

# DRIVING FOR DOLLARS:

## *THE HISTORY AND FUTURE OF THE FEDERAL-STATE-REGIONAL TRANSPORTATION PARTNERSHIP*

*Transportation's Uncertain Future:  
CSG National Leadership Conference*

May 2012

La Quinta, California

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- Bitter partisan disagreements over the benefits of taxing to build, operate, and maintain transportation infrastructure
  - Further disagreements over the appropriate level of government to build, operate, and maintain this infrastructure
- **Waxing philosophical disagreements about the wisdom of promoting mobility**
  - Frequently expressed in modal terms
    - Promote mobility, commerce, goods movement, and roads
    - Promote alternatives to driving, sustainability, people movement, and public transit

So where are we headed?



The one thing that is certain...  
is that nothing at this point is certain



# Indulge a professor...

- Sometimes a look back can help us look ahead



# Where were we a century ago?



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- Governmental roles distinct, not integrated
  - Federal role = postal roads
  - States = rural roads, waxing bonded indebtedness
  - Cities (no regions) = property taxes for streets
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  - States = rural roads, waxing bonded indebtedness
  - Cities (no regions) = property taxes for streets
  - Public transit = privately owned and operated
- Who should build, maintain, and pay for needed road upgrades was very much up in the air

# What's happened since?

- **Establishing Roles and Commitments (1920-1945)**
- **Mass Production of Highways (1945-1970)**
- **Fiscal Retrenchment/Rise of Multimodalism (1970-1990)**
- **Era of Ad Hoc Projects and Finance (1990-?)**

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  - Abandoned bond finance
  - Established system of user finance based on the motor fuels tax
  - Established federal matching funds to “motivate” states to invest in highways

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  - User fee logic codified by moving transportation finance “off-budget” into trust funds
  - Wholesale bankruptcies of private urban transit systems, gradual shift to public ownership and subsidy

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  - Highway finance begins to “sunset” with no increase in motor fuels taxes for 20 years
  - Shift in legislative attention from highways to public transit in large metropolitan areas
  - Long-standing bi-partisan support for transportation investment as tool of economic development, shifts to partisan rifts over tax increases
    - Especially problematic for the gas tax

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  - Return to bonds and general taxes for transportation, which were abandoned generations earlier as inefficient and inequitable
  - Rise of project earmarking



# What goes around comes around...

- The waxing roles of states and cities/regions vis-à-vis the feds in addressing surface transportation problems in 2012
  - Looks eerily similar to 1912

# Looking ahead

- Broader logic of public finance is in crisis
  - Debates over transportation taxes increasingly abstract
  - Makes it difficult to link taxes/prices to solving particular *problems*
  - Helps to explain why local sales taxes linked to specific projects have proven relatively popular

# Long-term challenges

- Broader logic of public finance is in crisis
- No longer any consensus on the benefits of transportation
  - The *Education versus Heroin* problem
    - Is VMT good or bad?

# Long-term challenges

- Broader logic of public finance is in crisis
- No longer any consensus on the benefits of transportation
  - The *Education versus Heroin* problem
  - Education
    - Funding needed to improve road system, traffic flows
  - Heroin
    - Taxes, fees needed to discourage travel
    - Punish “bad” modes, and subsidize “good” modes

# Long-term challenges

- Broader logic of public finance is in crisis
- No longer any consensus on the benefits of transportation
- Federal (and many state) transportation *programs* are disintegrating before our eyes
  - Marriage of convenience among modal interests is breaking down
  - Trending away from big programs and toward local projects (even if federally funded)

# Long-term challenges

- Broader logic of public finance is in crisis
- No longer any consensus on the benefits of transportation
- Federal (and many state) transportation programs are disintegrating before our eyes
- **Widespread belief in the inelasticity of travel demand**
  - Supporters and opponents of taxes/fees view them as punitive
  - “Ribbon-cutting Problem” precludes focus on performance

# Longer-term challenges

- No longer any consensus on the benefits of transportation
- Federal (and many state) transportation programs are disintegrating before our eyes
- Widespread belief in the inelasticity of travel demand
- **Ultimate objectives of transportation systems are poorly understood, articulated**
  - Links to economic productivity, quality of life are not systematically analyzed
    - Confuse costs and benefits
  - When they are, it's usually not part of decision-making processes

# What's a state to do? I see Four (Five?) Options

1. Raise Fuel Taxes
2. Increase Subsidies
3. Bond Finance
4. User Fees & Tolls
  
5. Do Nothing?



# Option 1: Raise Fuel Taxes



# Option 1: Raise Fuel Taxes

## Pros

- Fuel taxes are an established revenue raising method
- Dire needs are a political motivation to increase the levy
- An increase would be administratively simple

## Cons

- Voters resent fuel taxes
- Political situation is unfavorable to an increase
- Fuel tax revenues drop as fuel-efficiency increases

# Option 1: Raise Fuel Taxes

## Pros

- Raising gas tax will help increase fuel economy
- Once enacted, could be implemented almost overnight
- Need for frequent hikes could be eliminated
- Fuel taxes are fair

## Cons

- Higher taxes will probably not reduce demand much
- If not indexed, fuel tax increases are 1-time fixes
- Even indexing can be politically difficult to maintain
- Fuel taxes are unfair

# Option 2: Increase Subsidies (Especially local option sales taxes)



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## Pros

- Local option sales taxes (LOTs): fairly popular and feasible revenue-generating device
- LOTs are imposed by direct democracy
- LOTs keep the revenue at home

## Cons

- LOTs are an unstable funding source
- LOTs are inflexible
- LOTs keep the revenue at home

# Option 2: Increase Subsidies (Especially local option sales taxes)

## Pros

- LOTs fund the programs voters value most
- LOTs are not difficult to administer
- LOTs are dedicated to transportation
- LOTs will raise revenue quickly

## Cons

- The most popular programs may not be the best ones
- LOTs are regressive
- LOTs tie the hands of planners and policymakers
- LOTs are unconnected to transportation system use

# Option 3: Bond Finance

(Note: *A finance tactic, not a revenue source*)



# Option 3: Bond Finance

## Pros

- Bonds *may* make solid financial sense
- Bonds allow us to accelerate the construction of needed projects
- Building sooner might be worthwhile

## Cons

- There's no such thing as a free lunch
- Bonds do not allow us to build more, just more quickly
- Bonds have a high price tag



# Option 3: Bond Finance

## Pros

- Bonds are politically viable
- Bonds can literally save lives
- It is only fair that repayment be made in the future

## Cons

- The politically expedient path may not be the best one
- Excessive bond issues may exhaust the state's borrowing capacity

# Option 3: Bond Finance

## Pros

- Bond issues guarantee revenues will be spent on transportation
- Bonds make sense when expenditures are “lumpy”

## Cons

- The markets may demand high risk premium
- Future tax revenues are difficult to forecast
- Bonds may relax fiscal discipline
- Bonds do not make sense when expenditures are constant from year to year

# Option 4: Tolls & Other Direct User Fees



# Option 4: Tolls & Other Direct User Fees

## Pros

- User fees are an important principle
- Privacy concerns can be addressed
- User fees increase effective capacity

## Cons

- Fees might invade privacy
- Fees do not necessarily dedicate funds for transportation
- The demand for travel may not always be easy to manage

# Option 4: Tolls & Other Direct User Fees

## Pros

- Even small changes in driver behavior make a big difference
- User fees are fair
- The toll burden will actually fall most heavily on the wealthy

## Cons

- User fees are an unfamiliar form of finance
- User fees are unfair
- Tolling is still regressive

# Option 4: Tolls & Other Direct User Fees

## Pros

- May be regressive, but so are our current forms of finance
- Even if they are regressive, user fees can benefit the poor as well
- Sometimes the value of time is extremely high for all

## Cons

- Just because other finance methods are unfair, does not make tolls any fairer
- User fees are politically difficult to enact

# Option 4: Tolls & Other Direct User Fees

## Pros

- Motorist opposition tends to fade once pricing is in place
- Thanks to new technology, tolling is easier to implement than ever before
- Tolling may help the environment

## Cons

- User fees are double-taxation
- Compared to other methods, instituting electronic tolling is still quite difficult
- Tolling may actually hurt the environment

So what is the best path forward?







Doing nothing may be the worst option of all



# Transportation Pricing and Finance Options: Handbook for California Decision-makers

for: The California Department of Transportation

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Thank You

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