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Toll roads in Wisconsin

Revenue from tolling could help solve state's transportation funding dilemma

By Robert W. Poole Jr.

Wisconsin's most important transportation infrastructure — the Interstate highway system — is wearing out and needs to be rebuilt and modernized.

Federal and state gas taxes — which most Wisconsinites, including Gov. Scott Walker, oppose raising — can't possibly pay for this \$8 billion to \$12 billion effort, and most other solutions are also not feasible. Except one.

Tolling, once dismissed as impossible in the Badger State due to lack of federal approval and to local opposition based largely on antiquated notions of how it might work, now appears quite possible.

I've been writing about the potential for toll-financed Interstate modernization in Wisconsin for years, including a 2011 policy study for the Wisconsin Policy Research Institute and a 2013 study for the Reason Foundation. Those studies made careful estimates of the reconstruction and widening costs, made projections of car and truck traffic, used moderate (but inflation-adjusted) toll rates and estimated that for most corridors, toll revenue could cover the capital and operating costs of the second-generation Interstates.

Since then, both the Wisconsin Department of Transportation and the Legislature have taken positive steps.

Last year, at the request of the DOT, the Legislature appropriated \$1 million for a detailed study on "the feasibility of state-sponsored Interstate tolling in Wisconsin." The winning bidder was the Milwaukee office of the respected engineering firm HNTB. The study's three

reports are due to be completed by the end of this year.

HNTB is to deliver:

- A resource document explaining current (21st-century) tolling practices.
- A policy document on how tolling could be implemented on Wisconsin's Interstates.
- A toll revenue analysis to see whether realistic toll rates could generate enough revenue to finance the modernization plus the operating and maintenance costs of the replaced infrastructure.

Assuming the study results are favorable, what might actually happen?

Federal permission

There are two hurdles that must be overcome in order for toll-financed, second-generation Interstates to come about in Wisconsin: The Legislature and the governor must decide that this course of action makes sense, and the U.S. Department of Transportation must give its permission.

At the federal level, the 1956 law authorizing the Interstate Highway System allowed tolls only on those portions of the system that already existed (or were under construction) as toll roads — the New York State Thruway, Ohio Turnpike, portions of the Illinois tollway system, etc. Tolling was explicitly forbidden on all of the still-to-be-built corridors, such as those in Wisconsin.

Since the 1990s, however, Congress has several times created exceptions to this ban, including a provision that replacements of Interstate bridges and tunnels

may be toll-financed and that express toll lanes may be added to congested Interstates.

The most relevant exception for Wisconsin is a pilot program that allows three states to each use toll financing to reconstruct and modernize one of its Interstates. That law was enacted in 1998, and in subsequent years Missouri, North Carolina and Virginia won the three slots.

However, none of them has reached political consensus on making use of the law's provisions. Late last year, in the FAST Act, Congress amended the pilot program, adding a "use it or lose it" provision. States holding a slot must take real steps toward implementation by the end of 2016, or they will forfeit their slot.

That is good news for Wisconsin, since it seems quite likely that neither North Carolina nor Virginia will meet the requirements for definitive action. And while Missouri's governor and its DOT both want to move forward, it's not clear their legislature will act in time. So there could well be slots available next year.

If Wisconsin decides to act, it may face competition. Considerable interest in toll-financed Interstate reconstruction and modernization has emerged in Connecticut, Indiana and Rhode Island. So if two slots become available, there could be as many as four bidders, including Wisconsin.

Public opinion

The other hurdle, of course, is whether enough political support exists in Wisconsin to persuade the Legislature and the governor to move forward (assuming the HNTB study results are positive). Walker has opposed recent moves to increase the state's nearly 33-cent-per-gallon gas tax, and his 2017-'19 budget proposal, therefore, calls for a two-year delay in rebuilding the Zoo Interchange and a further delay on a key stretch of I-94. A 2014 survey by the Marquette University Law School found that 58% of Wisconsin voters oppose a gas tax increase. (See *related stories on Page 26.*) However, the same survey found that 55% would support tolls as the best (or least-bad) way to pay for needed highway improvements.

Similar results were found in a WPRI poll in January 2015. While only 17.3% of respondents believed that the best way to raise funds for transportation in Wisconsin was increasing the

gas tax, 29.2% thought adding toll roads was the best way. On tolling, more respondents than not — 47% to 40.7% — said they would support adding tolling to raise transportation funds in Wisconsin if the tolls were all-electronic and didn't involve toll booths.

These Wisconsin survey findings mirror numerous studies around the country. People increasingly understand the difference between a tax and a user fee. They generally oppose higher taxes because they don't trust government to spend the proceeds wisely. But if a user fee is dedicated to a specific set of projects that benefit those who pay it, people understand the connection. It's more like a charge for electricity or phone service than a tax.

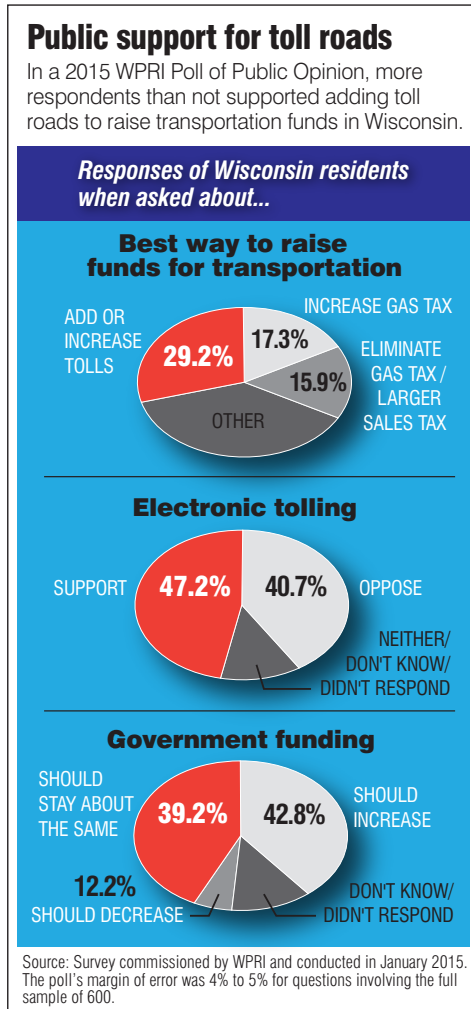
Federal law already requires that tolls to reconstruct an aging Interstate be used only for the capital and operating costs of the replacement highway, thereby ensuring that the toll will not be turned into a cash cow to fund other things. It would be wise, also, to not start charging tolls on a corridor until construction is done and all lanes are open to traffic.

To further reinforce the idea that the new toll is purely a user fee, motorists should not also have to pay gas taxes on the tolled replacement corridors. (Truckers refer to this as "double taxation.") Rebates on gas taxes already exist on the Massachusetts Turnpike and the New York State Thruway but require motorists to save receipts and submit paperwork. With today's nonstop, all-electronic tolling, the tolling system could compute

the rebate as part of the toll billing, since the toll is charged to a specific, known vehicle.

Freeing up state money

The Wisconsin DOT would still come out ahead after the rebates, since it would no longer have to spend any of its federal and state gas tax revenue on the newly modernized Interstates. Over the six-year period from 2011-2017, the DOT is spending \$1.35 billion on rebuilding and modernizing Interstates comprising portions of the southeastern Wisconsin freeway system, primarily the Zoo Interchange. If this project were being toll-financed, most of that money would be available for other needed highway improvements.

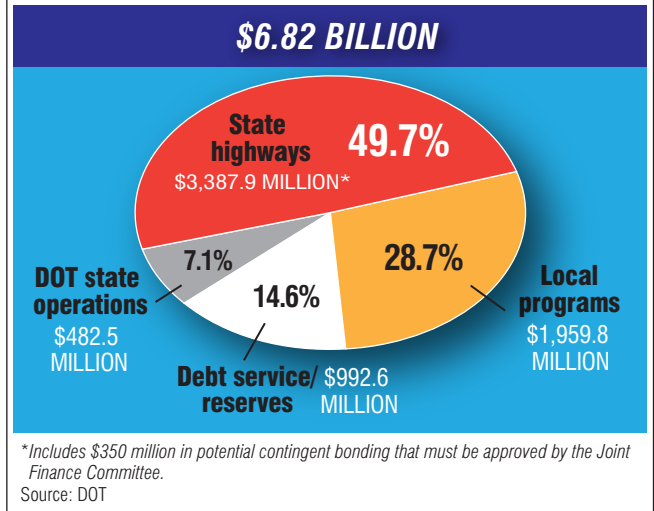


High-quality infrastructure is a key factor in a state's economic competitiveness. Wisconsin's Interstates, with just 1% of the state's highway route-miles, handle 18% of all vehicle miles of travel and 21% of all heavy truck miles of travel. Major highways like these were built to last 50 years — and some of them already exceed that age. Some also handle more traffic than they were designed for or will likely occur over the next 30 to 50 years. So it would be foolish to ignore the need to rebuild and modernize these vital corridors.

The federal government is in no condition to provide significant new funding for Interstate reconstruction. And most Wisconsin voters remain opposed to increasing the state gas tax. But a majority already support tolling, as long as it is used for clearly beneficial highway improvements.

We don't yet know what the HNTB study will conclude, but assuming the result is favorable, next year will be the time to take action. [WI](#)

Wisconsin's 2015-'17 transportation budget



Raise the gas tax?

No, reducing spending and repealing anti-competition laws are better options

By Eric Bott

Wisconsin's turnaround is remarkable. Sizable tax cuts coupled with pro-market labor and regulatory reforms have reversed Wisconsin's downward economic trajectory. Unemployment remains steady at 4.2%, a 15-year low. Average weekly private-sector wage growth was sixth-best in the nation last year. State tax revenues are up 4% in spite, or perhaps because, of our commitment to lowering taxes.

Wisconsin's approach works, but will legislators continue advancing pro-growth reforms, or will they reverse course?

A coalition of road builders, unions and other interests have been scooping up Republican consultants and lobbyists to launch a public relations blitz to convince us that Wisconsin highways are in terrible shape and that the only solution is for taxpayers to give them lots more money. They're wrong on both counts.

They claim that Wisconsin has the third-worst roads in America. According to the Wisconsin Department of

Yes, it's a small price to pay to improve roads and control state's highway debt

By George Mitchell

A simple reality drives Wisconsin's transportation finance debate: Revenue from the gas tax and vehicle registration falls well short of what's needed to maintain highways.

For evidence, look no further than the transportation budget unveiled in September by Gov. Scott Walker.

It will mean substantially more roads in poor condition.

It will indefinitely delay work on rebuilding southeastern Wisconsin freeways, an essential long-term program that the governor mistakenly calls a "remodeling" project.

Finally, it will more than double the annual cost of transportation debt service compared to when Walker took office in 2011.

In brief, here's backup for each of those claims:

- On basic highway repair, the budget falls \$300 million short of what transportation experts say is needed simply to maintain the status quo. This means at least 250 fewer rehabilitation projects over a 10-year period. The result? According to the Wisconsin Department of Transportation,

Transportation, 97% of the most heavily-traveled state highways, carrying 70% of our freight, are rated in fair or better condition.

When we survey people about roads, the most common complaint isn't about road quality but about too many roundabouts being built. The public isn't buying what the special interests are selling.

On spending, the road builders' spin doctors present us with two unappealing options: boosting taxes and fees or increasing borrowing. It's a false choice.

Wisconsin's transportation spending is in the top 15 nationwide, totaling more than \$3.8 billion annually. Per-capita spending on highways is higher here than in nearly all neighboring states. On a per-mile basis, Wisconsin spends 72% more than Minnesota on state-controlled highways. It's fair to ask if we could live with less spending.

Wisconsin also should adopt cost-cutting reforms before increasing taxes. Taxpayers here have long overpaid for roadwork. Tax-hike proponents like to downplay reforms such as prevailing wage repeal, but the zeal with which they fight reform reveals the truth.

An award-winning study by the Wisconsin Taxpayers Alliance in 2015 estimated that repeal of prevailing wage on just vertical projects (buildings and other structures) could have saved as much as \$300 million in 2014 alone. One analysis says West Virginia saved \$22 million on road construction in May and June alone after repealing its law. Wisconsin's highway spending is triple West Virginia's. It would be irresponsible of the Legislature to increase taxes before taking advantage of such obvious reforms.

The long-term solution to this and so many problems facing government is growth, and as remarkable as Wisconsin's turnaround has been, we still have a ways to go.

Wisconsin's state and local tax burden is the fourth-highest in America. Until we reduce that burden and eliminate anti-competition laws such as prevailing wage, Wisconsin will not unleash its full economic potential. Thankfully, a debate over transportation finance presents us not with a false choice between higher taxes or more borrowing but with an opportunity to embrace reform, cut costs and better prioritize spending.

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the share of state highways in poor condition will rise from 16 percent to 41 percent in the next decade. That is a highway network in free fall.

- The governor's budget effectively shuts the essential — and unavoidable — program of rebuilding the aging southeastern Wisconsin freeway system. Walker says work on the program will stop "for the foreseeable future." Depending on how long it is stalled, the state will be forced to spend tens of millions of dollars annually on stopgap repaving projects. Thus, the eventual cost of the reconstruction will be hundreds of millions of dollars higher.

- To compensate for stagnant gas tax revenue, Walker has relied on high levels of debt.

This continues a pattern set by Gov. Jim Doyle. As a result, the share of gas tax revenue devoted to debt service has nearly doubled during the Walker administration. Reflecting \$500 million in additional debt under the new budget, the nonpartisan Legislative Fiscal Bureau says debt service could grow to 25% of transportation fund revenue.

On the issue of debt — what the governor calls "responsible borrowing for transportation" — consider this assessment last year from the Fiscal Bureau:

"Revenues available for transportation have not been sufficient to maintain the purchasing power (for programs OK'd by the governor and Legislature ... This has) led to ... bonding to fund a significant part of the state highway program. The increased debt service ... has put further pressure on the transportation fund's ability to meet program demands ... (F)or five of the last six years the annual growth in debt service has exceeded ... the annual growth in gross transportation fund revenues."

Wisconsin ranks 35th among the states in revenue paid by motorists through gas taxes and vehicle registration fees. The price for maintaining that position is deteriorating roads and escalating debt service.

It's a bad trade-off, one that will pose a major challenge to Walker's successor.

George Mitchell, a retired public policy consultant, was assistant state budget director in the Patrick Lucey administration. He is a former Milwaukee County director of public works.

