

STATEMENT
ON
FUTURE FUNDING FOR TRANSPORTATION

BEFORE A WORKING SESSION OF THE
SENATE TRANSPORTATION COMMITTEE
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Madame Chair, Mr. Vice Chair, Members of the Committee:

It is a pleasure to be here today before the Senate Transportation Committee's open hearing on future funding for transportation to present the views of Discovery Institute's Cascadia Center for Regional Development on these vital issues.

By way of introduction, Mr. Agnew and I are co-directors of Discovery Institute's Cascadia Center for Regional Development. Bruce Agnew, I believe, needs little introduction to the Committee. Since his membership on the Snohomish County Council and his role on the Congressional staff of former Congressman John Miller, he has been the developer of the Cascadia Center's program since its inception as the Cascadia Project in the early 1990s.

I [Mr. Till] joined the Cascadia Center in late 1993 as co-director, coming from a role as Executive Director of the Amtrak Reform Council, an independent federal commission charged with making recommendations for the improvement of the U.S. passenger rail system. Formerly I served at the U.S. Department of Transportation in the Office of the Secretary, then as Director of Rail Policy and Deputy Rail Administrator. For most of the 1990s I worked in international transportation consulting and investment banking for the World Bank and the European Bank in London. Last December I was invited to join – as were Senator Haugen and Secretary MacDonald, I believe – the Blue Ribbon Panel of Experts formed by the National Surface Transportation Policy and Revenue Commission created by SAFETEA-LU. I was pleased to accept Secretary Peters's invitation.

Our comments today will address the Joint Transportation Committee's study of long-range alternatives to the fuel tax, conducted during the recent interim, and also on Senate Bill 5207 and Senate Joint Resolution 8211. It is our understanding that the Committee would be interested in views not only on the long range alternatives to the fuel tax, but also on measures to fulfill short-term needs to meet new cost increases affecting transportation.

In addition to these issues, our testimony today addresses two areas vital to the development of improved policies for the Nation, for the West Coast, and for Washington State. These are:

- Trends in transportation policy development at the federal level, which I [Mr. Till] will address; and
- The focus of Cascadia's work in Puget Sound, the State, and the Western U.S., which Mr. Agnew will address.

CASCADIA CENTER'S VIEWS ON THE COMMITTEE'S AREAS OF INTEREST

This section addresses the issues we were invited to address and presents our views, in which we both concur.

Meeting the Short-Term Financing Needs

Senate Bill 5207. Cascadia Center, through its work on the West Coast Corridor Coalition, advocates the application of a container fee to assist in funding urgently needed infrastructure improvements for marine, road, and rail facilities serving our ports and major distribution centers, including improvements to roads and rail access through the metropolitan areas where they are located.

Senate Joint Resolution 8211. We agree that the term for long-term debt that finances transportation investments should be extended to 40 years, if the underlying assets have useful lives of 40 years or more.

Increased Taxes on Fuel. This topic raises at least three issues. The effect of the second and third issues raised on the general funding of transportation in the State depends on the constitutionality of their application to other-than-road financing.

- Fuel Taxes Per Gallon Dedicated to Road Maintenance and Construction. These taxes will be continued, but their productivity will erode as vehicles using the roads become more fuel efficient, or as the use of fuels that are exempt from part or all of the fuel tax. In addition, the short- to mid-term introduction into mass production of plug-in, hybrid-electric vehicles, which will serve to raise dramatically the fuel efficiency of the average automobile, further accelerating the erosion of the financial productivity of the fuel tax.
- Sales Taxes on Fuel at the Pump. Such taxes may be necessary as a source of funds for the State's transportation program.
- Transfer Taxes for Fuel at All Stages of Production and Use. By taxing fuel as it is transferred at all stages of production, distribution, and use, such a tax would act essentially as a value added tax. Such an approach may be necessary as a revenue raising measure in the medium- to long-range future should more use-related methods of charging for transportation use not yet be instituted.

Long-Range Alternatives to the Fuel Tax for Financing Transportation

In reviewing the *Long-Term Transportation Financing Study*, we agree generally with its analysis and conclusions. Essentially, policy and technology will dictate that the fuel tax will have to be replaced with other revenue raising taxes or fees that relate to the operator's use of the transportation system. This means that funds from tolls and VMT fees are ultimately likely to take the place of the fuel tax in public transportation financing.

TRENDS IN THE DEVELOPMENT OF FEDERAL TRANSPORTATION POLICY

Given the objective, the hearing is well timed. U.S. surface transportation policy, including financing policy, is at a watershed to which we have been brought by:

- The end of the era of significant excess capacity in major elements of the transportation system and, therefore, the end of our recent decades of less expensive transportation;
- The high cost of replacing and expanding transportation infrastructure, which urges us to find measures to extract greater productivity from our existing transportation infrastructure;
- The declining financial productivity of the gasoline tax;
- The need, for economic and security reasons, to move away from oil – especially imported oil – to fuel our transportation system, which will inevitably cause the more rapid decay of the financial productivity of the gas tax;
- The current availability of off-the-shelf technology to implement selective or system-wide tolling as a means of funding transportation facilities and networks.

To deal with these challenges, the 2005 reauthorization of the U.S. Surface Transportation Program, entitled the “Safe, Accountable, Fair, Efficient Transportation Equity Act – A Legacy for Users” (or, SAFETEA-LU) – established a commission to review U.S. national surface transportation policy, including its ability to raise the revenues needed to maintain and improve our national transportation assets.

But it did recognize, through the creation of a federal commission, the urgent need to develop fundamental improvements to the U.S. surface transportation policy framework, including financing. The most important is a bipartisan, independent federal commission, established under SAFETEA-LU, which is currently underway with a scheduled reporting date of July 1.

As these divergent policy streams flow together at the federal level, they will reflect a broad range of views from members of the transportation industry, from a large number of interest groups, divergent regions, as well as from the Congress and the Executive.

Not the least of the divergences relate to how we fund the U.S. transportation system moving forward. It will be interesting.

Mr. Agnew will now address Cascadia’s work on transportation finance policies and program below the federal level.

CURRENT EFFORTS IN PUGET SOUND, THE STATE, AND THE WESTERN U.S.

Cascadia's approach to transportation financing – in the broadest terms – has focused on advocacy and promotion of a number of policies that we believe are essential to improving transportation finance. These policies affect both public and private sector roles in transportation financing and deal not only with revenue-raising measures such as tolls or VMT taxes, but also with what the Long-Term study terms “project delivery options,” including design-bid-build, build-operate-transfer, design-build-finance-operate, and build-own-operate.

Public-Private Partnerships. As part of its educational program, Cascadia Center is planning an international symposium on public-private partnerships to be held in Seattle in late February or early March. We believe that there are opportunities and risks that can be handled very well by the private sector in many large transportation projects and thus Cascadia advocates enactment of provisions that would integrate public-private partnerships into Washington State's approved range of alternatives for transportation project financing.

In terms of projects currently planned or in the offing, Cascadia commissioned a paper by the engineering firm Arup that points out the success of many public-private partnerships around the world and offers suggestions as to how a public-private partnership, with its attendant inflow of private capital, would work well as part of the project to replace the Alaskan Way Viaduct with a tunnel. And we are investigating an approach that would integrate the Viaduct and the SR 520 Floating Bridge into a single or a series of related public-private partnerships.

Tolling. Cascadia Center believes that we need to integrate tolling into our transportation system systematically, beginning with facility tolls and gradually extending the tolling to significant parts of our transportation network. Currently, we are promoting the view that tolls should be applied as soon as possible to the Alaskan Way Viaduct and the SR 520 Floating Bridge. The funds raised are certainly necessary and the public needs to understand that both these facilities are at or near the end of their useful lives and need the toll funds to finance their replacement.

To promote an understanding of the various approaches to tolling and how it has worked in many environments, Cascadia organized and hosted a forum on tolling in concert with the global conference of the International Bridge, Tunnel, and Turnpike Association on April 12, 2006. That forum was followed up with a similar forum in December in Vancouver, Washington. Experts from the U.S. and around the world addressed both groups and described the success of tolling as a means of financing transportation in many different project structures. The examples range from the cordon tolling that has freed up transportation in Central London, raising substantial revenues while improving the circulation of buses, taxis, urban goods movement vehicles, and automobiles, not to mention significant improvements in air quality. Today, we have for each member of the Committee

and Committee staff, copies of a DVD from the April 12 Tolling Forum in Seattle, as well as copies of the agendas for both the Seattle and Vancouver forums. We are currently producing a similar DVD for the Vancouver forum and will forward it to you when it is completed.

One application of tolling we favor – which is called “Green Lanes” – is part of our approach to looking at the efficacy of planned transportation projects. Green Lanes involve using a variety of approaches to improve the operations and performance of a range of road types, including Interstates and other limited access highways, major state roads, and urban arterials. Green Lanes also involves building and managing roads to reduce congestion by using such tools as: HOT lanes; truck-only lanes (or connector roads); regional bus rapid transit (which has been given a boost by the 2006 approval in King County of the “Transit Now” ballot measure); improved traffic operations, including arterial traffic light synchronization; and roadside Intelligent Transportation Systems to service flex-fuel and plug-in, hybrid-electric vehicles.

We believe the Green Lanes approach will be useful in evaluating the proposals that are being developed by the Puget Sound Regional Transportation Investment District for the fall 2007 ballot.

Passenger Ferries. In dealing with a variety of approaches for improving the operations and financial performance of Washington’s ferry operations, Cascadia has sought to introduce private sector participation where feasible. Cascadia addresses these issues through its work in the Puget Sound Passenger Ferry Coalition and the Ferries Committee of the North Sound Connecting Communities Group, known as “The Farmhouse Gang.”

Container Fees. As stated above, Cascadia has worked through its role in the West Coast Corridor Coalition, which includes Alaska, Washington, Oregon, and California, to advance the use of container fees to raise funding for improvements needed to handle increasing volumes of international trade reaching U.S. shores and crossing its borders.

Addressing Longer-Range Views: The Annual Cascadia-Microsoft Conference. The implementation of approaches such as system-wide tolling and VMT charges depends on communications and information technology. At Cascadia’s inaugural Cascadia-Microsoft Conference, Microsoft Vice President for Automotive Technology Dick Brass announced that Microsoft’s goal was to place a computer in every car. This year, Microsoft and Ford Motor Company announced an agreement for Microsoft to install computers in Ford’s automobiles. Of great relevance to transportation funding and the rate of erosion of the fuel tax as a source of transportation funding, the 2007 Cascadia-Microsoft Conference will be held at the Microsoft Campus on May 7th. The topic: integrating plug-in, hybrid-electric vehicles into the transportation fleet and the U.S. utility grid.

Madame Chair and Mr. Vice Chair, we thank you again for the opportunity to present our views, and we will be pleased to consult with the Committee whenever we have the privilege to be invited.

We would be pleased to answer any questions that members of the Committee might have.