



Funding and Financing New Transportation Investments

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TRANSPORTATION SUBCOMMITTEE**
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Intro

- ▶ Thank you, Mr. Chairman, members for asking me here today.
- ▶
- ▶ I am Dr. Adrian Moore, Vice President of the Reason Foundation. I am a transportation economist and have been working on this thorny problem of how to fund and finance transportation. In 2008 I was appointed by Congress to the National Surface Transportation Infrastructure Finance Commission to answer these questions for them, and in 2013 was appointed by California Gov. Schwarzenegger to the Public Infrastructure Advisory Commission for the same purpose for the state. And I have worked with and testified to many other state legislatures on these issues.

Overview

- I WANT TO TALK FIRST ABOUT SOME OVERARCHING CONSIDERATIONS I HAVE LEARNED ALONG THE WAY.
- THEN I WANT TO TOUCH BRIEFLY ON WHAT ARE THE MOST PRODUCTIVE WAYS FORWARD

Value Proposition

There's good reason why charging people a new tax is much more problematic than a firm raising its prices for its products. The former offers politicized promises that invite skepticism, the latter, if successful, offer customers a clearly understood case of getting more for paying more. Think phones or cars.

Value Proposition

To apply that to new revenue for transportation, you must:

1. Ensure good use of current \$, and that people know it. Are they getting good bang for the buck, and do they see it?
2. Make the value apparent. NC and VA, for example use a quantitative project selection mechanism that helps the states weigh the advantages and disadvantages of completing different transportation projects. More objective and customer-centric than political horse trading.
3. Michigan currently diverts 34% of fuel tax revenues from core transportation programs, tied for 3rd worst in the nation. I can't imagine why anyone would support paying more gas taxes while that is true.
4. Biggest lessons from voter supported transportation taxes is they must know what they are getting and believe it will happen.

Summary of some transportation funding sources

Strong	Medium	Weak	Not evaluated/Flawed
Vehicle mile/kilometer traveled fee (Road usage charge)	Asset recycling (sales, leases, concessions)	Cordon pricing	Development and impact fees
Motor fuel tax	Vehicle sales tax	Passenger facility charges	Tourism taxes
Vehicle registration fee	General revenue	Bicycle tire tax	Tobacco, alcohol, and gambling taxes
Heavy vehicle use tax		Auto-related sales tax	Vehicle inspection and traffic citation surcharge
Sales tax on motor fuels		General sales tax	
Facility level tolling and pricing			

Derived from National Surface Transportation Infrastructure Finance Commission 2009 report.

Tradeoffs

There is no transportation funding mechanism without tradeoffs.

User Fees

User fees are the best way to fund transportation. Their advantages include:

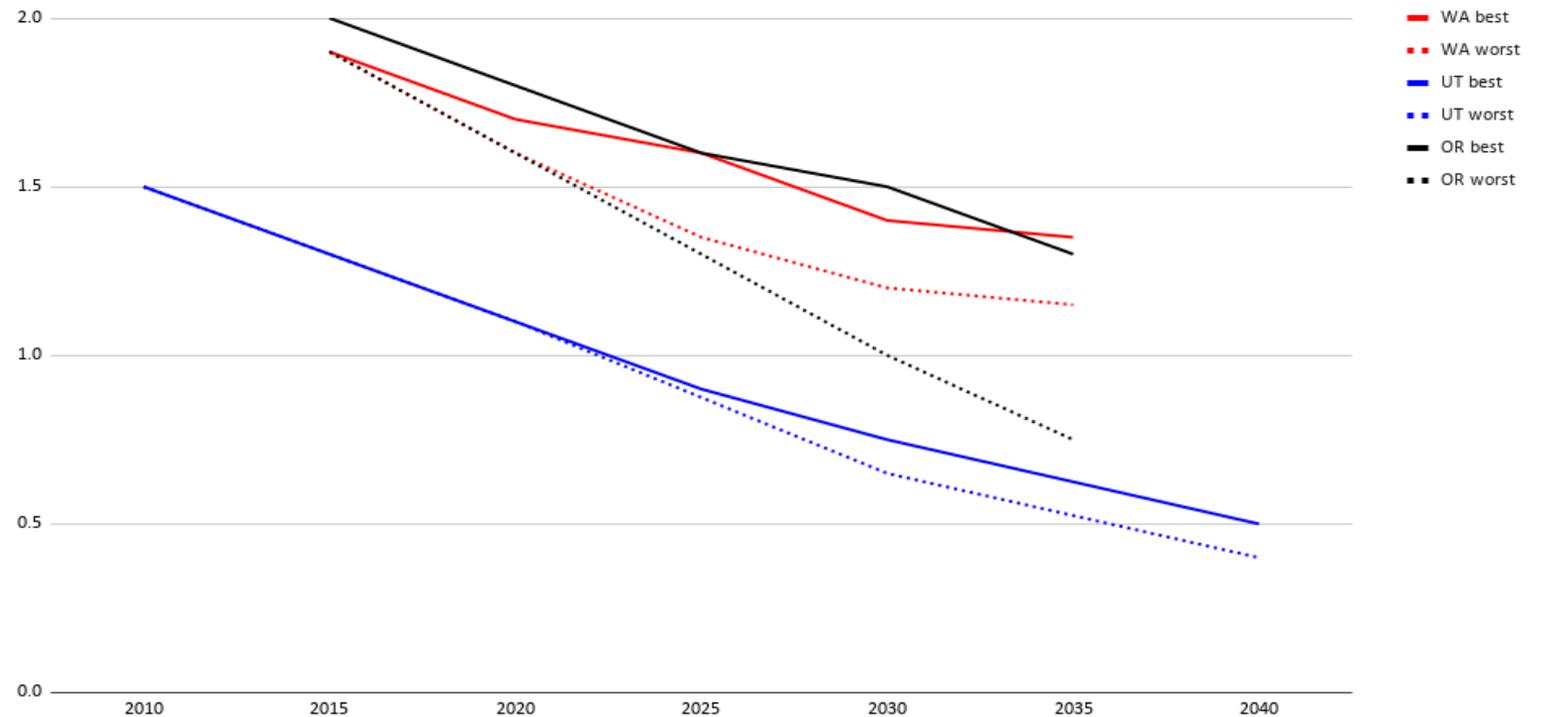
- ▶ *Fairness.* Those who benefit help to pay for it & what they pay and what they get for it is relatively transparent.
- ▶ *Choice.* Users have more agency of what they pay, when and how often they pay. They can make adjustments to lifestyle and location and other choices to improve their benefits from transportation.
- ▶ *Flexibility.* User fees allow DOTs the ability to adjust revenues and expenditures, as the economy, demand, and technology change.
- ▶ *Better incentives.* User fees create incentives for users to think seriously about the costs of transportation. And they create better information and incentives for DOTs to strive for efficiency and quality that keep customers, and revenues, flowing in.
- ▶ *Constraint.* If users' costs don't change based on how much they use the system, they have no reason not to over consume it. "Free" roads are a classic example, and congestion, pollution, and lost time are the costs paid.

User fees improve the utilization, capacity, and operational efficiency of transportation facilities and services, are popular with users who experience the value transaction, and allow for the reality of variation in preferences while general revenue funding treats all users as the identical.

Fuel tax

- ▶ It's been a great user fee, but its days are numbered.
- ▶ In the short run, with a sunset, it is most efficient source. SUBJECT to value proposition issues discussed earlier.

State Projections of Fuel Tax Revenue (Cents per Mile)



Tolling

- ▶ MDOT study ongoing
- ▶ Common objections to tolling flow from experience with poorly designed tolling approaches
 - ▶ Double taxation
 - ▶ Revenue diversion (ahem!)
 - ▶ No value added for toll payers
 - ▶ High cost of collection

Tolling

- ▶ A customer-centric approach to tolling
 - ▶ No double tax—toll or fuel tax
 - ▶ Build first, then toll, no payment until benefits are there
 - ▶ No revenue diversion
 - ▶ Guarantee proper maintenance, performance based
 - ▶ Use every means to reduce collection costs

Asset Recycling

- ▶ Selling unnecessary state-owned assets and rolling that money into new, more necessary transportation assets can create a cash infusion for projects.
- ▶ Indiana, Maryland and Puerto Rico provide great examples. The best practices are now well understood.
- ▶ For starters you have to figure out what you own that makes sense to trade for better transportation. There are good models for that process.

Public-Private Partnerships

- ▶ Most socialist nations in this world are more willing to let the private sector build and manage roads than is the most capitalist nation in the world. It's a head scratcher...
- ▶ PPPs are a means of *finance*...so once you have funding a PPP can help you get the most bang for the buck by providing the capital up front without state borrowing and providing innovations and efficiencies in project delivery and operations.
- ▶ Again, the best practices are well understood.

Mileage based fees/Road user charge

- ▶ This is a system for replacing the fuel tax with a fee base on distance driven.
- ▶ Not yet proven, but believed to be the user fee of the future.
- ▶ It is being tested
 - ▶ 14 states are piloting
 - ▶ 2 regional organization are doing multi-state pilots
 - ▶ 3 states are implementing it on a gradual basis
- ▶ It is technically feasible, more fair to users, including rural, and builds on strengths of user fees. But expensive to collect and challenging to roll out
- ▶ Michigan should be doing a pilot. This is a long run thing, invest in the future

Summary

1. FOCUS ON THE VALUE PROPOSITION
2. RECOGNIZE THE TRADEOFFS
3. FOCUS ON USER FEES
4. FUEL TAXES ARE GOOD BUT IN DECLINE
5. TOLLING CAN FUND SPECIFIC PROJECTS
6. ASSET RECYCLING CAN CREATE A SHORT TO MEDIUM TERM INFUSION OF FUNDS
7. PPP CAN FINANCE PROJECTS TO GET MORE BANG FOR THE \$
8. MBUF PILOT TO INVEST IN THE FUTURE

Questions?