Testimony by C. Kenneth Orski, Editor/Publisher of Innovation Briefs before the National Surface Transportation Policy and Revenue Study Commission, Washington D.C., October 18, 2006

Madam Chairman, members of the Commission,

Thank you for the opportunity to share with you my views on tolling and road pricing. My presentation will focus on two issues:

 What accounts for the mounting level of interest and activity in highway tolling and road pricing?

 What are the implications of this trend for future federal policy and for congressional action?

My observations are based on what I have been hearing, both officially and "off the record" in interviews, informal exchanges and private conversations with members of the transportation community. As you may know, I have been reporting on the transportation scene for a good many years and it is in my capacity as a reporter that I would like to offer my assessment of where tolling stands today and where it may be going in the future,

Growing Interest in Tolling and Road Pricing

That there is a high level of interest in highway tolling is no longer in dispute. A survey conducted by the U.S. General Accountability Office (GAO) shows that as many as 23 states have plans to build toll facilities. Of these, 17 already have toll facilities and 6 are planning their first toll roads or toll lanes. [The 6 states are Alabama, Mississippi, Missouri, North Carolina, Oregon and Washington. *Highway Finance: States' Expanding Use of Tolling Illustrates Diverse Challenges and Strategies*, June 2006, GAO-06-554.]

Back in February of this year we looked at the rising level of interest in tolling and concluded that highway tolling has reached the "tipping point." We wrote: *"Virtually every week brings fresh evidence that highway tolling and private financing are gaining new converts among governors and state transportation officials, in state legislatures, and in the media. Growing transportation budget shortfalls, eroding value of highway tax revenues and a supportive federal policy toward tolling and public-private partnerships have helped to nurture the idea. Fanning its spread are visions of highway projects built entirely with private funds and prospects of multi- billion-dollar concessionary cash payments that could jump start ambitious transportation improvements years in advance of their planned execution."* (Innovation Briefs, January/February 2006).

Since then, we have been able to document 53 distinct tolling and pricing initiatives in 17 states. The new projects bear little resemblance to the toll roads of past generations. They take a variety of forms such as conversion of HOV lanes to High Occupancy/Toll (HOT) lanes, construction of new express toll lanes, introduction of variable pricing on existing toll facilities, and plans for truck-only-toll (TOT) lanes. Few of these projects are being planned as entirely new toll roads. Most of them involve priced lanes in established highway corridors. Some of the new toll facilities are intended to double as transitways for express bus service. And, as you shall hear tomorrow, many will be built in partnership with the private sector.

You will find these initiatives described in a series of reports we put out from time to time under the title "Beyond the Tipping Point." I shall be glad to submit them to the Commission for the record.

Why is interest in tolling growing?

There are, I believe, two explanations for the high level of interest in tolling: one is theoretical, the other pragmatic.

On the theoretical side, the case for tolling rests on economics grounds. Tolls, we are told, are a true road user fee as contrasted with the per-gallon fuel tax which is only a surrogate measure of use. In a toll-based system motorists pay only for the actual use and the wear and tear of the roads they travel on. The collected money remains in the jurisdiction – often in the same corridor– that provides the service. What is more, variable tolls allow road operators to charge for the actual marginal cost that individual users impose on the facility. Market-based pricing also allows for a more rational resource allocation — it helps direct scarce resources where additional road capacity is most needed.

But what is *really* driving the growing interest in tolls is not their theoretical virtue but a set of very pragmatic considerations. State officials tell us that tolls are the only way they can finance new road capacity because most of their budget already goes into road maintenance and reconstruction. Tolling allows states to build roads that otherwise would remain on the drawing board for many years to come if they were to be funded by the traditional tax-funded pay-as-you-go procurement methods. Another motive is to augment existing gas tax revenues to meet shortfalls in local transportation budgets – shortfalls that many states are struggling with these days. For example, the revenue received from a HOT lane conversion, we are told, will often pay the cost of maintenance of the entire road. In other cases, HOT lane revenue has funded operating costs of corridor bus service.

The often unstated assumption behind this thinking is that state legislatures and the U.S. Congress will continue to be reluctant to raise fuel taxes, no matter which party is in power. In order to close the funding gap, many states would have to increase local fuel taxes to a level that voters would find exorbitant. For example, a Washington State Transportation Commission report estimates that it would take an increase of 50 cents/gallon to close the State's road funding gap beyond 2009, assuming that the federal contribution remained unchanged. (*Washington State Comprehensive Tolling Study*, Final Report, September 2006). At the federal level, fuel taxes would also need to be significantly increased. To close the gap to "improve" the current condition of the nation's highways and transit would require an increase in the fuel tax of about 60 cents/gallon at all levels of government. Based on historical data, the federal government would need to contribute about 25 percent to this shortfall, requiring an increase of 15 cents/gallon in the federal gas tax. (Author's own calculations based on "average annual gap to improve " of $119 billion during 2007-2017 as estimated in a forthcoming report (*Future Financing Options to Meet Highway and Transit Needs*, NCHRP 20-24(49). A one cent increase in the fuel tax is assumed to generate an annual sum of $1.95 billion in tax revenue.)

Eventually a mileage-based tax may replace the fuel tax and provide a more adequate source of revenue. But implementing a mileage-based tax system would involve difficult problems of transition. It is, at best, a solution for the distant future. As the Commission heard earlier, a Transportation Research Board committee concluded that the fuel tax will be with us for at least the next 15 years. Until then at least, tolls appear to many state transportation authorities as the most logical and practical source of revenue with which to supplement the eroding value of the gas tax.

There is another reason for the rising interest in tolling: toll lanes are seen as a tool for reducing traffic congestion. And congestion mitigation has become an important policy objective at both state and federal level. Variable pricing — where tolls go up and down with the level of demand— allows highway operators to adjust the flow of traffic in toll lanes dynamically and maintain the lanes free of congestion even at the height of the rush hour. And by diverting some of the cars to the toll lanes, variable tolls can also relieve congestion in the free, general purpose lanes.

At the same time, priced lanes are becoming increasingly accepted by the driving public. Electronic toll collection technology has eliminated a major public objection to tolling because drivers are no longer required to stop at toll booths. Most importantly, toll lanes offer a tangible option to getting stuck in traffic. The term "Lexus Lanes," once used as a pejorative shorthand for HOT lanes, is disappearing from usage. Surveys show that even drivers of modest means choose to pay tolls when they are pressed for time.

A graphic example are commuters in Northern Virginia's Loudoun County who have a choice of two parallel routes into Washington — one, a toll-free state route (Route 7), the other, a privately operated toll road, the Dulles Greenway. Tens of thousands of commuters are opting to pay a daily fee of $10.80 on the free-flowing Greenway in order to avoid the stop-and-go traffic on the state route. And by the way, most of them drive Fords, Chevrolets, minivans and pickup trucks rather than luxury cars.

And so, the growing acceptance of tolling both by the public and the transportation establishment may become influential in how we go about expanding highway capacity. It is quite conceivable that toll facilities with variable pricing will constitute the bulk of all future additions to the nation's highway capacity, and that private capital rather than tax dollars will become the chief source of financing new road construction. I stress the words "future additions" and "new road construction" because I find much opposition to using tolls on existing free lanes. Tolls on the Interstates are, at best, a policy for the distant future, to be considered as an alternative source of revenue to mileage-based fees.

Implications for Federal Policy

But widespread use of tolling will not be without its consequences. Combined with greater reliance on private financing, it could fundamentally modify the traditional state-federal relationship in transportation. As the New York Times observed, *"Tolling is shaping up as one* *of the biggest philosophical changes in transportation policy since the toll-free Interstate highway system was created under President Dwight D. Eisenhower in 1956."* (NYT, 4/28/2005)

Once toll revenue and private concessions became the primary means of road financing, the federal fuel tax would cease to play a dominant role in funding new road construction. Highway Trust Fund revenue could be devoted primarily to the vital mission of preserving and enhancing the Interstate system and to funding other national priorities, such as research, safety, and homeland security. In other words, widespread use of tolling could lead to a partial *de facto* devolution of Federal responsibility for highway funding to the states— a devolution that some observers have seen as inevitable ever since the Interstate Highway Program came to a close.

A New Mission

Let me leave you with one final thought: Widespread adoption of tolling could also serve to provide the national highway program with a new mission. Tolling could become an instrument in our policy to reduce traffic congestion. Imagine, if you will, a long-term program (extending very likely over several decades) of creating networks of express toll lanes in all major metropolitan areas of the nation. Imagine further multi-state systems of toll truckways in freight-intensive corridors. These premium-service toll networks would offer highway users the option of faster, more reliable travel and movement of goods. As existing toll-free roads became clogged with traffic, individual motorists, bus riders, shippers and truck operators would switch to these premium-service congestion-free toll facilities in sufficient numbers to ensure their financial viability and attractiveness to private investors.

The toll networks could be financed, built, and operated as private concessions financed primarily with private capital and supplemented, as necessary, with Title 23 and Title 49 funds. The federal government would establish performance and design standards for the toll networks and retain an overall coordinating function for toll truckways to ensure their national connectivity.

The current efforts of Texas, Virginia and Maryland, are a first tentative step in that direction. All three states view toll facilities as the primary means of expanding road capacity. In Texas, long-term private toll concessions will fund the $7.2 billion Trans-Texas Corridor as well as new toll lane projects in the Dallas/Ft.Worth, Austin and San Antonio area. In Northern Virginia, express toll lanes, paid for entirely by the private sector, are being added to expand the capacity of the Capital Beltway and I-95. And, as we heard from Secretary Bob Flanagan, the state of Maryland also sees a statewide system of toll facilities as an answer to its capacity expansion and congestion relief efforts. Similar projects are in exploratory stages in California, Florida, Pennsylvania, Colorado, Georgia and Oregon.

These states could become the forerunners of a fresh approach to expanding highway capacity — an approach that does not impose a burden on the taxpayers. Congressional support of these initiatives as part of the next reauthorization would give these efforts a national scope and strengthen the federal role in transportation with a new sense of purpose: that of abolishing traffic congestion as an obstacle to metropolitan mobility and economic growth.

On this note I conclude my testimony. Thank you again for the opportunity to appear before you.