

# Inside Business

The Hampton Roads Business Journal | Insidebiz.com

JUNE 4-10, 2012

\$1.00



**JAMES WEBB JONES**

## TRANSPORTATION

# Why tolls are coming to road projects near you

Federal and state transportation executives have been telling us for years that every American highway project requiring a budget of \$500 million or more must be financed by tolls. From 1792, when the state of Pennsylvania chartered the Philadelphia and Lancaster Turnpike, private investors financed many roads in the United States by tolls.

Tolling, in the early days of this republic, was about the only viable alternative to finance major road and bridge construction. Today, America finds itself reaching back to tolls. Lack of funds for new transportation infrastructure is a crisis for all America and not just Virginia.

The people of Hampton Roads may not understand how we reached the transportation crisis that grips the entire nation. In America today, financing the needs of an aging population, dealing with national security matters, including terrorist threats, fighting two wars simultaneously over the past 10 years, struggling with the aftermath of serious natural disasters, dealing with short- and long-term consequences of environmental disasters and carrying the enormous burden of servicing a national debt from mounting federal deficits have sharply reduced available funding.

Public-private partnerships that build toll facilities have thus emerged as a mechanism similar in many respects to the old turnpike toll authorities that financed and operated most of the major road and bridge projects in our early history.

At every level of government, legislators have pursued fiscal policies that generally require government to operate without any increase in net revenues. Thus, funds for transportation must come either from cuts in other government spending or be privately financed. Considering all of the many needs cited above, transportation budgets became targets where in substantial spending cuts could be accomplished.

From our earliest days, Americans have never had much of an appetite for taxes. During the current wars,

the people have sent to Congress representatives from the two major parties who have not been willing to ask the American people to reach into their pockets to finance these wars or deal with the expenses of national security, natural or environmental disasters or the elderly.

The reduction of available funds by lowering taxes and borrowing created an insufficient revenue stream that is causing major transportation projects across the U.S. to be funded by tolls.

Since Hampton Roads has perhaps the most acute need for new transportation infrastructure in the state of Virginia, it is where toll projects are being constructed.

However, as time passes, projects across Virginia will have to be tolled if they are to be built and maintained as we now see in Northern Virginia.

It is hard for those in the rural areas of the state to realize the significance of the Port of Virginia to the entire economy of the state. It is also difficult for many to understand that any port cannot grow if transportation infrastructure is insufficient to move cargo at the pace required by today's on-demand manufacturing processes.

In modern day manufacturing, the parts are delivered only several hours before they are to be used or installed on the product being made. However, if a supplier is two hours late in meeting its deadline for delivery to the manufacturer, the supplier will likely never again receive an order. Modern logistics require that the goods that pass through the port must be moved north, south or west with more speed than is presently possible in Hampton Roads.

If our ability to move cargo from the port to the road or to rail declines, so will the port's business and the economy of Virginia. The recently improved rail tunnels that allow a double stack of containers from the Port of Virginia to move west, north and south came about because freight from New York could reach Chicago some eight hours ahead of cargo from Virginia's port.

Many do not understand the benefits to new port facilities in Portsmouth that will spring from the tolled facilities. When cargo moves at a faster pace, it will bring jobs, new businesses and commercial buildings to the tax base of Portsmouth where for 50 years the city has struggled with 50 percent of its land being exempt from taxation.

The people need to be taught that a basic principle of tolling is that there cannot be a free alternative to the tolled facility. If the Mid-Town Tunnel is tolled and the Downtown Tunnel is free between the cities of Norfolk and Portsmouth, then drivers will migrate towards the free crossing – creating there continued congestion and a choke point.

At the same time the reduced traffic at the tolled crossing will not be sufficient to make the tolled crossing profitable and the public-private partnership venture will likely collapse. When any public-private partnership venture collapses then government as the provider of last resort for essential services has to step in and take over the venture, usually buying back from the trustee in bankruptcy or creditors the right to operate the tunnel, bridge or road. In short, taking over a failed toll facility franchise is very costly to government.

Public-private partnerships building and operating toll facilities have become the only viable alternative to the traditional ways we have financed transportation infrastructure. Government budgets have us turning away from the payback involved with tax-free bonds that were a major source of American transportation funding in the past.

The public must be educated on these matters and shown that the design and operation of roads and bridges has never been a very profitable area of enterprise.

From the second half of the 19th century, until the present, state government engineers and state highway department employees designed and oversaw the construction of our major transportation infrastructure. The present American fiscal crisis and

the apparent "will of the people" dictate that all government be smaller and the ability of these leaner agencies to plan, design and supervise construction of major infrastructure has shrunk.

Road building in the past was an activity at which government was more efficient than private enterprise in part because of the "institutional knowledge" built up by agencies such as VDOT over more than 100 years.

The private companies that now step into the breach created by smaller government, to design and build the infrastructure essential to our economy, are profit-making entities and they cannot be expected to operate at cost. Rather, these entities that are developing and maintaining our infrastructure must be allowed time to build "institutional knowledge" and to make healthy profits so that they prosper and are able to continue in business in perpetuity to provide more infrastructure as time passes.

It has been well-known by transportation scholars since those early days of turnpike authorities that once a concessionaire operates a transportation project for anywhere between 40 and 90 years, that the entity operating the project generally becomes a monopoly. It is virtually impossible for another entity to outbid at the end of a typical concession period any corporation that has held a franchise to operate a toll facility for 40 years or more.

Thus, it is natural that tolls will rise and that those holding a monopoly will use their position to maximize their profits.

However, with America's unwillingness to provide a sufficient dedicated revenue stream for transportation infrastructure through fuel taxes, general sales taxes, special sales taxes or income taxes, the only way to have significant transportation projects developed across the U.S. is through tolled facilities.

Because an efficient transportation system is vital to Virginia's economy, the people of Virginia, as indeed in all other states, must face the reality that the policies of the past and an international economic crisis will require that we pay tolls in order to have the infrastructure we need for survival.

*James Webb Jones is an attorney with the law firm of Poole Mahoney PC and is experienced in state and local governmental transportation issues. He can be reached at 552-6034 or [jjones@poolemahoney.com](mailto:jjones@poolemahoney.com).*