

# THE ROAD TO



## *Financing Discussions Crucial to Improving Transportation*

State legislators, legislative staff and agency officials from 11 CSG-Eastern Regional Conference jurisdictions, along with representatives from the White House, nonprofit organizations and the private sector, shared common challenges and best practices in dealing with infrastructure issues at the Northeast Transportation Financing seminar in Philadelphia in February.

By Karen Imas

New Jersey Assemblyman John Wisniewski is candid when he talks about state efforts to deal with transportation challenges. He's looking further down the road.

"All of us are collectively out of money," said Wisniewski, chairman of the New Jersey Assembly's Transportation Committee as well as The Council of State Governments Eastern Regional Conference's Transportation Committee. "We need to be careful about what we think is innovative today, so we don't create a host of problems down the road."

Infrastructure in the Eastern region of the United States is aging rapidly, and traditional funding mechanisms are proving to be inadequate to meet the minimum levels needed to maintain the current system, experts say. Toll increases, public-private partnerships and gas taxes are touted as possible solutions to the problem, which is only expected to worsen.

Over the next 50 years, the U.S. population is forecast to grow from 295 million to 435 million, according to the American Association of State Highway and Transportation Officials. Coupled with growing demands on transportation systems, the nation's infrastructure will be severely strained. Structurally deficient bridges, for instance, are a source of concern in several states.

In Maine, a study of the state's bridges found "there was a lot of work to be done," said Sen. Christine Savage.

New Jersey found "\$13.6 billion is needed for bridge repair in the state, which is more than some states' total

budgets," said Stephen Dilts, deputy commissioner of the state's Department of Transportation.

Those states are not alone. Lawmakers are reaching consensus that investment in surface transportation must be substantially increased to maintain American competitiveness in the global economy. Inadequate resources to meet the demands of a crumbling infrastructure and a projected 70 percent increase in freight between now and 2020, according to the Department of Transportation, have state government officials studying new and innovative revenue-generating initiatives.

An increase in the federal gas tax is one option, but many people see a lack of political will to raise it. The federal 18.4 cents-per-gallon tax on gasoline, the primary source of federal highway funds, has not been raised since 1993. The 12-member National Surface Transportation Policy and Revenue Study Commission, which released a long-awaited report Jan. 15, suggested the best short-term solution to the nation's infrastructure problems would be to raise federal gasoline taxes by as much as 40 cents a gallon over five years.

But raising the gas tax has been a politically difficult issue for members of Congress, especially at a time of record oil prices. U.S. Secretary of Transportation Mary Peters was one of three members who dissented from the commission's recommendations for higher motor fuel taxes and a larger federal role in national transportation policy and financing.

"Raising gas taxes won't improve traffic congestion; it will only perpetu-

ate our ineffective reliance on fossil-based fuels to fund infrastructure and send more of Americans' hard-earned money to Washington to be squandered on earmarks and special interest programs," Peters said in a statement.

Dennis Enright, principal at the NW Financial Group, makes the case for public financing—such as the gas tax—as a more efficient tool for financing of roads than public-private partnerships.

"Public-private partnerships have been done for decades, usually to save taxpayers money. Recent proposals for asset sales, concessions, long-term leases and monetizations impose much higher charges on users than the public sector would have imposed in exchange for significant upfront cash," said Enright.

He raised concerns that the interests of the public will go unprotected as public-private partnerships are used to provide financing for infrastructure investment.

"The upside to the buyer from higher than expected traffic growth and tolling increases will be captured as profits to the new owners, rather than as public transportation system funding dollars," Enright said.

He suggested states consider voter referendums that would ask voters whether they prefer higher gas taxes or higher tolls.

Along with the issue, several ERC states are considering such innovative transportation financing options.

### New Jersey

Gov. Jon Corzine proposed capturing the value in New Jersey toll roads



to pay down 50 percent of the state's general debt and fund statewide transportation investments. He has since said his plan, which sought to finance the state's highways without raising the gas tax, cannot garner enough support from legislators to be passed.

"We have overwhelming debt and no revenue sources," said Dilts, of the state's transportation department. "We looked at prisons, schools, lotteries and ultimately we focused on toll roads. New Jersey will not lease assets to a private corporation and will provide a predictable schedule of tolls."

Corzine proposed a nonprofit public benefit corporation be formed to manage the day-to-day operations of the roads, but the state will maintain ownership.

The plan could raise approximately \$38 billion to help the state pay off half its debt and pay for transportation improvements, Corzine said in his State of the State address.

In the plan, drivers would face a 50 percent increase in tolls on the state's three toll roads—the New Jersey Turnpike, the Garden State Parkway and the Atlantic City Expressway—every four years, beginning in 2010. The corporation would borrow money based on the identified and dedicated revenues of tolls. The initial payment of money raised will be contractually dedicated to state debt reduction and to transportation improvements.

Although the legislature has not considered Corzine's plan, Assemblyman Wisniewski recently introduced the first major counterproposal. He proposed raising the gas tax from 10.5 cents to 28.5 cents a gal-

lon over three years and doubling highway tolls within eight years.

## New York

The Port Authority of New York and New Jersey employed variable toll rates at bridges and tunnels as a traffic management tool. The Port Authority is studying differential tolling for more fuel efficient cars, according to Victoria Cross Kelly, director of its Tunnels, Bridges and Terminals Department. She said changing technology can increase efficiencies in toll operations.

Under a plan announced last November, hybrid vehicles would have a special E-ZPass recognition tag that would entitle them to a \$2 discount. The plan is modeled after that the New York State Thruway Authority's program, which introduced 10 percent E-ZPass discounts on hybrid vehicles in 2006.

George Schoener, executive director, I-95 Corridor Coalition, said states will remain at the forefront of such innovative financing mechanisms since, as he puts it, "Congress and the White House are lacking vision in this area."

He pointed to the recently passed federal economic stimulus package, which did not include any funding for transportation infrastructure.

## Pennsylvania

Gov. Ed Rendell supported legislation last year creating Act 44, which authorizes the Pennsylvania Turnpike Commission to collect tolls on Interstate 80.

Federal approval is needed before the tolling can take effect because I-80 is part

of the federal highway system and was built with federal funds to facilitate interstate commerce and national defense.

The federal transportation department raised several questions about the information contained in the turnpike commission's application.

While the Pennsylvania Department of Transportation and the Pennsylvania Turnpike Commission seek federal permission to make I-80 a toll road, Rendell is keeping the idea of leasing the turnpike alive. Nearly 35 different companies working together in 14 separate groups submitted responses to Rendell's request for proposal in September from potential turnpike bidders.

Pennsylvania Sen. Roger Madigan, chairman of the Senate Transportation Committee and CSG/ERC Transportation Committee vice-chair, said, "We need to make sure that the choices we make withstand the test of time."

Meanwhile, Sen. John Gordner recently introduced an alternate plan; Senate Bill 1280 would allow a public-private partnership to lease the Pennsylvania Turnpike and would raise funds without the need to impose tolls on I-80.

"It is important to note that my proposal will provide \$750 million or more annually for road and bridge projects throughout the commonwealth, as well as provide \$250 million annually for funding for mass transit," said Gordner, who represents a district that I-80 runs through. "It is a far superior plan to the flawed Act 44 that passed the General Assembly last July, it will provide more money and it does not require the imposition of tolls along I-80."

Gordner's proposal would allow the Pennsylvania Turnpike to be divided into three sections for the purpose of entering into public-private partnerships. The State Transportation Commission is given the power to negotiate 50-year agreements with American-based and majority American-owned companies in return for an upfront payment to the commonwealth.

"In the governor's budget address, he said that he would not sign any legislation to repeal Act 44 unless the funds generated by proposed tolls on I-80 were replaced. Senate Bill 1280 does that," said Gordner.

—Karen Imas is director of communications and leadership training for The Council of State Governments Eastern Regional Conference.