

Putting Transportation Pricing in Context: *How We Got Here, and Where We are Headed*



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Overview

- Transportation finance system widely perceived as in crisis
- More openness to innovations in transportation finance today than in years past

Overview

- Some approaches, like bonds and sales taxes, shift transportation finance away from user fees and toward general instruments of taxation
 - And, in doing so, make transportation part and parcel of broader, often partisan, debates over taxation and public finance

Overview

- Other approaches focus on new ways to collect and target user fees
 - Turn to new forms of user fees enabled by new electronic tolling technologies, and target their use to increase their popularity

Overview

- What does the future hold?
 - More borrowing and general tax revenues for transportation?
 - Increasingly targeted, electronically collected user fees?
 - A bit of everything?
- To look forward it sometimes helps to look back

How did we get here? 4 eras



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 - Fuel taxes begin to “sunset”
- Era of Ad Hoc Projects and Finance (1990-2010)
 - User fee logic erodes in favor of bonds and general taxes
 - Rise of voter-approved project funding and earmaking

Premise:

*Four fundamental questions
about transportation finance have
and still underlie nearly all
transportation policy debates*



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Four basic questions

- *Who* should pay for transportation?
- *How* should they pay?
- *Where* should funds be expended?
- *What* systems, modes, or projects should receive priority?

Fundamental Questions: *Who?*

- Should transportation system users pay fees to travel?
- Or should everyone pay for transportation systems through general instruments of taxation?
- Should people pay for transportation systems based on ability to pay? Benefits received? Costs imposed?

Fundamental Questions: *How?*

- If users are to pay...
 - Should we levy bridge tolls, transit fares, fuel taxes, or roadway tolls?
 - Should such fees be relatively static, or vary with respect to congestion, emissions, axle weights, etc.?
- If everyone is to pay...
 - Should it be from income, sales, property, or other taxes?
 - Should we borrow the money now and put off decisions over how to retire the debt?

Fundamental Questions: *Where?*

- Should transportation taxes and fees collected in one jurisdiction be spent in other places?
 - If so, on what basis should the funds be geographically redistributed?
 - From have-nots to haves?
 - If not, what is the rationale for a federal (or, for that matter, state) finance program?

Fundamental Questions: *What?*

- Should streets and highways receive priority because they are so heavily used?
- Or should public transit and bicycling receive priority to create more environmentally-friendly travel alternatives?

User Fees and General Taxes in Transportation Finance

	Expenditures: <i>Transportation Purposes</i>	Expenditures: <i>Non-Transportation Purposes</i>
Revenues: <i>Transportation Sources</i>	Transportation User Fees •Motor fuel taxes for highways and transit •Transit fares •Bridge tolls to retire bonds	Transportation Taxes for General Purposes •Fuel taxes for deficit reduction •Parking meter revenue to fund libraries
Revenues: <i>Non-Transportation Sources</i>	General Taxes for Transportation •Sales taxes dedicated to transportation •General obligation bonds for transportation	General Taxes for General Purposes •Income taxes for education, welfare, and national defense



Fuel taxes, sales taxes, tolls...



The motor fuels tax has many virtues...

- Conceived as a user fee from the outset
 - Those who drive more, pay more
 - Those who drive big vehicles, pay more
- Revenues rise and fall with system use
- Easy to link revenue collections to project expenditures
- Encourages fuel efficiency
- Cheap to administer
- Low evasion rates

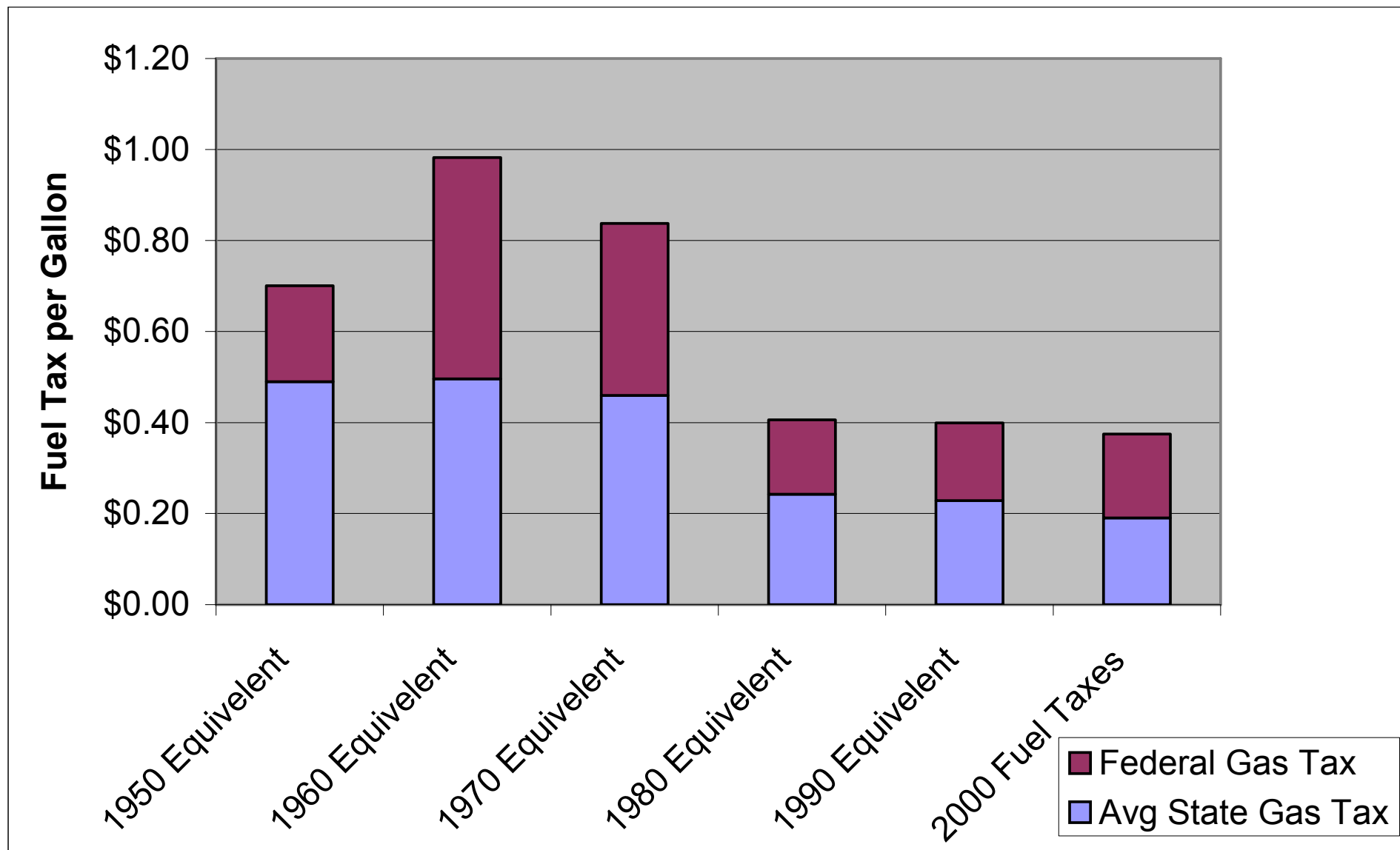
But one very big liability...

- A per-gallon levy “sunsets” over time
 - inflation and rising fuel efficiency combine to gradually erode the buying power of the fuel tax
 - The opposite of income taxes
- Thus, per gallon fuel taxes require periodic increases to keep pace with inflation and vehicle fuel efficiency
- A very big liability in an era of increasingly rancorous debates over any tax increases

The Crisis in Transportation Finance

- Thus, gas tax rate increases are not politically popular
 - Only a few increases since the 1960s, usually in response to a perceived crisis
 - Sales taxes, in contrast, levy very small amounts over a very large number of transactions, and are much easier to sell to voters
- Result: Eroding fuel tax buying power

Changes in Per Gallon Fuel Taxes Required in 2000 to Restore Inflation-Adjusted Revenues per Vehicle Mile of Travel to Level of Prior Years



Transportation Finance at a Crossroads?



But Isn't Pricing Just Social Engineering?

- Public Policy Always Prices Transportation
 - Any transportation finance system (even one that is *free* to travelers) prices travel and influences travel decisions accordingly

Three Future Scenarios

1. ***Allow gas tax to wither, accelerate shift towards general tax revenues for transportation***
 - Fees disconnected from use
 - Trend towards *ad hoc*, project-based transportation planning
- *Yet many of the arguments for moving away from general taxes and bond finance for transportation still hold today*

Three Future Scenarios

2. Summon political will to increase fuels tax

- Perhaps sufficient for a couple of decades
 - Would need to be revisited with rise of alternative fuel vehicles
-
- *Regular increases in levy to keep pace with inflation, travel a tough political hurdle – no state has done it*

Three Future Scenarios

3. Shift to electronic tolling as inevitable successor to the fuels tax sooner rather than later

- Viable over the long term, regardless of fuel type / economy
 - Reinvigorates user-pays principle, opens the door to many innovative pricing strategies
 - Inevitable clashes with various interest groups
-
- *Increasing number of successful experiments, but much political wariness remains*

Thank You



Questions? Comments?

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