Maryland Policy Report

HOW TO SPEND A TRILLION DOLLARS ON INFRASTRUCTURE

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AMONG THE SEVERAL DOMESTIC POLICY ISSUES DISCUSSED during the recent presidential election were the candidates' commitments to rebuild the nation's infrastructure—Hillary Clinton proposed $500 billion; Donald Trump wanted twice that. Trump won the race, so a trillion dollars it will be, and Senate Democrats have already put forth their competing trillion-dollar plan with specific allocations to broad areas of the economy.

To date, no similar details have emerged from the Trump administration, although a 54-page/50-project glossy report—attributed to the Trump transition team—is circulating through the media and transportation policy circles. However, the Trump transition team denies it is their product.

During the campaign neither candidate was very specific about where these billions would be spent, although references to "crumbling roads and bridges," "failing water systems," and "obsolete airports" were common to both campaigns. And both embraced the sense that we were confronting an existing or pending "crisis" that necessitated a bold and urgent response.

DEFINING AMERICA'S INFRASTRUCTURE?

As we contemplate how to address this infrastructure issue, it is worth pausing to define what is meant by "infrastructure." This is because, as I explain below, the so-called

"infrastructure crisis" is applicable only to a small segment of the nation's infrastructure, and this segment is defined not so much by what is in it but by who owns it.

For the most part, a nation's infrastructure is defined as long-lived, physical structures and other tangible assets that provide people with a measurable flow of products and services. Among the first set of major components of infrastructure are the houses and apartments that provide us with shelter; the farms and food processors that feed us; the clinics and hospitals that cure us; the factories making products; the freight railroads, ships, barges, airplanes, and trucks that move these products along; the energy production and distribution system that fuels this shelter, production, and mobility; and the hundreds of thousands of retail establishments that bring this bounty "to our table." Also included are the thousands of cell towers and the many, many miles of cable that allow us to communicate with each other and people all around the world.

A second important form of infrastructure is our roads, highways, bridges, urban rail transit systems, mail delivery, veteran's hospitals, schools, water supply, waste water treatment, storm water diversion, airports, air traffic control, passenger rail, public housing, National Parks, and other federal lands.

Two issues distinguish the first list of infrastructure, above, from the second. For one, items on the first list are largely not considered to be suffering from a crisis of deterioration, underinvestment, or mismanagement. If anything, in the case of housing, hospitals, and agriculture, the chief public policy problem in these sectors is the propensity to over-produce! By contrast, many of the sectors of the economy on the second list are generally considered to be in a crisis mode because of deterioration, underinvestment, mismanagement and pervasive shortages.

The other chief distinguishing characteristic between the first and second lists is that the sectors cited in the first are privately financed, owned, and operated by the for-profit private sector, while the second are owned, operated, and financed by the public sector, primarily local, state, and federal governments.

Since the classic definition of socialism is the public ownership of the means of production, what many contend is an infrastructure crisis is more than likely a crisis of socialism, a policy choice that the many millions of people in the former Soviet bloc can warn us about.

As will be discussed later, President Trump's insistence that the trillion dollars he proposes to spend on infrastructure be in close cooperation with the private sector suggests that he intends to move the nation's transportation and water infrastructure policies away from the socialist model. So perhaps we will soon be moving from deterioration and shortages to greater abundance and higher quality in the affected sectors.

THE VULTURES CIRCLE

Although a Trump infrastructure plan has not yet been released, the promise that the new president would spend a trillion dollars on infrastructure has encouraged many state and local governments, metropolitan planning organizations (MPOs), trade associations, and other entities—public and private—with an interest in receiving a part of this massive spending package to begin offering their own spending proposals in an effort to get their preferred projects in the mix. The challenge is how to select among the many projects submitted, whose requests will surely exceed the trillion dollars that are being offered. Case in point, when the Virginia Department of Transportation encouraged local governments and MPOs to submit transportation projects to be selected for funding under its quantitative, objective, "Smart Scale" selection process: $8.5 billion in projects were submitted for the $2.7 billion available. Absent an objective, nonpartisan selection process, which projects get funded and which ones do not would be determined largely by politics, influential constituencies, lobbyist clout, congressional seniority, and a need to spread the wealth nationwide to every state and congressional district regardless of any value to the nation's priority infrastructure needs.

Until recently, transportation and water resource legislation was heavily earmarked, meaning that members of Congress would include in the legislation money for location-specific projects in their districts (read: pork), regardless of value. Indeed, many earmarks represented projects that had previously been rejected by state transportation departments because their benefits were well below their cost. Alaska's infamous Bridge to Nowhere—included in the 2005 transportation reauthorization bill—was the spark that inflamed efforts to ban earmarks in federal programs.

In response to widespread public ridicule and allegations of corruption, in 2010 congressional Republicans voted to ban earmarks from legislation. Sadly, many in Congress are seeking to end that prohibition, and House leadership was successful in maintaining the prohibition only to the extent they could delay a vote on the issue until later in 2017.

With up to a trillion dollars now on the table, the political pressure by influential constituencies to grab taxpayer money through earmarking will be considerable. So it is essential that any massive infrastructure program include ironclad safeguards to ensure the funds are spent on the most effective projects.

OFF TO A BAD START: LATEST INFRASTRUCTURE PROPOSALS FOR SPENDING THE TRILLION DOLLARS

In an effort to compete with President Trump's commitment to greater infrastructure investment and ensure they are players in the process, Senate Democratic leader Chuck Schumer and several of his party members recently released their own trillion-dollar infrastructure plan. That plan reflects the preferences and prejudices of the party's core constituencies, including their dislike of carbon-based energy in general and automobiles in particular. Note, for example, that while automobiles account for 85.6 percent of surface passenger

transportation-to-work travel and trucks account for much of freight traffic, Schumer's plan would give roads, highways, and bridges only 21 percent of the proposal's funding.

In contrast, public transportation— which carries no freight and only 5.2 percent of travel-to-work passengers— would receive almost the same share: 18 percent. Other liberal and progressive priorities receive substantial funding: $100 million is split between public housing and New Urbanist "Main Street" projects.

Also included is a $100 billion dollars (10 percent of total) for the "energy industry." One would think that America's extensive and profitable energy industry would be able to fund its own projects—witness the multi-billion dollar private investment commitments to the Trans Canada and Dakota Access pipeline proposals, which President Obama, Senator Schumer, and his Democrat colleagues have worked to prohibit. Seems clear that the $100 billion for energy will likely be targeted to wind mills, solar panels, electric cars, and bicycle paths that the party's liberal base demands.

While it is easy to raise questions about the need or value of Senator Schumer's constituent-friendly infrastructure plan, it is illustrative of the upcoming money scramble that a trillion-dollar proposal will induce among the nation's influential special interests. Congressional Republicans could very well become part of the scramble, and many seem ready to dive in. As suggested earlier, the sort of influence-peddling that Schumer's plan entails is likely to be common to many of the infrastructure proposals which will spew forth from trade associations, lobbyists, road builders, trolley manufactures, think tanks, and all of the industries and businesses seeking a piece of the trillion-dollar prize President Trump plans to offer.

While Congress's performance remains a worry, equally worrisome is that the lobbying/consulting/trade association community is gearing up to earn generous fees by flogging otherwise marginal, but costly, infrastructure projects to susceptible members of Congress. Typical of what one might expect in the coming months is a glossy and polished product now circulating through Washington policy circles, titled "Priority: Emergency & National Security Projects: President-Elect Trump," that includes details on 50 major projects costing an estimated $137 billion. The printed report provides no information on who did it or who sponsored it. The Washington Post reported that the National Governors Association—which may have circulated it—claims it received the proposal from President Trump's Transportation Transition Team, suggesting that it reflected official plans and intentions.[1]

The Trump transition team denies that it had anything to do with the report and contends that it is not the policy of the new administration. Subsequently, an infrastructure industry newsletter reported that a Washington, D.C. consulting firm prepared and distributed it, claiming they were "Trump advisers."

Although the 50 major infrastructure projects promoted in the 54-page consultant's report appear to be of marginal significance to anyone following America's more compelling transportation deficiencies, the report is indicative of many other such reports now brewing within Washington's lobbyist and trade association community. As an indication of the wasteful nature of the projects likely to be promoted by these efforts, among the 50 schemes offered are three for Amtrak totaling a staggering $21.7 billion. As the highly subsidized Amtrak carries less than a half of one percent of the nation's intercity passengers, one would think that there would be higher priorities. Airports maybe? Highways?

Maryland pork   Among the projects included in the report is Maryland's costly and controversial Purple Line light-rail line for the Washington, D.C. suburbs. Maryland Gov. Larry Hogan threatened to cancel the project when he was running for office in 2014, and there is good reason for him to make good on that vow. As the Cato Institute's Randal O'Toole reported in a 2015 analysis for the Maryland Public Policy Institute, the project's costs would greatly exceed the value of the benefits it would produce for the community.[2]

Among the $2.44 billion project's shortcomings identified by O'Toole:

- It would be obsolete before it even opened by likely offering average travel speeds of just 15.6 miles per hour.
- It would not promote economic development, but would merely shuffle it around the state.
- It would not fulfill its exaggerated ridership projections.
- It would entail operating and capital costs in excess of current estimates.
- It would be more expensive and less flexible than a bus system serving the same route.
- It would carry a negligible share of the commuters in the area it serves.
- It would not make a contribution to cleaner air.

An interesting footnote: the 15.6-mile light rail project is listed in the report as having a price tag of $5.6 billion. No explanation is given for the doubling of its current estimated cost.

Others sidle up   Indicative of the feeding frenzy that Trump has unleashed, a week later the National Governors Association (NGA) announced that it has forwarded a list of 428 "shovel-ready" infrastructure projects culled from project lists submitted by its member states. At this writing, the list of projects has not been made public, though California released information on the $100 million request to fund the 51 projects it provided the NGA.

Luckily for those of us who have to read through all these schemes, some of the proposals are not without a sense of humor. The left-wing Center for American Progress (CAP) has issued a five-point infrastructure plan: Proposal #1 is that the plan should not financially benefit any mem-

ber of the Trump family. Proposal #2 is that it should not benefit Wall Street.[3] Clearly, CAP has its priorities straight!

IMPROVING THE WAY GOVERNMENT PICKS INFRASTRUCTURE PROJECTS

With a money scramble of continental scope now underway, and as the new Trump administration and Congress prepare their infrastructure plans, it is essential that the guiding light in this process be the selection process leading to projects that promise the greatest benefits to the American people at large, not the lobbyists and their clients pushing projects of marginal consequence. How Congress and the president could do this in an objective and defensible way would require them to establish a three stage process.

The **first stage** would be to distinguish between projects national in responsibility—and thus suitable for federal support—versus those that are largely of benefit to state and local communities. For example, Senator Schumer wants $110 billion for water and sewer projects, but water and sewer operations have been, and still are, a local and state responsibility, largely funded by user fees. So why should the federal government expand into state and local responsibility when there are still so many deficiencies at the national level?

The **second stage** is to identify those projects that are amenable and suitable for private-sector participation. When candidate Trump released his proposal to spend a trillion dollars on infrastructure, he emphasized that this investment would be done through partnerships with the private sector, implying that some or all of this sum of money would be provided by private investors, responding to incentives offered by the government. Indeed, two of Trump's key campaign advisers, Wilbur Ross (now commerce secretary) and Peter Navarro (now director of the National Trade Council), had recommended that $137 billion in tax credits would be sufficient to spur a trillion dollars of infrastructure investments over 10 years.

In contrast to federalizing such infrastructure, the Trump administration should look to move it to the private sector. An obvious opportunity for this is ownership and operation of local water and sewer systems. This is underscored by the toxic disaster that recently occurred in Flint, Michigan where incompetent public management of the water system led to citizen exposure to dangerously high levels of toxic mercury in the city's drinking water.

Though mostly public, virtually all water and sewer systems operate on a fee-for-services basis, paid by the users. The better-run systems provide quality service with no government subsidies, as user fees cover all costs of operation and debt service. In a number of communities across the nation, these services are already owned and operated by the private sector, and expanding private sector ownership and operation would relieve the federal and state governments of any responsibility for such incompetently run, government-owned water operations.

In many states, private–public partnerships have been successful in raising billions of dollars from private-sector investors to build and operate highways, while in dozens of countries the air traffic control systems have been privatized or corporatized. Also, in Europe and Latin America many airports have been sold to private investors, turning subsidy receivers into taxpayers. The Trump administration should explore and incorporate these opportunities as an essential component of any ambitious infrastructure plan.

Having defined the areas for which the federal government should be responsible, the **third stage** is to establish an objective, transparent, and quantitative evaluation system to allow public officials to select the best among the many projects seeking public funding. Several such systems have recently been put in place in several states, and they vary in quality and intent. Some of these systems are first rate (Virginia), while others are nothing more than elaborate shell games that worsen the status quo while pandering to key political constituencies (Maryland). By reviewing the successes and failures made at the state level, federal officials could learn from the mistakes made by others in building a better system to allocate what could soon be a massive sum of taxpayer money.

CREATING AN OBJECTIVE, SUSTAINABLE, AND TRANSPARENT EVALUATION SYSTEM

Over the past decade or more, several state governments have looked into creating performance-based transportation systems where projects are selected and funded based on an objective criteria designed to maximize benefits for costs incurred. Washington state was one of the first to consider such a system, and a major study[4] by a consulting firm found that a project evaluation system where the targeted benefit was congestion mitigation would reduce future congestion in the Puget Sound region by 10 to 15 percent with an unchanged transportation budget. While political obstacles prevented the state from adopting the plan, the results of the study inspired other states to give the process serious consideration.

Virginia example One such state was Virginia. After several years of legislative initiatives, the Virginia General Assembly enacted HB 2 in 2014 to establish "Smart Scale," an quantitative prioritization system for proposed transportation projects.[5] Smart Scale was fully implemented in 2016.

The new law, as fleshed out and made operational by the Virginia Department of Transportation, includes the following chief components:

- It applies to the entire state.
- Congestion mitigation is one of six factors considered in ranking projects.

TABLE 1
WEIGHTING OF CONGESTION MITIGATION BY REGION UNDER VIRGINIA'S "SMART SCALE" SYSTEM

FACTOR	CATEGORY A	CATEGORY B	CATEGORY C	CATEGORY D
CONGESTION	45%	15%	15%	10%
ECON. DEV.	5	20	25	35
ACCESS	15	25	25	15
SAFETY	5	20	25	30
ENVIRON.	10	10	10	10
LAND USE	20	10	-	-

- Congestion mitigation must predominate in major urbanized regions.
- The weighting of the six factors vary by region, in accordance with population density.

The six factors that must be considered in the evaluation process are:
- Safety measures
- Congestion mitigation measures
- Accessibility measures
- Environmental quality measures
- Economic development measures
- Land use coordination measures

Each of these main factors is a combination of several sub-factors. For example, the Accessibility Measures includes the following three sub-measures and their weights within that factor's score:
- Access to jobs (60%)
- Access to jobs for disadvantaged persons (20%)
- Access to multi-modal choices (20%)

Recognizing that all of Virginia's numerous transportation districts face different transportation challenges and needs, the key six factors used to rank projects are weighted differently depending upon the affected areas of the state. The legislation divides areas of the state into four categories based on population density, identified A–D. Category A covers the densest areas and includes only the Washington, D.C. suburbs, the Hampton Roads area, and the Fredericksburg region. Category B covers less dense urban areas such as Richmond and Roanoke, while C and D include the largely rural areas of the state. Note for example that in the largest urban areas, congestion mitigation accounts for nearly half of the weighting for projects proposed there, while in the less dense areas safety and economic development predominate.

The program was first applied to locally proposed projects beginning in 2016, and of the $8.5 billion in project spending requested by counties, MPOs, and cities, just $2.7 billion's worth were approved. While those sponsoring the $6 billion of rejected projects were unhappy— and many losers questioned the validity of the new system—the new process was certainly better than the informal, off-the-cuff, politically influenced system it replaced.

CONCLUSION

While the above example is limited to surface transportation infrastructure, useful quantitative evaluation systems can also be developed for airports, waste water treatment, ports, schools, canals, and other types of infrastructure now dependent upon public sector finance. The system is also flexible enough to be applied to public-private partnerships where the public sector's contribution can be measured against the total benefits of the project, giving these partnerships a leg-up in competing for public funds.

In closing, it should be noted that performance-based evaluation systems are no better than what the political leadership selects as it performance goals. While Virginia has given priority to congestion mitigation and safety in its heavily populated major metropolitan areas, the political leadership in other states may have different transportation priorities, and these will be reflected in each state's performance goals.

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1. See John Wagner, "An Early Look at the Sweep of a Trump Infrastructure Plan," *Washington Post*, Jan. 25, 2017. https://www.washingtonpost.com/politics/an-early-look-at-the-sweep-of-a-trump-infrastructure-plan/2017/01/25/f6a76a98-e338-11e6-a453-19ec4b3d09ba_story.html?utm_term=.b6b65e4590c3
2. Randal O'Toole. *Review of the Purple Line*. Rockville, Md.: Maryland Public Policy Institute, 2015.
3. See https://www.americanprogress.org/issues/economy/reports/2017/02/01/297796/a-plan-for-rebuilding-america-and-investing-in-workers-and-jobs/
4. Michael Ennis, "Reforming state transportation policy: Washington State's efforts to implement performance-based policies," The Heritage Foundation, September 29, 2008, http://www.heritage.org/transportation/report/reforming-state-transportation-policy-washington-states-efforts-implement
5. See Commonwealth Transportation Board, "SMART SCALE Technical Guide," Sept. 9, 2016, http://vasmartscale.org/documents/201606/sstechnicalguide_final_9_8_2016.pdf.