

## APPENDIX 3

# **POLITICAL FEASIBILITY OF SHIFTING INFRASTRUCTURE FUNDING FROM GENERAL TAXES TO USER FEES AND PUBLIC SERVICE ACCESS FEES**

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“There is nothing more difficult to take in hand, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old order of things, and lukewarm defenders in those who may do well under the new.”

-- Machiavelli, The Prince

Machiavelli’s observation about the politics of change are quite astute. Nonetheless, change does happen. In my lifetime, I did not expect to see the disappearance of the Berlin Wall and the Iron Curtain, at least not without World War III. When a Hollywood actor from California first entered a presidential primary, I did not think that he had a realistic chance of being elected. Based on vested economic, political and social interests, who thought that the civil rights movement (or the environmental movement or the women’s movement) had any chance of achieving significant change?

Some of the recommendations in this paper, related to shifting infrastructure funding from general taxes to user fees and access fees, require legislation and the political choreography necessary to bring that about.

Below I will discuss the political implications for some of the recommendations in the paper.

### **Performance-Based Parking Pricing**

This concept adjusts the price of curbside parking according to levels of market demand. The rate is set to ensure curbside occupancy of between 80% and 90%. This level of curbside occupancy allows new arrivals to an area to find parking quickly without excessive cruising.

As mentioned, this system has already been implemented as a pilot in a few District neighborhoods. Near the ballpark, the key concerns were as follows:

- People driving to the games (many of which begin during the evening rush hour) would cause traffic gridlock in an already congested area
- People driving to the games would park up the curbside, thereby making it difficult or impossible for potential patrons of nearby businesses to gain access to them via curbside parking.

The initial solution was to have the curbside meter charge the standard downtown rate at most times. However, during times scheduled for baseball games, the meters are

programmed to charge the standard rate – but only for the first hour. However, anyone seeking parking for a 2<sup>nd</sup> or 3<sup>rd</sup> hour would find the hourly rate set at \$12 per hour for those additional hours. (A typical baseball game lasts about 3 hours.) The net result would be that baseball patrons seeking curbside parking would pay the same amount as they would in an off-street parking facility.

Upon unveiling this plan, a reporter asked, “Who do you think is willing to pay \$12 per hour to park at the curb?” DDOT’s response was that the intent of this pricing system was to discourage ballpark patrons from parking at the curb, thereby encouraging more access to the ballpark via transit and freeing up the curbside space for persons wishing to patronize neighborhood businesses. And experience has shown that performance-based parking pricing has succeeded in this regard.

Of course, some people believe that anytime that the District raises parking prices, the only reason is that the Government is seeking to extract money from parkers. A slogan for the performance-base parking pricing campaign was developed to address both the reporter’s question and the public’s concern about excessive parking prices. The slogan was, **“It’s more about getting into your head than into your wallet.”** This slogan, which would be applicable to other user fees as well, conveys the important concept that parking prices are more than money. They provide information which helps people make better choices.

In spite of great skepticism, performance-based parking pricing has worked as intended – encouraging many to take transit to transit-friendly destinations and freeing-up curbside parking for neighborhood residents and patrons of neighborhood businesses.

### **MILEAGE-BASED USER FEES (MBUFs) FOR ROADWAYS**

Since World War II, driving has become an essential activity for many people seeking to engage in their daily activities. Land use patterns and daily habits revolve around the concept of driving frequently – and sometimes for considerable distances – on cheap fuel on free roads and with free parking at one’s destination. As discussed in the main body of this report, this concept of easy mobility by car has run into limits based on the enormous amounts of space that cars consume – both when they are driving and when they are parked.

Initially, responses to traffic congestion were to build wider roads. But wider roads soon filled up with traffic. It is now widely accepted that building wider roads is as likely to cure traffic congestion as getting bigger pants is likely to cure obesity.

The notion of scarce parking and scarce roadway space has finally taken hold. Yet, we have not yet fully accepted that we should ration this scarce roadway and parking space

the way that we do with other scarce commodities – through prices. Nonetheless, tolled roads and bridges are becoming more common-place in our region.

Roadway pricing was proposed several times in the Minneapolis area. It failed each time until a concerted public outreach, education and involvement campaign was undertaken. This campaign was actually undertaken twice. First, to obtain legislative authorization for roadway pricing and then a second time to devise an implementation plan.<sup>A3-1</sup>

Some members of the Commission may be aware that MWCOG recently held a series of forums about transportation funding. According to MWCOG, the public did not endorse congestion pricing (a type of MBUF) but recommended a higher gas tax instead. We should not be discouraged by this result.

First, MWCOG polled each forum audience at the beginning of the session regarding how to fund transportation needs. On this initial poll, only 21% of the audience supported an increase in the gas tax. However, after several hours of explaining transportation needs (and the mechanics of the gas tax), 57% of the same audience supported increasing the gas tax. This shows that when people are given good information in a safe and welcoming environment, they can learn and change their opinions.<sup>A3-2</sup>

Second, people opposed congestion pricing because they felt that most people could not or would not change their driving behavior as a result.<sup>A3-3</sup> The assessment that most people won't change their behavior as a result of pricing is correct. However, two very important facts were not disclosed at these forums:

1. A significant portion of traffic during rush hour is composed of discretionary trips (not home-to-work commuting). Thus more people might be susceptible to being influenced by congestion pricing than the public assumes.
2. When a roadway has excess capacity, many cars can be added to the roadway without any appreciable loss of speed. However, when a roadway gets close to its carrying capacity, the addition of relatively few vehicles can cause a disproportionately large reduction in speed (increase in congestion). Thus, even if only a small proportion of drivers on a congested road change behavior as a result of pricing, this can result in a significant reduction in congestion.

Thus, given the public's ability to assimilate information and change their opinion, had this missing information about congestion pricing been made available, the public might have been much more supportive than the polling numbers now indicate.

## USING VALUE CAPTURE TO TRANSFORM THE PROPERTY TAX INTO A PUBLIC SERVICE ACCESS FEE

The report provides the background information about why the tax on privately-created building values is counter-productive. The report recommends that this tax should be reduced and replaced with a higher tax on publicly-created land values. Without any loss of revenue, the District could:

- Make residential and commercial space more affordable;
- Encourage increased activity (employment) in building construction, improvement and maintenance;
  - Save energy as a result of some building retrofits.
  - Reduce the number of boarded-up buildings and vacant lots that sap economic vitality from some neighborhoods.

The District already taxes both the value of buildings and the value of land. So reducing the tax rate on one and increasing the tax rate on the other could be viewed as a technical adjustment.

Appendix 2 shows that the average homeowner in all assessment neighborhoods would benefit from this transformation. So what are the political complications?

- The public is unaware of
  - The negative impacts of the current system
  - The opportunity for them to save money under the new system
- Many people and investors have oriented their behavior based on the existing property tax system. Any rapid change could create windfalls and wipeouts.
- Real estate speculators profit from the status quo. They also tend to contribute to political campaigns.

Given these issues, here is a potential path forward:

1. Educate the public about
  - a. The negative impact of the current system
  - b. The opportunity for them to save money under the new system.
  - c. Update the 1991 tax rate study and publicize the results through the media.
2. Creating windfalls and wipeouts is not the objective of this reform. Instead, the point is to create more productive incentives for everyone. Therefore, a gradual phase-in of this reform (perhaps over 5 years) would allow property owners to re-orient their behavior to take advantage of the new incentives, thereby avoiding any sudden and unavoidable adverse consequences.
3. This reform is not helpful to people who want to hold onto land and make profits from the work of their neighbors and the government in improving general conditions. However, owning land in a thriving city is better than owning land in

one that is struggling. We have seen time and time again that real estate speculation strangles business productivity. Speculation induces and exacerbates recessions (and sometimes depressions). So, this reform might not garner the support of speculators. But, if it wins the support of homeowners and businesses, that might be sufficient to obtain the political support necessary for enactment.

## THE IMPORTANCE OF STORIES

This report is full of technical arguments, analyses and statistics. And, it should be. But to win a political campaign, ideas must resonate with the public. They must feel attached to these ideas emotionally. This can be accomplished, in part, by telling compelling stories. Here are two examples:

### Performance-Based Parking Prices (PBPP)

As a DDOT official trying to sell PBPP, the prospect of going to public meetings and talking about increasing the price of curbside parking made me want to wear clothing that wouldn't show stains. I was also tempted to buy a bullet-proof vest. (In the western states, people will kill you for water rights. In DC, they'll kill you for parking.)

My approach was to begin my presentation by saying, "What would you think if I made curbside parking free in DC?" You can't imagine how happy the audience would suddenly become. As their smiles were breaking out, I proceeded:

"Well, before you have a statue commissioned in my honor, let's think about how this would work as a practical matter. Let's say that you had to go downtown to attend a meeting, have lunch with a friend, or see an exhibit. You could take Metro or you could drive. Metro would probably cost about \$5 roundtrip. But parking is free! So of course you would drive. When you got downtown, you would find that everyone else who had to go downtown also chose to drive. All of the curbside spaces would be full. You would cruise around and around looking for an empty space. You finally get desperate and shoe-horn your car into the curb. You're late for the meeting, you gulp down lunch, and you rush through the exhibit. When you get back to your car, there's a pink slip on the windshield because you were too creative in the way that you parked. Did you have a good time? Are you going to come back downtown ever again?"

"Now let's think of a different scenario. Because more people want to park downtown than there are curbside parking spaces, the price of parking spaces is high, say \$3 per hour. You have to go downtown for a meeting, a lunch or an exhibit. Taking the Metro would cost about \$5 roundtrip. Driving would cost about \$9 for parking. So, you take the Metro. You get downtown in time for your meeting, have a nice lunch with a friend,

or enjoy seeing the exhibit. You get back on the Metro and return home. Not so bad. You got what you paid for and you paid for what you got.

“Now, let’s assume that you’re an architect going to a meeting with one of those expensive architectural models. Or, you’re going downtown with Aunt Matilda, and she can’t do transit because she has a bad knee. For these reasons, it might be worth \$9 to drive downtown. And, when you get there, because most other people are getting there by transit, there’s a parking space available. You’re in time for your meeting (and your architectural model is still in one piece). Or you had a great time with Aunt Matilda. When you get back to your car, there’s no pink slip and you make your way back home. Not so bad. You got what you paid for and you paid for what you got.”

As I finished this story, I could see the light bulbs going on above people’s heads in the audience. Rather than telling them that the government was going to raise parking prices for their own good, I told a story that allowed them to discover that maybe it made sense to raise parking prices. Because they were discovering this for themselves through a story, they could at least entertain this idea and sometimes even embrace it.

### Property Tax Reform

At public meetings, I have tried to explain how property taxes are based on building assessments and land assessments. After you total these assessments, you then multiply by the tax rate .... (by this point everyone is asleep). So I took a different approach.

“The government says that it wants more jobs and affordable housing, right?” (Everybody nods.) But how does the government treat you if you build or improve a building to create housing or jobs? Well, the government raises your taxes for doing this. Does this make sense? (People look puzzled.) And how does the government treat property owners who allow their buildings to deteriorate – depriving people of quality housing and blighting the neighborhood? Well, the government reduces their taxes. Does this make sense? (People shake their head “no.”)

By introducing this topic with a simple story, people quickly catch on that something isn’t right. And now that they understand that something isn’t right, they want to know why that is and what can be done about it.

After explaining the mechanics – which they listen to because the story has made them interested – I remind them that the large developers agree that property taxes are a burden. I tell them how the developers of large projects often go before the Council and obtain an “abatement” that allows them to avoid property taxes, at least for an initial period. Of course, the property tax is just as burdensome on homeowners and

small businesses. “But you don’t have the clout to get an abatement. The tax reform that is being proposed understands that the tax on buildings is counter-productive regardless of whether you are a large developer, small business or homeowner. The tax reform being proposed treats everyone the same. By reducing the tax on all buildings, this reform could be called a ‘universal abatement.’<sup>A3-4</sup> And wouldn’t this be more fair?” At this point, most people nod their heads.

These are just two examples of how story-telling can help the public understand and support public finance reforms that, at first blush, seem overly technical and abstract.

Machiavelli is correct that change is difficult. But, it’s not impossible. And the stakes are high-enough in terms of affordable housing, job creation, and a livable and sustainable community, that those of us who can digest the wonky technical stuff should be willing to undertake the effort to reach out to the public, educate them, and involve them in crafting the solutions.

We recently commemorated the 50<sup>th</sup> anniversary of the March on Washington for Jobs and Freedom. We celebrated the movement’s successes and achievements. Thousands of people risked their lives and their property in the struggle for equality and better working conditions. Martin Luther King Jr.’s last efforts were made on behalf of sanitation workers who were striking for dignity and safe working conditions. We honored the efforts and sacrifices of those who worked for change. We remembered those who were martyred. And we recognized that significant work remains. As many civil rights leaders have pointed out, if you have the right to sit at a lunch counter, but cannot afford to pay for a meal, the right to sit and be served does not mean so much.

The reforms mentioned in this report may require some political effort to achieve. But in light of the sacrifices already made to achieve civil rights and better working conditions, can we say with good conscience that we are not willing to make that effort to create more jobs, more affordable housing, a better environment and a more sustainable economy?

**NOTES:**

A3 -1. Lee W. Munnich, Jr., and Joseph D. Loveland, "Value Pricing and Public Outreach: Minnesota's Lessons Learned," *Transportation Research Record: Journal of the Transportation Research Board* 193 (2005): 164-168. See also, Kenneth R. Buckeye and Lee Munnich, "Value Pricing and Outreach Model: I-395 MnPASS Community Task Force." *Transportation Research Record: Journal of the Transportation Research Record* 1960 (2006): 80-86.

A3-2. National Capital Region Transportation Planning Board, Metropolitan Washington Council of Governments & the Brookings Institution, "What Do People Think About Congestion Pricing? A Deliberative Dialog with Residents of Metropolitan Washington: A Study of the Public Acceptability of Congestion Pricing in the Metropolitan Washington Region," January 18, 2013, p. 9.  
[http://www.mwcog.org/transportation/activities/congestionpricing/materials/Key%20Documents/CongestionPricingReport-Draft\\_1-18-13\\_ForWeb.pdf](http://www.mwcog.org/transportation/activities/congestionpricing/materials/Key%20Documents/CongestionPricingReport-Draft_1-18-13_ForWeb.pdf) ]

A3-3 Ibid., p. 8. People drive because they have to, not because they want to.

A3-4 Referring to this reform as a "universal abatement" was coined by Joshua Vincent, Director of the Center for the Study of Economics (CSE). CSE has helped several jurisdictions successfully shift the property tax off of privately-created building values and onto publicly-created land values. You can learn more about CSE at  
<http://www.urbantoolsconsult.org/>