

# Public Works Financing

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## Transportation Policy Review

### Building the Case for 21st-Century Tolling

By Robert W. Poole, Jr., Director of Transportation Studies, Reason Foundation

Just about everyone in transportation now agrees that fuel taxes are not a sustainable long-term source of highway funding. And in recent months it has begun to dawn on the transportation community that the days of ever-increasing federal funding for transportation are over. The looming insolvency of the federal government means that general-fund supplements to the Highway Trust Fund are not sustainable, either.

I have been arguing for several years that we need to begin a transition from fuel-based highway user taxes to mileage-based highway user fees. And that the most feasible place to begin this transition is on the limited-access highway system—Interstates and urban expressways. Converting these systems to all-electronic tolling (AET) and dedicating the revenues to the (re)construction, operation, maintenance, and expansion of those systems would resolve their funding problems, reduce urban congestion (thanks to variable toll rates), and be a major first step in the transition to mileage-based user fees.

But when you mention “tolling” in connection with these mostly non-tolled highways, public officials, reporters, and commentators react as if what you mean is 20th-century tolling. But 21st-century tolling differs from that of the previous century in several key aspects, as follows:

#### **20th Century Tolling      21st Century Tolling**

These differences really matter, because if transportation policymakers retain aspects of the old paradigm, they might gain acceptance for individual toll projects, but will fail to lay the basis for the transition to mileage-based user fees.

For example, I was surprised to see the generally ahead-of-the-curve Virginia DOT justifying the nonprofit public financing model it has chosen for the new U.S. 460 toll road by telling people that this will reduce the number of years they will have to pay tolls for this highway from 99 years to 40 years. That's 20th-century toll collection thinking.

Another problem is the proliferation of exemptions from paying tolls. There was a brief controversy in 2008 in California when it was revealed that nearly a million public-sector employees are exempt from paying tolls. (Note: they still are.) Similar exemptions abound for public employees in the New York/New Jersey area. The Texas Transportation Commission in August exempted selected military veterans from paying tolls on state-operated toll roads (primarily in the Austin area). And fines for non-payment of tolls are often diverted to non-highway purposes: in North Carolina, for example, they are used for public schools.

And speaking of diversion, the major 20th-century toll agencies have turned toll facilities into cash cows for other purposes. Two-thirds of the toll revenues generated by MTA Bridges & Tunnels in New York are used to fund public transit. The Port Authority of New York & New Jersey does likewise, and is now being sued by AAA over its recent toll increase to help pay for rebuilding the World Trade Center. The MBTA in Boston and the Bay Area Toll Authority in San Francisco also divert toll revenue to transit.

But the most egregious case in recent years is the Pennsylvania Turnpike. Five years ago the legislature passed Act 44, which mandates the diversion of \$450 million a year in toll revenues to non-Turnpike highway and transit programs statewide. The agency has had to issue new bonds, backed by large toll increases, to make these payments, increasing its debt from a sustainable \$2.6 billion to an unsustainable \$7.3 billion, with no end in sight. Last month State Auditor General Jack Wagner told the legislature that the Turnpike will face bankruptcy within "no more than a couple of years" unless Act 44 is repealed.

Equally egregious, in my view, is the current plan to pay for 54% of the \$3-billion project cost of the Silver Line rail to Dulles Airport and beyond by diverting massive sums from the Dulles Toll Road. Mainline tolls that were \$1.00 in 2010 will be increased to \$2.75 in 2013, \$4.00 in 2018, and \$5.00 in 2023. In addition to being an unfair tax on toll road users, these high rates are expected to cause large-scale diversion of traffic to parallel routes, making traffic congestion worse. Yet DOT Secretary Ray LaHood recently called the Silver Line a model for how to do transportation in the 21st century.

And lest you think such thinking is the domain of only one political party, the new director of the Ohio Turnpike, appointed by Republican governor John Kasich, has been making a pitch for legislators to change state law to permit the Turnpike to take on more debt to fund non-Turnpike transportation projects.

The New York Times earlier this month hosted a debate about how toll revenues should be used, and three of the five participants basically agreed with the tolls-as-highway-user-charge approach. Sam Staley of Florida State University summed it up best, as follows:

"Tolls are direct user fees and thus provide an important element of market-like transparency and

accountability. Drivers pay the tolls because they benefit from the toll road, not because they want to finance other government programs. This direct relationship has an enormous practical advantage, because toll revenue becomes a direct measure of users' willingness to pay."

And to my pleasant surprise, former Pennsylvania Gov. Ed Rendell (who five years ago signed Act 44) stated flatly that "Money from drivers' tolls should not subsidize other costs, like mass transit. . . Using toll dollars paid by car owners to underwrite public transit would create the feeling that drivers were paying for something they don't use. The public accepts additional funding for transportation most readily when the costs are paid by the people who use them."

Rendell is correct about this. There is ample public opinion data that voters prefer tolling over new or increased taxes by about two to one to pay for highway improvements. That support rests on the premise that—in contrast to fuel taxes or transportation sales taxes—people would only be paying tolls for facilities that they expect to use, because they provide good value for the money. Diversion of toll revenues undercuts that rationale and hence the support of highway users

If we are ever going to gain the trust and support of those who use major highways—car drivers and trucking companies—it is critically important that they understand how 21st century tolling differs from that of the 20th century. We need to help them come to see expressways and Interstates as a kind of network utility (like electricity, gas, water, cable, telecoms, etc.) for which they expect to pay monthly utility bills. And just as your cable bill should not include a subsidy for movie theaters, your highway utility bill should not include subsidies for other forms of transportation that you do not use.

