It's Time For Transportation Finance Reform In Wisconsin

Kevin Soucie

A few years ago, an ad hoc group representing a coalition of community, labor, environmental, and religious interests announced that it was considering filing a civil rights complaint against the Wisconsin Department of Transportation (WisDOT). Their charge was that the state had discriminated against Milwaukee African-American residents by providing them with transportation services inferior to those provided to Whites. The threat of this civil rights action prompted a Milwaukee radio talk show host to pose a rhetorical question to his callers. "Is transit a right?" he asked over the airwaves. "Is light rail a right?"

The obvious caller reply was, "no, of course transit is not a right." But is it possible that the question may have been worded too narrowly? Would a better question have been, "Is transportation a right?" Would this broader phrasing have elicited a different answer? What if the radio host had asked: "Are freeways a right?" or "Is the Marquette Interchange a right?" Would the replies have been different than those to the transit question? If so, why would freeways be a right and transit not?

Most people don't associate the words "welfare" and "entitlement" with transportation, unless of course it involves transit. But true fiscal conservatives, who dare to take an unflinching look, will discover that there are few sectors of the American economy where these terms can be more appropriately applied. This scrutiny also reveals why we find ourselves in a situation where federal funds are shrinking; our state gas tax (which has become one of the highest in the country) is generating less and less revenue, WisDOT's credit card has reached the limit, and debt service is eating away at the transportation fund. To make matters worse, the Marquette Interchange, the southeastern Wisconsin freeways and several major out-state projects are all coming on line. More and more officials are coming to the realization that the current model can no longer deliver. So how did we get into this mess and what do we do about it?

Imagine that a bill was introduced into the legislature to change the way we buy gro-

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ceries. Under the proposal, grocery stores would be open 24 hours a day, seven days a week. Shoppers would be able to take as much of anything they could carry — as many eggs, loaves of bread, boxes of cereal, and as much meat as desired. With their shopping cart full, the customer would just simply walk out the door, load up the car, and drive home. There would no longer be checkout lines. To replace the banished cash registers, the governor and legislature would institute a “meal tax” which they would arbitrarily set at say, $1.00 per meal. Since most people enjoy three meals a day, each person would be assessed $3.00 per day to be paid to the Wisconsin Department of Groceries. WisDOG would be responsible for locating, building, and stocking all grocery stores in the state.

It is doubtful such a proposal would be taken seriously. What would prevent people from leaving the store with more items than they actually need? Why should my “meal tax” dollars go to build and stock stores in other parts of the state that I’ll never patronize? What would prevent people from Illinois, Michigan, and Minnesota, who still must pay at cash registers in their supermarkets, from regularly crossing the state line to use our grocery stores for free? The chorus of opposition would be diverse and bipartisan and would correctly declare this idea absurd, unfair, and, if implemented, doomed to failure. Yet, as absurd as this imaginary proposal sounds, this is precisely how we fund transportation today in Wisconsin.

Just as shoppers in the above example would perceive there to be no limit on the amount of groceries they could take, motorists now consider their highway facilities to be available for use without limit, 24 hours a day, seven days a week, free of charge. And like the “meal tax,” few have any idea how adequately the gas tax (the major source of transportation revenue) covers costs or whether the revenue from the gas tax pays for roads in their own communities or is diverted to highways in other parts of the state that they may never use. Finally, many Wisconsinites wonder why they are charged every time they travel to Illinois while their neighbors to the south get to use Wisconsin roads for free.

It’s important to point out that this not a criticism of the talented and hard working people at WisDOT. The funding model under which they operate was conceived and implemented long before any of us were born. The grocery store example simply exposes the fact that we have been tolerating, even embracing, a model in transportation that few of us would support in any other sector of the economy. We certainly would not expect it to succeed.

The need for serious reform was brought to light earlier this year when the Legislative Audit Bureau (LAB) released a report on the state highway program. The LAB did an excellent job of highlighting a number of the flaws in our transportation funding model — flaws that are only symptoms of a much greater problem.

These flaws signal the beginning of the end of a model that can no longer deliver what people want, when they want it.

Although WisDOT, at the direction of the legislature and governor, have begun to implement the LAB recommendations, the corrective actions fail to get at the fundamental problems. The recommendations require constant political oversight, but provide little in the way of long-term economic incentives to be efficient and pursue projects on their economic merit.

The world is moving away from the old political top-down, big government, tax-and-spend model and is instead moving toward a market-based model. Here in Wisconsin, we need to make this shift as well before we find ourselves in a transportation crisis with significantly limited options. In addition, we need to move away from this old model that relies essentially on *political* incentives and disincentives and begin to embrace a new approach that provides *economic* incentives to get projects done right and on time.

Again, I want to emphasize that I am not criticizing WisDOT. I am merely emphasizing the need for us to recognize flaws inherent in the current model, come to grips with the fact that it no longer serves us, and move toward a model that makes sense, attracts investment, doesn't increase taxes, and gives better information and choice to consumers of transportation.

Public-private partnerships can solve the problems

A little more than a year ago, I released a study that I coauthored with some national experts in financing transportation infrastructure. The study was entitled *Rebuilding the Marquette Interchange via a Public-Private Partnership*. The eight-second sound bite in the media coverage focused on a single aspect of the proposal, i.e. *tolls*. It's true that tolls are an important feature of the proposal, but those who obsessed on the toll issue missed out on the fact that our study proposed a significant change in the method of financing the Marquette — by establishing a public-private partnership. Our proposal was developed to address the hopeless condition of the transportation fund and its inability to meet Wisconsin's numerous and expensive transportation needs. We offered our idea as a friendly alternative for the legislature and the governor to consider along with any other options.

A closer look at the public-private partnership approach reveals that our proposal actually gets to the root of the system flaws and provides economic incentives that would correct most of the problems the LAB identified.

Specifically, the LAB raised concerns about cost overruns, delays and failure to implement "value engineering" savings.

The public-private partnership approach would significantly change the incentives for bringing in projects on time and on-budget.

If they mess up, it's the private investors who pay, not taxpayers.

Under the current model, every change order that can be negotiated with WisDOT adds to the size (and hence to the value to the contractor) of the project, so there is an incentive to add costs. By contrast, when a developer/operator, under the public-private partnership, has a long-term concession to provide the facility, it has every incentive to manage and hold down costs (consistent with minimization of life-cycle costs) and to get the project open to toll-paying customers on or ahead of scheduled date. That is why such concession companies negotiate tough design-build contracts providing for financial penalties for every day of delay, and often bonuses for completing work ahead of schedule. This overall process dramatically reduces the likelihood of cost overruns — and when such overruns do occur, they burden the investors, not the taxpayers.

In other words, the public-private partnership approach creates a system where "value engineering" benefits are already incorporated into the original design. If they mess up, it's the private investors who pay, not taxpayers.

LAB raised concerns about over-designing of projects.

Another drawback to the current model is the fact that major highway capacity designs are based on travel demand and traffic projections that assume free and unlimited use of the facility. The disconnect between the trip a driver makes and what the driver pays sends false and misleading information to the motorist. As a result, drivers are unaware of what each trip costs and have no idea how much they are paying. All they know is that they can use the road as much as they want without paying. The problem with this is illustrated by the absurd grocery store example described above. How large would we have to design a grocery store that gives away free groceries?

A public-private partnership that uses tolls would send clear and accurate information to drivers in the form of "price." The developer/operator could then factor diversions and price elasticities into its traffic (and revenue) projections and optimally design for capacity. Over or under designing capacity would hurt the return for private investors. Again, if they miscalculate, the risk is on private investors, not on taxpayers.

In addition, the current disconnect between revenue sources (fuel taxes, registration fees, federal aid) and the actual highway facilities removes any financial incentive to manage assets and recapitalize. Under the present model, revenues continue to flow into the transportation fund regardless of a highway's physical condition or projected need for recapitalization. The political incentive is to spend any and all available funds on new projects elsewhere. This is why we now find ourselves fiscally unprepared for the massive and expensive rebuild of the Marquette Interchange and the rest of southeastern Wisconsin freeways.

Since revenues under a public-private partnership are directly linked to the facility and its use by its customers, there is a huge incentive to efficiently manage assets and to recapitalize so that there is no interruption of the revenue flow. Failure to do so would be an expensive mistake for investors.

LAB points out that projects take twelve years (on average) to complete after enumeration.

Using the public-private partnership approach, the most economically viable projects would no longer have to wait in line for twelve years or more for taxpayer funding while real estate and other prices inflate. They could jump ahead of the pack by attracting private financing and proceed ahead of schedule. The most viable projects could be undertaken simultaneously with their own independent financing.

Aren't tolls just another tax?

Is "toll" just a surrogate term for "tax?" Labeling a "toll" for a highway trip as a "tax" only reinforces the welfare/entitlement mentality as it is applied to transportation. It assumes that transportation can only be supplied by a government monopoly through general taxation; that people have no choice in the transportation marketplace, and that they are entitled to free and unlimited use of their highway. It is an endorsement of the grocery store analogy. If a toll (representing the price of a trip) is considered the same as a tax, then there is no such thing as a mechanism called "price." This is to say that everything you buy, whether it's from the grocery store or the shopping mall, is sold not for a "price," but for some sort of consumption "tax." Taking this reasoning to its extreme, the state sales tax is then really just an additional mini-tax on top of the tax you pay to own the item.

In reality, "price" is the key source of information to consumers in the marketplace. Tolls serve that price function. If we continue to distort and disguise the true value (and costs) of a trip and hide it in the price of a gallon of gasoline as we have with the gas tax, consumers will continue to lack the proper information on which to base their choices. The message to consumers will continue to be "over-consume" while the ongoing signal to the producers of transportation supply will be "under-produce." The inescapable result will be more frequent and severe traffic jams and little or no consumer choice.

Do you really expect Wisconsinites to accept paying tolls?

Credible opinion polls in Illinois, Minnesota, and elsewhere indicate that people prefer paying tolls to increased taxes for their highways, especially when they discover that they don't have to stop their vehicle to pay a toll. There is no reason to believe the results would be different among Wisconsinites if presented with the full picture.

As for Wisconsin, imagine that a person approached the governor seeking appointment to the Board of Regents in order to propose raising taxes and tuition on Wisconsinites so that out-of-state students could attend UW campuses tuition free. It's safe to say that the governor would not nominate this person, but even if he did, the State Senate would unanimously reject confirmation, 33-0.

As outrageous as such a proposal seems, few people seem to mind that this very practice has been in operation in our transportation system for years. Since nonresident drivers can escape paying their share of our highway costs, Wisconsin residents are forced to make up the difference through gas taxes and registration fees. Meanwhile, the Illinois Tolling Authority charges Wisconsinites $32 million per year capturing 42% of their out-of-state toll revenue from Wisconsin registered vehicles.

If decision-makers are going to wait for tolls to become popular, they better get ready to massively raise taxes, or be satisfied to live without their transportation projects and programs. It is disingenuous for politicians to perpetuate the myth that somehow the public will continue to get their roads without paying for them. Anyone who rejects the idea of tolls must be prepared to answer the question: "Which taxes would you like to increase?" or "Which projects and programs would you like to do without?"

Won't charging tolls unfairly hurt the poor?

When it comes to the transportation needs of the poor, we couldn't have a more unfair system than we do today. However, the solution does not call for a civil rights complaint; rather, it demands a market-based approach that levels the transportation playing field.

It's no revelation that our current top-down government model heavily favors highways — not from market signals, but rather from political forces. The built-in political bias of the current system views mobility from primarily a highway perspective. That means low-income people seeking mobility find themselves forced to buy their way into the system by spending a greater percentage of their disposable income on the purchase and operation of a car. Those who can't afford a car, or choose not to spend such a high percentage of their income on a vehicle, have to wait for a bus—if and when one is available. And when the bus finally comes, they are charged a $1.75 toll (the current adult bus fare in Milwaukee) each time they use it.

If a consumer considers paying what it really cost to use the freeway system too expensive, they will search for alternatives and substitutes.

It's curious to me that so many of us complain about charging tolls on our cars and SUV's while so few of us are concerned about the ever increasing tolls charged to the poor and elderly who ride the bus. When it comes to transportation, we are blind to our own sense of entitlement, but more easily recognize welfare when it applies to others.

Those who are concerned about equity, fairness, and choice for the poor should embrace tolling. By instituting true market pricing into our transportation system, consumers will have relevant and improved information on which to base their individual transportation choices. If a consumer considers paying what it really cost to use the freeway system too expensive, they will search for alternatives and substitutes. That's when we will see some of the transit and passenger rail markets destroyed by the state's artificial pricing practices return. That's also when we will see increased mobility for those who were financially disenfranchised by a big-government transportation system. Opposition to the public-private partnership proposal for the Marquette and the failure of the opponents to propose an alternative financing method amounts to support of the status quo and constitutes an endorsement of the flawed grocery store example.

Adoption of the public-private partnership model of the Marquette and other freeway projects would relieve the pressure on the state from borrowing, taxing, and spending. It would introduce market-pricing and allow transportation consumers to pick the kind of transportation system they want. Because the transportation system would begin to respond to market forces rather than government directives, markets for alternate modes would be restored giving consumers, especially the poor, greater choice.

Tolling is better than taxing

Tolling is better, not simply for the sake of tolling. A toll as a "price" is the opposite of a "tax." New and modern tolling technology has made it possible to more conveniently implement sounder economic models to finance transportation infrastructure. Many other states, like Virginia, Florida, Texas and California are already moving in this direction.

Those of us who consider ourselves fiscal conservatives need to examine this issue closely. If we oppose tolls, we automatically put ourselves on the side that says politics is preferred over market principles. Opposing tolls puts us on the side that says we can never have transportation finance reform, except by political force. It puts us in the position of embracing, defending, and upholding a model that once permeated every sector of the Eastern European economy and limited choices for millions until its inevitable collapse.

If we are going to have a first-class transportation system, our system must dramatically change. And in order for our system to change, we — the people demanding quality transportation — have to abandon our welfare mentality toward transportation and embrace a new mentality based on market economics. If we fail in this transformation, we will continue along the downward spiral of high and inequitable taxes, inefficient movement of people and goods, traffic congestion, little or no consumer choice, and decreased competitiveness of our state and regional economies.

Sure, we can spend $1 billion of taxpayer's money rebuilding the Marquette Interchange. We can spend another $5 billion of public funds on rebuilding the rest of the southeastern Wisconsin freeways — but why? We don't have to. Why wouldn't we want to reform transportation finance so that there are economic, not just political, incentives to optimally build and manage our highways? Why wouldn't we want to shift the financial risk of building highways off the backs of taxpayers and onto private investors? Why wouldn't we want to transfer some of our tax burden onto nonresidents who benefit from our roads, but don't pay? Our friends in Illinois may not think we Wisconsinites are the smartest taxpayers around, but they surely have to consider us the most generous.