

# Bond Case Briefs

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## Why Tolling is Often a Political Minefield.

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Taxes and tolls have become synonymous in the context of the US. People often think about tolls as a tax, and whether merited or not paying the two of them is perceived as double taxation. Part of the reason is because many tolling entities are run by the public sector. As such, these corporations have boards that are appointed by the state and are in turn subject to the political cycle; a cycle that has interwoven decades of these practices into the decision making process. Then you have to factor in what is an anti-tax environment. If you are a politician seeking election and plan to raise taxes, you are automatically placed in a hole irrespective of the merits of your position.

Tolling is not the only public sector where this marriage of business and politics is in play. US airports, for instance, implement user fees called 'passenger facility charges' (PFCs) that are controlled by the government. Though these PFCs are passed down to the passenger, it is not transparent where they are coming from. They blend in with several other taxes and charges added to the airline ticket price, versus the clear transactional nature of paying a highway toll. And despite some resistance from the airlines, it's normally not as political an issue to raise PFCs from the public's perspective. The airlines that have to deal with a total ticket price understandably have a different view. The business and politics relationship is also evident in the structure of public power utilities and electricity prices, albeit in a more indirect and less transparent form. We as consumers have become acclimated to electric prices going up over time. Water, though, is exposed to the political winds but you do need it to live so the value proposition is clearer. Consequently, very essential improvements do get paid for with rate increases.

Raising tolls, by contrast, is transparent but the benefit less clear. The road is almost never unavailable. As a result, the idea of raising tolls may be the toughest sell. That may be due to simple complicity. While tolls by and large have increased in recent years, the cost of operating highways has gone up even more but that increase has not always been passed on. It's a tenuous equilibrium that we as the public have been passively aware of for a long time and have been content to live with. As a result, no politician stepped in to rectify these "minor imbalances" when they were still minor and when the price would have been affordable.

What we're seeing today is these negligible issues that could have been solved incrementally over time have instead morphed into a singularly large issue, one that the American Society of Civil Engineers has placed a US\$4tr price tag to fix all of our infrastructure. So now you have the opposite problem of too large of a bill and not enough people willing to pay for it. So whether it's tolling the interstates or taxing everybody, it's a bitter pill any way you swallow it.

So what is the solution for managing tolling in the US? Part of it could rest with taking business decisions out of the hands of politicians and devolving authority to the lowest level, i.e. an appointed board with no veto authority from elected officials. If a politician is responsible for making business decisions on how to run a business like a toll road or an airport, the politics will be rampant within that process. Creating distance between an elected official and an executive decision and creating transparency in the decision making process is a way to limit the impact of politics. Having a

representative board of major stakeholders—not elected officials or their direct appointees—with longer and staggered terms that focuses on the objectives of providing quality services and maintaining financial viability at least cost can also serve to create a sorely needed independent component in the process.

Another possible solution could be the creation of a regulated structure similar to a Public Utilities Commission among power and water authorities. While there remains a degree of political influence in this structure, it can be limited and thus still prove to be a positive.

## **Conclusion**

Highway, road and bridge funding deficits have become a huge chasm for the US economy largely through inertia. But, this can be alleviated by creating distance between the business of highways and politics. It has proved easier around the world to introduce tolls on new roads rather than introduce a toll on an existing free road. Nonetheless, a common theme exists here: The greater distance to an election cycle, the greater the independence.

## **Fitch Ratings**

by Cherian George

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