BACON'S REBELLION
The Op/Ed Page for Virginia's New Economy

Roads and Reason

Virginia is evolving toward a market-drive transportation system. Let's pick up the pace. Here's what an economically rational funding system would look like.

When some future scholar chronicles the history of Virginia, the Warner administration may be best remembered for its decisive break with past transportation policy. Abandoning a century-long tradition of relying primarily upon state government to finance, build and maintain Virginia's roads, Gov. Mark R. Warner has pushed the state sharply in the direction of a market-driven transportation system.

At the Public Private Partnership Forum held in late December, Secretary of Transportation Pierce Homer outlined Warner administration initiatives to solicit and negotiate public-private partnerships for Virginia's most congested transportation corridors. Under these partnerships, private entities would raise billons of dollars, to be recouped through tolls, to upgrade corridors in Northern Virginia with bidirectional lanes. At least two of these corridors, maybe more, will institute variable pricing – charging higher rates during periods of peak congestion.

The legal framework for these public-private entities was erected in the 1990s, and none of the projects actually will be constructed for several years. But the critical philosophical breakthrough – making public-private partnerships the centerpiece, not just an add-on, of Virginia transportation policy -- has occurred under Warner's watch. The Commonwealth isn't merely relying on the private sector for capital and efficient execution, Homer said: It's fostering a "marketplace of ideas" to inject fresh thinking.

As remarkable as his comments were, Homer came across as a stodgy advocate of the status quo compared to some other speakers at Forum, which was hosted by the Commonwealth Policy Institute, *Bacon's Rebellion* and The Jefferson Institute for Public Policy, and underwritten by Harrisonburg entrepreneur Walter Curt.

House Speaker William J. Howell set the tone for much of the conference when he called for overhauling Virginia's transportation bureaucracy from stem to stern. "We cannot continue what we've always done," he declared. "We cannot govern in the 21st century with 20th century ideas. …. I seek change rather than oppose it. I'm not satisfied with the status quo." Not content to use public-private partnerships merely for new projects, he suggested privatizing chunks of Virginia's existing road network and reinvesting the proceeds. Said he: "We should securitize assets that are laying fallow."

Even Howell appeared timid compared to some presenters. Noting that city streets and inter-city toll roads were built by the private sector in the 19th century, Yaron Brook, executive director of the Ayn Rand Institute, and Gabriel Roth, a transport economist with the Independent Institute, argued passionately that government should get out of the business of building roads, rail and highways altogether! The private sector, they contended, could meet the public's need for mobility and access just fine.

The focus of the Forum was intentionally narrow, concentrating on the role of public-private partnerships. As such, the event neglected the critical issue of the relationship between transportation and land use. Stewart Schwartz with the Virginia Coalition for Smarter Growth was the lone advocate for that perspective. Therefore, it cannot be said that the ideas discussed would provide a complete solution to the challenge of increasing mobility and access in Virginia.

Even so, I found the Forum to be one of the more thought-provoking conferences I've participated in. Indeed, the dialogue crystallized my thinking on at least one critical piece of what has been an intractable problem: finding a rational approach to financing maintenance and improvements to Virginia's transportation system.

I walked away from the Forum persuaded that Virginia needs to base the financing of transportation improvements on two core principles: transparency and user pays.

The current system for funding Virginia's transportation system is convoluted, with money coming in from the federal government, typically with strings attached, and multiple revenue streams from the state. It's difficult for the Virginia Department of Transportation to keep it all straight – witness the project-financing fiascos that the Warner administration had to clean up – much less the average citizen. <u>A rational arrangement for funding transportation would establish a clear and transparent nexus between the source of the funds and the use to which they are put</u>.

Admittedly, it was a free-market crowd, but many speakers agreed upon one other core principle: <u>From the standpoint of economic efficiency, transportation should be a "user pays" system.</u> Political and civic leaders should disabuse voters of the notion that roads and highways are a free good. *Someone* must pay to build and maintain them. To the greatest extent possible, those who use the transportation system should be the ones who pay for it.

I see no reason to privilege mass transit. Government policy should be to create a level playing field between transportation modes – doing away with subsidies and arbitrary regulations that favor or disadvantage one option over the others – and let the marketplace dictate the outcome. Under the market-based scheme I outline below, however, mass transit might become economically viable in some circumstances without continued subsidies.

There would be only one exception to the level-playing field rule, and that's when a particular transportation mode imposes costs on society – such as pollution -- that are not reflected in prices. On that basis, I would be open to a "pollution tax" on automobiles, which also might offset some of the advantage that automobiles now enjoy over mass transit.

With these principles in mind, let us turn to each of the three main categories of transportation expenditure.

Maintenance. The Virginia Department of Transportation proposes spending $967 million on maintaining the state road network in Fiscal 2007. Economic reasoning suggests that some form of "user pays" arrangement should apply: The more wear and tear you inflict upon roads -- the more miles you drive, the heavier the vehicle you drive -- the more you pay.

As a practical matter, Virginia has a rough but workable "user fee" in place already – the gasoline tax. Trouble is, the gasoline tax is used for more than maintenance – it's also used for new construction, both for the purposes of congestion relief and economic development. In other words, it's not always clear to motorists that their "user fee" is paying for anything they're actually using.

Another problem is that Virginia's gas tax has been fixed at 17.5 cents per gallon since 1986, while construction and maintenance costs have escalated every year. In inflation-adjusted terms, the gas tax is shrinking. According to VDOT projections, maintenance costs are swallowing up gas tax revenues with the consequence that within a few years there will be no state funds available for new construction. Eventually, revenues would be insufficient to pay for proper maintenance.

Politicians treat the gas tax like anthrax. Despite dollar-wide swings in the market price for gasoline, legislators appear unwilling to raise the tax by even a few pennies per gallon. But I believe that an increase in the gasoline tax can be sold to taxpayers if (a) the tax were applied *only* to maintenance and characterized as a user fee, (b) revenues were protected by a constitutional amendment against pillaging to make up for shortfalls in the General Fund, and (c) the tax were combined with a commitment on the part of the Virginia Department of Transportation to adopt more cost-effective management systems for maintaining the road network.

Motorists/taxpayers would be accepting of periodic adjustments to the tax if they knew that increases mainly reflected inflation, not the funding of transportation boondoggles. As an additional selling point, legislators could hold out the possibility that the gas tax might actually *decrease*. By transitioning to an asset-management system, which bases expenditures on a life-cycle basis rather than an arbitrary, two-year budget cycle, VDOT could potentially reduce its maintenance costs by some 20 percent.

Under this proposal, VDOT would submit a budget, subject to approval by the General Assembly, that would re-set the gas tax each year. Right now, no one feels the heat for sub-par or inefficient maintenance practices. There would be nothing like an annual readjustment to focus attention on implementing efficient asset-management strategies, either through outsourcing or internal VDOT reform.

Ultimately, the user-pays approach might evolve into a system, advocated by Gabriel Roth at the Independent Institute, which would charge motorists based on total vehicle miles driven, as tracked by GPS technology and reported to the Division of Motor Vehicles, adjusted for the weight of the vehicle. Such an approach would be more precise than the gas tax, accounting for the fact that highly fuel-efficient vehicles such as hybrids might not pay their fair share of wear and tear on roads. (Under my scheme, however, a hybrid might benefit from a lower pollution tax.)

The vehicle-miles-driven approach suffers from one big disadvantage: How do you get out-of-state motorists to pay their fair share? The gas tax captures revenue from motorists' purchase of gasoline when they drive through the state. Under a vehicle-miles-driven approach, by contrast, it would be impossible to tax out-of-state drivers for the vehicle miles they drove in Virginia. Indeed, one could predict that trucking companies would quickly register their tractor-trailers outside the state to avoid paying the tax. In the absence of interstate pacts, I can't imagine that this idea would be workable.

Congestion relief. The economically eloquent way to deal with traffic congestion is to use a pricing mechanism to allocate scarce roadway capacity. Under a variable, time-of-day pricing arrangement, motorists would pay a toll on major thoroughfares that varied according to the level of congestion. (Two other *Bacon's Rebellion* columnists are addressing this issue this week. See "Putting a Price on Mobility" by Geoffrey Segal and "A Pricing Approach to Growth" by Patrick McSweeney. Both were speakers at the Forum.)

Right now, congestion pricing is contemplated only for HOT lanes proposed for the Washington Beltway and Interstate 95. But there's no economic reason that the tool shouldn't be applied everywhere that congestion is a serious problem.

I concede that the idea would be a hard sell politically. Virginians generally dislike paying tolls, although they grudgingly accept them as a mechanism to pay for new facilities that would not be built otherwise. The idea of installing toll booths where none existed before would be widely unpopular.

But the idea could be sold, I believe, if properly presented. The first way that congestion tolls could be made palatable is linking them directly to expansion of road capacity. In the case of the Northern Virginia HOT lanes, the link would be explicit – toll revenues would be used to pay for the addition of capacity that had not existed before. At other locations, congestion toll revenue could be dedicated to corridor improvements such as lane widening, traffic-light synchronization, ramp metering and other mechanisms for increasing capacity. Again, the key is assuring motorists/taxpayers that their money isn't being diverted to some other use.

The second way that congestion tolls could be made palatable is by explaining that variable pricing is a mechanism for managing demand. When confronted with a significant cash cost to their commute, some people will change their behavior. Some will vary the time of their commutes. Some will telecommute more. Some will carpool. Some will avail themselves of mass transit. Some will choose to live in balanced communities where one or more wage earner can drive to work near home without ever accessing the regional transportation grid. When people change their behavior, they reduce the need to build more roadway. That doesn't happen when the state simply raises taxes and builds more roads.

The third way to sell congestion pricing is to compare it to the alternatives. Would voters prefer perpetuating the status quo, which will lead inevitably to worsening congestion? Would they rather pay higher taxes to add more roadway capacity, the most expensive of all "solutions," which ignores the many transportation alternatives, many of which are potentially more efficient?

Economic development. A number of transportation projects, especially in rural Virginia, are proposed not for purposes of congestion relief but for economic development – improving the accessibility of isolated regions in the hope of attracting outside corporate investment. The $3 billion Coalfield Expressway, it seems to me, is particularly ill conceived – the entire region could be Wi-Fi-enabled for a fraction of the expense. But I'll table that discussion for now. Assuming that such projects are desirable, how are they best funded?

These projects represent a transfer of wealth to the regions that benefit from the investment. As such, funding decisions are inherently political, outside the scope of the self-sustaining mechanisms described above. As such, economic development projects should be funded by the General Fund at the discretion of legislators, and they should have to compete for funding with Virginia's ports, airports and intermodal facilities, as well as other core needs as education, health care and the environment. If their advocates can't make a persuasive political case for such projects on their individual merits, they should not be funded.

Consistent with this idea, various revenue streams now dumped into the transportation pot – motor insurance, vehicle registrations, the sales tax on automobiles, and the half-cent sales tax dedicated to transportation -- should be funneled instead into the General Fund. Legislators could tap these funds for economic-development projects, bankroll other programs or cut taxes. Because economic development road-building projects are so discretionary, I would argue, they need not be protected by constitutional amendment.

Finally, there is the question of what to do with federal transportation funds. I would agree with Gabriel Roth that the federal government needs to get out of the business of financing transportation. By the time the federal gas tax cycles through multiple layers of administrators, lobbyists, regulations and Congressmen, there is no "clear and transparent nexus" between the tax and its application. So many regulations and strings are tied to the expenditure of federal transportation funds that many participants at the Public Private Partnership Forum questioned whether the federal "free money" was even worth taking.

So, in an ideal world, the federal gas tax, and all the programs it finances, would be eliminated.

There you have it. I don't know whether total transportation spending would rise or fall under the logic that I've laid out, but I don't think it matters. There would be a clear and direction connection between the source of the funds and their application. Virginians could be assured that their existing transportation assets would be maintained to high standards and that a funding mechanism existed to expand roadway capacity when it was truly needed. The beauty of congestion tolls is that they are self regulating: The worse congestion gets, the more money they raise. At the same time, the scheme would not encourage open-ended road construction. Congestion pricing would create a tangible incentive for people to find ways to drive less.

Though a critical part of the equation, a rational scheme for transportation is only one part of a comprehensive transportation solution. There is no escaping the necessity of changing human settlement patterns. Virginia cannot afford to maintain the land use policies that perpetuate the scattered, disconnected, low-density pattern of development that makes people driver farther and more frequently than they need to. That means re-thinking zoning codes, comprehensive plans, subdivision ordinances – the whole toolkit of regulations that local governments use to control growth. At a deeper level, there is no escaping the necessity to update governance structures -- relics of Virginia's 19th century agricultural economy -- for urbanized, 21st century existence.

Yes, there is much more work to be done. But an economically rational transportation funding system would be a critical component – and an achievable first step -- of any comprehensive reform.

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Read more columns by Jim Bacon at
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