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POLICY

BRIEFING

NUMBER 14

FEBRUARY 27, 2008

MISSOURI'S CHANGING TRANSPORTATION PARADIGM

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The global environment for transportation policy is entering a new paradigm. Like many states, Missouri finds itself at the convergence of two intersecting trends that demand attention. First, growing transportation needs are outstripping available capacity, and second, the need for maintenance and renovation of existing systems is eating up available financial resources. A failure to address these twin challenges will lead to even greater congestion, in various forms, and lowered reliability of service in the future.

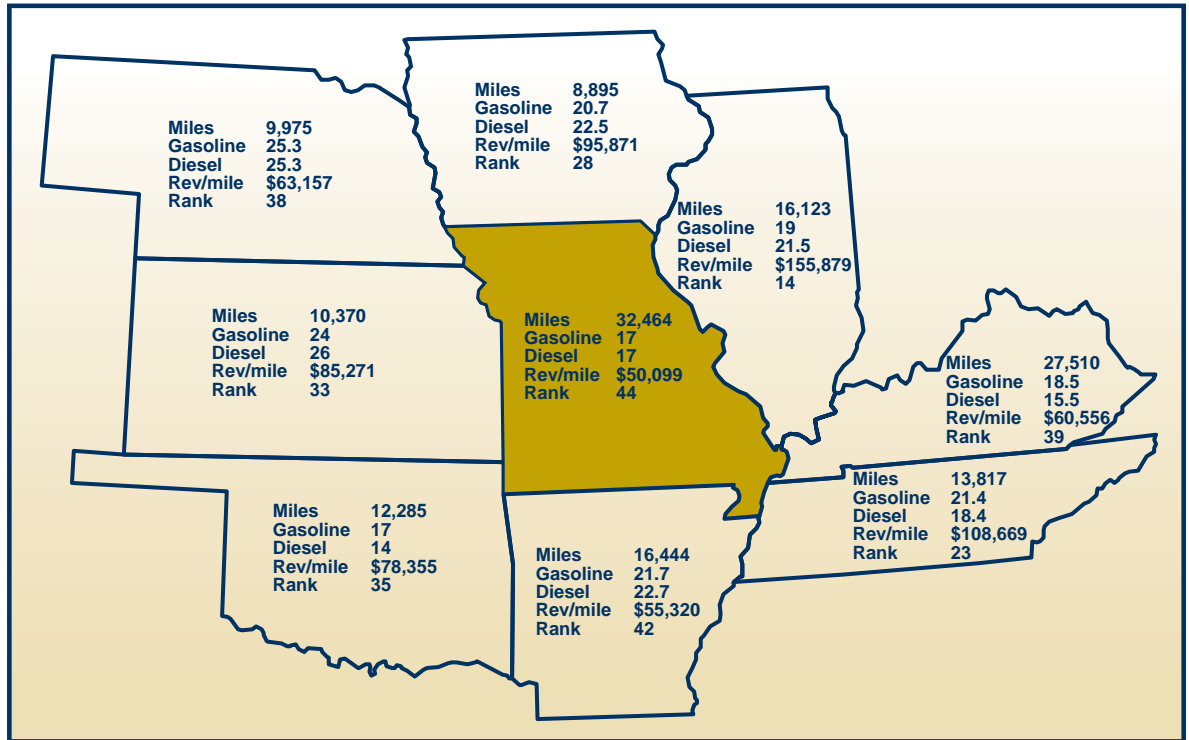
State officials are attempting to deal with the important transportation issues they face without many of the options available to other states. These challenges confront a state that is not able to deal with them outside the traditional means of gas taxes, vehicle fees, and government subsidies, which diminishes Missouri's ability to keep the state's overall transportation system ahead of the curve.

Recently, voices throughout the country have begun to call for officials to pay greater attention to the possibilities offered by public-private partnerships in meeting the transportation needs

of Missouri and other states. Public-private partnerships are a means of leveraging private capital and expertise to provide a public service, and states are increasingly using them to deliver needed new transportation capacity while stretching limited taxpayer dollars.

This briefing provides an overview of the types of public-private partnerships that can be utilized for transportation projects, including their benefits and best practices, and responses to common concerns. It also explores how public-private partnerships can be used not only to upgrade, modernize, and expand Missouri's road and bridge network, but also to improve the delivery of transit services. Public roads, funded by gas taxes, will be the primary model for transportation in Missouri far into the foreseeable future. However, the options that public-private partnerships facilitate should be a part of the discussion for future transportation projects and plans. For many projects, such partnerships may not be the answer, but for some they will be an efficient and cost-effective way to address Missouri's transportation needs in a timely manner.

Gax Tax Comparison, Missouri and Neighboring States



Gasoline and diesel shown in cents per gallon. All states listed above use the same rate for gasohol as gasoline, except Iowa and Tennessee. Source: MoDOT map compiled from 2005 federal highway statistics — rates as of November, 2006. Online here: tinyurl.com/2cbddun

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Historically, Missouri has relied almost exclusively on motor fuel taxes to fund road improvements. Toll roads, or turnpikes, had never been a part of transportation in Missouri prior to the establishment of the Interstate Highway System — unlike in many other states. The state’s fuel tax was first instituted in 1924, at a rate of \$0.02 per gallon. The current rate is \$0.176 per gallon, which is quite low in comparison to other states.

The need for new funding can be demonstrated by a comparison to adjacent states. The Missouri Department of Transportation (MoDOT) maintains 32,464 miles of state roads, far more than any of Missouri’s eight neighboring states, and a portion of the state’s fuel tax is returned to counties and cities. Kentucky is closest to this figure, with 27,510 miles of roads maintained by its state department of transportation. Only Oklahoma, which has

toll roads, has a lower gas tax — and just a half-cent lower, at that. The combination of so many miles of roads and a low gas tax has resulted in Missouri’s DOT being ranked 44th nationally in revenue per mile of road. Add into this mix MoDOT’s lack of authority to use tolling, and its very limited authority to use public-private partnerships, and Missouri’s difficulties in funding the maintenance and expansion of its transportation system become clear.

The only examples of tolls in Missouri are those used for bridges — and only one of those is currently in use as a tolled facility. The Lake of the Ozarks Community Bridge, which opened in 1998, is operated by the Lake of the Ozarks Community Bridge Corporation, under authority granted by the Missouri Transportation Corporation Act of 1990. This legislation allowed private, non-profit groups to build toll roads and bridges in



Missouri, upon voter approval. The Ozarks area had long needed a bridge across the lake, connecting U.S. Business Route 54 with Shawnee Bend, Mo., and the only financially feasible manner to build it involved making it a toll bridge. This community partnership will operate the bridge as a toll road until the bonds are paid off, which is scheduled to happen in 2026. At that point, MoDOT will assume control of the bridge.

Missouri took a major step forward in transportation financing in 2006 with the “Missouri Public-Private Partnerships Transportation Act,” which the General Assembly passed and Gov. Matt Blunt signed. For the first time in MoDOT’s history, the legislature authorized the agency to contract with private entities to construct and operate a transportation facility. Officials also considered the use of tolls in 2001 during discussions about how to improve I-70. One of the strategies considered was the construction of an entirely new toll road spanning Missouri, parallel to I-70. For a variety of reasons, officials decided that widening I-70 and maintaining its status as a freeway was the preferred alternative. However, the fact that this project has not moved forward in several years could be viewed as evidence that the funding options provided by public-private partnerships and tolling merit renewed consideration.

The tragic 2006 collapse of the I-35W bridge in Minneapolis focused nationwide attention on infrastructure conditions. At that time in Missouri, before the collapse, MoDOT had already begun planning a new “Safe and Sound Bridge Program” to repair or replace 802 of the state’s most worn-out bridges. Missouri currently has 10,224 bridges in its state highway system, and

1,046 of those are rated as being in “poor” or “serious” condition. The MoDOT Safe and Sound Bridge program intends to use an innovative public-private partnership project model that will involve having a private-sector team finance, design, build/upgrade, and maintain 802 bridges during a 30-year period. This team will provide up-front financing for the five-year, \$500 million project, and will then maintain the bridges during a 25-year term. The state will pay nothing during the initial five years of construction work; this period will be followed by 25 years or more of annual payments to the private firm.

The benefits of public-private partnerships, when undertaken properly, may include:

- delivery of tomorrow’s infrastructure today;
- achieving cost savings;
- greater access to capital;
- greater efficiency;
- performance of quality improvements;
- changing the incentive structure;
- enhancing risk management;
- spurring innovation; and,
- increased flexibility.

In addition to adding new lanes to existing assets, such as I-70, public-private partnerships can underwrite the development of new roads. The Reason Foundation first suggested in 1988 that the private sector could build supplemental congestion-relief lanes, using electronic toll collection to charge market prices. This would keep lanes flowing free even during the busiest of rush hours. The first such lanes were developed in Orange County, Calif., as part of a private franchise awarded in 1991 under California’s Assembly Bill 680’s public-private partnership legislation. Opened to traffic in

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December 1995, in the median of SR-91, the “91 Express Lanes” demonstrated that electronic variable pricing works well to keep traffic flowing smoothly. The toll revenues also proved sufficient to pay for the construction, operation, and maintenance of the new lanes.

Missouri policymakers must break the cycle of subsidy and failure that has ensnared public transportation in Missouri. The boards of directors at Metro and KCATA should carefully study employing competitive contracting models to reduce the cost and improve the quality of public transit service in Missouri. Kansas City, for instance, is strongly considering building a light-rail system. One way for the will of Kansas City voters to be heard is for mass transit supporters in Kansas City to embrace public-private partnerships, competitive contracting, and other funding innovations in the delivery of mass transit. If Kansas City were to follow the examples of cities such as Las Vegas, it might be able to provide its citizens with the mass transit system they desire and deserve, at a reasonable cost to taxpayers. The fast-growing Las Vegas area is home to the largest U.S. transit system that has been fully contracted out. Costs per service hour are among the lowest in the nation — approximately 30 percent below the average of systems of similar size.

Not all public-private partnerships are created equal. Public-private partnerships can be crafted and implemented well, and they can be crafted and implemented poorly. The issues that must be addressed carefully as part of any negotiation include:

- concession length;
- tolling schedule;
- revenue sharing;

- maintenance and performance requirements; and,
- maximizing and protecting new funds.

Common objections to public-private partnerships include concerns about:

- selling public assets;
- control by foreign companies;
- sky-high toll rate increases;
- the potential for private-partner bankruptcy;
- non-compete clauses; and,
- losing public control;

All of these issues and concerns are addressed in detail in the paper.

Policymakers are no longer forced to choose between increasing costs to taxpayers or reducing services to motorists. Public-private partnerships, when implemented properly and carefully, can benefit both the state and its citizens. This new paradigm is emerging, and Missouri’s leadership must choose whether to utilize it. Missouri policymakers have approved public-private partnerships for bridges, and expanding this practice will likely better position the state for future economic development and growth.

Numerous opportunities for public-private partnerships exist in Missouri, in every facet of transportation. These include constructing new highways, building new bridges, operating various transit systems and functions, and contracting for additional local and state road maintenance and operations. Each represents a new way of thinking for Missouri — and that’s where our future lies.

For more details, please see Show-Me Policy Study no. 14, which is available at www.showmeinstitute.org.



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