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TESTIMONY

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MISSOURI'S TRANSPORTATION FUNDING FUTURE

By David Stokes

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To the Honorable Members of the Committee:

My name is David Stokes and I am a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to provide general support for the idea of increasing investment in Missouri's interstate highways and bridges, and particularly as part of a plan to reconstruct major highways. It should not be viewed as specific support for, or opposition to, any precise plan that the Missouri Department of Transportation (MoDOT) or other groups have put forth beyond general support for using tolling, public-private partnerships (PPPs), and private financing as much as possible as part of those plans.

The Show-Me Institute has released three policy studies relating to transportation investment, toll roads, and public-private

partnerships, including a study by one of America's leading transportation and infrastructure economists.¹ This testimony is generated from the detailed analysis within the studies, and I hope this committee will find the studies helpful. Copies of all the studies and other Show-Me Institute work on transportation funding are included with this testimony. They are also all available at www.showmeinstitute.org.

As many commission members likely know, Missouri has less history with tolling than other states. Most toll bridges across rivers in Missouri were converted to free facilities decades ago. Two bridges operated with tolls until recently — one just north of downtown Saint Louis and one connecting Missouri and Iowa. The only toll facility now in use in Missouri is the Lake Ozark Community Bridge, which opened in the 1990s. Unlike neighboring states Illinois, Kansas, Kentucky, and Oklahoma, Missouri has never tolled its highways.² In recent years, Illinois and

Day envisions a continuous urban corridor between Saint Louis and Kansas City, which would expand past Missouri east through Ohio, and become one of the nation's primary urban corridors.

Indiana have been among the leaders in demonstrating how private companies can successfully operate toll roads via public-private partnerships.³

These “public-private partnerships” often require the selected private party to either pay an up-front amount to the government to operate an asset or finance the cost of the new project itself. (In Missouri, it would likely be the latter option.) That company then builds and/or operates a new highway or bridge, and collects a toll to recoup its investment. The levels of service that the government will demand from a private partner are laid out in extremely detailed contracts, running hundreds of pages. I only wish this possibility had been considered for the Page Avenue Extension connecting Saint Louis and Saint Charles counties, completed in 2003. A private company could have built the extension and commuters, the extension's primary users, could have provided funding with toll payments.

The economic literature on the use of public-private partnerships and toll roads (the two are generally related) to provide highways is clearly positive. This includes economic analyses of PPPs that do not support their use in many other public services. Simply put, the use of public-private partnerships to fund and operate transportation infrastructure has been studied and found to be an effective method of meeting the public interest.⁴

Dr. Kenneth Small

A 2008 Show-Me Institute study questions many common assumptions related to transportation policy and funding. The study's author, Dr. Kenneth Small, an economics professor of the University of California at Irvine, questioned a number of transportation assumptions. He questioned whether

capacity expansion is always the best way to deal with congestion. He asked if the private sector is always more efficient than the public sector, and, contrarily, if public-sector financing is always cheaper than the private sector. He raised a number of other important issues in his insightful paper, and I hope the commission takes careful note of it. In short, Dr. Small feels that the assumption that the private sector out-performs the public sector does not hold up in every case of transportation analysis. However, there are many instances where private financing and private involvement in transportation infrastructure are beneficial to the public interest.

Prof. Jerome Day

The Show-Me Institute published a 2010 case study by Jerome J. Day, a retired professor of Chinese University of Hong Kong and Hong Kong Baptist University, which takes an expansive look at transportation infrastructure in Missouri from the perspectives of history, economics, and engineering.⁵ Day presents well-known examples of transportation investment leading to economic growth, including the Erie Canal, the First Transcontinental Railroad, and the interstate highway system. These and other examples have historically been financed through public or private means, or through some combination of public and private funding. However, public entities have almost entirely financed transportation investment in Missouri during the past few decades. According to Day, Missouri could face a more prosperous future if it considers other options, such as public-private partnerships.

Day envisions a continuous urban corridor between Saint Louis and Kansas City, which would expand past Missouri

east through Ohio, and become one of the nation's primary urban corridors. In this model, a high-quality roadway connects major urban areas to one another, with economic activity naturally springing up around and supporting the area between major cities. In order for Missouri to regain its former status as the crossroads for the movement of people and goods across America, it needs to address the long-run congestion and capacity issues along I-70. A multi-level plan is required to best address the long-term projected transportation needs of the future, and to allow for economic growth in the heart of Missouri.

Day believes that Missouri needs to increase its use of user fees and public-private partnerships to meet its future transportation investment demands. The user fees would enable a system in which those who use the road pay for it. According to Day, public-private partnerships could, in the long run, allow for the required financing to meet future demands, by bringing the efficiency and resources of the private sector to the public sphere.

Day does not envision a top-down imposition of his urban corridor plan. He intends his case study to start a discussion throughout Missouri regarding the best ways Missourians can invest infrastructure dollars to achieve greater economic growth. If we allow for the possibility of private investment, those infrastructure resources expand significantly. During the past decade, MoDOT has proven itself to be a top-level transportation organization. Day hopes that his ideas will become of part of their conversations as well.

Show-Me Institute Internal Research

In early 2008, I published a study, co-authored by the Reason Foundation, a national think-tank based in Los

Angeles, calling for local governments and the state of Missouri to expand their careful consideration of public-private partnerships in addressing the state's transportation needs. One of the most important conclusions was that it would be well-advised for the state to pass wide-ranging legislation that would authorize agencies, particularly MoDOT, to enter into these types of public-private projects when careful analysis has deemed them to be both viable and beneficial.

Public-private partnerships will not be the right solution for all of the transportation needs we face, but for some larger projects, they are an important option worth careful review and consideration. In some instances, public-private partnerships would allow Missouri state and local governments to deliver much-needed transportation improvements in a cost-effective, timely, and fair manner. The Lake Ozark Community Bridge has demonstrated that tolling can work in Missouri in certain situations. I believe there are others as well, including I-70 and I-44.

The economic literature offers guidance in many ways. In regards to I-70, if there is no competing, free road along the bulk of I-70, it will be necessary for state government to regulate the toll rate charged.⁶ It will also be necessary for the government and the private contractor to have a full understanding of MoDOT's rights to construct potentially competitive, non-tolled roads in the future. Finally, it is imperative that each private operator face a level of financial risk with each project. It is exactly that risk that will drive the efficiency gains that mark the primary advantage of private participation.⁷

The I-70 MoDOT Proposal

In the 2012 legislative session, MoDOT's basic proposal was to have a private

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contractor reconstruct and toll the part of the highway between Saint Louis and Kansas City, but leave the parts within the urban centers toll-free. Without tolls, MoDOT officials have estimated Missouri will have to increase the gas tax 15 cents per gallon to fund this project. This would almost double Missouri's current tax of 17 cents per gallon. The future toll rate (or rates, if they are adjustable, as they should be) may be unknown, but the rate should be high enough to fund the highway and discourage congestion,⁸ but low enough to discourage long-distance travelers from taking alternate routes, leading to under-capacity on I-70 and congestion on alternate routes.

A Missouri driver, using baseline assumptions of driving 20,000 miles per year in a car getting 25 miles per gallon, would pay \$120 more per year in gas taxes after a 15-cent increase. That would equal eight trips on I-70 if we estimate a \$15 toll to cross the state. However, all Missouri motorists and anyone else buying gas in Missouri would pay that tax increase, whether they use I-70 or not. Truckers and frequent highway travelers would likely have to pay more with a toll than with a gas tax increase. There is nothing unfair about that because they are the people choosing to use the asset and drive the road.

Public Goods

How should one pay for public goods and services, through taxes or user fees? Good public policy often comes down to the economic questions of rivalry and excludability. Pure public goods are non-rivalrous (meaning that your consumption of it does not limit my consumption) and non-excludable (meaning that it is difficult to prevent someone from using

a particular good). Sound public policy suggests that general taxes pay for those types of public goods. A local road system is not excludable (there is no means of keeping someone from leaving their driveway and driving on the street⁹) and non-rivalrous (your use does not impede my use, although congestion makes any road rivalrous in certain conditions). Taxes, such as a general gasoline tax, are preferred for these systems.

Inter-city highways and many bridges do not meet those standards for public goods. It is easy to exclude a driver from a major bridge or highway, and they are more rivalrous than local roads because there are fewer alternative routes. Smart policy is to pay for those services via fees — in this case, tolls.

In closing, the greater use of PPPs and user fees will allow both public and private entities to work together to address our state's serious, long-term transportation needs. If those resources are not sufficient, a reasonable increase in the standard gas tax or the diesel tax should accompany those options. Transportation infrastructure can benefit Missouri, as Day detailed. However, general taxation need not be the primary funding mechanism for that investment. A general sales tax increase for transportation funding is a step in the wrong direction. I thank you for this opportunity to address the committee, and I would be pleased to answer any questions.

David Stokes is a policy analyst at the Show-Me Institute, which promotes market solutions for Missouri public policy.

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NOTES

¹ Small, Kenneth A. "Private Provision of Highways: Economic Issues," Show-Me Institute Policy Study No. 17. November 2008.

² Kentucky has historically made heavy use of tolls, but currently does not have any tolls. In my opinion, the state likely will return to tolling in the future as new highway projects are needed.

³ More specifically, the city of Chicago has led the way in this regard more than the state of Illinois.

⁴ Stokes, David C., Leonard Gilroy, and Samuel Staley, PhD. "Missouri's Changing Transportation Paradigm," Show-Me Institute Policy Study No. 14. February 2007: 17–19.

⁵ Day, Jerome. "Building Missouri's Urban And Transportation Infrastructures To Support Economic Development," Show-Me Institute Case Study No. 8. January 12, 2011.

⁶ Small, p. 17.

⁷ Stokes, pp. 19-20.

⁸ Using toll pricing to discourage congestion is more of an issue in urban areas than for this proposed plan.

⁹ At least no means of doing so that would be cost-effective and not raise significant privacy concerns.