**AGENDA ITEM 9**

To: Advisory Council
From: Sherman Lewis, Advisory Council Transportation Economics Subcommittee Chair, Advisory Council Member
Re: Updated DRAFT Advisory Council Recommendations to the Commission

Committee Members: Sherman Lewis (Chair), Paul Cohen, Raphael Durr

MTC historically has planned and sought funds for transportation facilities and services. In recent years MTC has expanded its interest to include air quality, land use, and global warming. However, problems of sprawl, loss of open space, pollution, congestion, parking, fossil fuel dependency, dependency on foreign suppliers, health and safety, and high carbon dioxide emissions persist.

Major reasons for the persistence of these problems are public expectation of artificially low direct costs for cars, including heavily subsidized road capacity. For example, public support for more highways are a major reason that 69 percent in STIP discretionary funds are going for road expansion ($4.5 billion out of $5.7 billion). (TRANSDEF Analysis of Staff Proposal..., July 2008) Also, MTC lacks legal powers to make policy relating to pricing of transportation.

Pricing reforms are widely recognized as the most cost-effective policy to solve the problems listed above. Studies by MTC show more progress with pricing reforms, reinforced by land use and transit, than any other policy: the Blueprint, the RAFT run, the Smart Growth Alternative, and the analysis presented to the region last October, “Challenges and Choices for a Bay Area on the Move” (http://www.mtc.ca.gov/meetings/events/forum/Summit_Challenges_Choices.ppt).

The basic idea of pricing reform is that people will reduce behavior causing problems if the cost to them rises. We saw this happen in the recent run up of gasoline prices, which led to so much conservation and efficiency gains that now the price is falling. Equally important, we need to support alternatives to the problem behavior and to mitigate possible adverse impacts on lower income people.

Pricing reform is needed when markets do not reflect the true cost to buyers. Such costs, however, can be difficult to measure, and require government to raise a price towards the real cost. Instead, government itself often provides goods with no charge to the user, often causing more harm than good, all things considered.

If prices can be reformed, people respond quickly with the easier adjustments, which is the short term elasticity, and over a longer term with major changes, the long term elasticity. Recently, short term responses to gas prices include mode shifts, reduced vehicle trip making, and buying more fuel-efficient cars.

The “Challenges” analysis referred to above considered a carbon tax, congestion pricing, and parking charges. Current costs of 23 cents a mile for the average commute went up 23 cents for a carbon charge, 25 cents for a congestion charge, and 36 cents for parking, totaling $1.07 per mile. Combined with other policies, pricing reform could achieve regional goals. The analysis asked, “Need to be aggressive─Are we ready?” The Regional Transportation Plan has none of the pricing reforms.

Clearly, we are not ready for action. There is a gap between our understanding of the solution and our ability to implement it. So the question arises, are there actions MTC could take that would help move the region from understanding to action; are there steps that would help us overcome our addiction to oil?

The following recommendations move pricing reform toward greater political feasibility:

1. Create an economics program to develop better analysis aimed at policy implementation. For example, employers see cash out as an expense. Cash out, however, reduces parking demand, freeing up land that could be used for productive purposes. If employers valued the land for building over the cost of cash out, they would support cash out. The analysis could look at how employers could use vacant land without reducing local land use power.

2. Develop an economic model for transportation pricing reforms. This model would be based on full market pricing: the usual monetary capital and operating costs, and also non-monetized external costs of greenhouse gases, other pollution and waste, health and accidents, and nature services. The challenge here is to quantify costs and benefits not measured by monetary transactions.

3. Estimate costs and benefits comprehensively. Pricing reforms are usually presented as specific monetary costs with nebulous social benefits. Measures framed as solving a problem and providing a personal benefit are more likely to get support. The carbon tax, for example, is usually presented as, well, a tax, when it could be sold as a carbon swap with no increase in tax for the average family and, in fact, with a benefit for those who reduce their carbon consumption.

4. Consider improved attractiveness of alternatives. Currently, the transit network has weaknesses for many potential riders, and few neighborhoods have developed the mixed uses that would support stores within walking distance. A pricing reform might not perform well compared to existing alternatives. The reform, however, is likely to increase demand and thus improve the supply of transit, density and walkable stores, which should be considered in evaluating the reform.

5. Be first in your class. No other Metropolitan Planning Organization has an economics program. Unlike scattered academic publications, MTC has the resources to develop more coherent, systematic analyses, explain them to the public, and lobby for statutory powers allowing implementation.

6. Look at the small picture as well as the big. Many reforms can start in a single neighborhood; all they need is support from neighbors and the city council. It is safe to say most localities need a little help in thinking about the details and in having regional support. Experimenting locally and achieving success lay the foundation for more implementation.

7. Social equity needs to be built in. Some pricing reforms may cause problems for low income families, so the analysis needs to include mitigation measures. Other reforms benefit such families, for example, by improving transit, and such benefits need to be analyzed to help promote the reform.

**AGENDA ITEM 9**

Here is a list of the specific reforms the Economics Program could analyze. They are spelled out in more detail in "Background: Transportation Economics Program."

1. Cash-out for Smart Growth

2. Unbundling of Parking Rent from Space Rent

3. Ecopass

4. Parking Requirements

5. Dynamic Street Parking Charges

6. Dynamic Congestion Pricing

7. A Fee-concept Gas Tax

8. A Carbon Swap

9. A Pavement Tax

10. Driver Externality Costs

11. Parking Structures

12. Consumer Information