MAPC
METROPOLITAN AREA PLANNING COUNCIL
Smart Growth & Regional Collaboration

Transportation Finance Recommendations

Revenue Raising Options

Updated: March 22, 2013

Introduction

Transportation, the backbone of a thriving economy, is crucial to every aspect of life in Massachusetts, connecting workers to jobs, businesses to markets, students to schools, and residents and visitors to cultural and recreational resources. Yet decades of over-borrowing and under-investment have left the Commonwealth's transportation system buried in debt and facing an overwhelming maintenance backlog. In fact, Massachusetts routinely pays for operating costs with borrowed funds, a practice that no reasonable household or business would follow.

The implementation of reforms adopted in 2004 and 2009 has made our transportation system far more efficient and well-managed. Both the Legislature and the Patrick Administration deserve credit for these successes. However, action is needed now to put transportation on a sound financial footing and build the 21st century system that will enable us to meet our economic and environmental goals. According to the Patrick Administration, which has laid out a bold plan to make additional investments in our transportation system, increased revenue of $1.02 billion per year is needed to adequately fund the system we have and the improvements and expansions we need.

The Metropolitan Area Planning Council (MAPC), the regional planning agency serving the people who live and work in 101 cities and towns in Metro Boston, has prepared the following recommendations to address the current crisis in transportation funding. These recommendations are intended as a "menu of options" from which several sources will be needed to solve this financial crisis in a way that does not unfairly over-burden one segment of our population. We believe that all options should be on the table, and we stand ready to work with the Administration and both branches of the Legislature to develop legislation that will address our state's transportation funding needs this year.

Principles

- Investments must be made statewide, serving every community, every mode[1], and every user.
- The burden of paying for our transportation system must be shared equitably across every community, every mode, and every user.

[1] When MAPC speaks of "modes," we include roads and bridges, passenger and freight railways, trolley and bus lines, bicycle infrastructure, and pedestrian facilities. In order to maximize public choice, all modes should be safe, well-maintained, and fully up-to-date.

- New transportation revenues must cover both our operating and capital shortfalls. The Commonwealth should cease to utilize bond funds to pay for annual operating expenses.
- We believe in "fix it first," but not "fix it only." Meaningful improvements and modest expansions of our transportation system are essential for Massachusetts to compete economically with other states and regions across the globe.
- Funds raised via the transportation system should pay for transportation only, but revenues should not be restricted to the asset on which they were collected.
- Not only the Commonwealth, but also local governments should receive new revenues. Often, cities and towns can maintain transportation assets more efficiently.
- Revenues should be raised and investments should be made with consideration of public benefits, including the state's mode shift goals, greenhouse gas reductions, public health outcomes, and smart growth principles. It is especially important to consider both beneficial and adverse impacts on Environmental Justice populations.

Revenue Recommendations

1. The gas tax should be raised and indexed to inflation or the sales tax exemption on gas should be lifted.

The gas tax is the most effective way to finance our transportation system, at least in the short term. Yet the gas tax in Massachusetts has not been raised since 1991. During that time, the real value of the current gas tax has declined 42% due to inflation. The gas tax should be raised and indexed to inflation so that it can keep pace with the growing needs for transportation funding over time. This would enable modest, automatic increases. Each cent that the gas tax is increased would generate approximately $32 million annually.

Alternatively, gasoline is currently exempted from the state sales tax. Removing the sales tax exemption would be worth about $700 million annually in new revenue, and would allow the gas tax to increase with inflation, without requiring future legislative action.

2. Drivers should be charged a per-mile usage fee at the time of their annual vehicle inspection, and municipalities should receive a portion of that fee.

Charging drivers a per-mile fee at their annual vehicle inspection would allow the Commonwealth to begin generating mileage-based revenue without having to make a significant investment in new infrastructure. This system could either charge drivers for every mile driven, or for every mile driven above a base number of miles. Compared to the gas tax, Vehicle Miles Traveled (VMT) fees are more stable over the long term as vehicles become more fuel-efficient and hybrid or electric vehicles become more widespread. This strategy could be implemented with minimal investment in new technology, and is an equitable way of levying a usage fee on all drivers based on total miles driven. A fee of 1 cent per mile, for example, would raise approximately $425 million annually, costing each driver an average of $114. By contrast, tolling tends to place a disproportionate burden on drivers of limited-access highways as well as major bridges and tunnels; and fuel taxes disproportionately burden drivers of older, less efficient cars who may have lower incomes.

MAPC believes that municipalities should receive a share of these fees, as they are responsible for maintaining the local roads that bear a significant portion of the state's vehicular traffic. A small VMT fee could be used, in part, to bring Chapter 90 funding into a better balance with need, without adding to the already-strained bond cap.

3. **Consider increases in broad-based taxes such as the income tax as an option to sufficiently fund our transportation system,**

Since an effective transportation system is essential to economic development and quality of life for all Commonwealth residents, whether or not they are direct users of each mode, revenue from non-transportation sources should contribute to building and maintaining the transportation system that Massachusetts needs. A portion of the sales tax already funds transportation. Similar, additional measures could be taken with the sales tax or other broad-based, statewide taxes to dedicate funds to transportation in the event that broad-based taxes are increased.

Another possibility is dedicating the sales tax from automobile sales to transportation, which would divert approximately $650 million per year of existing revenue to transportation (of which 25% is already allocated to the MBTA). Although that revenue will need to be replaced with funds from an increase elsewhere in the system, it makes logical sense to use the sales tax from auto sales to fund the transportation system.

If a broad-based tax such as the income tax is increased to finance the transportation system, it should be done in a manner that increases the overall progressivity of the tax code.

4. **Allow municipalities or regions to raise funds via ballot initiative for specific projects or lists of projects.**

Single municipalities or regional groups of municipalities should be able to hold votes to raise funds for specific projects or lists of projects, through increases in the property tax, sales tax, parking fees, excise tax, real estate transfer tax, or other sources. This is a major source of revenue for transportation infrastructure in most other areas in the country, but it is not currently available in Massachusetts. In fact, from 2010-2012 there were 128 ballot measures in 19 different states from every region of the United States. Voters approved new funding for transportation in 78% of these ballot campaigns. Although this step would not raise revenues immediately, it is a very important reform for the long term, and it should be included in any legislation passed this year to address the state's transportation finance needs.

5. **Vehicle registration fees, fares for the MBTA and RTAs, and tolls, should be subject to predictable and modest increases.**

Predictable and modest increases in fees, fares, and tolls – perhaps every two or three years – are a much smaller shock to the transportation system and the individual user than massive increases like the MBTA's dramatic fare hike in 2012. These small and regular increases would keep pace with inflation and cost-revenue ratios would remain more consistent over time.

Vehicle registration fees should be indexed to inflation and calculated based on vehicle fuel efficiency. This would provide a modest incentive for residents to choose more efficient vehicles and would recognize the Commonwealth's commitment to lowering emissions of greenhouse gases.

Reinstating tolls from Massachusetts Turnpike exits 1-6 would generate significant revenue with relatively little capital expenditure since the old toll booths have been maintained for trucks. In addition, toll collections on the rest of the Mass Pike should be maintained. MAPC advocates a balanced tolling system with the burden shared more equitably across regions (see item #6), but in the meantime it is crucial not to forfeit revenue for our already-underfunded transportation system.

6. **Implement a broad system of open road tolling on limited access highways.**

This item could generate significant revenues on interstate and limited access highways by levying a per-mile charge via "open road tolling" technology. These fees, equitably distributed on all limited access highways and assessed electronically, would be better than traditional tolls because they are safer, less expensive to operate, cause less congestion, and can cover a broader number of roads than those currently covered by tolls.

7. **Fund a portion of transportation expansion costs through District Improvement Financing and other value capture strategies.**

State-level value capture strategies such as the Infrastructure Investment Incentive (I-Cubed) Program should be more aggressively pursued. Additionally, municipalities should explore the use of District Improvement Financing (DIF), and pledge a portion of incremental property tax collections to cover a portion of the costs for major capital projects. Municipalities should not be overly burdened by such contributions, but a modest local match may be reasonable, especially if significant new revenues derived from development around the project are likely to be available. As with the regional ballot initiatives mentioned in item #4 above, such value capture mechanisms are commonly used in much of the country.

Additional Strategies and Pilots

There are additional ideas that may help to raise more money for transportation, or to distribute the burden more equitably. A few ideas that deserve further consideration include:

1. Implement a pilot program to assess the feasibility of transponder-based VMT charges.
2. Fees based on transportation impacts from development should be used to update and improve the transportation system.
3. Study the implementation of congestion pricing and peak pricing for transit fares.
4. Establish a state infrastructure bank.
5. Revenue from the Underground Storage Tank program should be dedicated to transportation.
6. Study the introduction of High Occupancy/Toll (HOT) lanes.
7. The MBTA should study the implementation of a University or Universal Pass Program.
8. Create a new allocation to both incentivize and fund Complete Streets activities by municipalities.
9. Vehicle excise taxes should be increased to reflect the true value of the vehicle.