

## PUBLIC COMMENT, CITY OF BEND CITYWIDE TRANSPORTATION ADVISORY COMMITTEE

To: City of Bend Citywide Transportation Advisory Committee & CTAC Funding Work Group  
Attn: Susanna Julber, Karen Swirsky, and Eric King  
From: Steve Porter and Michelle Porter, Residents of Bend  
Date: July 31, 2019

### Public Comment:

#### *Transportation System Funding*

Dear Bend Citywide Transportation Advisory Committee & CTAC Funding Work Group:

We have reviewed the funding tools provisionally identified by the Funding Work Group to pay for Transportation System Plan projects. While we respect the group's efforts and recognize the complexity of its work, we must recommend that the group reconsider its conclusions as to the selected tools and proportion of their use. The funding mix that has been provisionally endorsed fails to satisfy important efficiency criteria and will result in significant waste.

We outline below a list of points that may be used to identify funding mechanisms that are not inefficient and instead support general economic efficiency, social efficiency, allocative efficiency, financial efficiency, and scale efficiency. These efficiency considerations collectively ensure that waste and cost are minimized while public benefits are maximized. Our list is brief and conceptual in nature. For more detail, several of our previous Public Comments to this Committee and the cited sources may be reviewed.<sup>1</sup>

Following this list, we provide a table that outlines how various funding mechanisms perform with respect to the efficiency measures. The collection of funding tools included in the table is not intended to be comprehensive but may be considered representative for purposes of guiding future work from the Funding Work Group and CTAC as it reviews the Funding Work Group's recommendations. In general, of the tools evaluated, the general obligation bond (since it is based on property tax collections) is the worst possible mechanism for generating transportation system funds. Other tools the Funding Work Group has decided to not endorse or to relegate to a minor role in the funding mix perform best. This does not mean that general obligation bonds can have no role in funding or that all funding must derive from the most efficient methods; rather, it means that the bonds and other inefficient tools generate significant downsides, so their use should be modest and their ill effects tempered by heavy reliance upon other funding mechanisms that counteract the downsides. We close this comment with some additional notes regarding general obligation bonds.

<sup>1</sup> "How Funding & Transportation System Efficiency Respond to Funding Sources" (July 23, 2018); "Parking Policy Reforms to Promote Transportation System Improvements" (August 20, 2018); "Transportation Economics in Bend: Supply, Demand, Prices & Costs" (Presentation; October 18, 2018); "Evidence & Implications of Supply-Induced Demand in Transportation Systems" (July 9, 2018); "Evidence Demonstrating the Efficiency, Safety & Economic Benefits of 20mph Speed Limits" (July 13, 2018); and "Empirical Evidence Demonstrating the Inferiority of One-Way Streets to Two-Way Streets" (September 6, 2018).

## Funding Types and Bases

***Are the people who obtain benefits from the transportation system paying for those benefits proportionately and fairly, and can end users change their payment liability by changing their usage?***

1. Funding mechanisms should directly link transportation system usage and payment. This is because system usage and demand generate the costs of system maintenance and expansion.
2. Funding mechanisms should ensure that: a) those responsible for generating the costs are the ones who pay; b) the amounts paid reflect the costs generated (and do so transparently); and c) the power to increase or decrease payment liability by altering usage resides with end users, ideally on a “marginal” basis.<sup>2</sup>
3. Funding mechanisms should not be regressive in nature. Any funding arrangement that satisfies all elements of Paragraph 2, above, will be less regressive than the current transportation system funding tools actively in use or the mix of funding tools identified for future use by the Funding Work Group.<sup>3</sup>

## Funding Scale, Flexibility, and Allocation

***Is the total amount of funding raised for the transportation system appropriate, and can funding mechanisms scale up or down with future variation in transportation system needs?***

4. The total amount of revenue generated from funding mechanisms should be no more or less than sufficient for an efficiently-sized transportation system. Funding scale efficiency thereby depends upon transportation system spending efficiency. Efficient spending, and thus funding scale, is understood via benefit-cost analysis (BCA). When the highest-returning transportation project fails to generate a BCA value positive and greater than alternative public projects (whether transportation-related or not), it and any other transportation projects should not be funded.<sup>4</sup> Absent this approach, spending/funding scale may be inefficient and result in public waste (i.e., opportunity costs of executed projects will exceed benefits). Any funding arrangement that meets all elements of Paragraph 2 organically achieves these ends via normal end user spending decisions.<sup>5</sup>
5. Funding mechanisms should enable scale flexibility in the event future information proves current expectations of system usage incorrect. In the absence of such flexibility, a funding scale that appears efficient today could become grossly inefficient tomorrow, and the community would be “locked in” to unjustifiable payments.
6. Funding mechanisms should discourage the costliest transportation system usage and encourage the most economically, socially, and environmentally beneficial types of usage. In this way, funding mechanisms should reduce the total amount of transportation system funding required so the system achieves financially efficient use. Generally, this means funding mechanisms should serve to reduce vehicle miles traveled (VMTs).

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<sup>2</sup> “Marginal” may be thought of as “per-VMT” or “per vehicle trip,” and generally related to the user’s decision to use or not use the system on an incremental basis. Marginality is linked to vehicle travel because that is the costliest usage of the transportation system, 26 to 133 times the cost of cycling and walking per mile.

<sup>3</sup> See, for instance: Taylor, B. (Ed.). *Access Special Issue: Transportation Finance*, No. 50 (Winter 2016).

<sup>4</sup> A proper BCA rendering directly accounts for project benefit distribution by including returns owing to reduced inequality or costs from increased inequality.

<sup>5</sup> If efficient funding mechanisms cannot generate sufficient revenue to pay for all desired transportation system projects, that is a powerful indication that the desired transportation system projects are collectively of excessive scale and that projects should be pared down or funds should be spent more efficiently on less expensive substitute projects or both. It also may indicate that “externalities” are not properly modeled in the financial analysis of project BCA values.

**Table: Funding Mechanism Efficiency**

	G.O. Bond / Local Option Levy	F&B Sales Tax	TSDC	TUF	Vehicle Reg. Fees	Fuel Tax	Parking Fees	VMT Fees / Tolls
<i>Is there a direct link between usage and payment?</i>	✗	✗	◎	○	◎	●	●	●
<i>Does the transportation system user pay?</i>	✗	✗	◎	◎	◎	●	●	●
<i>Is the payment amount proportionate to usage costs?</i>	✗	✗	○	○	○	●	◎	●
<i>Can the end user alter payment liability via change in usage?</i>	✗	✗	✗	✗	○	●	●	●
<i>Is payment liability "marginal" in nature?</i>	✗	◎	✗	✗	✗	◎	◎	●
<i>Does payment structure limit regressiveness?</i>	✗	✗	✗	✗	◎	◎	◎	◎
<i>Do payments ensure efficient transportation funding scale?</i>	✗	✗	✗	✗	○	●	●	●
<i>Is payment liability flexible in the event of future shocks?</i>	✗	◎	○	◎	◎	●	●	●
<i>Do payments contribute to productive efficiency?</i>	✗	✗	✗	✗	○	●	●	●
<i>Do payments reduce VMTs and congestion?</i>	✗	○	✗	✗	○	◎	●	●

**Key:**

● = Answers "Yes" to question and generates a highly positive effect (e.g., discourages VMTs, moderates housing affordability problems, minimizes wasteful travel, enhances resource allocation, etc.).

◎ = Answers "Maybe," "Sometimes," or "Somewhat" to question and generates a somewhat positive effect (e.g., mildly discourages VMTs, may temper housing affordability problems, may indirectly reduce wasteful travel, etc.).

○ = Answers "No, not in any meaningful way" to question and generates a neutral effect (e.g., does not materially affect VMTs, does not alter housing affordability, does not necessarily encourage or discourage wasteful travel, etc.).

✗ = Answers "No, not at all" or "Does the opposite" to question and generates a negative effect (e.g., encourages added VMTs through sunk cost claiming or other means, contributes to housing affordability problems, incentivizes wasteful travel and poor resource allocation, etc.).

## Property Tax-Based General Obligation Bond

Since a property tax-based general obligation bond (GO Bond) performs poorly on the outlined efficiency measures but appears favored by the Funding Work Group, we will briefly discuss this funding approach.

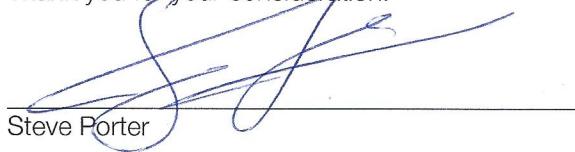
A GO Bond based on property taxes distorts transportation system consumption decisions because it severs the link between system usage cost and system user payment. It subsidizes the costliest types of use, penalizes the most efficient usage, and generates substantial sunk cost effects. Collectively, these factors incentivize greater high-cost demand of the transportation system than would otherwise prevail and lead to disproportionate transportation system expansion and spending.

GO Bond funding thereby increases VMTs, traffic congestion and delays, greenhouse gas emissions, particulate matter pollution, noise pollution, inefficient sprawl development, housing affordability problems, healthcare spending (due to collisions, obesity, diabetes, asthma, sleeplessness, and other health effects empirically linked to VMTs), education spending (due to child educational performance losses empirically linked to air and noise pollution and VMTs), resident tax burdens, structural government fiscal stress, and myriad other negative effects.

For at least the above reasons, a GO Bond is materially inconsistent with Bend City Council Goals (2019-2021). Under "Economic Vitality," Bend City Council Strategy #4 states: "Ensure growth takes into consideration natural resources and reflects a triple bottom line approach." The point is then elaborated: "Ensure Transportation System Plan contains policies that contribute to per capita reduction of greenhouse gases." A GO Bond, at best, ignores natural resources and social effects (two of three components of the triple bottom line). It also is inconsistent with policies intended to reduce per capita greenhouse gas emissions and will blunt those policies' effects. From a policy perspective it is superior to use funding mechanisms that reduce greenhouse gases rather than funding tools that increase them alongside additional policies aimed at offsetting that adverse side-effect.

A GO Bond also distorts transportation system development patterns. A GO Bond is a ballot measure that will be shopped to voters on the basis of projects it will fund. This directly conflicts with the use of BCA and other analytical tools to ensure funds are spent efficiently and that the transportation system achieves efficient scale. Such effect is well established: "While transportation planners and engineers often apply analytical procedures like benefit-cost analysis to determine which investments should be selected, ballot measures proposing local transportation taxes substitute election campaigns - sometimes called 'beauty contests' - for analysis. Many believe that greater reliance should be placed on analysis of project cost and effectiveness, but by listing popular projects in the [tax] measures, we are gradually limiting the relevance of systematic analysis in project selection. While local control and direct democracy are American ideals, it is probably not appropriate for voters to preempt the application of technical expertise in the design and management of transportation systems."<sup>6</sup>

Thank you for your consideration.



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<sup>6</sup> Wachs, M., "Local Option Transportation Taxes: Devolution as Revolution," *Access Special Issue: Transportation Finance*, No. 50 (Winter 2016).

## ABOUT THE AUTHORS

### Steve Porter

Steve is a recognized authority on economic analysis and valuation. He has provided expert testimony in high-stakes commercial litigation on topics including economics, valuation, statistics, econometrics, market definition, consumer choice, business strategy, and pricing, among others. He has consulted with Fortune 500 corporations on intellectual property licensing, asset transactions, and valuation issues, and he has conducted economic impact analyses, including work performed on behalf of the Los Angeles Superior Court. His articles have published in the *Journal of Legal Economics*, *les Nouvelles*, the *Patent, Trademark & Copyright Journal*, the *Journal of the Patent and Trademark Office Society*, and *Intellectual Asset Management*, among others. He also is co-author of *IP Strategy, Valuation, and Damages* (LexisNexis), a treatise on intellectual property economics. Some of his work has been cited as authoritative in filings submitted to the Supreme Court and the Federal Trade Commission, and he has been quoted by and featured in the editorials section of the *Wall Street Journal*. He has been an invited speaker before the Chicago Bar Association, the Attorney General's Office of the State of Arizona, and various law firms and corporations, where he has lectured on topics ranging from economic analysis and valuation to econometrics and game theory. He is a recipient of the William J. McKinstry Award in economics, the *Wall Street Journal Scholar Award*, the Micromics Economic Research Award, and the IE Fund Leadership Scholar Award. He served as a teaching assistant in economics at the Dolibois European Center in Luxembourg, an ad hoc referee for the *Journal of Forensic Economics*, and as Co-Chair and an Executive Committee Member of Young Professionals Advisory Council at the Farmer School of Business. He graduated *summa cum laude* and with University Honors from Miami University in Oxford, Ohio, completing dual majors in economics and marketing. He received his MBA, with honors conferred by the Dean and Board of Academic Affairs, from IE Business School in Madrid, Spain, graduating 5th in a class of more than 400. He holds the Series 65 securities license.

### Michelle Porter

Michelle is an expert in valuation, economic analysis, and quantitative methods. She has been engaged by Fortune 500 companies, SMEs, U.S. and international government entities, and leading law firms to provide expertise in high-stakes commercial litigations, negotiations, and asset transactions. Her consulting work has encompassed advisory roles in industries including pharmaceuticals, medical devices, banking, telecommunications, consumer goods, software, and transportation technologies, among many others. Michelle is co-author of the book entitled *IP Strategy, Valuation, and Damages* (LexisNexis). Her articles have appeared in *les Nouvelles*, *Intellectual Asset Management*, *Intellectual Property Magazine*, *Smart Business*, *Los Angeles Daily Journal*, *The Recorder*, and *China Intellectual Property*, and she has been quoted by *Forbes*. Michelle has spoken before such groups as the Intellectual Property Law Committee of the Chicago Bar Association, Google, and Motorola Mobility. Her work has been recognized with the Accenture International Consulting Competition Top Honors Award, the IE Women Leaders Scholarship Award, the *les Nouvelles* Best Article Award, and the Micromics Economic Research Award. In addition, Michelle has served as an advisor to the Forte Foundation's MBALaunch for Women, President of the IE Business School Southern California Alumni Association, Co-Chair and Executive Committee Member of Young Professionals Advisory Council at the Farmer School of Business, and an instructor in microeconomics. Michelle graduated *cum laude* from Miami University in Oxford, Ohio, majoring in economics. She received her MBA from IE Business School in Madrid, Spain.