INVESTING IN OUR FUTURE:
Transportation Finance in the Commonwealth

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Panelists:

Tom Bradshaw, National Managing Director of the Transportation Group at Citigroup Global Markets Inc., former Secretary of Transportation, North Carolina, and former Mayor of Raleigh, North Carolina.

Barry Bluestone, Dean, School of Social Science, Urban Affairs, and Public Policy at Northeastern University.

Joseph M. Giglio, transportation technology and finance expert and Executive Professor at Northeastern's College of Business Administration.

Michael J. Widmer, President, Massachusetts Taxpayers Foundation.

Moderator: Richard A. Dimino, President & CEO, A Better City.

Richard A. Dimino: Good morning everyone. Good morning. We're very, very pleased to have you here this morning. We know how challenging it can be to get out early. I'm also very thankful for the Federal Reserve Bank's kind hospitality for hosting us here this morning and all the staff that have made it so easy for us to utilize this accommodation. It's one place that has really served the community well over the years.

Early on, the Federal Reserve Bank used to have business briefings for the Central Artery/Tunnel Project and that was over 15 years ago. They're still opening their doors to allow us in the community to come and use their facilities, and that's greatly appreciated.

Over the last number of months, Mike Widmer and I and members of the Transportation Finance Commission have talked about the need to take a serious look at the ongoing issues related to transportation finance in the Commonwealth. And as a result of those discussions, Michael and I decided to organize this panel because of what we saw were very serious issues facing the next administration. We felt that it was very important for us to continue the dialogue, and in fact highlight some of the serious challenges, and opportunities, as we go forward with a new governor.

We don't think this is the beginning of the conversation, however. In fact, I know on behalf of Michael and myself we hope this is part of an ongoing conversation regarding the issues facing transportation finance.

And believe me, we're fortunate because none of us are elected officials. The next set of actions are going to require bold decisions on behalf of our elected officials. If we choose to stand behind our elected officials and allow them to have the courage and the necessary political will to make tough decisions necessary to ensure that we can in fact meet our transportation finance needs and continue to have Massachusetts and the greater Boston area is competitive.

There are a number of challenges on the horizon, but first if everybody would hold onto their seats, I'm going to be positive for a moment. I know that's tough for us here, but hold on, nobody start sweating. Barry, some time ago, was kind enough to speak to the Board of A Better City, and he was also kind enough to review an economic report that was done by consultants on behalf of the Massachusetts Turnpike Authority, done with the close review of Barry Bluestone and his office, as well as A Better City. The new central highway system that we invested in over the last 15 years and the cleanup of the Boston Harbor, and investments like Silver Line Phase One and Phase Two, and like the important passenger rail commitments that we made in the Old Colony, and Greenbush, and with hopefully future investments and the transit commitments, this city, this region, this state is economically and competitively positioned for the next millennium in ways that other cities across the globe are simply envious of.

We need to understand that a new central highway system, in light of what we were going to experience if no action was taken, was incredibly important for this region. That opening access to four point channel in what was once a thousand acres of economic development potential was essential for us. We are starting to see the benefits of economic activity. We are also starting to see the benefits of the investments that we made in cleaning the Boston Harbor.

So we have a lot to be proud of. That's built on the shoulders of the 1970's and '80s and again, a wave of billions of dollars in investment. Frankly, I think we're very well-positioned. But I don't think we can just sit on our hands, and there's much work still ahead of us. And that relates to this challenge.

We have a stem-to-stern review going on in the Central Artery/Tunnel Project right now; very important, needs to get done. Obviously we're all looking forward to the results. But one of the inevitable results will be a price tag. We built a complicated new central highway system. It is – the analogy for me - it's like a nuclear power system. It requires lots of attention in terms of safety and maintenance. That attention means it's going to need some money. We need to know exactly how much on an annual operating basis the new central highway system is going to cost.

We have a gap in the funding of the operations and maintenance of the Rose Kennedy Greenway. How will that gap be filled? We don't yet have a funding commitment for the SIP transit improvements that we still need to look forward to achieving here in Massachusetts.

Michael Widmer from Mass Taxpayers will outline some of the serious issues the operating budget the MBTA has. We have a list of capital projects that goes all the way to New York. We also have a list of expansion projects that's pretty substantial as well. And on that list are the dreams and hopes of many people.

So, we have to face the seriousness. Fairly soon, the Massachusetts Finance Commission will be issuing a report, we're looking forward to that report. Again, that report is just part of the ongoing dialogue. We're looking forward to that.

Reports and panels don't mean anything, actions are what really count. So my hope is that through the education by our panelists, through the actions of our Transportation Finance Commission, we can mobilize and create a legislative agenda both nationally and here within the Commonwealth and the region to address these issues proactively.

With that, let me introduce our first panelist, Michael Widmer, and I'm asking each one of the panelists to please come up to the podium. Michael as you know, is the president of the Massachusetts Taxpayers Foundation since 1992, and has 30 years of extensive experience in both the public and private sectors in Massachusetts. He's a colleague of mine, and an expert in his field, and I'm very proud to introduce him and have him as a collaborator. Michael?

Michael Widmer: Thank you very much Rick, and thank you all for coming today.

As Rick said, our collaboration, which continues the work we did two years ago – we put out a major report on transportation restructuring together and many of the recommendations that we laid out in that report were incorporated in the Transportation Reform Act of 2004. So it's a real pleasure to be collaborating on these critical issues and, as Rick said, we hope that this will help stimulate some debate in the final month of the gubernatorial campaign. But more to the point, put it on the agenda of the next governor, whoever he or she is, because as I'll lay out here in a second, it is a daunting series of challenges.

As I put my remarks together, I must say I even surprised myself at how gloomy I could be.

(Laughter)

So let me say first that I am a member of the Transportation Finance Commission, but in my remarks today I am speaking as the head of the

Mass Taxpayers Foundation, which has worked on, as most of you know, these issues for more than a decade.

So let me say my overall message is that we are seriously disinvesting in our transportation infrastructure at really an alarming rate, and that our transportation system is in great distress. As Barry will talk about momentarily, this relates directly to our economic future, and it's a very serious set of problems.

The disinvestment comes in two forms, one is maintaining the existing system of highways and transit - and we're loosing ground on that front - and secondly the very limited dollars to invest in expansions or modernization of highways and mass transit. Let me touch very briefly on what I see are the problems facing each of these agencies and the transportation system as a whole in terms of financing.

The first point to emphasize is that the operating budgets of each of our transportation agencies are in deficit. I am referring to the operating budget, separate from the question of capital investments and expansions, which I will come to as well.

Let me start with the MBTA. Forward Funding was clearly a positive and necessary step, and we and others worked very hard at achieving that. However, there are some serious problems that are undercutting the ability of the T to succeed under Forward Funding. Some are long-term problems and some aren’t. On the cost side, clearly pensions and healthcare are major problems. We have probably the most generous set of benefit packages in the history of civilization at the MBTA in terms of pensions and healthcare. One example, you can retire in your early to mid 40s, and you get free healthcare for life. And it's one thing when you are 65 and are eligible for Medicare, but retirees receive 20 years of free health care before they are eligible for Medicare. That's just one of many examples.

That isn't to say that we shouldn't have a strong benefits package, it is to say what's affordable and what isn't. Management rights legislation was significantly repealed; the Pacheco legislation undermines the T’s ability to manage costs. So the whole cost side has got to be addressed.

On the revenue side, the growth in ridership and the sales tax that we anticipated when Forward Funding passed has fallen short, so there is a significant problem in the revenue side as well. What's really troubling if one looks at the long term picture, the key strategy for the T under Forward Funding was to move from bonding for capital to pay-as-you-go capital, and that was to take place over 10 to 15 years. But because of these problems that I've outlined and other issues, essentially the T, looking out as far as the eye can see, is going to have to pay 30 percent of its budget in round numbers to manage the debt service on its capital program, including the so-called Legacy debt, the debt that they assumed that had been issued pre-forward Funding.

So this is clearly an unsustainable state of affairs, when you can't lower the amount that is going to debt, and it is as high as 30 percent. So that's the key.

Mass Turnpike. Two parts to the Mass Turnpike, if you will, the Mass Highway System and the Western Turnpike. Let me first talk about MHS.

MHS has been running structural deficits for the last several years, and those have been covered by two one-time sources of revenue, the Allston proceeds and swaptions. So both of those have run their course or are about to run their course, and this is happening at the same time, or just about the same time, that in 2008, we're scheduled for a major increase in tolls on the Turnpike in order to support the debt that was issued to help pay for the Central Artery. So these toll increases are built into the financing plan every six years, 2008 is right around the corner, there will be large toll increases. It raises again the issue of equity, where we're tolling east/west for a north/south highway. Yes there is a metropolitan highway system and MHS makes sense, but as we raise tolls more and more. On the turnpike, the inequity between east/west and north/south becomes more and more glaring.

So, the MHS is facing huge financial challenges. We see as well the Legislature is requiring MHS to have a discount program - $12 million a year we have been paying for the discount program through these one-time revenues, so we're shortly going to see a day of reckoning at the Mass Turnpike

In addition, there is a real question whether the turnpike is putting enough money into maintaining regular roadways, and almost certainly has under-budgeted in the future for what it's going to take to maintain the Central Artery. And all of this is before the recently widely-publicized problems that we all know about. So Mass Turnpike faces enormous challenges.

The Western Turnpike, sort of hidden out there, and the idea is that while it's running on its own it’s no problem. Well the present plan on the Western Turnpike is to eliminate tolls in 2017, and over the next decade, until 2017, to use the reserves to cover a budget deficit. So we're essentially running down the reserves to a point ten years from now when we will then presumably turn this crown jewel and its expenses over to the Commonwealth. And how much do we collect in tolls each year? More than $100 million in the Western Turnpike.

So we have a situation in which we have not raised tolls in the West since 1990, we eliminated tolls from exits 1-6 in 1996, it happened to be an election year, and we plan to eliminate all tolls in 2017. So essentially what we're doing is living on borrowed time. The Western Turnpike is running a budget deficit and then in 2017 we will turn this responsibility over to the Commonwealth to the tune of at least $125 million a year.

Mass Highway. Mass Highway obviously doesn't have its own revenue stream, but we've seen major reductions in staffing over the last decade. On top of that, they have moved many of the staff over to the capital budget during the fiscal crisis. The Commonwealth was looking at ways of saving money so we capitalized the individuals, the employees. There is a desire to move them back to the operating budget, but there aren't the resources to do that, so we're robbing the capital dollars in order to pay for this every day.

In addition, over the whole decade and a half that we've built the Central Artery, we have deferred and built up a large backlog of critical highway projects across the state, and the big kicker of course is that we borrowed in the late '90s $1.5 billion in future federal highway money to pay for the Artery on top of the bonding we were doing, so called grant anticipation notes. So over the next decade, we have to pay back, right off the top, $1.5 billion in federal highway aid, that would otherwise go to pay for statewide highway projects.

DCR. Small agency; however, it's managing some important bridges and roads. Because we've deferred maintenance of those bridges for years and years, the price tag now is a minimum $500 million, probably closer to a billion dollars to repair the bridges over the Charles. Longfellow and the Storrow Drive tunnel are each $250 million. And both need to be attended to in the near term, because they've reached the state where we no longer can simply defer, which has been basically, as you know, our maintenance strategy for years.

Expansions. Essentially there are no dollars available for transit expansions, or really even for major highway modernization projects. We put out a major report at the Foundation three or four years ago which highlighted the fact that the T had to devote all of its dollars to the maintenance and modernization of the existing system. That is stretching the T as it is, and part of the explanation for the unbalanced budgets that they're facing. So there is no money within the T to expand. Therefore, it's a Commonwealth obligation – it has to be.

The problem is that the $600 million a year in transportation funding, under the state's bond cap, is being spent on highways and the local road program, and still we're losing ground on the highway front. So there is no money within the bond cap for any of the mass transit expansions like the Urban Ring, or whatever the project is and whatever the value or not of any of those projects.

And so clearly, beyond the issue of operating budgets, we have to face the reality that over the next 5-10 years, we have no money for expansions. And obviously, when we're talking about the future of the economy, we can’t accept the fact that we're not going to expand in any way, shape or form, the transportation infrastructure of the Commonwealth.

So in conclusion, it's clear from what I have laid out that we have a several billion dollar problem. It's an unacceptable course that we're on, and at the same time there are no easy solutions. As Rick said, it's going to take some leadership on the part of the next governor, and it's important for a lot of groups including all of those in this room today, to call for this leadership.

A couple of things I want to conclude on. One is that there is a misunderstanding that somehow the state is running billion dollar surpluses, and therefore that could be a source of money to help address some of these issues. The reality is the state's '07 budget is in deficit, not surplus. The billion dollar surplus has been repeated so many times that it's now common knowledge, but there are no facts to justify that.

The reality is that we have a $550 million deficit built into the '07 budget, and are planning to use reserves for that; we should be building up reserves in economic recoveries, not depleting reserves, and tax revenues in July, August and September were quite weak – not even quite meeting the very conservative target in the '07 budget.

We put out a major report analyzing the state's finance; it's on our website: www.masstaxpayers.org, I would encourage you all to read the press release, which will give you the grim truth without having to wade through the whole report. But I do urge you to look at that, because that's the reality.

And then, finally, I'll close by saying I think that one opportunity, one small opportunity the state has is to raise the bond cap. The state has a cap of $1.25 billion a year in capital spending, and has not raised the cap in six years. The Foundation has done an analysis to suggest we could raise it to $1.5 billion, an increase of $250 million a year, not all going to transportation but it certainly would be helpful. I hope the next governor will look at that issue seriously. Thank you.

[Applause]

Richard A. Dimino: Thank you Michael. I was just thinking that, as I was listening to Michael, just over 10 hours ago I was with my 14-year-old son listening to the Hot Chili Peppers in Boston Garden, and I wish I was back there.

But that very well prepared and obviously very striking presentation is one of the reasons why we wanted to, again, have this opportunity to talk to all of you, because we do need to get prepared to address these issues. We can't continue just talking.

One of the reasons why we need to talk about these issues is because they directly relate to our economy, and Barry's here to talk about the relationship between infrastructure investments in transportation and our economic opportunities, and as you all know, Barry's just opened up the brand new school, it's the School of Social Science, Urban Affairs and

Public Policy. He's a leader here in Boston, a leader nationally. We're very pleased to have him. Barry Bluestone.

Barry Bluestone: I was wondering why Rick wanted me to be here because, quite honestly, transportation is not my strong suit. The closest I get is back in the 1960s when I worked my way through the University of Michigan, working in a Ford Motorcar company plant building carburetors and alternators. That may be the closest link between transportation and my work.

It's always nice to follow Mike, because when you have somebody who will give you such an unbounded, sunny, optimistic picture of the Massachusetts economy, I can give you a dose of reality.

(Laughter)

I want to talk about five things, but they're all going to link the importance of transportation and infrastructure more generally to the future of economic development in the Commonwealth. That is something I think I do know something about.

As some of you in the room know, every year our Center for Urban and Regional Policy, which is part of the new school of Social Science, Urban Affairs and Public Policy at Northeastern, produces an annual housing report card with the Boston Foundation and the Citizens Housing and Planning Association. Just last week, we released our latest report and looked once again at what is happening to the Massachusetts economy and the Greater Boston economy.

I don't have to repeat those numbers here, but just to give you an idea of what we're talking about, even as late as June of this year, we had 150,000 fewer jobs in Massachusetts than we had before the beginning of the 2000-2001 session. That is against a national picture, where employment exceeded the pre-recession level by 2004 and has continued to grow slowly. The demographic picture is not much better. Essentially the Massachusetts population stopped rising after 2001. We're the only state where we've lost population for the last two years running, and the most worrisome piece of that -- adding to the optimistic sunny presentations this morning -- is that we're losing population in terms of domestic net out-migration. We're still getting about 25,000 net new immigrants from foreign countries a year in Massachusetts, but we're losing about 60,000 people on net, that is 60,000 more native born people are leaving the state each year than are coming in. That has been true for the last two years running, and it's from a net loss of 25,000 just four years ago.

So we're not creating many jobs and we're losing population. And if that isn't sufficient as an optimistic picture, the fact is that the key group we're losing in terms of population are 25-34 year olds; young, working families essential to any economy. Overall, the 25-34 year old population is growing in the United States and it's growing rapidly in states like North Carolina. But here in Massachusetts it actually declined by about 5 percent between 2000 and 2004. As many of you know, this is tied to our cost of living, as well as other things.

The fact is that today we have an economic development challenge in the Commonwealth as important as the challenge we faced in the early 1990s. Back then, we were able to meet that challenge because we had built affordable housing in the 1980s helping to keep our cost of living in line with the rest of the nation and had made major innovations in transportation to support business enterprise. As a result, between 1993-94 and 2000, we actually had an economy that grew faster than the rest of the country, not slower. We've been there before, we can do it again.

What do we know about the relationship between transportation and economic development? One of the things we know is that transportation is pretty important to firms that are thinking about locating here. With the help of David Begelfer, who is in the room right now, and his organization, the National Association of Industrial and Office Properties, our Center fielded a survey of developers and site specialists from across the country. We interviewed over 200 site specialists and location specialists from both his organization, and an organization called CoreNET, the trade association of the real estate folks who work for major corporations.

In this survey, we asked them about 40 different factors they might consider when helping firms make the decision as to whether to locate in Massachusetts or North Carolina, or for that matter, some place in India. These factors ranged from things like rental rates, on-site parking, property taxes, state tax incentives, and state tax rates to civic amenities, zoning, awareness of strong neighborhood organizations, awareness of strong trade unions, and local minimum wages.

What was fascinating to us – and I have studied economic development for almost 30 years – is that some of the things that we thought were really important 10 to 15 years ago ended up at the very bottom of the list. That may be because there have been significant changes in the structure of the economy. For example strong trade unions ended up third from the bottom in the list of 40. Municipal minimum wage laws ended up 40th. It's not something that firms worry about so much today.

The most important two on the list of important factors are almost giveaways. If you're going to locate, you have to have some parking for your employees. If you're going to locate, you want to know what you're going to pay in rent. And number three was also fairly commonplace; the availability of an appropriate labor force. But what's interesting is access to airports and access to major highways. This factor ranked fourth highest of the forty. And the sixth highest, after the timeliness of approvals, was the quality and capacity of a region’s overall infrastructure.

So of the top six, access to airports -- I see Massport is here -- and access to highways and public infrastructure are two of the most important factors businesses consider when making their location decisions. If you don't get those right, location specialists are not likely to recommend a location in your state and in your community. That's how critical this is.

The second thing that I want to emphasize, as you might imagine from all of this, is that we have to start thinking about transportation not just as transportation, but linked to how we plan housing and how we plan our overall economic development strategy. With housing prices so extraordinarily high in Greater Boston, more and more families have moved further away from the region's core creating massive highway congestion on roads like Route 3 going south toward the Cape and Route 2 going north and west. To unclog the roads in the future, we have to deal with housing by focusing on transit-oriented development. This should be critical to the Commonwealth's next governor.

The third point I want to make has to do with the centrality of transportation to the whole way we think about our prosperity. As Rick mentioned, I had the opportunity from A Better City -- the Artery Business Committee back then -- to review a major study of the Mass Turnpike and Turnpike Extension. The original study looked at things like how many new jobs we have created by expanding the service stations on the Mass Pike and how much time commuters save on the roads as the result of the construction of these vital arteries. What I pointed out is the real importance about transportation -- and infrastructure more generally -- can only be understood by doing considering a "counter-factual." Think about Massachusetts if we had not built the turnpike. Think about Greater Boston if we had not done the Big Dig.

The fact is that without those, there would be no economic development; it would go elsewhere because you simply couldn't move, you couldn't get around. And so we have to think about it in that broader sense. Without these critical public infrastructure investments, the value of the private sector from commercial buildings to the equity value in our firms would be a small fraction of what it is today.

The fourth point is that Greater Boston is now suffering slow job growth and a loss in population because we now have the highest cost of living in the nation. According to new research from the Economic Policy Institute in Washington, D.C., to meet the basic budget needs of a family of four in our region costs significantly more than the same needs in New York City, Washington D.C., or San Francisco.

On average, the basic budget for a family of four with two kids requires about $64,700 to live here. This "basic budget" doesn't even count money needed for insurance, or meals out. That same family can live in Raleigh, Durham, or Chapel Hill, North Carolina, for about $44,000. Even if that family chooses to live in New York City, the cost is $6,000 less than in Boston.

At our Center, we studied these data from the Economic Policy Institute closely. Compared to North Carolina -- a major competitor region to Massachusetts -- the cost of housing, daycare, and health care, as well as a list of other items were considerably higher here. Believe it or not, the only place where we do better than North Carolina is on transportation. And the reason for that is the T. That's critical. It is the one area where we have something of a competitive advantage. We have to maintain that competitive advantage because the rest of our cost structure is way out of line.

Finally, I want to close by saying something about the role of highway transportation versus mass transit. In my daily life, I use both. Today, for example, I drove from Cambridge to my University and then took the T here. One of the common things in the transportation literature is how we all “subsidize” mass transit riders through general revenue. The fact is, it’s just the opposite. T riders subsidize me. The reason is – and this is true for virtually everyone in this room – is that we work so hard and work so long that time is our real enemy. Most of us in this room probably have a fairly comfortable standard of living, except for the time constraints in our life. And every time somebody takes the T rather than getting into their car, they make it a little easier for me to get to work on the roads. Simply imagine what would happen is just ten percent of the riders on the T and on commuter rail were to use their cars instead to get to work. We would probably come close to doubling our commute times on the highway. Since time is money, T riders are actually subsidizing all of us. We need to take this into account when considering how we are going to pay for mass transit.

For all these reasons, we must make the next governor understand the centrality of transportation as part of the economic development plan for the Commonwealth.

Finally, let me close with a little story that I haven't told since 1991, but which seems particularly important given the somber view of the world Mike provided us earlier this morning. It's from a priest friend of mine who used to teach at Boston College when I was there.

It's about Lord Nelson, the great British Admiral. The story goes that one day Lord Nelson is out on his ship and encounters two enemy craft. Lord Nelson turns to his young manservant and says, "Bring me my red coat". The young manservant goes below deck, brings up the red coat, Lord Nelson dons the coat, engages the two enemy craft, and sinks them with dispatch.

A few weeks go by and again, an anguish cry from the main mast, "Lord Nelson, Lord Nelson, four enemy craft to the port". Once again Lord Nelson asks for his red coat, and just before the young manservant goes below deck, he turns to Lord Nelson and says, "I have now been in your employ for six months, you the greatest admiral of all time. And I've learned a great deal about naval combat, but there's one thing I simply don't understand. Why is it that every time we go into battle, you ask for your red coat?"

Lord Nelson taps the young man on the shoulder and replies, "That's a great question, young man. The reason is that you have to realize no matter how well-equipped we are, no matter how much speed we have in our ship, the most important thing is that the men never lose courage. And my greatest fear is that one of these days, a stray shot shall strike me in the breast, and they shall see the blood, lose courage, and we'll lose all."

The manservant smiled, went below deck, brought up the red coat, and the four enemy ships were dispatched to the bottom of the sea.

Months go by, and then an anguished cry from the main mast. "Lord Nelson, Lord Nelson, 50 enemy craft to the port, 50 to the starboard, 50 in front of us, 50 to our stern". This time, Lord Nelson not so calmly turns to his manservant and says, "Better bring me the brown pants!"

(Laughter)

I want to suggest it's still time to be wearing the red coat. Thanks very much.

(Applause)

Richard A. Dimino: We're selling red coats at the end of this.

(Laughter)

Barry, thank you so much. Again, another important perspective and dimension on both the opportunities and challenges. The next two gentlemen that we're going to be introducing have distinguished careers in fixing problems, and solving problems.

Our next speaker, Professor Joseph Giglio, colleague and friend, wrote the book "Mobility, America's Transportation Problem and How to Fix it". The book is up front, but through the entire time that I've known Mr. Giglio, he's been at the forefront of understanding transportation finance and infrastructure challenges and identifying innovate and creative ways of addressing them. His firm some time ago helped us look at the questions that relate to the notion of a Metropolitan Highway System, and Joe was a leader in helping us set the stage to move Massachusetts forward with the creation of that. Let me introduce Joseph Giglio.

Joseph M. Giglio: Thank you Rick. You realize he was economical with the truth. Michael, listening to you, I whispered to Mr. Bluestone, "I want to cut my left ear off and go to the South of France, and fall on the butter knife."

I'm grateful for Rick making the book available. I'm obliged to disclose to you that even my best friends who like the book claim that the covers are set too far apart, so you may consider an alternative use for the book.

I have two challenges this morning; one is to read my notes, and two is to try and deal with the issue of emerging trends in especially highway finance in the United States. And let me by way of context before I talk about two specific emerging or reemerging trends, I would more accurately characterize those old wine in new bottles. Also, I will try and put these developments in a national context.

Depending upon who you talk to in Washington or read a series of reports about funding gaps and shortfalls, there is a range of numbers that try to highlight the underinvestment in transportation infrastructure. It's actually become a cottage industry. And you've all seen these reports, they're generated by the usual scrum of inside the beltway consultants and trade associations.

And the funding gaps range from $1 trillion to $3 trillion over the next 20 years that we need to be investing in transit and in highways and bridges in the United States.

To the extent that you can believe any number with six zeros or more behind it, it looks like a serious problem. What I would suspect, whether it's at the state level or the aggregate; whether it's Massachusetts, North Carolina or Texas, that you need to focus on the order of magnitude. That developing these funding gaps, we ought to recognize that these numbers represent projections of the past and assume the same kind of economic growth.

I thought among the important comments Professor Bluestone made was he raised the issue that the funding gap is really predicated on what kind of a transportation network we need going forward. And that's based on a lot of global trade issues and patterns.

The interstate system may not really be part of an international global supply chain 15-20 years from now; it may be part of the Pan-American – North American highway system, which is part of an international global supply chain. So I think that there is some cause for optimism when dealing with these overwhelming funding gaps whether it's at the national or state level. If you look at the issue, if you deal with the real strategic question, what are you trying to achieve? What are we trying to accomplish, the funding gaps may change.

We have the transportation network we deserve, derivative of a series of previous decisions. What kind of transportation network do we need going forward. And I do accept and buy into the idea that what keeps this country strong and powerful is the economic and that transportation infrastructure is a very important contributor and underpinning the strength of our economy.

So I think that whether you're looking at the nation level in Massachusetts or Texas or California, I suspect that Tom will talk about some of those states – I hope he will – I think you really have to focus on the question what kind of transportation network do we want going forward over the next 20-25 years because I suspect that will generate a different set of numbers, and perhaps a more manageable set of numbers.

The other problem I have with many of these funding gaps, apart from being insufferably self-congratulatory in promoting special interests – is that they make no allowance and factor in what is the impact of technology on transportation. Whether it's transit, whether it's water, whether it's air, aviation, or whether it's highways. Transportation is a mature industry that has remained immune from the introduction of technology.

Now against that backdrop, let me try to describe to you what I think are two emerging trends that may profoundly affect the way we develop, finance, operate and manage transportation networks and specific assets, transportation assets, in this country.

One is, it seems pretty apparent that there is emerging, or re-emerging if you will, if you know your history, a re-reliance on tolling. The GAO just produced a report, which I keep next to my nightstand, that said 23 states are considering additional toll facilities. Seven of those 23 are new states; home state of North Carolina, South Carolina, Alabama Mississippi, Missouri, Oregon, Washington, I hope that adds up to seven – I'm from the shallow end of the academic pool, the business school, so I'm not too good with numbers.

(Laughter)

The increased reliance on tolling is to serve several objectives. One it is being used to augment existing highway revenue. As most of you know, the air is leaking out of the highway trust fund. It's been projected in two years, when the reauthorization of federal aid highway bill is up for discussion, that that trust fund will be in deficit by about $12 billion.

There are several ways, by the way, of dealing with that. It's not the end of the world. One, you could change the funding formulas; two, you could bond against that revenue stream, and three, the Feds could move in the direction of putting their money where their mouth is by equipping the interstate with the latest technology and moving toward open road tolling. The interstate highway system is 44,000 miles out of 4 million miles; it's about one percent of our total highway capacity. But it carries about 20 to 25 percent of miles traveled. You want a cash cow, that's one way to do it.

So, folks are looking at tolling to augment, supplement existing highway revenues.

Second, certain states, notably Texas, are embarking on a program that says there are two kinds of roads from now on, no roads or toll roads. So that when it comes to new capacity, the only way we're going to add new capacity to the transportation network is by tolling.

Third, there is a school of thought with a certain ideological basis that says we need to move in the direction of market-based pricing, congestion pricing, demand pricing – nothing is ever said about performance outcome, money back guarantees for lack of service. But we should be moving in the direction of market-based pricing, and much of the technology – and we have it in place in a very rudimentary form, Electronic Toll Collection, the introduction of Charlie Card permits you to do that. Although I suspect that five or ten years from now we'll be moving in the direction of open road tolling, and as Secretary Cogliano once told me, he was very supportive of open road tolling, because if we had it on the Long Island Express years ago, Sunny Corleone would still be with us today.

(Laughter)

So that the notion is if we use tolling to facilitate market based pricing, and leverage off the latest technology, we can better highway demand.

There's a fourth objective, increased reliance on tolling in certain jurisdictions, circumvents the lack of political conviction that Mike was talking about, and Rick reinforced. It's easier for me to enter into a 99-year lease or a 75-year lease; anything beyond 50 years to take advantage of depreciation, lease the facility to a private consortium, and have them be responsible for the increase in prices. Which is the second emerging trend. The private sector seems to once again have developed an interest and a willingness to become actively involved in the development, financing and managing of transportation projects.

Texas, three or four years ago, in developing their strategic plan determined there was an $88 billion shortfall over the next 25 years. They made the decision that they could not rely on the federal government as a predictable, reliable partner, and they were very suspicious of what was happening in the highway trust fund.

The air is leaking out of the highway trust fund because we all know that the last time the federal fuel tax was increased was in 1993, it's lost over one-third of its purchasing power; those of you, who are in the business of providing service every day, understand that the cost of materials has certainly increased since 1993, and with the exception of Washington state and a few other states, there has not been much appetite at the state level to be increase and index the fuel tax.

So what we've seen is the re-emergence of the private sector. There have been two notable transactions done in the last year, and Tom if you're going to correct me, please don't do it publicly.

(Laughter)

The city of Chicago under Mayor Daly entered into a 99 year lease, with a private consortium and leased the Chicago Skyway. The Chicago Skyway connects to the Indiana Turnpike so basically the people who were consuming, the users and customers of that road, are Indiana residents. They received $1.8 billion up front. City of Chicago used that for general fund purposes. $1.8 billion up front.

Now when you look at that transaction, it raises some very interesting public policy issues. It was a one off deal but, did it add to transportation capacity, when does a toll become a tax? Six months later, an old pal of mine who is now the Governor of Indiana, Mitch Daniels, entered into a similar arrangement for a 75-year lease of the Indiana Turnpike with the same consortium, for $3.8 billion up front. But unlike Chicago, Governor Daniels took the $3.8 and has invested it in a 10-year transportation infrastructure improvement program.

Different approach, probably less objectionable in terms of public policy. Texas as Tom, I hope you will describe, has been very aggressive and moving at the speed of light over the last three or four years in moving toward privatization and concessions for adding additional highway capacity.

Now, it seems to me that these transactions raise certain issues. One is the issue that I think Professor Bluestone was alluding to, which is jurisdictions with multiple transportation assets ought to have the ability to manage a portfolio of assets. The people that subscribe to the market based pricing perspective, and who are really insistent on increased use of tolls and private concessions take the view that highway revenue ought to be dedicated for just highways.

I would submit to you that this is not the way that good businesses run, this is not good public policy, that just as New York City decides that 2/3 of the revenue from the East River bridges and tunnels are used to subsidize transit, localities ought to have the flexibility to do that.

Two, for years there has been lots of discussion about breaking down silos in transportation, and running transportation as an integrated system. Perhaps in Massachusetts we need one czar or czarina of transportation; that's an issue the Transportation Finance Commission is going to deal with to improve accountability.

How do I run an integrated transportation system if one of my cash cows is beyond my control? How do I manage, mix and match, a series of assets in my transportation portfolio to maximize the value of the overall network, if one of my lucrative assets is beyond my control?

Secondly, if these deals are so good; the Chicago deal, the Indiana deal, some of the Texas deals, why isn't the municipality, the state and local government, participating in the upside? Why aren't they sitting at the table all the time?

Now, on balance though, I want to return to the issue that Michael rose about maintenance. Maintenance has been short changed in this country. One advantage of entering into this long-term lease is that the private sector operators don't have the benefit of entering into a potential cycle of debt issuance, so they have to maintain their assets.

Now when you look at these two emerging trends, let me just quickly wrap and pack this. It seems to me there are some major policy issues that emerge at the federal government. What is the future of federal aid to the highway program? Maybe for starters we ought to stop talking about reauthorization and start talking about new beginnings.

Second, to the extent state and local governments increasingly are reliant on tolls and on private concessions for major corridor projects, that reduces their dependency on the highway trust fund, and it raises the question what's the future role of the federal government? The other set of policy issues I would submit are at the state and local and even regional levels. What does increased tolling do to my ability to manage a portfolio of assets, what should be the role of the state department of transportation, do departments of transportation have the capabilities to take advantage of the latest technology. These are all issues that you're going to have to deal with over the next couple of years. But make no mistake about it, tolling and use of private concessions is an emerging growth industry that is attracting the attention of Tom's firm and other firms, and people by the way who believe that that is the only way to genuinely expand transportation capacity and improve the management of these assets in the country.

Thank you very much for having me.

Richard A. Dimino: Thank you very much Professor Giglio. We are going to be probably holding you a little bit longer, because we started a little bit later, and we're pleased to have our next speaker who has decided to make some time for us here in Boston today.

Tom Bradshaw is a managing director at CitiGroup Global markets, and is responsible for the transportation group. Tom has lots of experience; he served successfully as the Secretary of Transportation in North Carolina, and was the Mayor of Raleigh, North Carolina.

So we're very pleased to have you here this morning, and we look forward to your comments. Thank you.

Tom Bradshaw: *Please Note: Tom's talk was coupled with a PowerPoint presentation, which can be found on A Better City's web site at www.abettercity.org.*

Thank you very much, I'm delighted to be here. I would make my connection known. Raleigh used to be the farm team of the Boston Red Sox. Carl Yastremski and Dick Raditz played in Raleigh.

I am here today more as a public policy and political person. This is the assignment your hosts gave me today. And so I want to share a few examples of successful transportation initiatives with you, I want to do it from the perspective of what other people are doing to build more transportation. I often refer to it as "Vision and Political Will."

I want to thank Dr. Bluestone for his kind comments about North Carolina and the comparison. When I was mayor in the early '70s and as Secretary of Transportation, I used to ride up and down Route 128 and around Massachusetts talking to a lot of people about coming to North Carolina, and some of them did. As you just heard.

(Laughter)

For some of them, we built some intersections for their new plants, and facilities and improved highways. We learned that lesson, from listening. We were struggling for economic development. We are now trying to build transit systems.

In North Carolina, people think about transit as a rubber-tired bus. They do not think about it as fixed rail. Charlotte has a new initiative - a very big program. The Raleigh-Durham Chapel Hill-Research Triangle Region is struggling with a regional system. What we really want is to connect all three communities together, getting that approval is a major undertaking because we are so spread out. Major challenges. I do thank Dr. Bluestone for bringing that up. The area is our "Golden Goose" for economic development. The State's economic engine.

What I want to share with you is from the perspective as a "Merchant of Debt" that's what I do now. I want to go through some of these programs to really show you what is taking place today. Let me just echo what the early speakers have said about needs and economic development.

There is a real dilemma facing us today. Let's think infrastructure financing, make it a bigger perspective than just highway transportation; put transit, airports, plus water and sewer.

I believe it is because the numbers are so big. If you are an elected official, all of a sudden you have to grapple with how you are going to solve problems of that magnitude. You are going to say "don't you have any easier ones?" And they have already taken a pledge before they take the oath they will not raise taxes.

So their option is like moving around the chairs on the Titanic, knowing you are still going down. And most every place I go, I am meeting with legislative bodies where they are planning some financing for a specific program. They will come up with something like let's do a 10-year bond. Often I will ask a senator why don't you take more than 10 years? They say I'm going to make sure that gets paid before I go home. Before I leave office, I want to pay off the debt.

Today we are doing 30 and 40 year bonds. This helps you do more projects. There is very little cost to go out for a longer term.

Let me run through a few projects, I would like to have you think about the vision and political will needed to make these projects move forward. You are not the only people struggling with what you need to do, and how to respond. The numbers are huge.

When I was the Secretary of Transportation, it cost us about a million dollars to build a mile of interstate highway. In Los Angeles it cost over $300 million a mile to build the Century Freeway. Some of that is because they waited so late to build it. They were building over the top of things that had already been built, as opposed to being out in a rural setting where they were just going through the countryside.

I should acknowledge very quickly, North Carolina was the lowest state on the return of federal aid for highways, when I became Secretary in 1976. We received only 52 cents return on the dollar. We did not have a “Speaker of the House” or a “Chairman of the Rules Committee” the way you good people in Massachusetts did.

My goal always was to apply to get those states’ money that could not use their interstate obligation by the end of the fiscal year. That is not the case now. We built the I-40 to Wilmington with other states’ money and a special appropriation. That is what Joe and I call “innovative financing.” Using other people's money.

(Laughter)

In North Carolina when we were building the I-40 interstate, we were raising taxes, and we were also doing bond issues. We did a combination of it all.

That is the message I would have you think about: new revenues!

I am amazed at the people who hold elected office who do not understand how it works. I normally start off at a meeting telling them where the money is now.

If you start and go down these categories, I will not go through them, but just to make a point, there are a lot of places you go to get money to make things happen. For example most states do not realize that USDOT tried to start an infrastructure bank. They also encouraged states to do that in their states. Great idea! Unfortunately they seeded it with only $150 million. About five states really used some of the money and created their own infrastructure bank. Arizona and South Carolina then leveraged it. A lot of states applied for the money, some just took the money and used it for one project and never recycled the money.

But if you look here they have given us a lot of tools. If you are a new Secretary of Transportation, or you're a Governor and I am your Secretary of Transportation, We should look down and see what we could use on the federal side. Making sure we ask the legislature to give us something else. On the state side, we look at where things are, and it's amazing very few people even do that.

Today when I show you the cost increases taking place in the transportation program, you are going to say you can not afford to do pay as you go. Because you are going to pay more for that project when you look at what concrete, asphalt and steel costs. Large quantities of each are going to China. We are really paying for the lack of capacity in the market place.

Even local communities, are saying enough is enough. They used to go to Washington and get some help. You may still do it sometimes on the transit side, but you cannot really get much. There was an initiative in the last SAFETEA LU Bill when Chairman Young proposed a $.05 gas tax. He signed on everybody for a discretionary project if they would support the gas tax increase. But when the President put his hand on it and said we were not going to raise the taxes, those people did not take their projects back. They are still in the bill. The Transportation Bill contains the largest number of earmarked projects in history.

We got one of those back in 1977 and I think there were only 37. Since we were only getting $0.52 for every $1.00 we sent to Washington they gave us one to get out of the way. Representative Jim Howard of New Jersey was Chairman of the Committee and wanted to move his Bill. We asked for some help as a donor state. They gave us a small provision to build a corridor and if we did they would give us something.

Today the process has gone a little crazy. We need Washington to help all of the States with new revenues to continue the partnership in building our national transportation system.

The private sector role **-** coming from the private sector side as a banker before I became mayor, I thought about the role of the private sector. Let's look at some examples. Legislation is needed. In Texas they are literally starting from scratch. The RFP asking you to put together a proposal to give you a concession for a long lease term includes an agreement to run it for 50 to 75 years. California was one of the first to do this when they had 9 cents per gallon tax. They could not do anything about raising the tax. So they tried the AB 680 Legislation to select four projects to grant a franchise to operate a new toll road for 35 years. Two projects moved forward. SR 91 in Orange County and SR 125 in San Diego that provides another Border crossing to Mexico.

Here is another reason for changing how we deliver transportation. Look at those increases in the middle of this slide. FHWA reports 19.4 percent inflation in 2005 in transportation itself, and the Washington State cost index was 31 percent through the second quarter '06. You want to wait and collect money while costs escalate?

We represent a large number of DOT's, who are looking to borrow money at today's low interest rate and build projects now.

Safety is a major need on our overcrowded highways. That is the focus of the new bill. The SAFETEA part of the bill title, the LU part, is the Chairman's wife's name. It is Lou. Chairman Don Young of Alaska was bold enough to recommend a 5 cent tax increase and we agree he should name this bill after his wife.

It took us 22 months to pass the SAFETEA LU bill. We spent a lot of time with Senators and Representatives explaining why we needed to have the playing field level on financing new toll roads.

The new bill offers help with the new private activity bond provisions. In addition, the toll road initiatives give us help with start up toll roads. Joe made the observation, that there is flexibility with the funds. We can use the money on the projects you want to do. You now can take your highway money and put it into transit as they do in Puerto Rico, where the most important project is building the new Tren Urbano transit system in downtown San Juan. They moved their highway funds, which were not a lot, and they are building new toll roads.

I want to make sure I talk about some state initiatives that are taking place, and the politics. In Northern Virginia, a place that is growing by leaps and bounds. A strong state, strong economy, AAA rating, but yet they really could not get the kind of money they needed to really make the improvements needed to meet with the population increases. So what do they do? In two of the fast growing counties, they brought people together, what are we going to do? Why not put a tax on the ballot to build this road and the intersections around Route 28. So they created a tax increment district. And it was that process and the leadership that said we need to make some improvements, we can not expect Richmond to send us more money proportionately even though we may consider ourselves more important. We understand what we must do, and they did it. So tax increment financing is working in Virginia. You are going to see more in building transportation projects.

All of the states in the union now have tax increment financing legislation. We now have this in North Carolina. For the longest time we could not do tax increment financing.

Let's talk about sales tax. Arizona in 1985, (Joe will remember this) they put on their ballot in Maricopa County an initiative to do something about building transportation. They could not get enough money from that state. They were not growing. So they said let's put something on the ballot. And on that ballot they said predominantly we are going to do the highways in Maricopa County, and we are going to do a major study about transit, and we're going to upgrade the bus system and all the areas downtown, and for that they got a very strong vote.

And for 20 years they collected that tax and built major improvements. They had a program that demonstrated accountability and understanding of what they did with the money. They reauthorized this tax last year for another 20 years. And you will see now that this next tax will generate about $14.4 billion in that county. If you have been to Phoenix, you understand what is taking place. The DOT and the City have worked together in building needed transportation projects.

I first called on ADOT in 1982. The only grade separated intersections were on the US Highway System and the Interstate that went through downtown Phoenix. Everything else was a surface street with a stop light or stop sign. Now it is one of the real wonders of what a state can do by cooperating with localities.

Garvee Bonds: You heard the first speaker say, you devoted $1.5 billion in Garvee Bond proceeds to help your Central Artery project. This is a program we helped develop. We kept running into new governors being elected, and asking what can they do? Could they possibly leverage their future federal aid to do a major project? Your leadership went to the legislature, to make a case to do Garvee Bonds. Your Jane Garvey was very much a part of that program. She was also a leader on a number on initiatives at FHWA as Administrator before she moved to FAA.

The very first Garvee Program was for New Jersey. They totally upgraded their buses and locomotives for New Jersey Transit. Big expenditures, lots of money saved on maintenance. It was a good use of their future money. Virginia calls their program Trans. It is a pledge of both the federal dollars as well as some other dollars to make their program work.

Virginia had a special session last week for two days. The Governor ran on a transportation program. The House approved a program for $1.5 billion worth of debt. The Senate said no until a new revenue source is identified.

Former Governor Warner tried on a number of occasions to get a major transportation program. In fact he supported a sales tax program in the Virginia Beach area and in Northern Virginia. Both programs failed at the ballot box. The program in Fairfax lacked support because many wanted education funding on the ballot, not just transportation. So the message I would say about Virginia and what's just happened is the accountability that people want and do not feel is taking place in the delivery or how they use the money.

Idaho is also doing something too. They are going to get in the business of leveraging. They have a $1 billion Garvee program to make road improvements. North Dakota also has a Garvee program.

Because of the way the FTA does their approval process, there is always a lag in getting your money. So we tell them how to fund against that, take the Full Funding Grant Agreement to the market place, most of the time at an AA rate. You build your project, and then you pay it back as the feds give you your money.

Today they are doing 50 percent grants. Before you could get an 80 percent funding agreement. There are so many New Start proposals seeking funding, Congress has proposed a 50 percent match. That sounds good in one sense, and most people get it. Bad on the other because startup transit in many of these places cannot make it with just a 50 percent grant. They have to do a local sales tax or some other revenue source.

Toll roads: the emerging trend is to build new toll roads. For example, I'll show you new statewide efforts and regional toll systems like Texas.

Texas recently had the lowest gasoline tax in the country. They have raised their tax. Today they also address another way to build more highways. The Central Texas Project in Austin is a program we helped finance after successfully financing another new toll road in Dallas that is named for former President George Bush. That innovation was to put the Turnpike Authority and the DOT together and do all four phases of the road through a Federal Innovative Financing Program SEP 14.

Being able to do debt is important in building major projects. We had people who have been at the Texas DOT for 40 years who said we should have been doing debt financing. They had tried one time to get a Constitution amendment but it did not pass. We were able to do long term debt by using the Turnpike system.

So we did this project: three projects together, that was the beginning of realizing how quickly they were building project on time, using design build. The projects benefited from a $917 million TIFIA loan. A subordinated loan from the federal government. We combined a lot of resources and put them into one project as opposed to taking 15 years to do these three projects.

The newest toll road serves Port Fourchon, Louisiana. I am sure you saw this picture during hurricane Katrina. Totally underwater. That little bridge to the right was totally covered, you could not see it. It was like a lake out there. We are building this new expressway and it is a new toll road for the trucks that go to pick up oil at the port.

What is PPP: I want to make sure you know about Public Private Partnerships. PPP means different things to people. In the US, Public Private really started with a design build project. We did the very first in

California, to build the Orange County toll roads. Public Private does not always mean that the private sector will come in and own it. Public Private in that sense means a team is proposed to do all of the work as opposed to issuing separate contracts for designers, clearing, grading and the paving and landscaping. It had never been done in highways before. It has been a common practice in office buildings and shopping centers. It is now in highways. I am pleased to tell you about 37 percent of the work today are design build. They have seen the efficiencies of it. Politically it was a big hurdle to do this.

We are now to the point where I think design, build, finance and operate – or build, own and operate will be the order of the day. The new concessions provide the opportunity to operate a toll road for 75 years in Indiana, 99 years in Toronto and 99 years in Chicago.

Governor Mitch Daniels had been the OMB director under former President Bush. He could not get a gas tax for his Major Moves program. He could not raise the tolls. We believe when we did Skyway, he saw an opportunity to do his program.

We were pleased to be a part of the process with the bankers for the Chicago Skyway. We put a team together because we had helped a team do the same thing in Toronto. We also did the SR 125 Project in California providing another crossing into Mexico.

And the legislative need to get that done is beginning to resonate. You just cannot go out and do it without legislation. Some of that legislation is more comprehensive than others. Most every state is looking at PPP's. You have that legislation so you allowed Route 3. We were pleased to be a part of that process too. We won the bid with Modern Continental to build and finance Route 3. There is someone in the audience here who was a lead on that project for the State. He was determined to fix that road. Ned Corcoran.

Folks you have to have a catalyst for anything you do in transportation. Somebody stands up and says I am going to do it. It will be my life's work each and every day. He is the guy who did just that. That process produced the Route 3 project. You have seen the progress that has been made.

As I finish, let me talk again about the politics in Indiana. The Governor's goal was to get $2.8 billion, for his ten year capital program. They got competition in the marketplace, and they got a bid for $3.8 billion. If he can cut enough ribbons and get enough going, he will probably get re-elected. The big discussion is because it was a divided legislature between democrats and republicans; his party supported him, gave him his opportunity. All of the money is going back into transportation. Indiana may be the poster child for public private partnerships, because the money is going to build more transportation investments that are badly needed.

In Chicago, they did not really do that. Picture yourself as a mayor, you are not in the transportation business, you are not responsible for building the highways. Your city has a money problem. You found out that you could probably monetize your bridge. The mayor of Chicago did just that. He was the one who said let me take the money. For his 7.8 miles, he was hoping to get $900 million. He got $1.8 billion. He did not put it back into transportation. He paid off debt, established a rainy day fund and did some community improvements. But in the eyes of people in Chicago and the media, it was one of the best deals in Chicago history.

He took a year plus with his City Council. So how long does it take with a state legislature to get there? He is strong mayor, he got it done, and the bottom line is they made it happen.

The Skyway, as Joe said, runs into the Indiana. That is why we also represented the same investors in bidding for the Indiana Toll Road. Traffic is up on the Skyway, it connects into the Indiana system. Again, the political solution for Indiana was to monetize their asset.

It is great to have a revenue stream with a history. How much have you collected, how much has it grown – four percent, five percent, whatever it is. When you are trying to do something creative. If you have been to Miami and you have been over near the American Airlines Basketball Arena, you know you cannot get across the street for the trucks and the buses going to the port. They are either taking people to get to the cruise ships or they are taking cargo boxes to load up the freighters. This project is to build a connecter off of the interstate, over and down under the water. A tunnel underwater to come up in the port. So all that traffic will not be in downtown Miami, it will be out on the interstate coming in through to the port.

What they are doing here rather than trying to a toll on the project is to use an availability payment type financing. It is important to the state, and it is very important to the county that runs the port. They do not want the port to be noncompetitive with the next port, so they said we pledge our credit, and we will make a payment for the life of building this project. They will take bids in January. Teams have already been pre-selected. We are one of those teams who will bid. This is one of the first projects in the US to use this process. We believe it will produce a lower cost because of the credit of the two governments, and their pledge to make the payment. This is another way to fund a transportation project.

They will reserve the right to make it a toll if they want to, also to reserve the right to use tax increment financing on the land that is going to be enhanced by moving the traffic out of downtown Miami. They are going to get that traffic congestion problem solved by letting the state together with the turnpike authority and the county work cooperatively as a partnership.

Around the world, most of the time, they are using the availability payment option. It is a better credit, a lower cost of capital. This will make a difference.

I have tried not to be critical of governors, mayors or county officials. I have been one. But I was not afraid of a new tax. I did it at the city and state DOT with accountability. Two other examples I want to share with you right quick. I worked on the sales tax programs in California. San Diego is one of those big counties in California. In 1987 they said they were going to do something unique, all the local communities helped. Their program provided 1/3 for highways, 1/3 for transit, and gave the local communities 1/3 of the money to do whatever you want to do in their towns and cities.

They passed the measure with better than 2/3 vote. They spent that money wisely since 1987. Last year, they were on the ballot again and they got a 2/3 vote for a new 40 year tax. They went from a 20 year tax and with good accountability to a new 40 year program to raise $14 billion for transportation and everybody was a part of it.

But they continually tell people what they are doing with the money, how they are using it; an accountability process with oversight.

I grew up in a time when the highway guys would run for governor; they would put stakes out in the field and say if you vote for us, we will put that road there. Those stakes mostly rotted in those fields. People want accountability – they do not want promises, they give you the money and want results.

Success has many fathers and mothers. Most of the time when there are partnerships, the people who pay and the people who are looking for the policy direction, the people who want to see things happen. As I listen to you, I remind myself of when I was mayor and I realized we were not connected to the interstate highway system. Our leadership never thought the federal government could do it, so we were one of the last state capitals to be on the interstate highway system. We now have a connection, I-40, that runs through Raleigh. It was not on the original plan in1956. Other state capitals like Pierre, South Dakota and Jefferson City, Missouri.

Our people did not believe in the proposed interstate system in the early 1950's. They had no vision and maybe lacked political will to follow the lead of the federal government in building a national defense highway system. The other story I share with my friends in politics – "people will in fact do what you ask them if you are promising accountability." Folks, I raised the taxes in every job I have held in government. I am now the merchant of debt, working with leaders trying to deliver more transportation.

Your can do it too. You can show them accountability is important. Show you have the vision to help lead in this process, you have a lot of folks who can do that. They are the tough questions you ask at election time. Look for political will in candidates. Thank you for letting me be with you.

Richard A. Dimino: Thank you. If we can just keep you a few minutes longer we can have some questions. Tom that was excellent and I think obviously the theme of accountability and vision are themes that we're going to have to take very seriously here in Massachusetts. We are going to have to convince the public as we consider these challenges in a way that directly relates to management, actually show them where the money's being spent, and obviously transparency which is unfortunately some of the hard lessons learned here in this state.

The first respondent that we have here this morning is Abby Goodman, she's the director of the Engineering Center. Abby could you please either ask a question or make a comment? We're very pleased to have you here.

Abby Goodman: *[Inaudible]*

Richard A. Dimino: Joe you want to take the first crack at trying to identify the steps to begin to get elected officials to consider actions that may be politically risky, but at the same time worth taking?

Joseph M. Giglio: I think my response will probably confirm your worst suspicion on how shallow I am, seriously shallow – for starters we probably should promise to put an extension on your legislator's house,. Check writers drive the country.

Frankly, I don't get concerned about earmarks in terms of getting projects done. Unfortunately in this whole area of infrastructure investment, I do make a distinction between the crowd in Washington and the usual suspects in state and local who have to make payroll, and have to deliver their service. Jon Davis' agency, the MBTA is an example where the public is judging your performance twice a day.

Transportation infrastructure is not a kitchen table issue, it's not a corporate boardroom issue. I would remind you that nobody cared about AIDS in this country until Arthur Ash, got a transfusion of blood that contained the Aids virus and than we all became conscious of the problem and started doing something - I think you have a real uphill educational problem of making the connection between infrastructure investment and economic development that Professor Bluestone talked about. As for me, the challenge is how do we mobilize the business community, not just those who do transactions, but those who need the greater capacity to grow their businesses, to put pressure on the legislators and on the governor.

Richard A. Dimino: Thank you Joe. One of the points as well is that I think in addition to Joe's point you got to be able to mobilize people, you got to be able to educate people. It is also Tom's point, which is you saw the graphic that Tom showed. Somehow or another we have to distill it and get it down to a point where the voters really can understand, and then understand what the implications are, understand what the problem is and then understand what the implications are if we don't do anything about it.

We have over the last two decades not done such a good job of communicating that. And we then have to be able to communicate and in some states as Tom said, have. And then show what we're going to do with the money, and then hold ourselves accountable if we're both in private or a public practice of getting those things done.

We have a long way to restore the confidence of the public relative to these matters, and I think this panel is only the tip of the iceberg, as Joe was saying. That job is a big job. Somebody has to do it, as Joe was saying earlier. First of all identify the strategic transportation priorities before the state in a very sound way that embraces the public, engages them in an earnest way, and then set forth both a plan to educate them and then to move them in a way that's going to help finance them.

If that's going to be done with just lip service and political dancing, we'll never get off the dime. And so hopefully all of us here and others will actually take that seriously, with the next administration.

Barry Bluestone: We face the same problem in the housing field. Three years ago, people came together, including leaders of the business community, housing advocates, developers, environmentalists, and academics to create the Commonwealth Housing Task Force.

The Task Force took on the role of educating the legislature and the governor on how important housing was – not for housing per se -- but for dealing with the economic development challenges facing the Commonwealth. I think transportation can be thought of in the same light -- as fundamentally an economic development issue. The difference is that we run up against a serious problem in housing in that 66 percent of Massachusetts households already own their own homes. They have very little personal self-interest in seeing a large increase in the supply of housing that might reduce the value of their home or reduce the value of appreciation of their home.

On the other hand, every one of us uses transportation -- either private transportation or public transportation. So there is a natural constituency for transportation that we didn't have in the housing field. You can begin to bring people together around the transportation issue as an economic development challenge and in this way begin to build the support of the legislature for meeting our transportation needs.

We got chapter 40R and 40S passed within a period of about two years. Our political consultants told us it would take a minimum of five. By building the Task Force and arming it with powerful arguments for new housing legislation, we got action in record time.

Michael Widmer: Can I just add, totally different subject, but health care – I mean, broad spectrum of groups came together several months ago and working over a lot of time, to deal with what everybody understands is an intractable, impossible problem addressing healthcare access and healthcare cost. And we passed a law that sets a standard for the nation.

So I think it is possible to address tough issues in a productive way, at the risk of being optimistic.

(Laughter)

Tom Bradshaw: I realize I haven't been in your hometown making an observation, but I was going to tell you about several places I've done something like this. If you think about it, all the business people who drive to and from work, they probably have no idea of what is missing in the list for progress. Richard talked about it – you spend all the money fixing your roads, building the projects you think from your perspective are important, you know what would make it work better, you've often perhaps said that – if we could do this, we would do better.

Making people aware of what is in fact in the plan is key. The second part is get the communities involved, the Chamber of Commerce with folks on the transportation committee.

In certain places we say, for example, most business people go to the legislature for two or three days just to appreciate what it’s like. You'd be surprised how your conversation will change with your representative when you see where they're focused on and what they do. You'll say wait a minute, I'm sending a guy here, to do what they're doing, and I can't understand it? Business people really need to understand the process. It's like the sausage of the law - if you saw how they made sausage, you'd quit eating it. If you understood about the law, you'd have that appreciation. People ought to know from the basis of what's playing, what would I like to see, and whose doing something about it. As you write the next check, you ask that question. Are we going to take first place, second place, whatever it is – get that congress in action so people know you're interested. It's such a big thing, everybody says I'm working on this, working on that, I'm bringing these things together, transportation gets lost in the background because it's such a big number.

But if you're going to focus on it, you have to start the conversation about what it is. I've seen it happen. The other thing is nobody goes to public hearings on improvements. Because not in my backyard is what you'll say. Fix that improvement, don't come through my way. But I watch in California, they have more people coming for those roads than coming against it. Before you said my neighbor's running against it, I just don't want to go, I don't want competition. But if you really go in the large numbers, you'll see that dynamic change. It also affects the thing when they're doing the oversight and the agencies that do the reviews, there is a consensus of a community to just do something, helps through that implementing time process because there is support for it.

We've sort of taken that for granted in transportation. It only happens if you can be a part of it, and I think communities who have done that can look back and say gosh, I'm glad we had people walking around with a map of what we want to do, how we're going to do it.

Rick Dimino: Couple more questions, then we should probably end this one. David?

David Luberoff: *[Inaudible]*

Michael Widmer: I will start there with a critical set of questions here, David. Yeah absolutely, and that's why I referred to the deeds cost because I think it's not simply a revenue problem, and I think it's not responsible nor politically sailable in the issue that Tom raised of accountability if we simply ask or arrange if you will any kind of partnership or whatever to produce additional revenues without addressing the serious cost issues at the MBTA for example.

So I think there's absolutely both a role and a responsibility for benchmarking and attacking the cost side. And it's going to take all, and we're going to have to move in several fronts to address even a fraction of this gap.

The second question, the issue of priority, I think is very exceedingly difficult, and I'm not sure I have any easy answer for that. And one can say well, we can look at what's best for the economy, but that's in the eye of the beholder. So you take two projects that in some sense are clearly a little bit competing, and that's the strong economic argument for that, and at the same time follow them to Bedford and talk to people in that region and they say this would have revitalized our town so they are both very powerful projects. So I don't know, I don't have a good answer for that.

Joseph Giglio: I think one of the areas to look is the maintenance issue and, where you have an impact on reducing the upward cost pressures on the MBTA, we should be to investing in the state of repair of about $3.5 billion dollars, what's the return on operating costs of doing so?

A big advantage of private sector involvement is that they catch the joke about maintenance, if you don't paint your house every two years you are simply trading on the future. You wait until 5-10 years and the cost is much larger. In the public sector you simply bond out the costs and pass it onto the next generation. You've got a very substantial multi-billion dollar maintenance bill to pay in our transportation modes. I would submit to you that we need to look at the relationship between maintaining our transportation assets and operating costs.

Let me just come back to your question David, I think you're wrong about focusing on funding sources. I don't think that question is a foundation question, a strategic question. I think the question that you have to ask yourself is what kind of transportation network do you want in the next 24 to 50 years, what role does transportation play, what role does the toll agency play in managing a portfolio of transportation assets?

Because I happen to think there is a glass, whether it's half filled or half empty, to me is a tactical question. The basic strategic question, is what kind of transportation network we want and why? Most transportation professionals are not able to answer that question. So if you put together the kind of collaboration that Rick is talking about, and focus on the what and why questions, the rest of the tactical questions fall into place.

Rick Dimino: Thank you Joe. I think because of the lateness of the hour we'll end. First of all I want to thank our panelists for their fine presentations and their candor.

[Applause]

Thank you so much. I'd like if Jessica Conaway is here, Alex Danahy, Ashley Durmer, they organized this, let's give them a round of applause. Thank you for all of your time. We will be following up I'm sure after the transportation finance report is issued. This notion of a task force to focus on this issue makes a lot of sense, and hopefully we'll pull it together. Thank you, have a good morning.