Transportation Funding Commissions II

In a 2012 Capitol Research brief and The Book of the States article, CSG’s Sean Slone took a look at the work of transportation funding commissions that concluded their work in 2011 in four states: Iowa, Maryland, Pennsylvania and Washington. This brief examines the work of five more commissions that issued their recommendations in 2012.

EXECUTIVE SUMMARY

With states continuing to face gaps between their transportation needs and the revenues they have to spend trying to meet them, some have turned in recent years to transportation funding commissions and task forces to develop recommendations for closing those gaps. These are diverse groups of stakeholders, policymakers and private citizens tasked with reaching consensus in an era when that has become increasingly difficult in the halls of power. For the past several years, the economic and political considerations involved in infrastructure investment have stymied forward motion in unprecedented ways at both the state and federal levels.

The work of the commissions in five states that met in 2012—Minnesota, Missouri, South Carolina, Vermont and Wisconsin—has resulted in five reports that, while often very different in the approaches taken, have remarkable similarities in the conclusions they’ve drawn and the avenues they’ve recommended pursuing.

The states that convened these commissions in 2012 are among the many that saw significant activity on the transportation revenue policy front in the 2013 legislative session. While the final legislative results have been somewhat mixed, if 2012 is any indicator, we haven’t heard the last of the states highlighted in this brief. Maryland, which had a commission in 2011 but failed to get a transportation revenue package through the legislature in 2012, experienced greater success in 2013. Commission chairs and members interviewed for this brief said final reports are increasingly becoming viewed as educational tools in the hands of stakeholders and policymakers to help lay the groundwork for future policy actions.

An analysis of the commissions’ final reports and conversations with commission members reveals a number of things about the process by which these panels went about their work, the principles they established to guide their work, the revenue and policy options they put forward and the outcomes of those recommendations so far. Those reports and conversations convey a sense about how states view the future of the gas tax, what they believe it will take to convince the public that more transportation revenues are needed and which revenue mechanisms could help states achieve a more sustainable transportation future. It also becomes clear that many believe it will take an all-hands-on-deck approach involving myriad solutions and mechanisms at the state, federal, regional, local and individual project levels to help meet the nation’s transportation needs going forward. While sometimes idealistic in the vision for their states, these commissions are clear in their assessment that there are no silver bullets and no easy solutions, but that an ever-expanding toolbox of options is available to draw upon in varied combinations to meet their objectives.

Process of Transportation Funding Commissions

Each commission took a slightly different approach in the process and the final product they produced:

• Some (Minnesota, Wisconsin) took a scenario-based approach, identifying what the state could accomplish at different investment levels.
• While some (South Carolina) took into account the political feasibility of their recommendations, others (Minnesota) did not.
• While one state (Wisconsin) made very specific revenue recommendations, the other states assessed a variety of options or produced a menu of revenue
mechanisms and left it up to others to combine those options into a policy approach with specific revenue levels. The commission members believe both approaches were valid and gave their reports credibility and staying power.

- Commission members said they aimed for simplicity and readability in their final reports.
- In addition to identifying needs and revenue options, commissions also concerned themselves with the potential ramifications of inaction.
- Commission members said final reports are often just the beginning of a process, helping to frame the debate. Often, they said, the case must be made to the public and to policymakers long after the final gavel has come down.
- Commissions found that even when a commission has done its job, the numbers are clear, the problem is apparent, the long-term outlook appears bleak, the clock is ticking, and the policy options are well-defined, policymakers can decide to kick the can down the road one more time because of economic and budgetary realities, reluctant governors or any number of other factors.

**Principles of Transportation Funding Commissions**

While each state faces unique transportation and political challenges, the commissions expressed many of the same principles with which to evaluate revenue options. Commission members said they wanted funding solutions that not only had significant revenue potential, but also were:

- Fair and equitable;
- Implementable;
- Diversified;
- Efficient in the cost of collections;
- Sustainable for the long term;
- Indexed to inflation;
- Reflective of the “user pays, user benefits” principle—Transportation users need to see a direct connection between the fees they pay and the transportation facilities they use.

- Easy to understand and market to the public and policymakers;
- Supportive of preserving the existing transportation system;
- Supportive of a multi-modal transportation system;
- Supportive of transportation projects that assist with economic development and economic growth;
- Measurable and transparent;
- Targeting specific outcomes; and
- Dedicated to transportation and not easily diverted to other budget priorities.

**Funding & Finance Options**

While these commissions are working from the same playbook in the funding options they have to consider, particularly when it comes to those mechanisms that can produce significant revenues, there are some interesting differences in how they view different options. Some of the findings from these panels:

- Most states likely won’t be able to tap general fund dollars to supplement transportation funds in the coming years due to other ever-increasing budgetary needs in areas like health care and education.
- While tolling and public-private partnerships—P3s—may be an option for some states and some projects, others will have a more difficult time pursuing those options due to small populations (Vermont) and political opposition (South Carolina). Most recognize that public-private partnerships cannot be the entire solution to funding needs and that they don’t represent “free money.” Some states (South Carolina) recognized a need for revised legislation with regards to P3 oversight. Others mentioned that federal regulations remain an obstacle to tolling on some roads. But the South Carolina commission also recognized that most of their 20-year needs involve the maintenance of existing roads or upgrades of local roads, projects that will likely not be suitable for tolling.
- States are looking to give local government more tools to address transportation needs, particularly oft-neglected transit systems.
- Several states expressed an interest in empowering regional transportation districts to levy sales taxes to help them address their specific needs.
• The commissions recognized that mileage-based fees will more than likely be the future of transportation funding. While they think a transition to such a system is inevitable (perhaps in less than a decade), they don’t think that transition is imminent. Technological, administrative and privacy concerns—among other issues—remain to be resolved. Some believe those issues would be best addressed at the federal level. Interim steps to a mileage-based system, however, could be considered in some states. Wisconsin’s commission proposed a mileage-based registration fee based on odometer readings as a low-tech step toward such a system.

• Commissions gave some attention to user fees for alternative fuel, electric and non-motorized vehicles. Though they are not likely to produce significant revenues anytime soon, they could help level the playing field by getting owners of those vehicles to pay their fair share for upkeep of the nation’s roads.

• Several states supported sales taxes or a mix of sales and increased gas taxes, but commission members expressed caution about temporary sales tax increases. They are, by definition, not sustainable and can put long-term projects in jeopardy if those revenues won’t be available in the out years as a project is completed.

Outcomes of Commission Recommendations in 2013

• In each of the five states, lawmakers considered transportation funding legislation in the 2013 legislative sessions.

• Vermont saw perhaps the most success with lawmakers approving increases in gas and diesel taxes.

• Some of those involved with state commissions and at state departments of transportation now find themselves charged with selling their recommendations to a larger audience in anticipation of a push for legislation in 2014.

• Some commission members expressed their belief that stopgap solutions, temporary taxes and general fund transfers can be counterproductive since they do little to address long-term shortfalls and often hinder more significant solutions later if politicians can claim “we did something on that last year.”

• Some state departments of transportation used commission findings to implement process and project development improvements, efficiency efforts and other changes that did not require a vote of the legislature.

• Some commission members saw it as an accomplishment that their final reports got the information out about what the future would look like for their states under different revenue scenarios and that their final reports can now be used to lay the foundation for an ongoing debate and help to build an eventual consensus.

How States View the Future of the Gas Tax

• The gas tax is still seen by some as at least part of the short-term solution to help meet transportation needs. That’s despite the reality that raising gas taxes in many states in recent years has been difficult.

• Some commissions believe it may be possible to prolong the life of the gas tax by indexing it to inflation, blending in a sales tax and by diversifying transportation revenue sources.

• Commissions recognize the gas tax is not the long-term solution due to increasing fuel efficiency, people driving less and other factors.

Shoring Up the Public Trust

• Commission members said an important part of making the case for new transportation revenues involves shoring up public trust in government agencies and in transportation decision making.

• Commissions thought it was important that new revenues be dedicated to transportation so taxpayers can have faith their money will be used as intended and that what they’re paying resembles a “user fee.”

• Several states recommended taking actions to protect state transportation trust funds from raids by state government to fill other budget holes.
Minnesota Transportation
Finance Advisory Committee

Established in January 2012 by Gov. Mark Dayton, Minnesota’s Transportation Funding Advisory Committee was charged with developing recommendations for the next 20 years to fund and finance the state’s highways, roads, bridges, public transportation, air, rail and port facilities.

Charlie Zelle was a member of the advisory committee and later was appointed by Dayton as commissioner of the Minnesota Department of Transportation. He came from the private sector, serving as president and CEO of Jefferson Lines, a Twin Cities-based bus company, before taking over as commissioner.

“It really was a charge from the governor to take a look at three scenarios,” Zelle recalled in an April 2013 telephone interview. “One, what would be the outlook under our current sources of revenue over the next 20 years? Then, what would be the outlook if we maintained the current performance of our existing system—what would be the under-funding, what would be the gap under all the modes? And then, over 20 years if we were to be a world class system, how much additional resources it would take for that?”

Zelle said the three-scenario approach provided a good way to frame the debate by focusing committee members on what constituted a “world-class” transportation system and where the funding shortfalls were across the different transportation modes. The world-class scenario was not intended as a purely aspirational, unattainable goal, but as a realistic assessment of what it would take for Minnesota to be competitive with other states and regions.

“I think there was talk about if it’s politically feasible,” he said. “We decided that’s not our jurisdiction, that’s not our charge. Our charge is not to judge whether we think it’s viable politically, but what is just purely the arithmetic of if we choose as citizens and as government to be competitive, this is what it will take.”

Dayton asked the committee to address its recommendations not to him, but to the people of Minnesota and all policymakers in the state. Zelle said. And he tasked the committee with marketing its final report and using it as the baseline for a more robust conversation.

The committee developed a list of principles for the generation of transportation funds. They included:

• Funding solutions must be fair and equitable;
• Funding solutions and recommendations must be long term and sustainable;
• Transportation revenues must increase as the economy grows, whether through indexing or other means;
• User fees, such as the motor fuel tax, must be a part of the solution so people know what product or service they are purchasing;
• Funding solutions must embrace efficiency in the cost of collections;
• Revenue streams must recognize different needs of various geographies as well as various modes of transportation;
• Transportation funding sources should be specific in nature and target specific outcomes;
• Funding and finance options are responsive to changes in technology, demographics and the economy; and
• Funding solutions must be marketable.

Zelle explained the last principle: “We did consider that there should be some simplicity in terms of knowing that whatever the funding mechanism, … we need to explain this and it needs to be understood. I think that a number of experts who came in to give advice (to the commission) were saying don’t try to get caught up in very complicated things, which don’t really provide that much resources or that much benefit.”

But that’s not to say that principle would preclude a somewhat more complex funding solution like the one passed in 2013 in Virginia.

“I would say that the Virginia idea of having a sales tax on motor fuels and lowering the (per gallon) gas tax—in my view that’s just a variation on a theme and many of those themes are already described in this report,” he said. “There’s no recommendation not to do that. (The commission’s report) just kind of shows a buffet of options we think which solve the funding by spreading out and using a number of different resources.”

Among the committee’s recommendations are systemwide revenue options for roads, including:

• Increasing the motor vehicle registration fees to raise revenue by 10 percent, which would generate $1.1 billion in new revenue during the next
20 years for the Highway Users Tax Distribution Fund.

- Increasing the per-gallon excise tax rate on motor fuels to generate $15.2 billion in new revenue during the next 20 years for the Highway Users Tax Distribution Fund.

The committee also recommended three transit-dedicated sales tax options, including:

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- Adding $0.005 to the existing $0.0025 sales tax for transit in the five-county Twin Cities metropolitan area, which is estimated to generate $200 million annually.
- Directing $32 million annually to Greater Minnesota Transit to address statutorily required service.

- Capturing the remaining leased vehicle sales tax from the state general fund—estimated at $32 million annually—for transportation.

The committee included local government revenue options as part of its recommendations, including:

- Expanding the option of the wheelage tax for 80 counties in the Greater Minnesota area, including raising the cap limit for 87 counties. The existing wheelage tax adds a $5 surcharge to license tab purchases.
- Enabling the local option for the formation of Transportation Improvement Districts.
- Enabling local option sales taxes for transportation in 80 counties without the need of a referendum.

- Expanding the regional transit capital levy—aka transit taxing district—in the entire seven-county Twin Cities metropolitan area and using the funds for capital and operating needs.

Zelle explained the philosophy of including these local strategies in the report.

“I think there is an overall philosophy to provide greater flexibility and give local authorities opportunities to help solve some of their issues at their level,” he said. “Wheelage taxes and some other self-imposed fees are sometimes very helpful. It’s not (state government) passing the buck. It’s more to say (localities) need to have other creative sources of funding that go beyond just property taxes. Counties and towns have a great burden of increases in property taxes over the past six, seven, eight years and yet transportation is one of the items that they feel (is) very constrained. (The Minnesota Department of Transportation) certainly serves as a great partner, but MnDOT has never been the total solution for many county and local roads.”

Finally, the committee offered a series of project-level revenue options, including:

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- Expanding the MnPASS electronic toll collection system and dedicating revenue to multi-modal enhancements on managed lanes.
- Employing value capture concepts around transportation improvements. Value capture mechanisms take advantage of increases in property values resulting from public investments in infrastructure, transit and transportation to fund further investments or repay the initial public investment.

- Exploring the following items more in depth: tolling options targeted for new capacity, public-private partnership opportunities for enhancement and financial leveraging of transportation projects, and monetizing transportation assets to generate revenue.
- Continuing the state role in bonding for local roads and bridges, transit, ports, passenger rail, freight rail and safe routes to school.

Zelle is quick to note, however, that transportation finance tools like tolling, P3s, asset monetization and value capture are not and cannot be the total solution to meeting the state’s transportation needs.

“Sometimes people think with public-private partnerships that money will just fall from the heavens,” he said. “No, that doesn’t actually provide the revenue. Obviously, tolling combined with some other things can. But it is a way to drive greater efficiency. Clearly the message there is that there is no one solution. There’s really a mix and (they need) to be used in the appropriate place at the appropriate time. … I think the philosophy there is not to leave any good tools off the table.”

When Zelle describes what has transpired since the committee issued its final report in November 2012, his comments sound somewhat measured.

“It’s a very helpful framing document and more and more people are aware of it,” he said. “It has been presented to the legislature, both the Senate and the House. It’s been talked about. Chambers of commerce have seen it. Chambers of commerce have used it. I think right now (April 2013) as we get into the beginning of the last month of the legislature, it’s certainly been a guide for some legislators to say this is what we should propose.”

But it was Gov. Mark Dayton’s reluctance to get behind some of the committee’s recommendations that contributed to preventing them from becoming a reality in 2013.
“I think the governor has embraced part of it and actually used it to help recommend a half-cent sales tax increase within the (Twin Cities) metropolitan area to build out the transit system,” Zelle said. “He had been reluctant in this legislative session to propose any fuel tax increases or any really long-term solutions for highways and bridges because he doesn’t feel we’ve really done enough to really take the (committee’s) recommendations and paint a better picture of what this will actually mean in terms of maps, actual lists of projects and to really kind of get out into the state to kind of talk about what does this mean for each community.”

Zelle said that means he now wears a new hat—that of a salesman. The governor has charged him with gathering input and talking about the resource needs around the state. He’s talking about what Minnesota would look like in the next 20 years without the funding and how that funding can make a difference.

“(The committee’s) report is a great first step but it’s more of the arithmetic and we need to back it up with a bigger picture to help citizens understand that more fees can actually be meaningfully beneficial to their lives. … It’s not often that we’re asked to kind of make the case. A lot of state agencies—at least this one—have never really been in an advocacy role. We’re more analysts,” he said.

An important part of making the case, Zelle believes, is shoring up public trust in the agencies of government and in transportation decision-making. “I think it’s true for every agency,” he said. “I think we can do much better at developing that public trust to have a little more transparency and a little more understanding about where taxpayer dollars are being invested and I think that’s definitely part of it.”

Zelle will take the remainder of 2013 to make the case to the public and to ask the legislature to take up a more specific set of recommendations during its 2014 session.

“I think the governor totally understands and appreciates the underfunding and the long-term importance, but sometimes it’s hard to get urgency to solve what’s really a long-term issue,” he said. “We’ve actually invested quite a bit and made great progress over the last three or four years, and really, the challenge now, is to kind of keep going.”

Blue Ribbon Citizens Committee on Missouri’s Transportation Needs

The Blue Ribbon Citizens Committee on Missouri’s Transportation Needs was a 22-member panel created in March 2012 by the speaker of the Missouri House of Representatives to “examine Missouri’s current and future transportation needs and explore possible solutions.” Its geographically diverse membership came from both private and public sector perspectives.

Bill McKenna, who works with a transportation stakeholder advocacy organization called the Missouri Transportation Alliance, served as co-chair of the Blue Ribbon Committee. He is a past chair of the Missouri Transportation Commission and a former president pro tem of the Missouri state Senate.

The committee held a series of seven regional meetings throughout the state attended by hundreds of Missourians. Committee members heard some common themes, McKenna said.

“Number one, every place we went (what we heard) was, ‘Take care of what you have, take care of the existing system, don’t let it get any worse than it is,’” he said in an April 2013 telephone interview.

State officials realized that sort of decline might be possible after a few years in which the department of transportation found itself flush with cash.

In 2004, Missouri passed a constitutional amendment that moved half of the sales taxes on cars and trucks from general revenue to the state Department of Transportation.

“The intent of that was to jumpstart things that had been on the drawing board for years and years—closing corridors where you had 10 miles done here and 20 miles over here and nothing in between,” McKenna said. “So for about four or five years, the contracted program from the department was about $1.3 billion a year, where it used to be only about $600 million or $700 million.”

The American Recovery and Reinvestment Act allowed the state to extend the program another year. The state had a lot of construction and was able to make a lot of improvements in infrastructure and safety—many things that the state was unable to accomplish due to lack of money.

“And the people saw how well the roads got improved and that peaked about 2010 and then they started going down,” he said. “In each year they go down a little bit. We’re back to the $600 million in construction, which hardly takes care of what we have.”

Missourians also told the committee the state’s transportation needs are multi-modal.

“What we heard in all parts of the state was that transportation is more than roads and bridges,” McKenna said. “It’s also ports. Missouri’s got two huge rivers running through it—the Missouri and Mississippi. Two of the biggest rail hubs in the country are Kansas City and St. Louis. And then public transit; the state spends zilch on public transit in Missouri. And so the other modes of transportation are important all over the state as well. Public transit is more important in urban areas. Maybe ports and other things are more
important in rural areas. But everywhere that issue was brought up.”

Among the other consistent themes the committee heard:

• Safety must continue to be a priority for transportation investments.
• Missouri does not have the financial resources to strategically expand the transportation system and respond to emerging transportation needs, especially those related to economic opportunities.
• A healthy and improved transportation system is critical to the state’s future economic growth.

Finally, McKenna said, what became clear from the regional meetings is that the state department of transportation is well regarded by the state’s residents, something that isn’t always the case in other states.

“I’m also with a group called Missouri Transportation Alliance … that’s been doing polling and our pollster told us after the first poll that he had to go back and ask the question again because he didn’t believe that a public agency was getting the positive numbers they were getting at MoDOT,” he said. “He thought there was something wrong with the way they asked the question so halfway through the poll, they redid the question but it still came out the same.”

McKenna said transparency and an inclusive planning process are among the keys to the department’s success.

“They’re very open and they found that that works way better than trying to do stuff by forcing it down anybody’s (throat),” he said. “When somebody doesn’t get a project, because of the openness they understand why, because there were other ones that were more important with the amount of money that is available. So people understand even when they get a ‘no’ answer and I think they respect that.”

Also key to the department’s success, McKenna said, is the “right-sizing” of transportation projects in Missouri.

“We use practical design and have been doing that for about eight years,” he said. “Instead of building a Cadillac highway, we build a nice Chevrolet. It still functions well and we encourage contractors if they have an idea to come forward and, if it doesn’t impact safety or quality, then we’ll go ahead and adopt it, and in some cases share the savings with the contractor so it makes them be thinking all the time as well.”

McKenna believes the positive view Missourians have of the department of transportation puts the Show Me State ahead of the game when it has to convince voters to support additional transportation revenues.

“It certainly makes it easier because if you’re a voting citizen and somebody’s asking you for money, you’re more apt to say ‘yes’ if you trust that they’ll do what they say they’re going to do, they’ll deliver on time and on budget and they have a history of that,” he said. “MoDOT has a very good track record these past eight years.”

But Missouri faces a high hurdle that sets it apart from other states when it comes to altering the tax landscape. Voters have to approve tax increases of more than $70 million, McKenna said.

“The legislature’s hands are tied as far as tax increases are concerned,” he said.

That’s one reason the state hasn’t approved a gas tax increase in more than 20 years and why the state would face challenges in pulling off something like the plan approved in Virginia this year that zeroed out the state’s gas tax, replacing it with a wholesale tax and boosting state sales taxes. The state might be shooting itself in the foot if, for instance, lowered one tax and then expected the voters to install a different tax in its place.

“When you start lowering things, you’re taking away money that you already have,” McKenna said.

The recurring themes heard by the committee were used to inform the panel’s recommendations, which included:

• Investing an additional $600 million to $1 billion in transportation each year in order to address critical transportation needs.
• Adopting a solution that is fair, accountable, inclusive and transparent.
• Dedicating any new revenue to transportation. Taxpayers should feel confident that the resources are spent precisely as intended and not diverted to other areas, the panel concluded.

The committee’s final report also noted that MoDOT cannot cut its way to meeting its needs and recognized the department’s efforts to save money and find efficiencies, which included the elimination of more than 1,200 jobs.

Finally, the committee said meeting the state’s transportation needs likely will require a combination of solutions.

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South Carolina Transportation Infrastructure Task Force

Created in August 2011 by the South Carolina Department of Transportation Commission, the Transportation Infrastructure Task Force was a 16-member panel of transportation professionals and private citizens that issued its final report in December 2012. The group was charged with looking for ways to enhance revenues through both improved efficiencies and increased funding.12

Craig Forrest chaired the task force. He’s an at-large member of the SCDOT Commission, a 27-year veteran of the Maryland Department of Transportation and a former director of transportation planning in Baltimore. While he would hesitate to say the task force faced limitations on what it could consider, they were acutely aware of some political realities that influenced their final recommendations.

“Certainly there were very, very strong hints mainly from the legislature (saying) ‘don’t come to us with a report that says ‘raise the gasoline tax 20 cents’ and it hasn’t been raised since 1987,’” he said. “It’s still the fourth lowest in the nation. … I guess there was a general consensus among the legislature and the governor that we not make specific recommendations as far as amounts are concerned. … That’s not the way we started out.”

While the task force leaned toward specific recommendations regarding more money from the gas tax, it also realized that, because of the cautions from the governor and legislature, raising the gas tax alone wouldn’t be enough.

“We can’t raise the gas tax high enough to address the needs (that) we identified as $29 billion over the next 20 years,” he said.13

The task force also recognized the gas tax was falling out of favor around the country, for various reasons—it’s usually not tied to inflation, cars are getting better gas mileage, people are driving less.

“So we knew that the gas tax wasn’t going to be our friend, so to speak, and we also after talking to a lot of people realized that pushing the gas tax tends to allow the legislature especially to sort of have a cop-out that hey, we’re going to raise it but that’s all we’re going to do,” Forrest said.

He said the task force spent the first six months of its 14-month existence receiving presentations on the transportation needs the state faces.

“About halfway through that six-month timeframe, we came to the conclusion that if we wanted to have this thing be credible that we had to make it first of all very simple, very readable and there should be three things that needed to stand out,” he said. “That was the identification of the needs, the menu of opportunities to raise additional funding for the department and the ramifications if we don’t do anything.

“When the report came out in its draft form, I was a little disappointed in the length of it, but the more I read it, the better I liked it in the sense that it’s readable, it’s understandable, it stuck to what our premise was and also it connected the dots. If you couldn’t understand this even if you were a layperson

as it related to transportation, something was wrong. I think it had all the ingredients for one to make a logical conclusion as to what should happen and what the needs of the department are.”

The committee’s report recommended a list of 18 potential revenue enhancements:

• Increasing the 16.75 cent per gallon user fee on motor fuel;
• Indexing and removing the sales tax exemption on motor fuels;
• Increasing driver’s license fees;
• Increasing automobile registration fees;
• Increasing truck registration fees;
• Increasing or dedicating more of the electric power tax to transportation;
• Increasing tolling;
• Refining the state’s law governing public-private partnerships;
• Increasing the user fee on vehicle purchases;
• Supplementing the highway program with general fund dollars;
• Establishing a safety surcharge on each insured vehicle;
• Establishing a fee for encroachment permits, which allow for the placement of a privately owned structure in the public right-of-way;
• Establishing user fees for owners of alternative-fuel vehicles;
• (Eventually) establishing vehicle miles traveled fees;
• Dedicating severance taxes on fossil fuels extracted from the earth to highway funding;
• Establishing a state fee on rental cars;
• Establishing user fees for electric and nonmotorized vehicles; and
• Creating incentives for local governments to assume ownership of secondary roads, particularly those that serve little or no statewide or national purpose.14

Of those recommendations, the committee recognized one of the most controversial would be increasing the number of toll roads in the state.

“We … were very cognizant of what’s happening in Virginia and North Carolina as far as tolling is concerned, especially (on) the I-95 corridor,” Forrest said. “The Carolinas—and especially South Carolina—are very reluctant to embrace the tolling of roads.”

South Carolina has two toll roads, a public-private partnership that went bankrupt and one on Hilton Head Island.

“We knew it was going to be a sensitive issue in the legislature and what we tried to do is make sure that

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they understood that toll facilities or tolling does not do anything as far as maintenance or filling in potholes (on existing roads),” he said. “We were talking about large million and billion dollar projects, such as our I-73 from the North Carolina line down to Myrtle Beach and so on.”

In addition to funding and financing mechanisms, the task force also looked carefully at the issue of the state’s transportation trust fund and whether it could be raided to fill other budget holes.

“We have a trust fund so to speak but it’s very, very loose,” Forrest said. “The only thing that really goes in there for all practical purposes is the gas tax of about $400 million a year and $600 million-plus of federal aid. We thought long and hard about the issue of a true transportation trust fund after talking to various states.”

Forrest believes a less fluid trust fund can be an important part of convincing the public that their transportation dollars are being used as intended and that they can trust state transportation officials with additional revenues.

“The question of additional funding comes with some strings attached to it and I do think that one of the things that we hear constantly is what do you do with your money, especially ... from the general public,” he said. “One of the things that I’ve been trying to stress with the department and the secretary, even before this report, was that the only way that we can get trust is if we deliver what we said we were going to deliver.

“So if we get an additional $1 billion a year, those projects that are flowing in—revenue enhancement projects, so to speak—better have a blinking red star so people can track them very easily. Because the next time—and we know there’s going to be a next time—three, five, seven, 10 years down the road (when) we’re going to need additional funding and one of the things that you’re going to be asked is ‘What did you do with the funding that we gave you—hopefully—back in 2013 or 2014 or 2015’ or whatever. And to me that trust only occurs if you deliver what you said you were going to deliver.”

Forrest said the task force had realistic expectations about how its recommendations would be received in the 2013 legislative session and wrote the final report with the long term in mind.

“We thought that truthfully (the transportation issue) probably would not be addressed in this (legislative) session,” he said. “(But) I’ve been on the (SCDOT) Commission a little over three years now (and) this is the first time ... that transportation, including funding, has gotten some traction. People are starting to talk about it and we believe that this report allows them to take a look at a very readable report and something again that connected the dots that allows them to take some actions this session and use the report for (future) sessions.”

Still, Forrest has been pleasantly surprised by the reaction to the committee’s recommendations. One surprise was the favorable reception by the House and Senate staff.

“I believe that that was a surprise in the sense that there was no grumbling and I think because they had the case before them and it was very, very difficult to shoot holes in it,” he said. “I think what has happened now, because of the way the report is constituted, is they don’t have any cover.”

The report lays out the state’s transportation needs and the task force is available to answer any questions. It offers a list of 18 opportunities to raise additional money, Forrest said, and points out what could happen if the state doesn’t act.

The South Carolina legislature considered a number of transportation funding proposals in the 2013 session. Legislators ultimately approved a bill that could raise more than $800 million for roads and bridges, drawing the additional funding from a mix of revenue from a budget surplus, which will go to fund bridge repairs, reallocated motor vehicle sales taxes, which will go toward repairing secondary roads, and borrowing.15

Forrest worries about temporary funding solutions from sources like budget surpluses. If revenues are there one year and gone the next, the state department of transportation would face significant challenges in its six-year planning process.

“What happens when that $100 million goes away in the third year of your program and you still have a project that’s got three more years to go and you’re depending on that funding?” he said.

Forrest also worries that a stopgap or temporary funding measure in 2013 might actually prove counterproductive since it doesn’t fully address the larger $1.4 billion shortfall the state faces every year.

“I’m a little concerned that when 2014 rolls around if you say ‘Hey, you (only) addressed a quarter of our needs,’ (the legislature is) going to say ‘Well, hey, we gave you a hundred or two hundred million dollars additionally last year.’ (But) it’s mainly general funds and that has strings (attached) and also it’s not consistent,
it’s not sustainable.”

In his role as commissioner-at-large, Forrest is charged much like Zelle in South Carolina with selling the report’s recommendations and additional funding for transportation in presentations to Kiwanis Clubs, Rotary Clubs and chambers of commerce. But he knows that political obstacles lie ahead. While members of the legislature may have taken ownership of the task force’s work, Gov. Nikki Haley’s reaction to talk of tax and fee increases has been “not now, not ever.”

“I don’t know quite what that means other than ‘not now, not ever,’” Forrest said.

But when people argue that now isn’t the appropriate time to tackle transportation funding given the state of the economy, Forrest has an answer for them: “I said basically, ‘It’s not going to be the right time this year, next year, two, five and 10 years from now. It’s still not going to be the right time.’”

What’s important to realize, Forrest said, is that a report issued by a transportation funding commission is often not the end of the process, but a new beginning.

“Is it a valuable exercise? If you’re going to do it, hand it out and let things stay as they are, I’m not sure,” he said. “If you then are going to stay on top of the report, push it, continue to talk to the legislators about the report, continue to ask them do they have any questions, do they have any concerns, what are things that are working, how did you use it in the 2013 session, what would you like to see additionally for the 2014 session, … I think that’s valuable.

“If you think the end is when you issue the report, your chances for failure are probably pretty good. If you follow up and so on and keep it in front of people, which is what we’re trying to do, you have a pretty good chance. But … ask me a year from now, two or three years from now, was it a success and how did it do and so on. I think that’s when we’ll know whether it made a difference or not. … Hopefully a year or two from now we’ll be smiling like heck in the state of South Carolina.”

Section 40 Study Committee on (Vermont) Transportation Funding

Established by a section of a transportation bill passed by the 2012 Vermont Legislature, the seven-member Study Committee on Transportation Funding was charged with estimating the gap between revenue sources and the cost to maintain, operate and build the state’s transportation system and evaluating potential new state revenue sources or the modification of existing ones.16

“This (committee) was not asked to recommend a specific way forward,” said Vermont Secretary of Transportation Brian Searles, who chaired the panel. “What it was asked to do is to identify the problem—which turned out to be about $240 million annually between revenues and need—and then to present to the legislature a full menu of options.”17

The committee’s final report issued in January 2013 begins with an examination of three key trends and issues that are likely to affect short- and long-term transportation funding in Vermont. Those trends are:

- Declining state gas tax revenues;
- Uncertainty about the federal Highway Trust Fund, which is the source for half of Vermont’s transportation budget; and
- The fact that the most recent federal surface transportation authorization bill, known as MAP-21, doesn’t provide sufficient long-term funding for the state’s transportation needs.18

Searles said the uncertainty about transportation at the federal level is a significant concern for a small state like his. Vermont is home to 632,000 people, similar in population to many American cities.

“We don’t have a whole lot of taxing capability or taxing capacity,” he said. “So our strategy historically on transportation has been to use our state transportation funds largely to match federal funds, with two exceptions: one is the town programs—the grant programs for the towns—which are state (funds) and our operations or maintenance folks basically. … So to the extent that we get our capital program to the point where it actually makes progress in terms of system improvement depends far more on federal funds than state funds historically.”

But the committee recognized money derived from state revenue mechanisms will be an important part of the state’s transportation future. Among the revenue options evaluated in the panel’s final report: vehicle inspection fees, vehicle lease and rental taxes, tire fees, heavy vehicle registration fees, DMV registration fees and purchase and use fees. The committee evaluated each option based on four criteria:

- Revenue stream considerations, such as revenue potential, sustainability and flexibility,
- Implementation and administration considerations, such as public acceptance, political viability, appropriateness for state use, ease of implementation, and cost of implementation, administration and enforcement.

“The volatility of the gas tax can be dealt with at least in part by a blend of per gallon and sales tax,” — Searles
“I think the big challenges are the acceptability of (mileage-based user fees) to the public, particularly in terms of privacy and the availability and cost of the technology and so on. But yeah, I think that’s where we’re headed,” — Searles

- Economic efficiency and impact considerations, including the extent to which the mechanism provides incentives for efficient use of the system by influencing travel choices and behavior.
- Equity considerations, including across income groups and geographies.

Gas taxes, the committee said, continue to measure up well against those criteria.

“A major benefit of gasoline taxes is that a slight rate increase could generate a significant amount of revenue, and fees are relatively inexpensive to administer in relation to yield,” the committee’s report reads. “The collection mechanism is already in place as the tax is currently collected. However, it will require periodic adjustments through legislative action to keep pace with inflation … and to offset declining gasoline consumption as vehicles become more efficient.”

Searles and committee members believe the gas tax also can provide a bridge to the future.

“One of the things that came out of (the back and forth committee deliberations) that is important right now and important for the future was the whole idea that the volatility of the gas tax can be dealt with at least in part by a blend of per gallon and sales tax,” Searles said.

A plan considered by the legislature in April would have added a 4 percent sales tax and reduced the per gallon gas tax by 7.5 cents to create a 50-50 balance in the gas tax.

“This came out of committee discussions and, also, we learned that other states were coming to the same conclusion,” he said. “We’re hopeful that this will extend the life of the gas tax as a viable part of the revenue stream.”

What ultimately transpired during the 2013 legislative session, though, was a compromise brokered by Gov. Peter Shumlin that raises the diesel tax by 3 cents per gallon over two years and raises the gas tax by 6.5 cents per gallon. The compromise jettisoned a measure to chain the gas tax to inflation rates, which would have translated into automatic increases of a quarter of a cent per gallon annually. The approved legislation sets up a process whereby gas tax rates can be reviewed once every three years.

The gas tax increase will help the state raise $36.5 million in transportation revenues to avoid losing out on $56 million in federal transportation funds. But extending the life of the gas tax and addressing long-term funding needs will have to wait.

“Beyond three to five years, given the declining consumption of gasoline in the state, we’ve got to find some other answer,” Searles said. “And I’m not exactly sure what that will be but (mileage-based user fees) certainly received a lot of attention in conversations in committees.”

In addressing such fees, also known as vehicle miles traveled or VMT fees, the committee found that “such a VMT fee system would be both more sustainable and more equitable since it would not be influenced by increasing vehicle fuel efficiency or the use of alternative energy sources.”

But the committee also noted that, “Implementing a VMT fee system will be technologically, administratively and politically complex. VMT user fees are far from accepted or well understood by the general public, legislators and transportation professionals.”

Still, Searles predicts mileage fees are likely on the horizon in the not too distant future.

“When I first entered into this discussion with people who know a lot more about this than I do, they were talking 10 or 15 years,” he said. “And in about a year’s time, that’s now being discussed in terms of seven to 10 years. So given the fact that the technology’s already out there, it could be less time than many of us think. I think the big challenges are the acceptability of this to the public, particularly in terms of privacy and the availability and cost of the technology and so on. But yeah, I think that’s where we’re headed and it probably is outside of five years but something less than 10.”

Searles said Vermont and other states could pursue interim steps—such as a voluntary annual odometer check—on their way to a full-fledged mileage-based transportation system. Because of the gas tax discussion, many people are saying electric vehicles aren’t paying their fair share.

“Now, there aren’t enough electric vehicles yet to make it a significant financial component of what
we’re trying to fix here in the short term, but there’s been a lot of discussion about whether those electric vehicles could end up paying through electric bills and that would be measured in much the same way with the same sort of smart meter that would be in play later on for all vehicles no matter what the fuel,” Searles said. “So I think that’s going to be an interesting interim step that the legislature may very well make. In our transportation bill, they’re including a section that asks our Department of Public Service, who are the utility regulators, to figure out a way that this can work.”

Searles believes the committee’s work was important because it focused attention on the problem for those inside and outside state government and put a menu of options before lawmakers so they were able to see what was needed in both the short and long terms. But, Searles said, in addition to revealing the gap between transportation needs and revenues, the committee’s work also revealed another problem with a familiar ring.

“I think they were a bit surprised when they learned the history of the (state) transportation fund and how over the years it has actually been used for many purposes other than transportation,” he said. “They were committed to dealing with that problem. That’s something that’s received a lot of attention in the (2013) legislature.”

While the diversion of those revenues in years past may have produced consternation, the work of state transportation officials in the wake of a recent natural disaster has won praise and helped shore up public opinion of Searles’ agency at an opportune time—just as it began the process of seeking additional transportation revenues.

“We made presentations for the (study committee) about some of the improvements in process, project development steps that have been taken to improve efficiency and many of these (came) out of our experience with Hurricane and then Tropical Storm Irene back in 2011, where we lost about 20 percent of our system and had it back up and running in four months,” Searles said.

“We have a presentation that we’re making to folks about how we’re incorporating these lessons learned into our future. That’s made people feel better and it’s something that the legislature really wanted to hear, something the towns wanted to hear before they became full partners in our current bill. … To some extent, we were still riding the wave of the Irene performance and that’s, I think, served us well in the legislature.”

Wisconsin Transportation Finance and Policy Commission

Created by the 2011-13 state budget, the Transportation Finance & Policy Commission was a 10-member panel comprised of citizen members from across the state and chaired by the nonvoting secretary of transportation, Mark Gottlieb. The group issued its final report in January 2013. The commission was charged with developing policy changes and financing options to balance projected transportation needs with revenues over the next decade. It did so by considering four possible scenarios to show how the transportation network might function at different investment levels.

“One of the things that was talked about at the beginning was that these scenarios represent potential snapshots but it’s not a case where we want the commission to pick between scenarios,” Gottlieb said in an April 2013 telephone interview.

The four scenarios were a status quo scenario, a preservation scenario, a capacity-management scenario and a multi-modal enhancement scenario. Gottlieb said the scenario concept quickly made it clear to commission members that setting the bar low wouldn’t provide an acceptable outcome.

“Under the do-nothing alternative or status quo scenario—which we actually referred to as ‘disinvestment’—we actually wouldn’t have enough revenues over 10 years to support that because of declining revenues and so forth,” he said. “Under the scenario of continuing to do what we’re doing, we would have had a 10-year revenue shortfall of about $2 billion.”

The scenarios, he said, gave the commission a base to work from, but didn’t really force them to pick one for a recommendation.

“They sort of wound up with a little bit of mix-and-match,” Gottlieb said.

That mix-and-match approach produced a list of revenue-raising recommendations that were perhaps the most specific of any of the commissions examined. They included:

- Raise the state motor fuel tax by 5 cents per gallon.
- Adopt a new mileage-based registration fee for passenger cars and light trucks of approximately 1 cent per mile traveled.
- Increase annual registration fees for commercial vehicles by 73 percent.
- Increase the fee for an eight-year driver’s license by $20.
The commission ultimately proposed adding to the existing flat-rate $75 annual registration fee an additional fee based on 1.02 cents per mile for every mile driven starting at 3,000 miles and ending at 20,000 miles.

“So we would charge a mileage registration fee for a maximum of 17,000 miles per year,” he said.

“I think there’s a broad range of thinking that if you’re going to ask people to pay higher user fees, whether it’s a gas tax, registration fee or whatever, people want to have some level of comfort that that truly is a user fee for transportation,” — Gottlieb.
“The commission did a lot to show at the levels of investment that we’re at right now what’s going to happen to pavement condition on our state system, what’s going to happen to congestion, what’s going to happen to transit systems, what’s going to happen to different modal activities and that information is out there now,” — Gottlieb.

tion that gives states more flexibility to toll on the National Highway System. Current federal regulations on tolling create an obstacle to its implementation in Wisconsin, they found.25

Finally, the commission expressed support for a proposed state constitutional amendment to protect the integrity of Wisconsin’s Transportation Fund, something that has become an issue in the Badger State much as it has elsewhere.

“It’s been a big issue because of over $1 billion in transfers that were made in several of the recent budgets,” said Gottlieb. “I think there’s a broad range of thinking that if you’re going to ask people to pay higher user fees, whether it’s a gas tax, registration fee or whatever, people want to have some level of comfort that that truly is a user fee for transportation. This issue was a really big political issue in the state for a while. There were a series of advisory referenda that were put on the ballot.”

The referendum passed in all 50 of the state’s 72 counties where it was considered. The legislature gave final approval to the amendment, so if voters approve it in November 2014, it will become part of the state constitution.

The commission’s other recommendations, however, have not fared as well in the Wisconsin legislature’s 2013 session. Gov. Scott Walker did not include the panel’s revenue recommendations in his proposed 2013-15 budget. Gottlieb said there were a couple of reasons behind that decision.

“One is the commission report was just so fresh at that point and there was certainly no consensus that’s developed about how best to raise revenues for transportation,” he said. “Also, the governor was not inclined to really raise taxes at all in this budget because of the economic recovery that we’re trying to get to take hold and so forth.”

But that doesn’t mean the panel’s work was all for naught, Gottlieb contends.

“The commission did a lot to show at the levels of investment that we’re at right now what’s going to happen to pavement condition on our state system, what’s going to happen to congestion, what’s going to happen to transit systems, what’s going to happen to different modal activities and that information is out there now,” he said. “And I think there is consensus developing. I see it in talking to legislators. I think there is a lot of respect for the work the commission did. And I think that the commission document really does lay a foundation for a debate or discussion that, I think, just about everybody in the state agrees that we have to have about how going forward are we going to create a sustainable financing structure for transportation. So I think the commission’s work in that respect was extremely valuable. I think it’s going to inform this debate for years.”

Moreover, Gottlieb said, no one on the commission ever thought the job would be done with the 2013 legislative session.

“It was not a one-and-done,” he said. “I think the report has a lot of shelf life. I think it will be the foundational document for debating the investments that we have to make in transportation for the foreseeable future.”

And Gottlieb thinks the specificity of the recommendations and the care with which they were assembled both add to the report’s value.

“The interesting thing was not the revenue tools (themselves) but the way the commission combined them in a thoughtful way to meet a variety of different policy objectives,” he said. “The objective to raise the revenue—raise the $6.8 billion—that’s part of it, but the other part of it is how do you raise it, who pays it, why do different groups and different users pay different amounts. And, I think that they thoughtfully put together a variety of recommendations to make sure that, really, they were creating something that was efficient to administer, equitable and also (that) met our needs.”

Gottlieb is quick to credit the legislature with having the foresight to create the commission in the first place.

“(It) was not something that was requested by the department of transportation. It wasn’t even in the governor’s (proposed) budget in 2011. It was something that arose from the legislature,” he said. “Politicians aren’t always known for thinking about long-term problems and long-term solutions. So I think it’s a credit to our policymakers that they realized back then that we have an issue here that really needs to be thought through because we’re going to have to solve this problem.”

Finally, Gottlieb noted the commission’s final report has already borne fruit in how the state department of transportation does business.

“The tagline of the report was ‘Smart Investments, Measurable Results’ and a big part of what
the commission wanted to do was to make sure that . . . (since) we were asking people to make these additional investments, that there were strong metrics to measure that this is going to provide enhanced mobility and quality of life and economic growth for our state,” he said. “We have a performance improvement program at the department that’s based around the five core goals of our agency—mobility, accountability, preservation, safety and service. We had the commission looking at how we do business in terms of our maintenance models and outsourcing and traffic operations and safety and things like that. It gave us a good opportunity to talk through some of those things as to how we’re doing business. And there were some process changes that we think are going to be valuable for us going forward that were talked about and recommended.”

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