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Privatization and the Challenge of Urban Mobility

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The notion of "privatization" in public transit is controversial, partly because the term has a different definition for everyone who uses it. It is important for two reasons. First, the role of the federal government in transit is declining. This is clear from the budget of the Urban Mass Transportation Administration (UMTA) for the past four or five years. The budget debate over UMTA has become the occasion for a basic policy battle, and the budget trend has been down. Nobody is talking about increased funding. Second, urban mobility is one of the greatest problems facing our cities. I cannot name an area more in need of new ideas or innovative proposals than urban mobility.

These two trends demand not just a discussion of what sort of dollars-and-cents assistance the federal government can provide, but what kind of innovative solutions we can adopt. That demand has led us to the concept of privatization, or public-private partnerships. At UMTA we are directing our efforts toward reducing barriers to these partnerships. In the successful systems of the future, some kind of public-private partnership will be a critical element.

Capital Costs

The capital cost of contracting is one of the barriers to private sector involvement that we hope to lessen. A public operator's capital costs, for example, are reduced 80 percent through federal grants. We are now developing policies in UMTA to make the capital portion of a private operator's contract eligible for the 80 percent federal funding. It is an effort to encourage private sector involvement and reduce the barriers that have inhibited many specific projects.

Our last reauthorization proposal included a number of provisions to enhance competition. In framing the rhetoric of this debate, I have avoided the term "privatization" because of some fundamental misunderstandings, one of which was that we were mandating a
certain percentage of private sector contracts to go to private companies. Instead we now talk about “competition.”

We are encouraging competition in every way, shape, and form. To that end, our reauthorization stipulates that private operators be involved in the planning process. We were looking for private representation on transit boards, and we now have in legislation a minimum amount of service to be put out for competitive bids, a percentage that graduates upward.

That requirement, of course, generated a lot of opposition and controversy, as well as a lot of discussion. We worked very closely with representatives of both sides of Congress in the authorizing committees to ensure a workable compromise: local authorities are required to have in place a local private enterprise involvement program and some companion language to the effect that the level of private involvement at the current time is not a condition for grant approval. We are not specifying that a certain amount of private involvement must occur prior to providing a grant. I have tried to make that second point time and again; it was always part of the administration’s proposal.

We also have been successful in coming up with a small, but growing, demonstration program involving actual examples of private sector involvement.

**Capital Projects**

I consider capital projects to have as much or more potential for private investment. If we at UMTA proceed with the three contracts for urban transit projects that Congress has “mandated”—in Seattle, Los Angeles, and Miami—those three contracts, if signed, would absorb $400 million, all of the new-start discretionary money through the year 1992. That, in effect, would freeze out all other cities currently looking at either bus way or new-start rail projects.

In the pipeline we have four projects in preliminary engineering that will cost $521 million in federal funds. In the next step, alternative analysis, we have ten projects at a total of about $3.1 billion. In systems planning, some thirty-five cities with fifty-two projects are considering some kind of fixed highway or major project at current rough estimates of about $12 billion in federal money and about $16 billion in total costs. Finally, the Washington Metro still has about a $1.4 billion federal share that is unfunded even with current authorizations. We are looking, then, at a total federal commitment expected to be about $19.5 billion with total costs on those projects of about $31 billion.

In my view, while this budget debate continues through the
Gramm-Rudman era, there is no way that these projects will proceed without much, much greater local and private sector investment. We can no longer assume the typical 75 percent federal investment on which so much planning was based.

We are very eager and willing to use the resources that do become available for us to fund some of these projects and to try to fill the gap in local or private sector funding on a last-dollar basis. That was our approach in Orlando, Florida, on a project on which the county has decided not to proceed. And again, that is the kind of approach we have followed on projects we are working on at Dulles Airport and on the west side of Manhattan.

The New York City Planning Commission will be the entity responsible for a lot of the zoning decisions on the development on the west side of Manhattan. Along this development route lie Columbia Presbyterian Hospital, the proposed television city that Donald Trump has on the drawing board, and the Convention Center, for which not one provision was made for parking. Madison Square Garden will move from where it is now over to a site on that line. There is another major consolidation occurring north of Battery Park. An enormous amount of development will occur, unconnected by anything other than the Seventh Avenue line, which is inconvenient and makes no sort of north-south sense.

Existing along that line is an old abandoned Conrail right-of-way buried in the highway days, and the state is willing to put that up at a dollar to the project. The developers are interested in setting up an assessment district, tax increment financing, or some way that will enable them to be the predominant financiers if they set up a bus way or light rail project along that corridor. The growth and density make it fit. This is the kind of project UMTA is trying to nurture. It makes a great deal of sense, and it has everyone’s support. UMTA put about $1.4 million into a feasibility study with the Planning Commission with the idea that when the Planning Commission makes its decisions on development issues, it will get the developers to finance part of the construction of the line.

This project will happen. But given the yearly budget soap opera and the questionable feasibility, a lot of other projects I have mentioned are simply not going to happen, unless more creative kinds of financing approaches are taken. The projects will not be anything other than engineering dreams.

Local Public and Private Participation

At UMTA our aim with our discretionary funds is to match investment with a stable private or local financing base for projects on an
out-year basis. We are past the point in UMTA where we are able to begin any project without some strong fiscal and financial assurance that what we start will be finished. That creates an enormous challenge to people interested in these projects, forcing them not so much to choose a particular technology as to weigh the financing options and orchestrate the land use and development aspects of these projects before their construction. The protracted and animated public debate over land use around the stations recently opened on the Washington Metropolitan Area Transit Authority (WMATA) Orange Line is a case in point. Our efforts are to make those development decisions and associated choices at the time the stations are planned; it is simply backwards to have a local zoning debate on land use and development plans seven days before the opening of a $260 million investment as happened in Washington.

With the downward trend in financing from the federal government, the debate centers on how people with limited dollars can come up with a whole set of new solutions for solving these problems. My sense is that this issue is absolutely critical. Only those state, county, and local systems that come up with innovative combinations of public and private sources of funding to provide the service necessary will succeed.

Any transit authority in the country that can design a project with an innovative, entrepreneurial approach resulting in increased ridership, increased productivity, and increased mobility will find federal funding in a minute. The challenge is really urban mobility. We do not have a highway problem or a transit problem—it is a combination. I am constantly amazed when I visit cities where the parking problem is settled by the city parking commission, which has no dealings with the county, which is building a rail project but which in turn has no dealings with the state, which is principally responsible for roads.

I have never found a city that has set up the political structure to deal with a mobility problem as opposed to a transit or highway problem.

Every authority in every area is groping for the right combination of public and private investment in services that meets its needs. That will be our greatest challenge, a formidable one, as we try to devise domestic policy solutions at the federal level.

In the urban areas with a population of over a million, we should give a block grant for urban mobility and allow urban transit systems to go in with the state highway departments to come up with the best mobility solution.

The local political infrastructure, however, and the sort of
pachinko machine that distributes federal transit dollars are not in place. All too frequently, of course, competing factions argue over their share, over distribution, and over responsibility.

The challenge to us all is to create innovative projects and solutions, based on competitive procedures, because we have passed the era of talking about public and private cooperation: we need to develop and put into place projects that work. Once we do that, the trend toward a real public-private combination in providing public services will be set for the years to come.