Chapter 2:
Evaluating Local Transportation Funding Measures

In order to conduct a systematic and detailed evaluation of transportation ballot measures, it was necessary to develop a set of questions which can be asked of each. The basic questions of where the funds are coming from, and what the revenues will be spent on, must be answered. Evaluators must also ask what provisions for oversight and accountability have been established. The ballot measure must be considered in the context of existing plans and processes. Finally, it is important to ask if the proposed measure is at the appropriate level of government.

First and foremost, voters need to ask whether additional transportation funding is truly needed. This is a very difficult, but obviously very important, question to ask before any of the others. While this paper does not directly address this issue in the detailed analysis of each of the five measures, current transportation funding projections and needs should be analyzed in great detail. While there is often a strong case to be made for new revenues and new projects or programs, the case for new money over and above existing transportation revenues must be made by the proponents of any new funding measure. It should be noted that this often relates directly to the issue of underlying land use patterns and assumptions – if land use and growth aren't well managed, the thirst for new transportation funding may prove insatiable.

Critics of voter-approved funding measures also argue that such measures are inherently flawed because the voter's voice on the matter is limited to a simple yes or no. This puts the voter who favors some elements of a ballot measure, but is opposed to others in the awkward position of having to choose the lesser of two evils. This paper does not presume to address that issue inherent to the nature of these measures, but STPP feels that it is important to acknowledge the criticism.

Of course, one important way to enhance voter approval and general public support is by involving a diverse range of stakeholders in the development of the funding measure itself. Broad support from business, environmental, disability, labor, community development groups and other key interests has made the difference between success and failure for many local financing efforts. Voters should obtain third party position statements of local funding measures if at all possible (some are printed in voter election guides but are generally incomplete) when deciding whether to support or oppose a local measure. Alameda County's Measure B in 2000 (see Chapter 3) and Clark County's Question 10 on the November 2002 ballot are good examples of broad based support from a variety of stakeholder interests. In addition to third party support and opposition statements, the following five criteria provide an important initial framework for evaluation.

Where Will the Revenue Come From?

In 2002, 41 transportation finance measures were or will be on the ballot. The sample includes three bond issues, one motor vehicle excise tax, one cigarette tax, one gas tax, five property taxes, three multiple tax measures, and twenty sales tax measures. Additionally, other ballot measures seek to change the distribution of transportation funds by restricting or broadening the eligible uses of certain funding pots, and several advisory measures would authorize state legislators or local representatives to seek additional funding sources.

That 41 referenda in 2002 relate to transportation financing serves as evidence of the fiscal constraints states and regions are presently facing. The dire condition of state transportation budgets must be contrasted with federal funding for transportation that grew by more than 45 percent with the passage of TEA-21 in 1998, from $155 billion over the life of ISTEA to $227 billion under TEA-21.[12] Unfortunately, even as states were enjoying record levels of federal funding, as noted above, traditional sources of state funding, gasoline and motor vehicle taxes, remained relatively steady. This resulted in a situation in which state Departments of Transportation were forced to dig into state coffers to meet the required state match for federally sponsored projects. Confident of consistent

growth in the number of miles driven (thus increasing state gasoline tax revenues), most states failed to increase the rate of their primary funding source – the state gas tax. In fact, of the 50 states and the District of Columbia, only six increased state gasoline taxes faster than inflation since 1998, when TEA-21 ushered in a more than 45 percent increase in federal transportation funding.[13] Five states – Connecticut, Nebraska, Nevada, New Mexico, and New York – actually lowered state gasoline taxes.[14] As a result, several states have had trouble even providing the match for federal highway funds. When the growth in the number of miles driven (VMT) slowed and then stalled in 2000, many states suddenly discovered that they would have to dip well into their reserves in order to find funds for the state share of transportation projects.

California is particularly notable for its recent increase in diverting general fund revenues for transportation purposes. A combination of recent ballot measures and state legislation has locked up tens of billions of dollars in general fund revenues, at a time when the state has been experiencing budget deficits as high as $24 billion. In 2004, a measure placed on the ballot by the California state legislature will ask voters to approve yet another portion of general fund dollars, setting aside a growing percentage state's general fund – worth as much as $5 billion a year — specifically for transportation projects.

Public transit programs have been particularly hard hit by dwindling state transportation budgets. As of 2002, thirty states have constitutional or other restrictions prohibiting gasoline tax revenues from being spent on transit facilities, operations or maintenance. In recent years, as the U.S. is experiencing record transit ridership, these restrictions have made it difficult for transit agencies to keep up with demand.[15] Even for states which don't prohibit gasoline tax revenues from being spent on public transit, agencies face the same state budget shortfalls that have crippled state highway and transportation departments.

Now, as their funding reserves dwindle, states are scrambling to find revenue to fund projects already on the books. Hence the 41 financing initiatives on 2002 ballots. Interestingly, only two initiatives seek to address the ultimate source of states' funding shortfalls – the failure to raise state gasoline taxes. The majority of the referenda look to raise funding by increasing sales taxes, property taxes, or even the cigarette tax. This approach to raising revenue for transportation projects is problematic for two reasons.

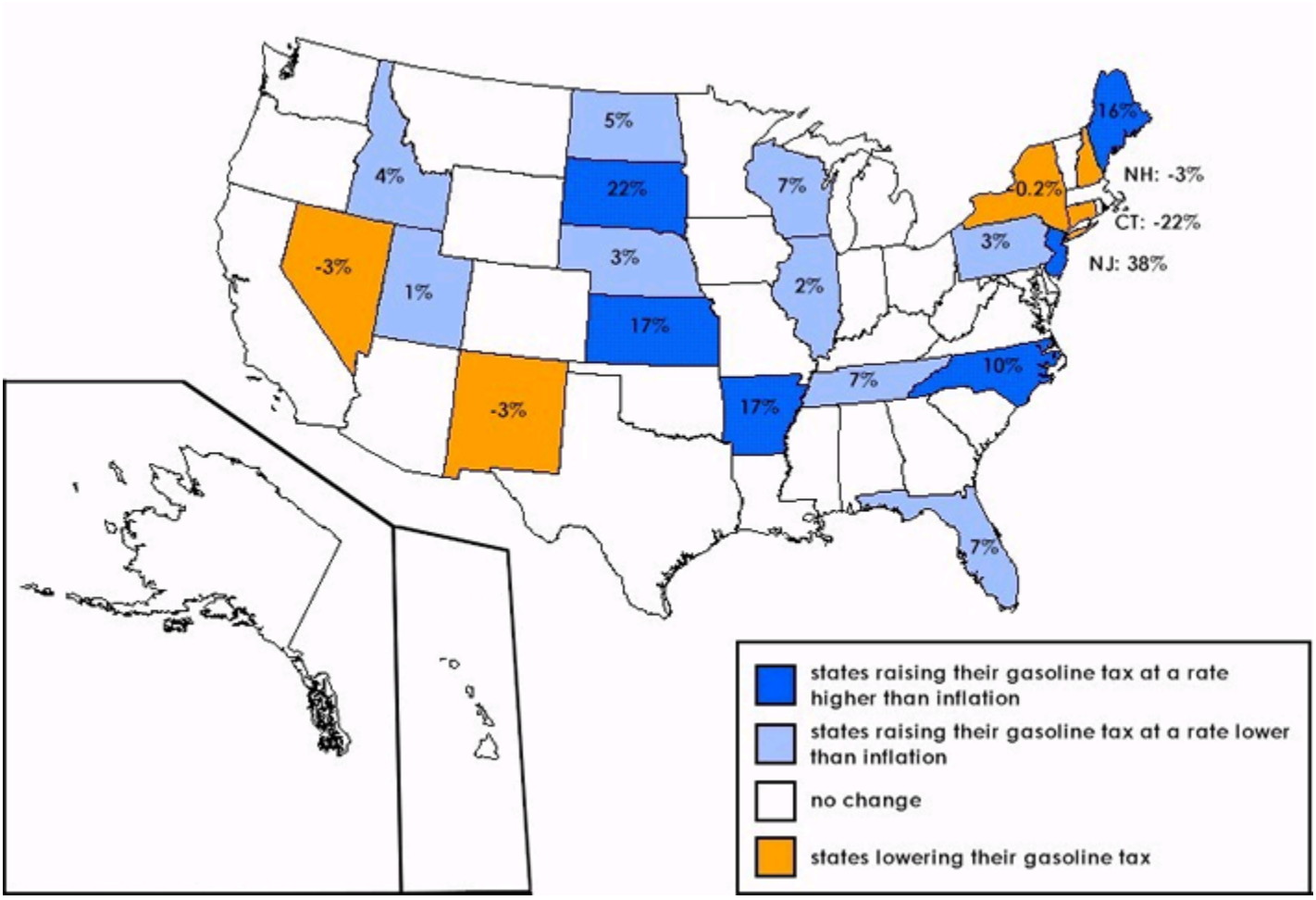
First, like all taxes not directly tied to income (including the gasoline tax), sales taxes are regressive, meaning that lower-income individuals must devote a larger share of their budget to those taxes than higher-income individuals. This puts an unfair burden on the poor to spend more of their income to support a transportation system that benefits all individuals, and is especially burdensome in states which permit sales taxes on food, medicine and other necessities.[16]

Second, even though both the sales tax and the gasoline tax are regressive, the sales tax is a non-user fee. Except for motor-vehicle and motor-fuel excise taxes, sales taxes are not explicitly tied to the use of the transportation system. In contrast, the gasoline tax attempts to approximate the payer's use of the system. For every gallon of gasoline consumed, the driver contributes 18.4 cents to the federal highway trust fund and a varying amount to the state transportation trust fund, which is largely used to build and maintain roads (for a full list of all current state gas tax rates, see Table 1). The gasoline tax also serves as a small incentive to use the system more efficiently – the more you drive, the more you pay.

In addition to the sales and gasoline taxes, voters will be considering or have already decided the fate of several bond issues. Bonds have been a popular, and mostly proven mechanism for raising up-front capital to pay for infrastructure projects. Even though they also amount to a non-user fee and must typically be paid back through general fund revenues, they were among the first methods used to finance road projects in the early twentieth century. However, many states are experimenting with a new type of bond, with negative results. In an attempt to provide states with innovative financing mechanisms, Congress, in the federal transportation funding bill TEA-21, established the guaranteed anticipated revenue vehicle or GARVEE bond. The GARVEE bond allows states to borrow against expected future federal transportation funds, essentially pushing debt off into the future.

This is an attractive financing opportunity for policy-makers who correctly discern that they will be able to take credit now for new roads or transit facilities, while the bill for those projects will be passed on to future elected officials. Unfortunately, in using GARVEE bonds, states are leveraging their future capacity to maintain the infrastructure expansions they're constructing now with those GARVEE bonds. Already, after just a few years in existence, this innovative financing mechanisms appears to be sending states into bankruptcy. New Mexico, which has used GARVEE bonds and other innovative financing liberally, must now devote more than 20 percent of its federal funds to debt service. As a result, New Mexico's $60.5 million "100 Percent State Construction Program," intended to fund highway improvements on the 1,200 miles of roads not eligible for federal funding, will go unfunded next year. As Alaskans go to the polls this November to vote on the issuance of $100 million in GARVEE bonds, they should take a long, hard look south to New Mexico before casting their vote.

While GARVEE bonds may prove disastrous for some states, their use points to an important financing issue. That is, some taxes and financing mechanisms might be more appropriate for lower-cost, short-range solutions. Other taxes or financing mechanism may better address large-scale, high-cost investment for long-range solutions. While there is no hard and fast rule for determining this, voters should consider the question before casting their ballot.



How Will the Revenues Be Spent?

Perhaps even more contentious than where the revenues are coming from is how those revenues will be spent. In evaluating a local transportation funding measure, voters must consider whether the revenue is tied to specific projects or programs – essentially if basic guarantees exist for how the money will be spent. This is vitally important, as many local spending measures are increasingly being sold on the promise of better mass transit without proper assurances that the funding will eventually be spent on the programs that are highlighted in the public campaign to

win voter support. This "trust us" approach must be closely examined and is far from ideal. The voter must also examine the modal mix and balance of specified or eligible projects and programs, and weigh the relative share dedicated to maintenance and operation against the share going to capital expenditures and capacity expansion. Finally, the voter must attempt to evaluate both the short-term and long-term effectiveness of the proposed measure.

It has become increasingly clear that the public – particularly in metropolitan areas where nearly 80 percent of Americans now live – is demanding a more balanced transportation system and a greater diversity of travel choices, including better public transit service. A 2000 poll conducted for Smart Growth America found that 60 percent of Americans want their state governments to spend more of its transportation budget for improvements in public transportation, such as trains, buses and light rail. Seventy-seven percent of respondents support using part of their state transportation budget to create more sidewalks and stop signs in communities to make it safer and easier for children to walk to school.[17] It may be appropriate for smaller funding mechanisms to be narrowly focused on a single mode (i.e. road maintenance) or a single project, but larger funding initiatives should include a well-balanced mix of different project and program types. The right mix will necessarily vary widely from region to region, but priority should be given to programs and projects that can't typically be funded through traditional "user fee" financing mechanisms: transit operations, paratransit for seniors and the disabled, local street and sidewalk repairs, road maintenance and land use incentives.

To be truly effective at meeting ongoing transportation needs, local funding measures should provide funding not just for the initial construction of a facility, but also for its long-term maintenance and continued operation. This seems like an obvious point, but states and regions are often tempted to raise short-term capital for the construction of infrastructure projects, without consideration of the long-term operations and maintenance costs. New Mexico, for example, has been forced to divert federal and state funds away from its maintenance program in order to pay the debt service incurred in its recent road-building program.

Finally, and perhaps most importantly, transportation problems in general and traffic congestion in particular will never truly be solved unless far more aggressive efforts are undertaken to influence local land use and growth patterns. Highways inevitably attract development, which inevitably attracts more traffic to the highway, which leads to cries for solutions to an already congested investment. Likewise, transit facilities without transit-oriented development will struggle to meet ridership goals, and may not achieve air pollution reduction goals if riders must drive their cars to the station. Transportation funding measures should include strong provisions for coordinating transportation and land use and ideally will include distinct funding categories for transportation incentives that reward local efforts to both deter residential and commercial development around highways as well as attract intensified development around new public transit facilities.

An excellent example of this incentive approach can be found in San Mateo County, California, as part of the county transportation agency's new transit-oriented development incentive program. In a recent study of the underlying causes of traffic congestion, planners concluded that their transportation problems didn't necessarily have transportation solutions. The study pointed to the lack of affordable housing near jobs and close to public transit as one of the main causes of traffic congestion. The county transportation agency thus started a new program to reward local cities with transportation dollars based on the construction of housing near jobs and public transit. If the city breaks ground on the housing units, they are rewarded with transportation dollars based on an incentive of $2,000 per bedroom constructed. County officials are planning to include funding for these land use incentives in the development of their next local transportation sales tax measure that will likely appear before voters in 2004. Transportation officials have often distanced themselves from any debate over how growth patterns contribute to traffic congestion (by failing to build affordable housing close to jobs, for example) and the overall responsibility that the transportation sector has to help promote better land use. Yet an increasing number of experts and local decision-makers are beginning to see the strong connection between transportation and land use, and there is no longer any reason why growth management measures and land use incentives shouldn't be included

in a local transportation funding measure. Indeed, the public's investment of its tax dollars will be much better served and protected if there are strong land use provisions and incentives included.

What Provisions for Oversight and Accountability Have Been Established?

In this era of Enron and MCI-Worldcom accounting scandals, the need for financial oversight in both the private and public sector has become increasingly clear. Several state departments of transportation have recently come under scrutiny for their less than forthright accounting practices and project selection process. It seems clear that third-party monitoring is critical to ensuring that agencies and programs are accountable both to their fiscal sponsors and to the users of the system. Third-party monitors can also help assure that programs and agencies are making progress toward meeting objective performance measures.

Key to the success of an oversight committee is whether or not its structure includes ample public representation. The best oversight committees include not just decision-makers, agency officials, engineers, planners, and other transportation experts, but also representatives from the general public. These are the people the system is designed to serve, and whose tax dollars are paying for the improvement, thus their input is vital to the success of a project or program. The influential oversight committee (called the Citizens' Watchdog Committee) created under Alameda County's Measure B is composed of ten appointees from local-elected officials, and seven interest groups specifically identified by the referendum.

Accountability typically refers to fiscal disclosure. But accountability can and should go far beyond the question of who's looking after the books. Agencies and programs must be answerable to objective performance measures beyond financial efficiency. Taxpayers want to know how the project or program will help increase mobility, alleviate traffic congestion, make the system safer, improve air quality, better link land use and transportation planning, and help to enrich, rather than detract from quality of life. Established performance measures must be objective and quantifiable, as opposed to vague promises or goals. For example, rather than stating that the funding measure will improve air quality, a quantifiable performance measure might seek a five ton reduction in nitrogen oxides. The funding measure should not make a hollow promise to end traffic congestion, instead it should endeavor to reduce travel times or increase transit ridership. Objective, quantifiable performance measures provide policymakers and the public with the ability to test the effectiveness of an effort.

How Do Proposed Projects Relate to Existing Plans and Processes?

Under ISTEA and TEA-21, regions and states must produce continually updated short-term and long-term transportation plans. These plans run the gamut from a wish-list of projects, to detailed descriptions of proposed infrastructure changes or additions, including an analysis of those proposed projects' impacts on regional air quality.

Projects or programs contained in ballot initiatives should relate to and reflect those existing plans or processes. While ballot measures serve as an important mechanism by which citizens can voice their opinions about what the state or region's transportation system should look like, the authors of such measures must consider the plans already in place. Failing to do so could wreak havoc on agency budgets and efforts to improve mobility, safety, or air quality.

Is the Proposed Initiative at the Appropriate Level of Government?

Finally, the voter must consider whether the proposed project or program will be administered at the appropriate level of government. The transportation challenges of the 1950s were addressed by building an interstate highway system to link major cities and states. Now, the transportation challenges of the 21st century are more about how people move *within* rather than *between* growing metropolitan areas – the expanding areas of cities and suburbs where a majority of Americans now live. Regional planning has gotten somewhat of a boost within recent legislation. Transportation problems and needs, like so many other issues today, no longer follow the political lines and boundaries that were established hundreds of years ago. While regions vary throughout the country, they are

typically comprised of a traditional urban core and its multiplicity of outlying suburbs – often also encompassing several counties.

The federal transportation funding laws ISTEA and TEA-21 greatly strengthened the regional transportation planning process. Those laws gave Metropolitan Planning Organizations (MPOs) increased funding, expanded authority to select projects and mandates for new planning initiatives in their regions, in an effort to ensure that the transportation infrastructure would reflect regional needs and land use patterns.

While a regional approach to transportation planning may be imperfect, it is no doubt an improvement over state-driven programs, which often don't reflect regional needs. A regional approach is also sometimes an improvement over a purely locally-based method, which may not be coordinated with other regional projects or goals.

However, financing mechanisms for regionally- or locally-specific programs or projects may encounter strong opposition from areas of a state which will not benefit from such programs or projects. For this reason, it is more practical to propose a regional funding mechanism for regionally-specific projects or programs such as the creation or expansion of a transit system.