Traffic jam

Meeting transportation needs could mean a higher gas tax and more tolls, not fewer

BY CHARLES D. CHIEPPO

GOV. PATRICK FACES a transportation challenge that could make the Big Dig look like a piece of cake. Massachusetts could have a shortfall in highway and transit funding of $13 billion to $17 billion over the next 20 years—potentially exceeding the $15 billion price tag of the Central Artery/Tunnel Project.

Closing the gap will require Patrick to disappoint, if not take on, some of the most powerful backers of his gubernatorial campaign, most notably labor and environmental advocates. Even worse, he will have to risk alienating the voters who elected him, by asking them to pay more to use the roads.

It will also mean changing his tune: After attacking then-Lt. Gov. Kerry Healey for Romney administration fee hikes during the gubernatorial campaign, Gov. Patrick will have to make the case for higher transportation user fees. That means a gas tax increase in the short run, and not only preserving the existing tolls on the Massachusetts Turnpike, which Patrick has seemed inclined to do, but considering whether to make more use of tolls in the future.

In 2004, the Legislature created the Transportation Finance Commission (TFC) as part of a restructuring of state transportation agencies. The 13-member commission was charged with developing a comprehensive plan for financing transportation projects over the next two decades. What they found is a problem, and a big one. The commission has identified a 20-year roadway-funding shortfall of about $9 billion, and the transit finance picture looks no better. The MBTA, which provides more than 90 percent of all transit rides in the Commonwealth, is broke. Although the T accounts for just over 12 percent of overall commuter trips in Greater Boston, the transit authority faces a 20-year shortfall of $4 billion to $8 billion.

Massachusetts's transportation problems are hardly unique. The Federal Highway Trust Fund will be unable to meet its obligations by 2009, if not sooner, and by one estimate the 20-year national highway and transit funding gap is $1 trillion. When Congress passed a transportation reauthorization bill in 2005, it created not one but two commissions to study the transportation financing problem. The funding gaps become even more sobering when you realize that each of them—state and federal, highway and transit—is simply for maintaining the current system, and assumes that not a single new highway or rail line will be built.

Closing these gaps will be a daunting task, a fact that explains why the TFC, which was expected to publish an initial report by the end of 2004 and another at the end of 2005, had not released recommendations before the end of 2006. What's clear, however, is that the time has come to think hard about what we pay for road and transit services, and how we pay for them.

PAYING AT PUMP AND BOOTH

Transportation is unique among government services delivered to the public at large in the degree to which it relies on user fees. Transit riders pay fares and drivers pay both a state and federal tax on gasoline—essentially a user fee, since the gas you use roughly correlates to how much you drive, and non-drivers don't pay at all—the proceeds of which fund highways. Tolls are a more direct fee for use of a particular road, but in Massachusetts only the Turnpike and a few tunnels and bridges charge them.

These fees have never been enough, however. The MBTA receives more than $700 million each

ILLUSTRATION BY ALISON SEIFFER

year in revenue from the Commonwealth (one penny of the state's 5-cent sales tax), along with assessments from communities that benefit from T service. And in addition to spending a minimum of $450 million a year on roads and bridges from gas tax and other revenue, the state sends municipalities at least $120 million in annual aid for road and bridge repair.

Without changes, the revenue shortfall from transportation user fees will only get worse. Massachusetts's 23.5-cent-per-gallon gas tax hasn't been raised since 1991, and the federal government's 18.4-cent levy hasn't gone up since 1993. Although the Commonwealth's gas tax receipts rose from $521 million in 1991 to $686 million in 2005, inflation has eroded its buying power by about 30 percent during that time. Also, the introduction of hybrid vehicles and other improvements in fuel-efficiency, while positive developments, allow motorists to drive more and put more wear and tear on the roads—without paying more.

Tolls, especially the traditional variety, have their own shortcomings. Last October, a Massachusetts Turnpike Task Force headed by former Romney administration-and-finance chief Eric Kriss found that it costs almost 30 cents to manually collect a dollar in tolls on the turnpike. And tolls have aroused bitter resentment from the minority of commuters unlucky enough to be dependent on the Pike, who see themselves as singled out for fees other travelers don't have to pay.

But the shortfall between user fees and transportation costs has also come about because the demand for mobility has never been greater. Even after 15 years in which slow-growing Massachusetts has been home to both the most costly roadway project in American history and the nation's fastest-expanding transit system, calls for road improvements and transit expansion are constant. (And not just in Massachusetts: Since 1980, national vehicle miles traveled have increased by 90 percent, while total lane miles of highway have increased by just 2 percent.) Although MBTA ridership has been falling since 2001 and is now down to 1999 levels, the T is operating a vastly larger network of rapid transit and commuter rail lines due to recent expansion, the debt for which still weighs heavily on the T's budget. Despite three fare hikes in the past seven years, fares cover only a fraction of operating costs.

High costs make the problem worse, particularly at quasi-independent transportation agencies like the Turnpike Authority and the MBTA, which offer employees even richer wage and benefit packages than the state does. The Turnpike Task Force revealed that average toll taker compensation includes:

- $56,300 in wages
- $9,880 in benefits
- nearly six weeks' vacation
- health insurance co-payments of 5 percent (zero for employees who use fewer than three sick days in a year), compared with 15 percent to 20 percent co-payments for state employees.

Other labor-related costs on the Pike are less systematic but more nefarious. Workers' compensation claims average $3,280 per collector, making toll duty "one of the most hazardous jobs in the state economy," according to the report. Theft is also a problem. One toll taker was stealing at the rate of $750 per week before being fired. That comes to about $30,000 annually (and would presumably be more if not for those six weeks of vacation).

A gas tax does little to alter the behavior of drivers.

For its part, the TFC seems to be zeroing in on MBTA health and pension benefits. Unlike most state retirees, who don't qualify for benefits until age 55, T employees can retire after 23 years and begin to collect immediately. The employee contribution toward pensions is 4 percent of salary, compared with about 10 percent for most state employees hired in the last decade. MBTA pension costs grew from $27.5 million in fiscal 2005 to $40.7 million in 2006 and are expected to rise to $48.6 million this fiscal year. Among the retiree benefits is health care funded entirely by the MBTA. The result is T employees retiring in their mid 40s with health insurance covered by taxpayers for the rest of their lives. (State retirees pay 10 percent to 15 percent of the cost of health insurance, depending on their retirement date.) This year, the T will pay nearly $65 million in retiree health care, about as much as it pays for active employees.

TAX VS. TOLL

Transportation and budget experts had been aware of some, if not all, of these funding and cost problems for some time, but they burst into public view in October, when two contradictory proposals made headlines. One was leaked from the TFC, which indicated that it would recommend a 9-cent-per-gallon increase in the gas tax and the reinstatement of Pike tolls in western Massachusetts and West Newton that had been suspended in the 1990s. The other was the Kriss task force report, which called for removing tolls on the Pike west of Route 128 immediately, and on the rest of the highway later, leaving only those at the airport tunnels.

Currently, the fate of both proposals remains uncertain. In the midst of the campaign, all four gubernatorial candidates, including Patrick, rejected the gas tax increase; after the gas-tax leak, even the TFC seemed to back off, twice putting off scheduled votes on recommendations. Meanwhile, the Massachusetts Turnpike Authority board, which is dominated by Romney appointees, gave initial approval to the toll removal plan, but then seemed to slow down. Since the election, Patrick has been noncommittal about transportation funding overall, though openly skeptical of the toll takedown scheme.

The two plans—one to raise taxes and generate more revenue, the other to stem transaction losses and eliminate overpriced jobs by taking down tolls—are seemingly at odds. But they are both evidence of a transportation funding system that is inadequate, inefficient, and unfair. Even Kriss (for whom I worked in the Romney administration), who recommended the tolls be taken down, acknowledges that more money is needed for transportation. The task force's mission was "to review the efficacy of tolls, not lay out funding alternatives," he explains. But, he adds, "as a private citizen, I support raising the gas tax," saying that it creates an incentive for fuel efficiency and alternative energy use, costs very little to collect, and provides much-needed funding. He would even support making the tax a percentage of the price of gas, to prevent inflation from eating away at the revenue it generates.

The idea of replacing the turnpike tolls with a higher (though it would have to be much higher) gas tax has some appeal. It would end a historical inequity visited upon MetroWest commuters and spread costs over the users of all roadways, not just the Pike, in the most efficient manner possible. But it would also nearly eliminate the one form of transportation user fee that, thanks to advances in technology, could be more valuable in the future than it has been in the past.

As a user fee, the gas tax has its limits, because, short of setting it so high that the cost of driving becomes prohibitive, it does little to alter behavior. That's a problem because transportation experts are now recognizing that how much people drive is not as important as when they drive.

Few highways (apart from some Los Angeles freeways and the pre–Big Dig Central Artery) are crowded all the time. It is during the peak periods, during morning and evening commutes, that traffic clogs. Building more and wider roads to accommodate peak traffic volumes would be prohibitively expensive, and in most densely built metropolitan areas impractical. More toll-free highways would, in any case, simply entice more motorists onto the road, jamming them all over again.

Providers of goods like electricity, cell phones, and water all use variable pricing to effectively deal with the peaking problem, charging more to discourage use during the hours of highest demand. Since it can't be varied by the time of day it is used, the gas tax doesn't do anything to manage roadway use. But tolls can, since a higher charge can be imposed at peak hours.

Moreover, electronic tolling—of which the current Fast Lane program is just a primitive start—will, over time, make toll collection not only less costly, but less of a traffic chokepoint. Overhead devices that communicate with vehicle transponders can collect tolls without vehicles even slowing down, as they do on Florida's SR 417 and on parts of the Garden State Parkway in New Jersey. Manual toll collection could not be eliminated overnight; the number of drivers without the necessary transponders has remained stubbornly at around 45 percent in Massachusetts (though as low as 30 percent elsewhere). Places like Ontario, New York, and Texas have attacked that problem by taking license plate photos and then billing drivers without transponders at higher toll rates, providing an incentive to get the devices. Ultimately, when transponders come standard on new vehicles in the future, tolls could be used on many more roads without impeding traffic flow.

Higher toll rates could be imposed at peak hours.

It would also be unwise to abandon tolls altogether at a time when their utility is being demonstrated in the so-called concession model of road construction and management. The City of Chicago granted a 99-year lease on its 7.8-mile Skyway toll road to a private consortium in return for a \$1.82 billion cash payment. The lease requires the Cintra-Macquarie consortium to invest \$70 million in road modernization, including installation of electronic toll technology, and grants it the right to raise tolls at a rate linked to local inflation plus a premium. Indiana recently granted a similar 75-year lease for its Indiana Toll Road for \$3.85 billion from the concessionaire. Not surprisingly, New Jersey is exploring a similar deal for both its turnpike and parkway.

These arrangements are not without potential potholes: Indiana is putting its Toll Road windfall to work in a 10-year state transportation improvement program, but other than paying off Skyway bonds, Chicago is pocketing its funds, thereby undermining the idea of toll as user fee and risking continued underinvestment in transportation infrastructure. But at their best, concession contracts can finance improvements up front and use tolls to reward private contractors for operating and maintaining roadways for years.

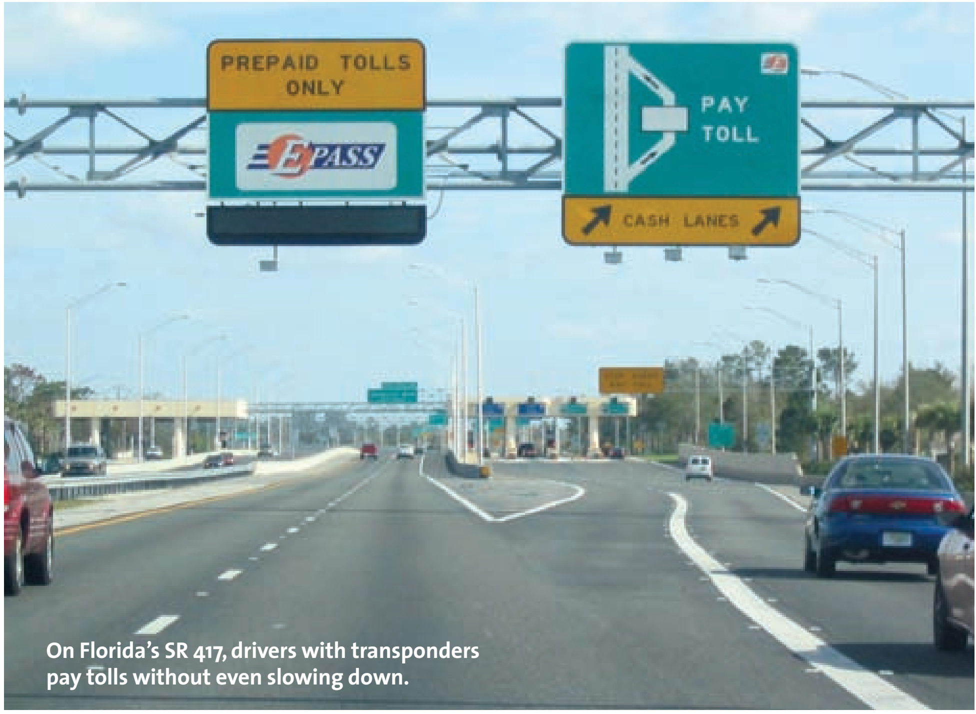
MAKING CHOICES

In all the discussion of transportation finance thus far, the question most studiously avoided has been: What to build, and what not to build? "We haven't addressed the basic questions of what we're trying to accomplish and why," says Northeastern University professor Joseph Giglio, author of *Mobility: America's Transportation Mess and How to Fix It* and a TFC member until he resigned in October 2006.

Last fall, the Pioneer Institute, a market-oriented think tank (where I was once a staff member and am currently a senior fellow), published a report saying that the commission was putting the cart before the horse. That is, it ought to determine the Commonwealth's transportation needs before deciding how to fund them. Author Steve Poftak recommended using common planning criteria across transportation modes, assigning higher priority to projects that promise economic growth, and basing cost estimates on life-cycle rather than construction costs to counteract the inclination to build new projects instead of maintaining what's already built.

In the past, the relative effectiveness of various constituencies at pushing their agendas has played the preeminent role in project selection. Most notably, transit and environmental advocates were able to require the Commonwealth to commit to 14 new transit projects as a condition of granting environmental permits for the Big Dig (see "Dug In," *CW*, Spring '05). Eleven of those projects have been built, and a subsequent lawsuit brought by the Conservation Law Foundation, settled in November, will force the Commonwealth to build at least one more.

With fare revenue already covering only about one-third of operating costs, Big Dig–related projects plunged the MBTA into a financial death spiral by saddling it with about $3 billion in construction costs and tens of millions in additional operating expense. As a result, the T is carrying more debt than any other American transit agency and spends about as much on debt service each year as it collects in fares. Precarious finances forced the recent fare increases, though fares are still about average when compared with other major transit agencies. The MBTA now has a $2.7 billion maintenance backlog, which has diminished service quality, resulting in flat or falling ridership. (The TFC is likely to recommend boosting the T's annual investment in maintenance from $470 to $570 million.)



On Florida's SR 417, drivers with transponders pay tolls without even slowing down.

Despite the near-death experience triggered by the Big Dig mitigation requirements, advocates are pushing for still more transit expansion—commuter rail to Fall River and New Bedford, and extending the Blue Line to Lynn at one end and to Charles Station at the other (the Red-Blue Connector). During the Romney administration, the state vowed to fund the capital costs of future transit expansion, but the MBTA can't afford to maintain the lines it has now.

Resisting the pressure to expand would be a political challenge for Gov. Patrick on several fronts. First, it would require standing up to his supporters in the environmental community, many of whom think every transit project is worthwhile, no matter the cost. Second, it would prove awkward for Lt. Gov. Tim Murray, who made expanding commuter rail service the centerpiece of his primary campaign. Finally, it means choosing maintenance over ribbon cutting, hardly a natural choice for any public official. But the transportation funding problem will never be solved if we keep adding to the system before we fund the upkeep of what we've got.

BUCKLING UP

There are good reasons to charge users—drivers and transit riders—for a substantial portion of the cost of transportation. Unpriced highways, which give the false impression that roads are free, result in unbridled demand that the Commonwealth cannot afford to meet. Endless expansion of transit provides an illusion of better service but a reality of deteriorating quality (while maintenance investments improve service and bring riders back on board, making even higher fares a good value).

There seems to be no question that, for all of us, the cost of getting around will be going up. Both gas tax increases and electronic tolling are fair mechanisms to finance roadways, and for the foreseeable future, they each need to play a part. In the short run, the gas tax is the most efficient way to increase transportation funding on a broad basis, and will likely have to be raised. While resistance to raising the gas tax has been strong both in Massachusetts and on the federal level, there are indications that drivers are willing to pay more for better roads. Voters in Washington state, for example, recently rejected an effort to roll back a gas tax increase. Several bonding initiatives for new transportation infrastructure have also been approved. But in the long run, tolling will become an increasingly important tool for managing demand, and possibly for financing road projects in new ways. It's a tool Massachusetts should think about using more, not less.

In financing any government service, cost is a factor as well. During its meetings, the transportation finance commission struggled with how to provide more resources to road and transit systems reeling from underinvestment without eliminating incentives for efficiency, which can often disappear with the arrival of new money. Transportation investments will not produce results if they are simply absorbed by rising labor costs.

The TFC estimates the MBTA would save $14 million by making retiree health benefits consistent with the rest of state government, and realize additional savings by bringing pension benefits in line with industry standards. What makes such changes particularly difficult is that the T's pension and health care benefits are subject to collective bargaining rather than set by statute (as they are for other state employees). So far, the Legislature has shown no appetite for addressing the issue.

Thus the transportation finance dilemma falls into Gov. Patrick's lap. Will he be willing to challenge various constituencies—motorists, environmentalists, transit activists, labor unions—to solve the conundrum of insufficient funding and unrealistic expectations? If not, the condition of our transportation infrastructure, and our economic competitiveness, will suffer for a long time to come. CW

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