the 21st Century."

Little did I realize then how much I'd have to say. And I'm happy to say we've made tremendous strides in infrastructure in the still young Clinton Administration.

President Clinton's commitment to transportation infrastructure investment as a means of strengthening

our national economy and competitiveness not waivered one bit and I was excited to read in *The Washington Post* yesterday that the President's "Vision Programs" were funded -- among them transportation infrastructure.

We have a 1994 Appropriations bill that is good news for infrastructure. It provides an 8% growth in infrastructure funding over last year's levels. In particular, the Federal-aid highway program funding increases by 10.7% over last year -- to $17.59 billion. It increased transit capital grants by fully 79.7%. And because just $156 million of the total $38.4 billion in this budget is earmarked for highway "demonstration projects" states will have more flexibility in applying funds than they have in the past few years.

We will soon announce the route map of a new 155,000-mile National Highway System to be sent to Congress before the December 18th deadline. The new map identifies our national priorities, illustrates what the system will mean to our economy and how important it is to our national security. From this map, we have a pretty good idea the demands that environmental considerations, system performance and intermodal connectivity place on the nation's overall transportation system well into the next century.

Intermodalism is one of Secretary Peña's highest priorities. That's why highways worked with railroads, transit, maritime and the Federal Aviation Administration to develop this map.

But before we go into the future, let's step back for a moment in history because the fundamental

principles that have guided us in transportation investment decisions for nearly a century remain the same.

In 1919, one year before your organization was founded, the first transcontinental Army convoy dropped a stone on the Ellipse just south of the White House and began a journey to the West Coast. If you face the South entrance to the White House today and look a little to your left, you can see that stone -- marking the beginning of the historic journey that dramatized the military need for a national highway system that would unite our nation.

Counting mud holes, broken bridges, cracked axles and speeches along the way, the convoy took nearly two months to reach San Francisco. It averaged 58

miles per hour, less than the speed limit in many places today.

The world has turned over many times since General Blackjack Pershing's men -- including a young lieutenant colonel named Dwight Eisenhower -- demonstrated the military importance of transportation linkages.

Each generation of Americans since has enjoyed a revolution in commerce, in wealth, in personal mobility unrivaled in the world. We stand today on the brink of another revolution -- one which requires greater emphasis on north-south corridors, better intermodal connections and more value than ever on the efficient movement of our military within the United States.

Incidentally, I am told that if you placed General Pershing's original map -- a hasty sketch of his

thoughts on highways needed in the early part of this century -- over the map of the system we are about to announce, you could still see the correlation between that sketch and tomorrow's system.

Of course, the NHS has as its nucleus the 42,800-mile Interstate Highway System that is for all practical purposes completed. The Vice President's father, Senator Albert Gore Sr., had a great deal to do with enacting in 1955 Interstate Highway Act which ushered in the greatest public works project in history.

In addition to the Interstates, the new NHS map also started off with an additional 2,200 miles which were built by other sources and included in the Interstate System.

It also includes highways in the STRAHNET, the Strategic Highway Network.

ISTEA identified some high priority multi-state corridors totaling about 4,500 miles that are included in the NHS.

That gave us about 67,000 miles to start with. Beyond that, the slate was clean and we worked with the state and local officials to fill in the blanks.

But I want to emphasize at the outset that the STRAHNET connectors were one of the first elements worked into the NHS map. As you probably know the Department of Defense identified these roads to provide defense access, continuity, and emergency capabilities for movement of personnel and equipment in peacetime and wartime. And I can tell you that the STRAHNET portion of the NHS map is up to the minute.

Administrator Rodney Slater has briefed the Pentagon at the highest levels and we have worked very closely with the Department of Defense to factor in the current downsizing of the military.

I'm sure you've thought a great deal about future military mobilization needs within the continental United States and so have we. Time was when the United States had large troop and supply concentrations around the world ... in Germany ... in NATO countries...in the Philippines...in Korea ... etc...

Downsizing makes transportation within the United States is more critical to mobilization than at any point in recent memory.

Intermodal connections are as critical to the military as they are to commercial users. In the 21st century we can no longer afford a system that allows

the military to get its supplies within half a mile of a port only to find the transportation network abruptly ends -- which is the case at some ports today. That's why on the new NHS map you will see not only military installations clearly marked but the 10 largest rail transit systems, Amtrak, airports, and seaports and how they connect into the overall system.

I looked at the map of the Northeastern Corridor before I left Washington and I was struck by the way the major military installations, mass transit systems, railroads, seaports and airports, are woven into one coherent, seamless system.

Before we talk anymore about what the NHS is, let me be clear about what it isn't. It isn't an extension of the Interstate Highway System. We don't have the need or the national will to construct a 155,000-mile

Interstate System. Instead, the NHS gives us a system to meet the needs of people. In a sense, it is the first level of humanization of transportation.

The non-Interstate segments will gradually be upgraded to the level suited to meet expected traffic. Some routes may be Interstate-type facilities. Others may need only a new pavement, or increased access control, or elimination of safety hazards.

What the NHS does do is this: It benefits economic growth. It promotes intermodal connectivity and system connectivity. It provides a pathway for 75 percent of the commercial vehicle traffic that carries our goods to market. It promotes our third largest industry -- travel and tourism -- a $350 billion business -- the fastest job creator in America next to health care. It gives us the precious mobility we, as

Americans, value so highly. And it enhances safety and the environment.

Let's look at just a few of those factors.

The NHS makes major adjustments from the current system because the Interstate network was laid out in the 1940s based on then-current population and travel trends. Times have changed. Shifts of population from the snowbelt to the sunbelt are taken into account. The NHS also takes into account the North-South trade corridors between Canada and Mexico we will need to develop to accommodate the increasing traffic flow that the North American Free Trade Agreement will bring.

With the NAFTA vote just behind us, it's worth noting that Canada and Mexico are developing similar national highway networks. In fact, Canada calls its

network the National Highway System. I'm not sure who borrowed from whom, nor is it important.

But the Canadian NHS will comprise about 3 percent of the country's roads.

And Mexico is expanding its national network by adding 3,290 miles of access controlled toll highways, converting 1,864 miles of two-lane roads to modern four-lane facilities, and constructing another 1,430 miles of new highways that will provide the necessary links for a completely integrated system. Besides dealing with rising international trade needs, the NHS also comes to grips with the congestion crisis of urban America.

I know I don't have to tell anyone in this room that urban transportation problems have resisted permanent solution. In 1956, at the start of the Interstate era,

vehicle miles of travel totaled about 287 billion on urban streets. Today, we're almost up to 1.3 trillion vehicle miles, a growth of over 400 percent.

Or consider licensed drivers. Today, we have almost 169 million licensed drivers -- almost double the number in 1956.

Whether you're a road builder or a transit advocate, it's hard to keep up with those numbers.

In trying to figure out what congestion costs society -- in commuting and freitght delays -- we've used the estimate that highway congestion leads to over 8 billion hours of delays a year at an estimated cost of $120 billion. Whatever figure you come up with, urban congestion remains a major problem. All of the improvements we've made are at risk of simply being overtaken by continued growth.

Let me just say right off: the NHS is not going to revive the era of urban freeway construction as a solution to congestion. That era has passed, and new highway lanes are going to become increasingly scarce. Expanding the capacity of existing urban freeways will be difficult in some cases and impossible in others. Even if we could expand them, opening more urban highway lanes to still more single occupant vehicles would be counter productive.

So why should urban areas be interested in the NHS?

Because we are going to designate selected principal arterials as part of the NHS, and they will be eligible for improvement with NHS funds.

That might include updating the routes, providing high occupancy vehicle lanes, or establishing high-tech

traffic monitoring programs to better manage congestion and traffic incidents that lead to delays.

If improvement of adjacent transportation facilities -- either highway or transit -- would relieve congestion on a fully access controlled NHS route, the ISTEA allows us to use the NHS funds for their improvement.

In addition, though, urban areas are more than just homes and jobs. Urban areas have airports and railroads and transit lines. Along the coasts, urban areas have ports. Along the Canadian and Mexican borders, urban areas have border crossings. Upgrading NHS routes to link these urban facilities in an intermodal network is one way urban areas may choose to allocate NHS resources.

But beyond that, beyond what you can do only with highways, the NHS is subject to the same

flexibility as other components of ISTEA. Urban area officials have the flexibility to set their transportation agendas. If that includes wider roads, perhaps with express lanes for high occupancy vehicles -- well, great, the NHS will help them directly.

In fact, NHS funds could also be used to improve Federal-aid highways which are not on the NHS or improve transit systems in certain cases. That is, when a project serves the same corridor and is in proximity to a fully access controlled NHS route. Provided that improving that transit system would also improve the level of service on the NHS route, and be more cost effective.

Under ISTEA, state and local officials may transfer up to 50 percent of NHS funding to the more flexible surface transportation program where funds may be

used for either highway or transit. In fact, up to 100 percent of NHS funds can be transferred to the surface transportation category at a state's request if the Secretary of Transportation finds that the transfer is in the public interest.

So, urban America is free to find its own solutions with the help of the federal government.

Now, that we've moved from General Pershing to the 21st century in a few minutes, let me say that President Clinton views transportation and infrastructure investments as key catalysts for economic growth in the United States and greater competitiveness in world markets. That's why the NHS is on the front burner. The President understands that investment in the nation's infrastructure is the engine that generates economic growth, raises regional

productivity and enables our whole nation to compete -- and prevail -- in tough global competition.

We in transportation are challenges to make that vision real. It requires not only the traditional federal-state partnership that has carried our highway system to its current level, but input from local governments, private citizens and community groups. It requires most of all the creative and innovative skills of engineers who most be taken in as part of the team. Your knowledge is the key to success for America's transportation strategy. So let your voices be heard. I ask your support in building the Pathway to the 21st Century.

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