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TRANSPORTATION FINANCE PANEL RECOMMENDATIONS

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ISSUE

This report summarizes the recommendations of the Governor's Transportation Finance Panel.

SUMMARY

The governor created the nine-member Transportation Finance Panel on March 31, 2015 and charged it with recommending ways to fund transportation beyond the initial five years of his "Let's Go CT" transportation initiative.

Let's Go CT is a 30-year, $100 billion plan to modernize, improve, and expand Connecticut's transportation infrastructure. Of this amount, $66 billion would be used to preserve and improve existing transportation systems (e.g., the I-84 Viaduct in Hartford and the I-84 "Mixmaster" in Waterbury), and $34 billion would be spent on projects to reduce congestion and improve access to integrated rail and transit systems (e.g., highway widening, enhancements to the New Haven Line and expansion of Shoreline East).

The panel based its revenue and operating cost projections on the state's current systems and structure. Because of the difficulty of projecting the state's transportation needs through 2045, the panel said it decided to propose solutions through 2030 and recommend a "framework to provide sustainable revenue alternatives" to "deliver stable and predictable revenue streams for the Special Transportation Fund (STF, see BACKGROUND)… into the 30-year long-term future."

"However," the panel said, "if the state continues to modernize the Department of Transportation (DOT) and implements many of the reforms highlighted in this report, the funding recommendations will take Connecticut further than…15 years."

The panel said that the state should work more closely on transportation financing with private businesses and local governments because it cannot rely on the federal government to be a stable source of transportation funding in the future. "Connecticut is unique," the panel said, "in that it has little to no financial investment by local governments and regional entities in financing transportation infrastructure and minimal involvement by the private sector. The entire responsibility for upgrading Connecticut's infrastructure has rested with the state government (with federal support) and this is no longer sustainable."

The panel made recommendations in the areas of revenue, financing, policy, and state and regional agency operations, which it says provide the following benefits:

1. keeping the STF solvent through FY 2030,
2. no revenue changes until FY 18,
3. reducing state borrowing by $9 billion over 15 years,
4. doubling annual revenues into the STF by raising $18 billion in new revenue by 2030, and
5. providing an additional $55 billion for Let's Go CT through 2045.

This report briefly describes the panel's recommendations in the areas of revenue, policy changes, and state and regional agency operations.

The panel's final report, released January 15, 2016, can be found at: http://portal.ct.gov/uploadedFiles/Departments_and_Agencies/Office_of_the_Governor/Learn_More/Working_Groups/2016.01.15%20TFP%20final%20report.pdf.

REVENUE RAISING RECOMMENDATIONS

The panel recommends increasing revenue from various sources to finance the governor's plan. Table 1 lists these recommended increases in descending order of estimated revenue over 15 years (or otherwise as noted).

Table 1: Summary of Panel's Recommended Funding Sources and Projected Revenue, in millions

Recommendation	*Projected Revenue ($ millions)*
Implement Tolls	$18,300[1]
Raise Sales Tax, option 2 (increase 0.5%, with increment to General Fund, move motor vehicle related taxes from General Fund to STF)	6,200
Raise Sales Tax, option 1 (increase 0.5%, with increment to STF)	5,800
Raise gasoline tax	2,000
Update and index motor vehicle receipts, licenses, fees, etc.	1,300
Increase Petroleum Products Gross Receipts Tax	749
Increase Rail and Bus Fares	678[2]

[1] Net revenue over 20 years
[2] (2018-2030)

Implement Tolls

The tolling recommendations call for all-electronic tolling and congestion pricing (i.e., charging higher tolls during busy traffic periods to reduce peak demand).

The panel says tolling should be limited to major transportation corridors, such as I-84 and I-95, and that entire corridors should be tolled (i.e., no "spot" tolling, which could result in many drivers taking alternative routes).

The panel estimates that it would take about seven years to pass necessary state legislation, get required federal approvals, and install the tolling infrastructure. This means toll revenue will not be available until 2022.

The panel estimates that tolling could raise as much as $18.3 billion in net revenue over 20 years, with collections starting (on some highways) in 2022 and continuing through 2040 (see Table 2). The estimates were based on average tolling rates taken from the current Value Pricing Pilot Program study, and assume a 5% increase in toll rates every 5 years. (See OLR Report 2015-R-0048 and this DOT webpage for more on the Value Pricing Pilot Program study.)

The panel estimates that about 30% of toll revenue would come from out-of-state drivers. Trucks, though comprising only between 10% and 12% of traffic, would pay about 24% of toll revenue because they would pay higher toll rates. Table 2 identifies the cost of implementing tolls at different locations and the revenue the tolls are projected to generate.

Table 2: Estimated Highway Improvement Costs and Toll Revenue Estimates, in millions
(Revenue estimates are from the start of tolling through 2040)

Project	*Cost ($ millions)*	*Tolling Start Date*	*Toll Revenue through 2040 ($ millions)*
I-84 West	$13,845	2022	$4,258
I-95 West	9,435	2022	7,981
CT River Bridges	700	2022	2,287
Rt. 2	155	2022	216.2
I-91/I-691/ Rt. 15	90	2022	494.2
I-95 East	1,710	2024	2,657
Rt. 9	2,820	2024	382.9
Rt. 11 extension	700	2032	42.2

Increase Sales Tax

The panel recommends increasing the sales and use tax, beginning July 1, 2017, from 6.35% to 6.85% and either:

- directing the additional revenue to the STF (Option 1), or
- retaining the additional revenue in the General Fund, and transferring motor vehicle-related taxes from the General Fund to the STF (Option 2).

Option 1 would generate an additional $5.8 billion over 15 years and would have a substantial positive impact on the STF's long-term financial sustainability, the panel said. The panel used option 1 in its overall revenue projections.

Alternatively, the state could retain the additional revenue from the increase in the General Fund and transfer all motor vehicle-related sales taxes from the General Fund to the STF. Currently, only the sales tax generated from private motor vehicle sales ("casual sales") goes into the STF. This is a small percentage of vehicle sales. The majority of sales are made by motor vehicle dealers, who remit the sales tax directly to the General Fund. The panel estimates that Option 2 would add $6.2 billion over 15 years to the STF.

Raise State Gasoline Tax

The panel recommends increasing the current 25 cent per gallon state gasoline tax to the 1997 state rate of 39 cents per gallon by increasing the tax two cents annually for seven years (until 2024). This would restore the purchasing power of the tax, which has not kept pace with inflation. The panel recommends keeping the diesel fuel tax at its current rate.

The panel noted that fuel taxes (gasoline and diesel) are currently the largest and most important revenue component of the STF. Increasing the gasoline tax as it suggests would generate an additional $2 billion over 15 years. The panel said it did not believe consumers would significantly change their driving behavior in any given year because the increase would occur gradually. It also suggests further adjusting the gasoline tax as vehicles become more fuel efficient.

Increase Motor Vehicle Receipts, Licenses, Permits, and Fees

The panel recommends that the state increase various motor vehicle fees, many of which have not increased in 20 years, and index them to the rate of inflation. Each agency would need to analyze the fees to determine what the new rates should be. The panel additionally recommends increasing the new rates every five years to keep pace with inflation. The panel estimates the higher fees would generate an additional $1.3 billion over 15 years.

Increase the Petroleum Products Gross Receipts Tax

The panel assumes this tax would increase by 1 percentage point in FY 18 (to 9.1%), which would generate an additional $749.1 million over 15 years. It notes that unlike other potential revenue sources, this tax has been periodically increased over the last 10 years, from 5.8% in 2006 to 8.1% in 2014.

Review Parking Lot Operation and Parking Rates

The panel said DOT can achieve economies of scale and generate new revenue by unifying the management and operation of commuter rail parking facilities and continuing to consolidate the management of state-owned lots. The panel recommends that DOT also (1) review its parking lease agreements with towns and parking authorities to identify economies of scale, standardize levels of property management, and institute market-based parking rate structures;(2) study more efficient parking fee collection methods; and (3) review capacity and identify new opportunities to generate additional revenue.

The panel also said DOT should (1) tie parking rates to inflation and (2) advocate for legislation (a) to improve compliance with its parking rate policies and (b) allowing DOT to issue and collect parking fines. The panel said this would result in an incremental decrease in spending and an increase in revenue, equaling about $700,000 a year.

Increase Rail and Bus Fares

The panel recommends that bus and rail passengers contribute more to both the capital improvements and the escalating operating costs of those systems. "No commuter bus or rail system will generate enough fare to cover operations, let alone the pressing and long-ignored capital needs," the panel said, "but DOT should implement a plan to routinely review inflation rates, which would result in proposed fare increases on the New Haven, Shoreline East and Hartford lines."

The panel said that implementing annual fare and parking fee increases, tied to an assumed annual inflation rate of 2.5%, would yield a total incremental revenue increase of about $678 million between 2018 and 2030. "These fare increases will not cover the capital needs, but will allow DOT to continue to operate without asking for increases in rail and bus appropriations each year to cover rising operating costs," the panel said.

Convert HOV Lanes to HOT Lanes

The panel also recommends converting I-84 and I-91 HOV (High Occupancy Vehicle) lanes to HOT (High Occupancy Toll) lanes to allow single occupant vehicles to use the lanes if they pay a toll. Both lanes have sufficient extra capacity to allow as many as 500 to 600 drivers an hour to shift into the HOT lanes without reducing speeds, the panel said. Although such tolls would not generate substantial revenue, they would divert vehicles from other lanes during peak traffic times and significantly reduce congestion in those lanes.

Other Revenue Ideas

The panel also recommends some smaller revenue raising ideas that could be implemented immediately. These include sponsorship agreements and "value capture."

Sponsorship. The panel said the state should seek sponsors for the state's seven noncommercial rest areas (not the 23 recently renovated service plazas) and for "safe phone zones" in which motorists can pull over to make phone calls safely. The panel said these could generate as much as $250,000 a year.

It also suggested seeking sponsors for the DOT's highway assistance vehicles, potentially raising about $120,000 annually.

The panel said the state could also sell or lease state-owned rights of way for such activities as renewable energy generation, development, or public utility use.

Value Capture. The panel recommends that the state consider ways to capture the increase in property value that occurs in areas where transportation improvements are made. The panel said a preliminary DOT study of the proposed I-84 Viaduct project estimated that the project could result in 35 acres of new developable land with a potential development value of $840 million. (See OLR Report 2015-R-0101 for more information on Value Capture.)

ORGANIZATIONAL RECOMMENDATIONS

DOT Flexibility and Operational Reforms

The panel recommends that DOT add expertise to help it implement project delivery and operational reforms. The panel also recommends that DOT accelerate efforts to implement "Transportation Asset Management" which it describes as a process of operating, maintaining, upgrading, and expanding physical assets throughout their lifecycle. The panel said understanding an asset's full costs over its entire life could help DOT reduce the likelihood of future funding crises.

Streamline Contracting

The panel recommends that the state allow greater use of design-build and other alternative project delivery systems for DOT projects. (Design-build allows one contractor to perform both design and construction work.) The panel also urges the legislature to lift a 10-year time limit on the use of design-build. "The use of design-build, of clear project prioritization, and of procurement streamlining procedures has typically achieved savings of 10% to 20% in the cost of capital projects" the panel said.

Empower Local Governments

This recommendation would allow regional councils of governments to implement local option sales and use taxes, or other local taxes, which could be used only for regional transportation projects. Such an alternative revenue source, the panel says, could allow work to begin on projects more quickly than if the projects relied on state funding only.

Reduce the Number of Metropolitan Planning Organizations (MPOs)

MPOs, which develop long range transportation plans in consultation with DOT, are the principal recipients of federal and state transportation planning funds. The panel found that Connecticut has too many of them (11 urban MPOs and four rural planning agencies) and most are "under-staffed and under-resourced and too small to effectively carry out" their duties. The panel recommends establishing no more than three MPOs in the state, thus distributing federal planning funds among fewer agencies and giving them the additional staff and technical resources they need to work effectively.

Consolidate Transit Districts

The panel recommends eliminating or consolidating the state's many "small, disconnected" transit districts, which operate bus service in their regions. "Transit customers," the panel found, "are often frustrated by infrequent service, lack of connections between transit districts, and no uniform fare system, among other complaints." The panel noted that, although state transportation funds "cover the vast majority" of transit district operating losses, "the department has no involvement in setting routes or fares and little real control over their budgets. Moreover, since the state significantly subsidizes operating losses, little incentive exists for local transit districts to maximize revenue or reduce expenses." The panel recommends a single state transit oversight agency.

FINANCING RECOMMENDATIONS

Enact Constitutional Lockbox

The legislature approved a resolution calling for a constitutional lockbox amendment in the December, 2015 Special Session. If that resolution is approved again by the legislature in the 2017 session, the proposed amendment will be placed on the 2018 general election ballot.

The panel recommends that the legislature reconsider this proposed resolution in the 2016 session. If it gains a three-fourths margin in both chambers the proposed amendment would be placed on the 2016 general election ballot.

Cap STF Surplus

Many of the revenue adjustments proposed to fund Lets Go CT projects are recommended to begin before significant construction starts, the panel notes, initially resulting in STF surpluses. The panel said the state should take advantage of this opportunity and establish a "significant pay as you go component" to reduce long term interest costs.

The panel recommends capping STF surpluses at 5% of total annual expenses, and using the surplus to pay for the projects. The panel said this will reduce the amount the state must borrow by nearly $9 billion and guarantee that funds will be available to get projects started right away. "The state will save about $2.7 billion in interest payments over the 15 years and more than $6 billion in interest over what would have been the life of the bonds," it said.

Participation of Public Private Partnerships (P3s)

These are typically contractual agreements between a public agency and a private partner that allow for greater private sector participation in the financing and delivery of transportation projects. For example, a private company may pay a state for the right to build or improve a highway in return for the ability to charge motorists for its use. Although P3s are not a revenue substitute, the panel said, their participation can lead to lower project costs. It noted that no projects were developed under the state's 2011 P3 law, which has expired. The panel recommends enacting new laws to allow P3s the chance to participate in Let's Go CT projects. (See OLR Reports 2013-R-0394 and 2014-R-0010 for more information on P3s.)

Other Financing Strategies

The panel recommends that the state look at taking advantage of alternative forms of financing, such as Green Bonds and the federal Transportation Infrastructure and Finance and Innovation Act (TIFIA) program. The proceeds of Green Bonds are dedicated for projects that benefit the environment. TIFIA provides federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance.

The panel also recommends that the state study the benefits of issuing bonds with longer terms than the 20 years currently offered.

BACKGROUND - SPECIAL TRANSPORTATION FUND

The STF pays for state highway and public transportation projects. It is supported by a number of revenue streams, including the motor vehicle fuels tax, motor carrier road tax, petroleum products gross earnings tax, certain motor vehicle receipts and fees, and surcharges on motor vehicle-related fines and penalties. In addition, the revenue services commissioner must direct a portion of state sales tax revenue to the STF beginning in FY 16.

Money in the STF must be used first for debt service on special tax obligation bonds and to pay for certain transportation projects. Remaining funds must be used to pay for (1) general obligation bonds issued for transportation projects, (2) budget appropriations for DOT and the Department of Motor Vehicles, (3) Department of Energy and Environmental Protection boating regulation and enforcement, and (4) the Department of Social Services' transportation for employment independence program.

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