



A User Fee Is Better Than a Tax

By Mike Krusee

Mike Krusee, a member of the Texas House of Representatives, spoke to attendees at IBTTA's "Transportation Improvement Forum" in Santa Monica, California, on March 20, 2006. In his remarks, Krusee explained why he feels a user fee is preferable to a fuel tax for financing transportation infrastructure. His speech appears below.

We've been talking for a long time about how the gas tax is inadequate, about why we have no choice but to use toll financing. That's how we justify it. And it's true.

But, in my view, we should not toll just because we have to, and we should not sell concessions just because we can.

It is important to have a guiding philosophy, and to toll and do concessions because they fit a policy based on that philosophy.

To me, the basis of our philosophy is that a user fee is better than a tax.

So, I will briefly talk about why Texas is doing tolls, and then talk about why tolls are what we should do because user fees are more fair and more efficient than taxes.

Wake-Up Call

Sooner or later, I think all the major states will realize that all major new transportation infrastructure will have to be financed by some sort of direct user fee; namely, tolls. States like Texas, California, and Florida are more

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aware of this because their needs are so large and, because of their rapid population growth, more urgent.

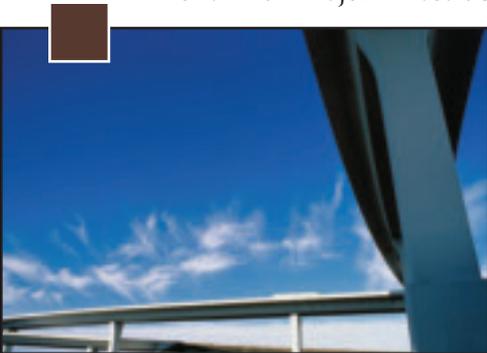
Everyone's wake-up call is different. For Texas, it was computer maker Dell locating its next expansion facility in Nashville, Tennessee, because Austin's roads were inadequate. On that one day, we lost 10,000 jobs. We didn't have the enormous funds it took to fix the problem, and the timetable stretched for decades.

We knew that, in time, we would lose more business, more jobs, throughout our state. So we discovered the magic, and necessity, of private-sector financing and tolls. And we have solved Austin's mobility crisis.

Then we applied that lesson to the rest of the state. With our gas tax receipts in hand, we examined current congestion levels in our major cities—Dallas, Houston, San Antonio--and then projected future congestion based on what we could build, and, importantly, when we could build it. We concluded that just to tread water at current congestion levels required tens of more billions than we had.

The Inequity of the Gas Tax

Since we believe in this radical theory that an efficient economy requires an efficient transportation system, the decision to embrace toll financing for all new major infrastructure projects was inescapable.



Now, everyone knows it's not as easy as that. Tolls are controversial. People would rather not pay. One newspaper's editorial board asked me, "So, are tolls a necessary evil?" I said, "No, they are not. Evil, that is."

And, in fact, on the contrary, it is our current method of financing roads, the gas tax, that is not virtuous. It is the gas tax that is unfair, inefficient, and inequitable.



Think about it. You probably pay 2 or 3 cents a mile, wherever you drive, in gas tax. But if you live in the urban core, you drive mostly on city streets, and none of the tax you pay goes toward those city streets, while the guy who lives in the suburbs is driving 40 miles each day on superhighways that cost billions and he's paying only pennies.

That's inequitable. If we financed public education that way, the courts would rule it unconstitutional.

Consider even if you take two people driving on the same road: one is in a Hummer, getting 10 miles per gallon; the other is in a Prius, getting 50 miles per gallon. Why does one pay five times as much as the other when road construction costs are exactly the same for each of them?

That's unfair.

Or, even, take the same person, in different places. You pay 2 cents to drive a rural highway that costs very little to construct, and hardly anything for right-of-way or environmental mitigation or design. And, yet, you pay the same 2 cents when you cross an interstate interchange that costs \$300 million.

That's inefficient.

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Transportation As Utility

To me, the most useful way to look at transportation is as a utility business, like water or electricity or cable TV or phones.

Nobody would say that because water or electricity is necessary for life it should be free. Everyone accepts that you should pay for what you use, in a direct fashion. Nobody suggests that instead of paying based on your meter, water and electricity should be paid for in an indirect way, like, “Use whatever amount you want to and we’ll just charge you an arbitrary amount tied to your property value.” If that were the case, we couldn’t finance the amount of water and power infrastructure necessary to meet demand. So it should come as no surprise that we cannot, through an indirect method like the gas tax, fund enough transportation infrastructure to meet demand. That’s why we have congestion, with congestion defined as the manifestation of a shortage created by the lack of a free-market finance mechanism.

Under the gas tax, commuters can’t pay for mobility, even if they want to. It’s the equivalent of the government saying, “We’re going to design our water and power systems so inefficiently that you can’t get enough water, you can’t adequately heat or cool your home, you can’t run your business, even if you want to pay to do so.”



The Hybrid Conundrum

Adam Smith would not be proud. There is no “invisible hand” efficiently guiding the investment of our resources in transportation. In fact, there is so little understanding of transportation finance that public officials go around proposing silly things like “hybrids go for free.”

Now, hybrids are great, and they make sense as part of a national energy policy. But it has nothing to do with the cost of a road. In fact, if you really want to be politically correct, hybrids should be banned from toll roads.

Think about it. Cars go fast on toll roads. Hybrids use electric power only at slow speeds; at 60 miles per hour, they’re just like a regular, evil, gas-guzzling car. So, if we want to be socially responsible with our hybrids, ban them from the efficient, fast toll roads--and force them to sit in congestion and use their efficient electric engines.

In fact, let’s give the SUVs a discount, in order to encourage them to move at speeds that improve air quality and are efficient for fuel consumption. (I’m kidding.)

An Asset for Our Children

Let me say one more thing about transportation as a business.

I’m proud of what we’re doing in Texas, because we’re creating assets for our children.

My generation, and this country, is now facing a crisis because the gas tax is not a sustainable finance mechanism. The interstate system is a giant liability. The costs of maintenance and expansion are overwhelming, and we don’t have the funds for it.

But what we’re doing in Texas today, by building toll roads, and then paying the tolls, is creating an asset for our children. They will not face our crisis. A generation from now, the bonds will be paid off, and our children will have in place a revenue-generating asset, much like a water or power utility--one they own.

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Toll roads are the appreciating asset of a business. They pay for themselves and become more valuable over time.

That's what makes our choice in Texas not only easy, but attractive.

Think of it this way. You have a house. You've worked all your life and paid off its mortgage. It's worth hundreds of thousands of dollars. But you have 20 years left to live. So what do you do with it?

You could get a reverse mortgage, spend all the money on yourself, die, and leave your kids with the debt. Or, you can live within your means and leave them an asset:

a house free and clear to live in or give them options for their lives with the money from selling it.

Public officials face the same choice: what are we going to leave for the next generation?

Options for Growth

Here's the lesson we've learned: Tax roads are depreciating liabilities. They're like an old car: it costs more and more to maintain it, and it is eventually worthless and in need of costly replacement.

Toll roads are the appreciating asset of a business. They pay for themselves and become more valuable over time. Like any profitable, revenue-generating business, they provide their owners (the public) with wealth and options for growth.

States that choose to live exclusively off the gas tax are leaving the next generation a debt, a decrepit system, and no options for their future.

We in Texas have chosen instead to leave our children with an appreciating asset, a functioning economy, and funded options for their future.

We are proud of it.

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