

# Funding

The state DOT, in its “Straight Talk About Transportation” presentation, paints a grim picture for future capital investment in the state system in the aftermath of the defeat of Referendum 51. Between 1991 (when the gas tax was increased to 23 cents a gallon) and 2002, the state invested \$8.6 billion in the highways, bridges, ferry and rail systems. For the 2003 to 2013 period, despite growing infrastructure strains, state transportation investments are slated to drop to \$5.1 billion.

Accountability measures and cost reductions must be the top priority for state and local officials, but ultimately alternative financing also is an important element. And, yes, that includes tax increases.

## Tolls and Value Pricing

The long-term plan articulated here likely will cost more money than is achievable in any current revenue proposals. And those packages are making the possibly false assumption that the gas

tax is a reliable future income source. Thus, broadening the funding base is simple prudence. Alternative financing must be explored, and that leads first to consideration of tolls and value pricing.

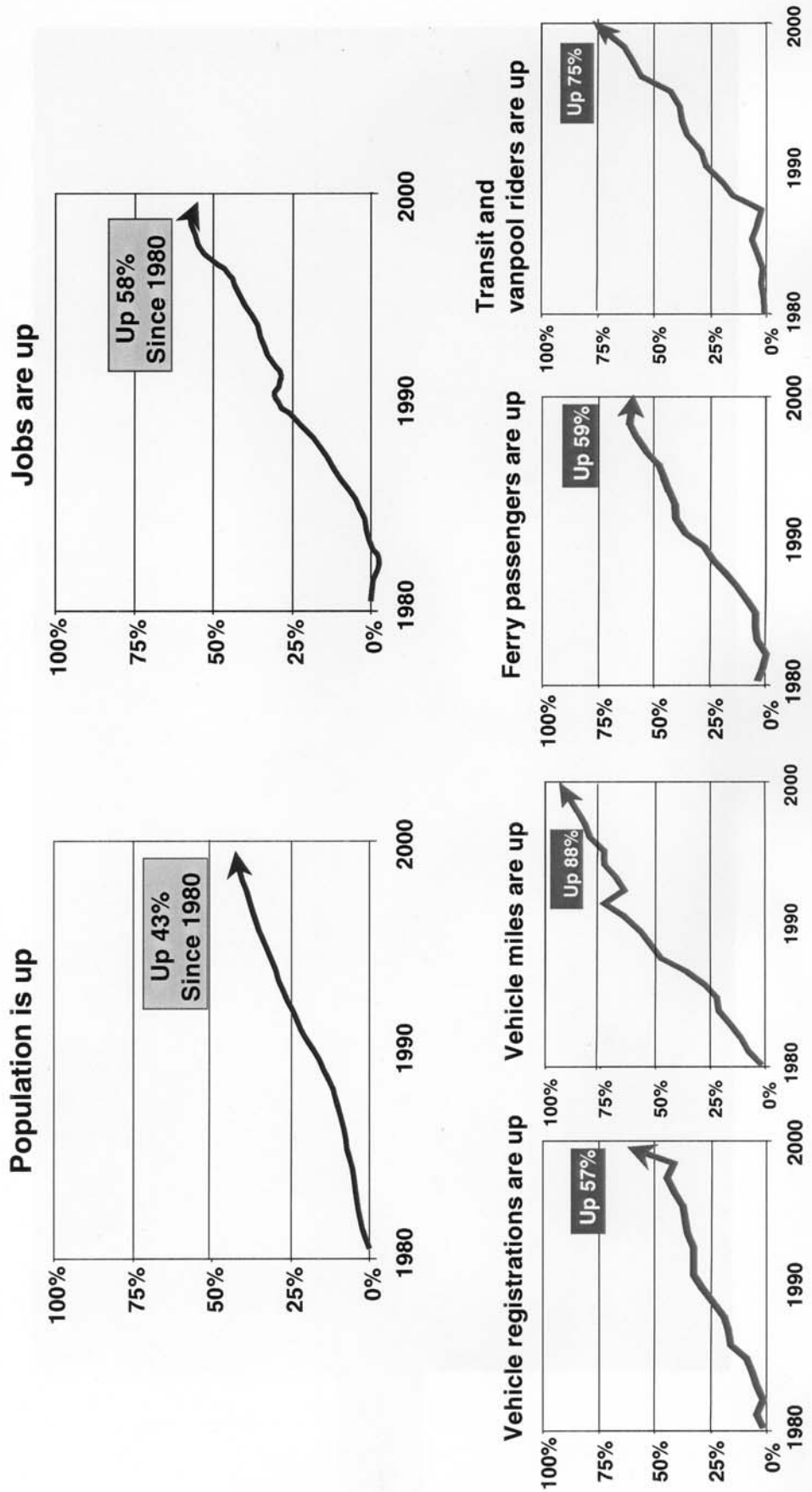
Tolls are an appropriate user charge if their revenue feeds back directly into the building and maintenance of a particular facility or community enhancement. They can attract private bonds, especially if there is a Design-Build-Operate mode of development. In Ontario, Canada and Orange County, California, tolls give motorists a choice between time and money. They can help pay for a bold, long term, and regional plan; for example, to help finance lids and tunnels.

Of course, expecting tolls to fund the entire transportation system expansion is as unrealistic as expecting the lottery to fund the entire state budget. But, they can help in a major way at the margin of transportation development. In fact, the role of tolls in adding to route choices and in maximizing system capacity is as important as the contribution to revenue. Tolls regard the system of roads and highways as a public utility. Charges are based

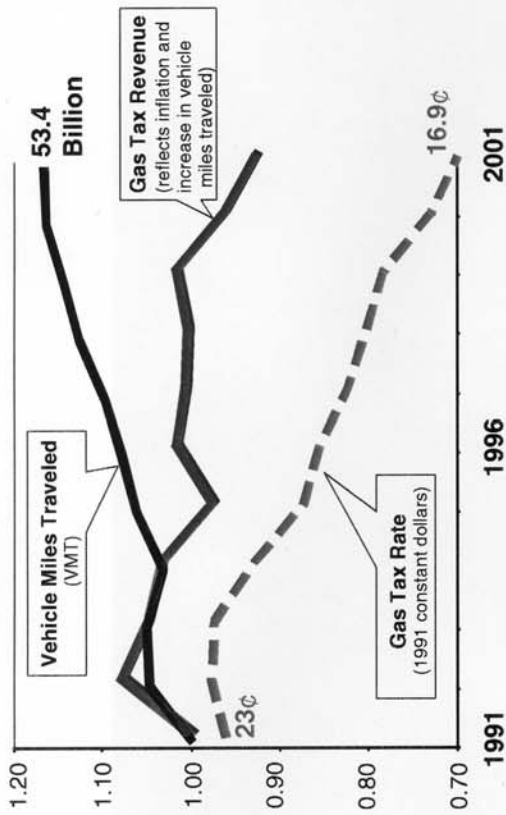
# The State DOT's Case

(reprinted from "Straight Talk About Transportation")

## The gap between transportation needs and capital investment is clearly documented.

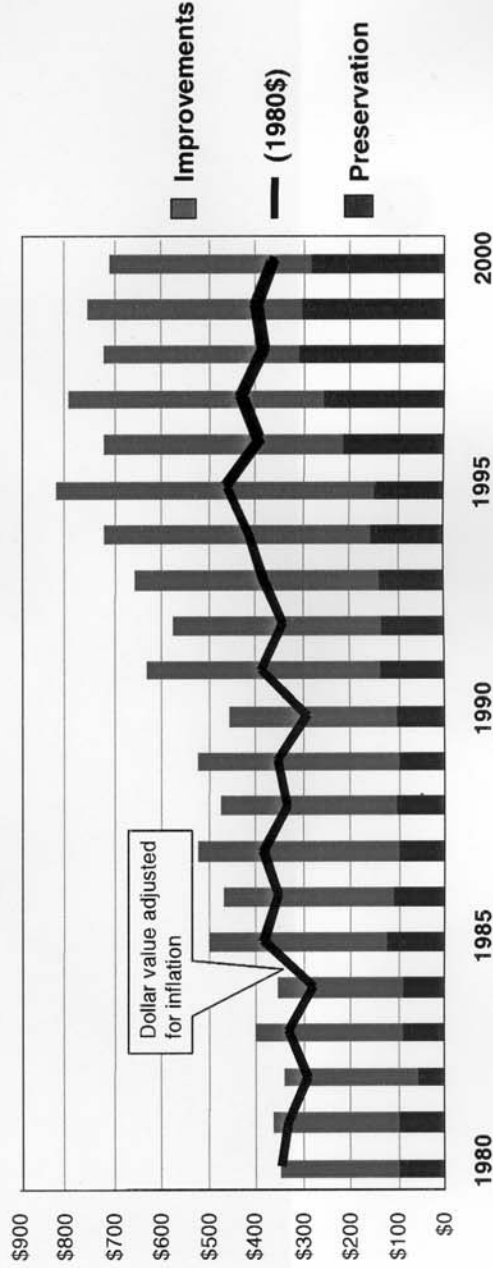


# But the gas tax has lost value to inflation....



Gas tax revenues and the gas tax rate were converted to 1991 constant dollars using the Federal Highway Administration's composite cost index for federal aid highway construction.

# and the state's overall capital investment in transportation has been stagnant.



## Case Study Four

### Ontario's Highway 407 Project: State of the Art Toll Route

The Highway 407 toll road, along the northern fringes of metropolitan Toronto, was built to meet the increasing demands on neighboring Highway 401, one of the most heavily used routes in North America. Highway 407 features the world's first all-electronic open-road tolling system, allowing drivers of both passenger and commercial vehicles to forget about having to slow down or stop at cash or token toll-booths.

The need for Highway 407 was identified in the early 1950s. The route was designated during the 1970s and 1980s and the first 9-kilometer section was started in 1987, with a 1996 completion date. It was determined in early 1993 that a shortage of public funding would necessitate tolling the highway. In the fall of that year, the Ontario Transportation Capital Corporation (OTCC) was created with the intent of privatizing Highway 407 and giving full responsibility to a private operator. In April of 1994, Canadian Highways International Corporation was selected to

design, construct and operate the tollway for \$930 million. By mid 1994, Bell Canada, Bell Sygma, Hughes Aircraft Co. and Mark IV Industries were selected to supply the tolling system for \$102 million. The first section opened in June of 1997 and revenue operations began in October. It was clear at once that the facility was a success. On May 5, 1999, 407 International purchased 407 ETR Concession Company for \$3.1 billion.

The ETR electronic toll collection technology has five main components: vehicle transponders to read the assigned bar code sticker of passing vehicles; a vehicle classification system; a roadside toll collection system; a toll transaction processor; and a revenue management system. The transponders are small, easy to install electronic devices that vehicle users attach to the interior of the windshield behind the rear-view mirror. They are portable among vehicles of the same class, so a driver can change cars and retain them. Electronic sensors are located on an overhead frame structure, or gantry, that spans the width of the roadway along 407. (See photo) The sensors log the entry and exit point of each vehicle. Upon exiting, a green light on the transponder and four short beeps indicate that the toll transaction has

been successfully completed. For heavy vehicles with a Registered Gross Vehicle Weight of over five tons, transponders are mandatory.

Individuals without transponders are logged by a state-of-the-art license plate recognition system. This system is located on each overhead gantry and sends up to five video images to a central processing computer as vehicles enter and exit 407. License plates are located through a database that includes information for all of Canada and, through agreements between the Ministry of Transportation and the U.S. Department of Transportation, all 50 states. An invoice is then mailed to the address on file.

Hwy 407 Tollway (courtesy of Ministry of Transportation, Government of Ontario, Canada)



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directly on use and can vary in response to peak demand, just as one expects when he buys an airplane ticket or uses electricity. The reason for higher charges during peak periods is that the cost of infrastructure investment is set partly by the capacity that must be added to avoid system breakdown when demand is greatest. Variable tolls, or value pricing, reflect the expense of building this increment. Thus, value pricing is in the spirit of the tax policy principle of “user pays.” By charging more for use in peak demand periods, variable tolls also reduce peak traffic and spread out demand. This gives existing road capacity a longer useful life in adequately serving demand, reduces time lost to congestion, and defers the need for costly new investments.

The tolls most acceptable to the driving public are generally those applied to new facilities that add capacity, especially when there is a parallel free route. Initially, there is no practical way to apply value pricing to all segments of the system. Absent that, applicator tolls cannot be expected to replace other transportation taxes. The good news is that we need far less than a total network of tolls. Congestion-related pricing on a few segments of roadway with the highest rush-hour use can deliver the bulk of benefits.

For the past two years, the Cascadia Project has advocated the use of HOT lanes. The idea is catching on. The U.S. Department of Transportation currently is funding a toll pilot project through the Puget Sound Regional Council. Its premise is intriguing. Highway users will be rewarded with cash if they choose alternative times of travel to

avoid peak use periods. They can't file false reports; transponders will be installed on their windshields to record the information. But we already know from experience here and elsewhere that road use is somewhat elastic, depending on price or, as the USDOT pilot study perhaps will show, by reward! The State Transportation Commission is also considering a High Occupancy Toll lane pilot project on the east side freeways during non-peak, midday periods.

## **Value Capture: Tax Increment Financing**

A complement to value pricing is “value capture.” New transportation infrastructure typically stimulates tangential development that increases adjacent property values and income. “Value capture” is a way to plow some of these revenues into support for community investment and maintenance. In such commercially zoned areas as Bellevue/Redmond near Microsoft, and Mercer Street/South Lake Union, for example, the sale of air rights above tunneled lids could generate additional revenue streams to help finance affordable housing or tax-paying commercial businesses.

Recent legislation authorizing a limited form of tax increment financing is a step in the right direction, but it still prohibits the use of the state's portion of the revenue. In order to realize the full power of tax increment financing the state would need to contribute. But this won't happen without a change in the constitutional prohibition against the lending of the state's credit.

Three attempts have been made to change the state's constitution on this issue, but voters turned down all of them. Unfortunately, the state's Competitiveness Council did not make a strong recommendation to change the *status quo*. A lack of understanding about how tax increment financing works and a general fear of anything related to property taxes may be the reason why voters have rejected the change.

The ironic history of this ban is that it was included in the state constitution only as the result of a dispute between two railroads and an effort to prevent what framers feared might become a railroad subsidy. It is time to educate the public about what is really at stake, to change the state constitution and to use tax increment financing to its full potential.

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Many voters wrongly imagine that tax increment finance means a new tax on *them*. In fact, it is a way to relieve some of their tax burden by charging more of a project’s costs to the property next to the project if it becomes worth more due to improved development potential. It is a credit against tax revenues derived from property developers and property owners who benefitted directly from a transportation project.

Other revenue could come from partnerships with civil service union pension funds to provide affordable “workforce housing” for teachers, firefighters and police, as mentioned before. The City of Mercer Island began this discussion by proposing to use the part of the Luther Burbank Park land that is on the south side of I-90 for “work-

force housing.” The city was in the midst of negotiating with King County on the transfer of the park, which had been closed due to inadequate budget resources. Problems cropped up when citizens complained about the conversion of park land to housing – but the issue is still out there, particularly as Mercer Island increases density in its central business district. Obviously, the concept is even more pertinent to new corridors we are proposing.

## **Housing and Corridor Development Authorities**

It is not going to be possible to move major transportation projects forward unless the government acknowledges the public’s legitimate desire for returns on its significant investment — beyond the ability to shave time off the commute home. Large transportation projects have the potential to return more than mobility to a community and region. They can be tools for improving the quality of life. For corridors such as 520, value pricing can interact with the sale of air rights, housing partnerships and tax increment financing in “corridor development authorities” to provide a distinct revenue stream, separate from traditional tax financing. The corridor authorities would finance and operate lids and tunnels.

A major reason we propose creation of corridor development authorities is to accomplish these ends. Corridor development authorities would have some of the characteristics of public development authorities and local improvement districts that have been employed elsewhere, such as around new stadiums. Such entities have maximum flexibility to mix and match the widest range of public and private funding sources, to spark coordinated development, including tax increment financing. The authorities also could give neighborhoods a direct say in the use of tolls and revenue from the sale of air rights for neighborhood and environmental mitigation.

Corridor development authorities would make sense for Highway 99/Viaduct/SR-509, SR-520 (I-5 to Redmond), I-405 on the Eastside and along I-5 through Seattle's core. Since the state DOT and the City of Seattle have enjoyed success in bringing stakeholders together to review options for highway capacity, transit and transportation demand management as part of their "mega-project" initiative, why not formalize these relationships to build and operate the corridors? Members would include local community groups, business and environmental leaders, local government, and local transportation providers, among others. Together these organizations would submit plans to the tri-county authority for approval and coordination with region-wide plans.

Besides the benefits of inclusiveness in planning major infrastructure investments, there are other opportunities to make transportation projects deliver more than a speedy thoroughfare. Until recently transportation has often been perceived as a blunt-edged knife, dividing and sometimes eliminating entire communities. Transportation doesn't have to be implemented this way. Our approach is more holistic and promises the possibility of more than just increased mobility. It aims to gain more return on investment.

Return on Investment (ROI) is a term with which most people are now acquainted. When people make a large investment in something, they want to know what they will get in return. This is

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as true for government institutions as it is for individuals and families. In addition to the types of returns mentioned above, ROI can include stable and/or growing regional employment during the life of the project and beyond, increased tax revenues and private investment through the creation of developable space and the circulation of cash and regional livability. Major infrastructure projects such as transportation also can be maximized and costs reduced by adding other major infrastructure improvements at the same time, such as communications, utilities and energy. Only by combining several purposes in large transportation projects and combining several revenue sources can a comprehensive transportation plan succeed long-term.

