

TRAN\$PORTATION FINANCING

By Steve Wright





Photo courtesy of Metro Transit



CREATIVE SOLUTIONS FOR THE PROBLEM OF FUTURE TRANSPORTATION DEVELOPMENT AND MAINTENANCE FUNDING

Gasoline prices are soaring. Much public transit is less than adequate. Various taxes are failing to keep up with inflation and failing to generate the funding needed for both maintenance and expansion of all forms of transportation—from highways to light rail.

Real estate has always been about location, location, location. But rather than the old saw applying to good schools, good jobs, good parks, etc., location may apply more to transportation than any other element.

When homebuyers talk location, they mean they are concerned about: proximity to rail, better buses, pedestrian and bike paths, improved highways, public tollways that charge a premium at peak times to reduce congestion, public-private partnerships that have expanded roadways, and even location in a state, region or municipality that is focused on transportation financing.

C. Kenneth Orski, editor and publisher of Potomac, Maryland-based *Innovation Briefs*, said every source of transportation funding is falling short.

"Local and state jurisdictions are running out of money for transportation. All the money is used for maintaining what they have," he said. "They are short of any capital that would expand the system. Everybody is scrambling madly in search of new financing sources."

The main source for highways is the federal Highway Trust Fund supported mostly through the federal manufacturers' excise tax on gasoline, which has remained at 18.4 cents per gallon for more than a decade.

"There is a huge political resistance to raising the gas tax in Congress," Orski said. "There also is resistance in state legislatures," because states also heavily tax gasoline, but with high crude oil prices, state governments are reluctant to add insult to injury by adding higher gas taxes to spiraling costs at the pump.

Orski said that while tax revenue is basically stagnant, the demand for transportation is increasing very rapidly in terms of tremendous growth in both vehicle miles and number of cars on the road.

"By 2009, the Highway Trust Fund will zero out. The billions of dollars in the balance have been spent down, so only the funds collected that year will be the balance," he said of the alarming depletion of federal dollars in the face of growing demand.

Several states are looking to fund transportation through: toll lanes with premium prices, privately-

funded tollways and long-term leases of existing turnpikes to for-profit companies.

In Texas, the state converted some High Occupancy Vehicle (HOV) lanes into High Occupancy Toll (HOT) lanes.

While HOV lanes have traditionally been reserved for public transit plus car pool vehicles with two or more occupants, HOT lanes charge a premium price for the fast lane.

Buses and vehicles occupied by three or more people still ride free, but cars with only two people in them pay an extra \$2 toll. The entire operation is cash and slow-down free, operated by transponders sold to a limited number of car poolers who qualify.

Other states are building new lanes or converting existing lanes into HOT lanes that will charge a higher price for use at peak hours. Public transportation and some car pooling gets a free ride, but individuals pay a much higher cost to use the fast-moving lane during morning and evening commute peak hours.

The idea is that HOT lanes reward public transit and high occupancy vehicles, reduce congestion by charging a higher price for use and increase revenue to pay for expansion.

Texas is also leading a movement among the states to work with private firms to add lanes or build entirely new highways. In many of these scenarios under development or study, the private operator will finance construction in return for a long-term lease that allows it to charge tolls and fees to make earnings on its investment.

Cintra-Zachary, a Spanish-Texas consortium,

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won the first bid to build a highway from Dallas to San Antonio. It is the first of four Trans-Texas Corridors that will eventually include high-speed, limited-access highways separated for trucks and cars; tracks for high-speed rail, commuter rail and freight rail; plus space for utilities, maintenance and future expansion.

In Chicago, a long-established highway was virtually sold, via long-term lease, to generate dollars for transportation.

The Chicago Skyway, a six-lane, nearly eight-mile toll bridge that connects the Indiana Toll Road to the city's Dan Ryan Expressway, was leased for 99 years to a Spanish-Australian group.

"Pennsylvania and New Jersey are heavily financially squeezed and their turnpikes will probably be sold. The Jersey turnpike will pull down maybe \$20 billion. I have faith that the private sector guys will run it well, but are the lease proceeds being put into transit and transportation?" asked Pisarski, author of *Commuting in America III* released by the Transportation Research Board of the National Academy of Sciences.

While new, creative financing options abound, several states and municipalities are expanding public transit through the tried and true means of taxation approved by ballot issue.

More than 200 transportation issues went on the ballot and voters supported more than 70 percent of them.

In return for \$1.83 billion up front, the Skyway Concession Company will collect all tolls and concessions for one year shy of a century. The revenue to the city pays for many things, but it is not solely dedicated to public transit or highways, prompting criticism.

"It's like mortgaging the house to go to dinner," said Alan Pisarski, a 40-year veteran transportation expert based in Falls Church, Va. "Some future mayor of Chicago is going to look back and say (sarcastically) "what a good idea this was—you solved your problems back then and now we're done."

Pisarski said there is great danger in virtually selling off the transit assets of the future to pay for the pension costs and other budget shortfalls of today.

Art Guzzetti, vice president for policy at the American Public Transit Association, says the demand for light rail and other forms of mass transit is on the rise as 34 million Americans use transit each day and millions more are demanding it for their neighborhoods.

Guzzetti cites as evidence the Center for Transportation Excellence (CFTE) study "Transportation at the Ballot Box—Voters Support Increased Investment & Choice."

The Washington, D.C.-based CFTE research found that, from 2000 to 2005, communities in 33 states approved more than \$70 billion in transportation spending—much of it for public transit. In that span, more than 200 transportation



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issues went on the ballot and voters supported more than 70 percent of them.

Nationwide, voters fretful of their tax burden approve only about a third of the spending measures in elections. But the CFTE study found such a support base for transit, that several of the spending issues were placed on the ballot via citizen initiative.

Voters authorized transportation spending via sales tax, property tax (new, increased or extension of existing in both sales and property taxes), bond issue, dedicated revenue source and other means such as tolls, surcharges and special fees.

The trend to support transit at the ballot box continued in 2006 when a small city and a location out west, where growth came by way of automobile-dependent development, both approved measures that will generate millions to billions.

The CFTE reported that: In Canton, Ohio, voters approved a one-quarter cent sales tax extension that is expected to raise at least \$11.5 million annually for the next five years for a regional bus service. In Tucson, Ariz., voters approved a sales tax dedicated to transportation expected to top \$2.1 billion over 20 years.

The trouble with transit funding at the state level is that different parts of a state have very different priorities. The urban area may need many modes of transit to serve its density, the suburban area may need a commuter rail line linked to downtown and other suburban job centers, the port cities require transit to move workers, goods and visitors, and one rural area may want highways and public transit to speed along development while another may snub transit in hopes of remaining pastoral and undeveloped. Also, experience has shown that linking ballot measures to specific transportation projects, rather than general plans to improve roads or transit, results in a higher rate of success at the polls.

These varying dynamics have hit hard in Virginia, where transit funding battles have been waged in the general assembly for years.

The failure to address the diverse funding needs in the Old Dominion is why Virginians for Better Transportation (VBT) was founded as an advocacy group "working to implement statewide, multi-modal transportation solutions through increased, dedicated and sustainable funding and responsible business practices."



"The benefits to transit are significant at all levels. Two income families, where one earner can take the bus or train to work, can save about \$6,200 a year," said Linda McMinimy, executive director of the Richmond-based Virginia Transit Association and a VBT steering committee member. To achieve national, state and regional goals, transit must be expanded. To manage and reduce road congestion, more public transportation service is the quickest, cheapest and most cost effective way to free up space on existing roads."

"Most of the travel trips in Virginia are regional—people getting to and from daily activities—yet in many parts of Virginia, especially suburban and rural areas, transit service is very limited, inconvenient or not available at all," she added. "Public transportation service needs to be expanded to provide better local and regional accessibility. Expanded regional public transportation service needs to be frequent, faster and convenient to more Virginians. This will require a higher level of reliable, dedicated state and federal funding."

Fellow VBT steering Committee member Nancy Finch, executive director of Richmond-based Virginians for High Speed Rail, supports inter-city heavy rail for alternative transportation that is "environmentally clean, saves fuel, reduces congestion, and is safe and convenient."



"Rail cannot be a local government or even, totally, a statewide issue. It needs to be a federal issue supported primarily with tax dollars as we support air, ports and highways with tax dollars," she said. "We need leadership on the federal level for a national rail program and federal funding. Already the new leadership—with Sens. Lott and Lautenberg's legislation for Amtrak funding—offers hope that a new day is here."

Virginia Secretary of Transportation Pierce Homer said it is increasingly difficult to hike user fees.

"Gas prices have risen steeply in recent years and additional gas taxes are a hard sell in the legislative and political arenas," he said. "Other user fees, such as vehicle sales taxes or insurance premium taxes, are more stridently resisted because these industries are all national in scope and in some cases international in scope. Even a slight fee change can substantially affect a given industry in the competitive and global marketplaces."

In late February, Virginia lawmakers passed what the *Washington Post* dubbed the state's "first transportation plan in a generation, voting to spend \$1.5 billion a year on roads, bridges and transit after ending a Republican feud that has stymied them for years."

On April 4, a compromise measure between Democratic Gov. Timothy M. Kaine and Republican leaders in the General Assembly was approved, providing \$1.1 billion per year for transportation by using a mixture of state, local and regional taxes.

"It raises only one traditional user fee on a statewide basis (vehicle and truck registrations), but authorizes numerous local and regional taxes and fees in the Northern Virginia and Hampton Roads areas (regional gas taxes, additional vehicle registration fees, etc.)," Homer said.

Even with the plan to spend billions, Homer observed "the bill falls well short of solving the three major areas of deficiency Virginia faces: deficit in highway maintenance; lack of identified funding source to support current debt obligations; and extraordinary shortfall in transit capital reimbursements."

Like Virginia, most states will face the same funding obstacles in the near future. It's obvious that new funding sources plus creative solutions and partnerships will be necessary to sustain our country's transportation infrastructure.

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