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Midtown Tunnel Likely Dies Without Tolls

By Leonard Gilroy and Baruch Fiegenbaum

Hampton Roads area officials seem bent on delaying or cancelling the proposed public-private partnership (PPP) for the $2.1 billion Midtown Tunnel expansion over concerns about new tolls, preferring instead to ask state and regional leaders to shake a nonexistent money tree for transportation cash.

These actions harken back to a bygone era when the gas tax was generating plenty of revenue for highway projects, but those days are over. More stringent fuel efficiency mandates and inflation have been yielding diminishing returns for federal and state gas taxes in recent decades. There is a consensus among economists, state transportation agencies and other experts that it's a matter of when, not if, we make a dramatic shift away from gas taxes to other more direct and financially sustainable types of user fees, like tolls. Without this shift there's little hope of solving congestion and delivering the infrastructure necessary to compete in the 21st century global economy.

This isn't rocket science. Every day more hybrids, electrics and other cleaner cars enter the market, using less fuel but equally clogging our roads. Taxing a product that people are using less of is not a sustainable way to fund transportation into the future.

Despite this, some still think a simple gas tax hike will solve all our transportation issues. The problem is that even if there was political will to raise fuel taxes—doubtful in an era of $4 per gallon gas and public aversion to more taxes—even doubling or tripling the current rates wouldn't avoid the fundamental death spiral of the gas tax.

Given the overarching lack of voter or political will to raise taxes for infrastructure, we're left with few choices if we want to escape congestion. That's why the use of toll finance and PPPs is expanding dramatically across the nation. Tolls are fairer than taxes, as those who benefit from the tolled facility pay for it as they use it. And tolling can put major projects into service years or decades sooner than waiting to accumulate enough scraps of tax dollars to fund them. Exhibit A is the Midtown Tunnel expansion and its related improvements, which would still be an unfunded wish list project if not for tolling and PPPs.

But after years in the making, some Hampton Roads area pols have cynically stepped in at the last minute to undermine the Midtown deal, holding the state budget process hostage for *more state* transportation money so they can lower planned *local* tolls. This comes after the state has already committed $362 million towards the Midtown project in an effort to minimize toll rates. Peter Samuel accurately noted this hypocrisy in a TollRoadsNews.com article earlier this week: "These johnnie-come-lately critics of the project said little about it in the planning and procurement stages. And you have to think they are trying to have it a bit both ways - not actually stopping the project by holding back until it was a done deal, then sounding off against it to be perceived by their constituents as fighting to keep tolls lower."

It's unfortunate to see this sort of "day late/dollar short" hypocrisy threaten progress on a sensible project that would improve mobility and commerce. What's worse is that the recent budget gamesmanship over this project in Richmond could potentially lower Virginia's standing in the eyes of infrastructure investors at a time when Florida, Texas, Puerto Rico and a host of other states—and even cities like Chicago—are bringing PPP projects to market and seeking to attract even more private investment.

From an investor's standpoint, why invest in the Commonwealth and face a higher level of political risk when you could go to another jurisdiction that will embrace you with open arms? Gov. McDonnell has smartly pursued an internal reorganization at VDOT to make it more nimble in taking PPPs from concept to contract, but this work could be rendered pointless if the current political hijinks continue, creating doubts in the minds of investors and making Virginia less attractive relative to its peers.

The Midtown PPP illustrates well the sorts of PPP benefits now in jeopardy:

Expanding the funding pool: PPPs allow governments to tap into new sources of capital not typically used in traditional tax- or debt-funded transportation projects. For example, long-term concessions like that used for Midtown are attractive to many different types of investors, including private equity investors, public pension funds, insurance companies and other institutional investors.

And by bringing outside sources of capital into projects, PPPs free up the state's limited transportation dollars for other uses. The Commonwealth needs many other critical transportation projects, and rebuilding the Midtown Tunnel without tolls would require an enormous share of state transportation dollars, taking funds away from other major projects around the state for which PPPs are infeasible. It's unfair to commuters in other areas of Virginia for the Hampton Roads area to receive a disproportionate amount of state funds.

Improved mobility: The region has sought the planned Midtown Tunnel and related improvements for decades to add new road capacity, to improve mobility for drivers and to increase regional commerce. However, the state lacked the funds to advance the project until the proposed PPP offered perhaps the only viable means to finance it. Further, the new Midtown Tunnel will offer enhanced bus transit service through a partnership with Hampton Roads Transit that will increase frequency and improve service reliability. Currently, buses face delays in the Midtown tunnel as a result of traffic congestion, and riders must add extra time to their commute not knowing how much traffic congestion will delay their trip. With the widened tunnel, bus service will be more reliable, offering commuters a more viable transit option than today.

Transferring risk from taxpayers to investors: In contrast with traditional infrastructure projects where government sponsors shoulder most project delivery and operational risks, PPPs transfer key project risks to the private sector and away from taxpayers. For example, the Midtown Tunnel PPP is built around a fixed cost and fixed delivery schedule, where the concessionaire will be responsible for paying any cost overruns and will be penalized for schedule slips, protecting taxpayers from unanticipated costs and delays. Imagine if the Norfolk

Tide light rail project had been procured as a PPP. Rather than ending up more than $100 million over budget and a year late—all at the expense of taxpayers—it would have been the private partners on the hook for overruns and the penalties associated for being late.

This is an important point, as construction costs can increase suddenly, making a project much more expensive than originally forecast. Construction costs have increased 50% over the last five years, according to the American Road and Transportation Builders Association. If the state were building the Midtown Tunnel as a traditional public sector project and construction costs were to increase more than expected, then taxpayers would have to pay for any cost overruns. Under the PPP, taxpayers are shielded from that risk.

Benefits like risk transfer are the reason why a number of states throughout the country have multiple, billion-dollar-plus PPP projects underway, tackling longstanding congestion and mobility challenges that previously had no funding source. These states have realized that wishful thinking is no substitute for a viable infrastructure program.

Attacking the Midtown Tunnel PPP will do nothing for the region but make the project more costly and forestall needed congestion relief. Hence, it's short sighted and irresponsible to play politics and micromanage the already negotiated and vetted details of a PPP that represents the only credible path forward for this project.

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