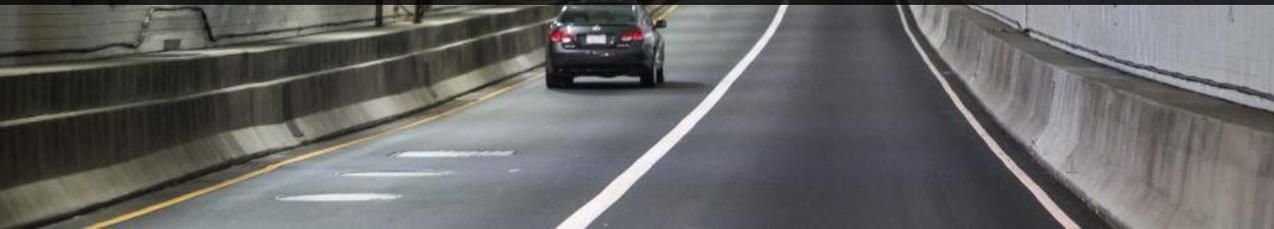




The Impact of Tolls On the City of Portsmouth

James V. Koch

June 12, 2018



Three and a half years ago, I undertook a study that focused on the impact of tolls on the City of Portsmouth.

Some important things have changed since then.

- **Tolls have increased**
- **The Martin Luther King no longer is tolled**
- **Drivers have had full opportunity to adjust their traveling habits**
- **The number of partial or total closures for construction and maintenance has declined**

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Dragas Center for Economic Analysis and Policy, ODU**

In my 2014-2015 study, I found that:

- ✓ **The negative effects of the tolls were greater on Portsmouth than any other area city**
- ✓ **Taking other factors such as defense spending into account, tolls reduced tunnel traffic about 20% on a typical day**
- ✓ **Tolls reduced taxable sales in the City by about \$14 million annually**
- ✓ **The negative impact was larger on the MTT than the DTT**

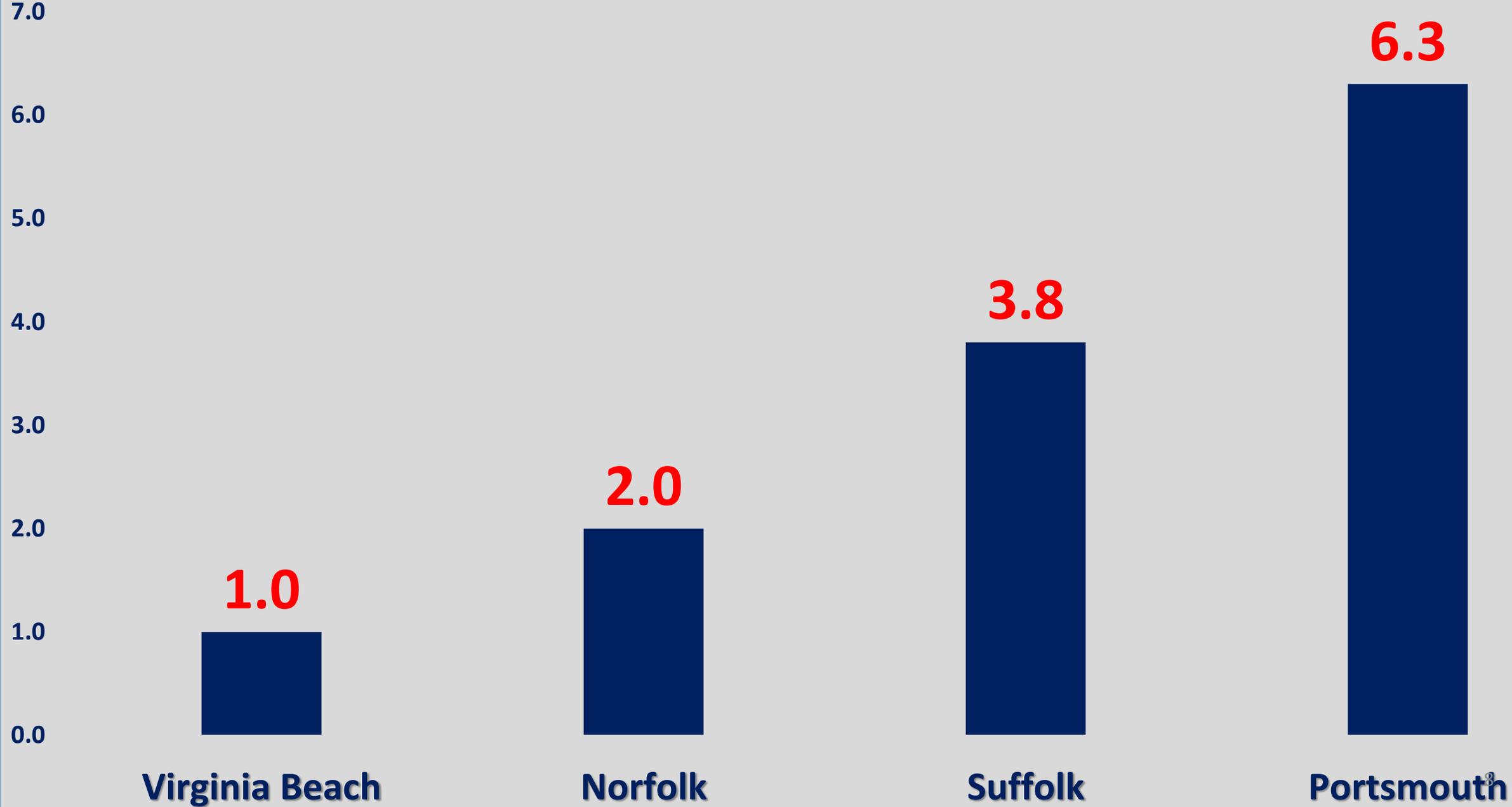
Now, in 2018, I find that:

- ✓ **Portsmouth continues to bear the brunt of the negative impact of the tolls---six times as much as Virginia beach, relatively speaking**
- ✓ **The negative impact of the tolls on tunnel traffic has declined from about 20% to about 11% on a daily basis (relative to a “*no tolls*” world)**
- ✓ **The adverse impact of the tolls continues to be greater at the MTT than at the DTT**

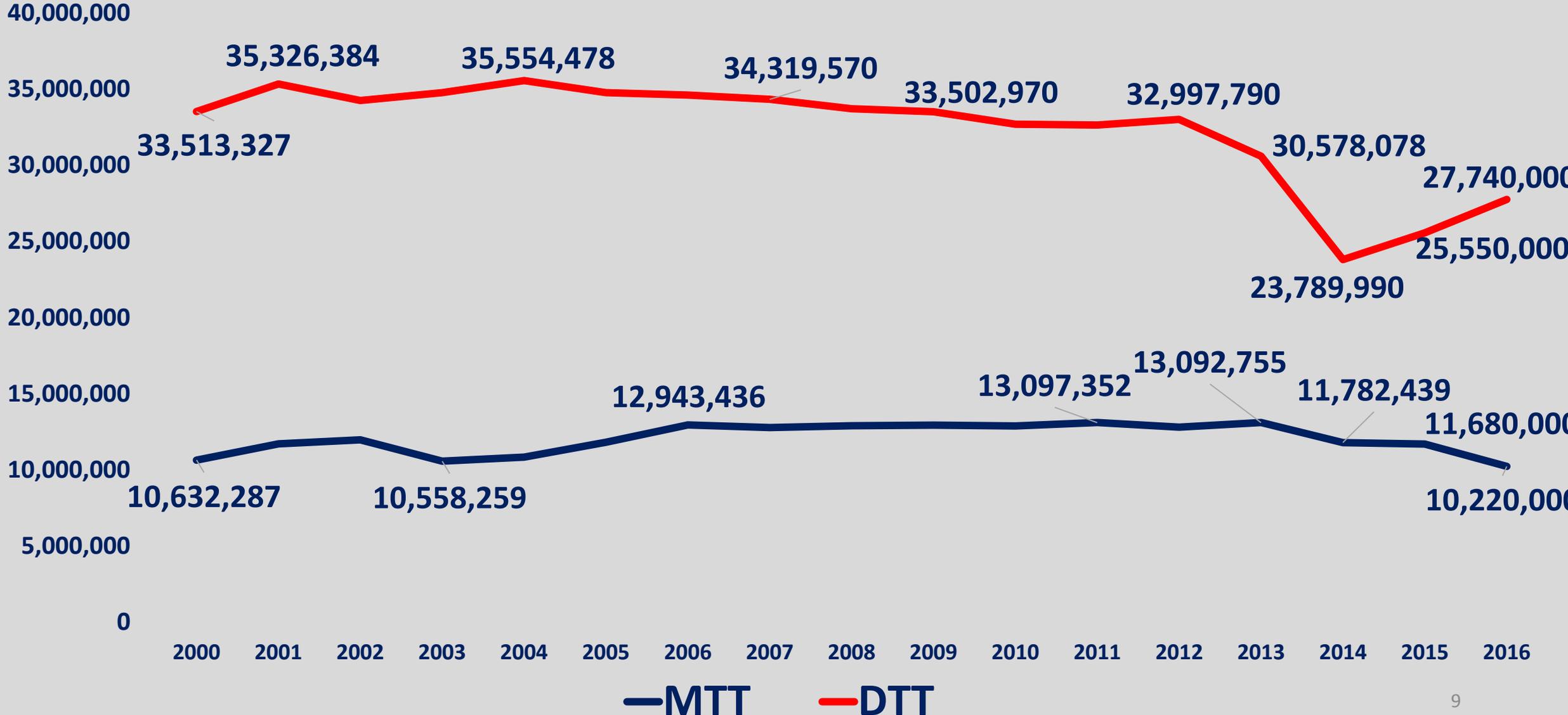
- ✓ **The negative impact of the tolls on taxable sales in Portsmouth has declined from \$14 million to \$8.8 million on an annual basis**
- ✓ **There is no evidence that the tolls have adversely affected the residential real estate market in the City. The numbers reveal that Portsmouth residential housing has been doing well compared to other regional cities.**

- ✓ **Eliminating tolls on the MLK has had a small, but statistically significant positive impact on travel**
- ✓ **The tolls may have a negative impact upon assessed real estate valuations, but it is too early to tell**
- ✓ **Many of the negative effects of the tolls have focused upon the Olde Towne area of the City, where meal and beverage tax collections have declined**

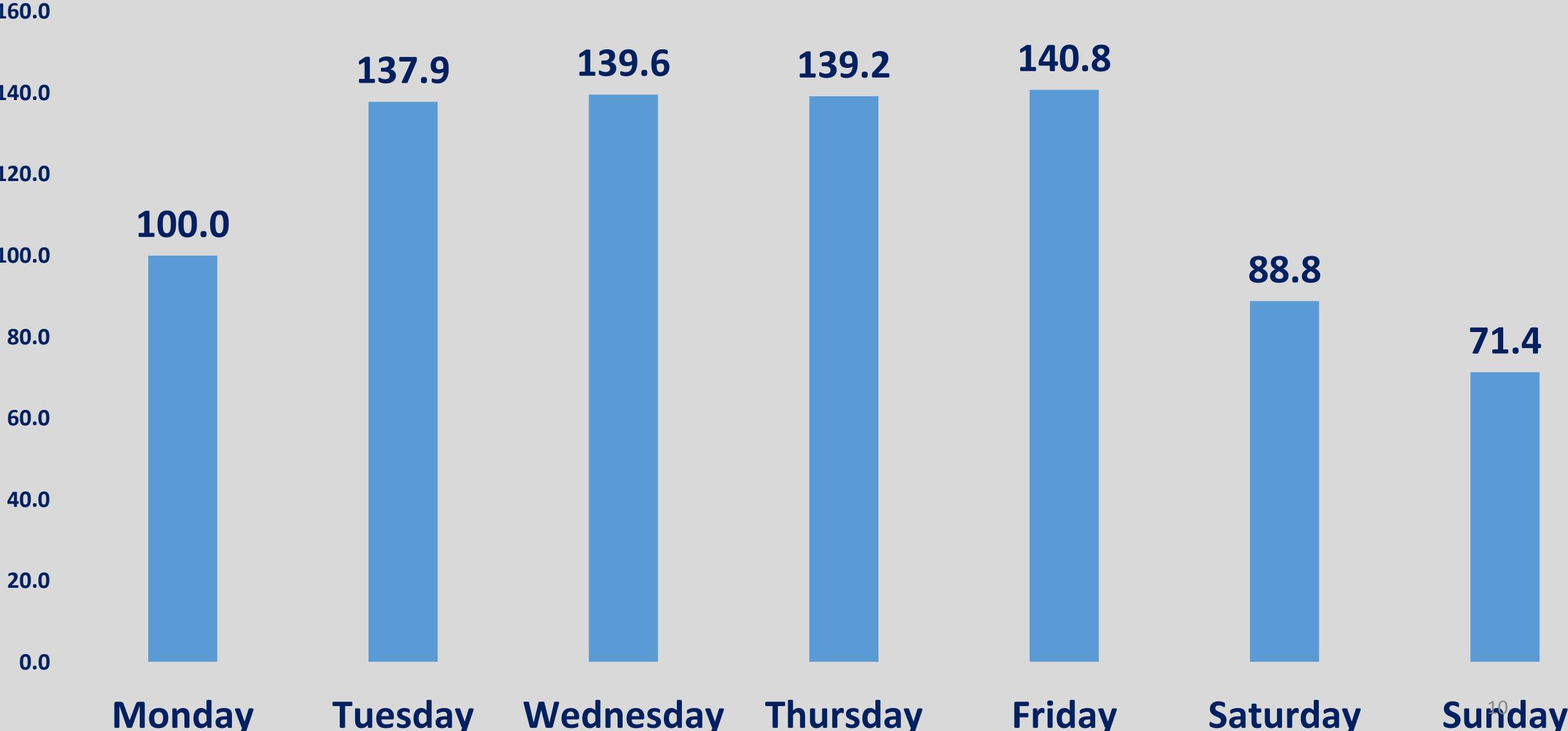
Relative Economic Impact of the Tolls on Four Cities, 2017



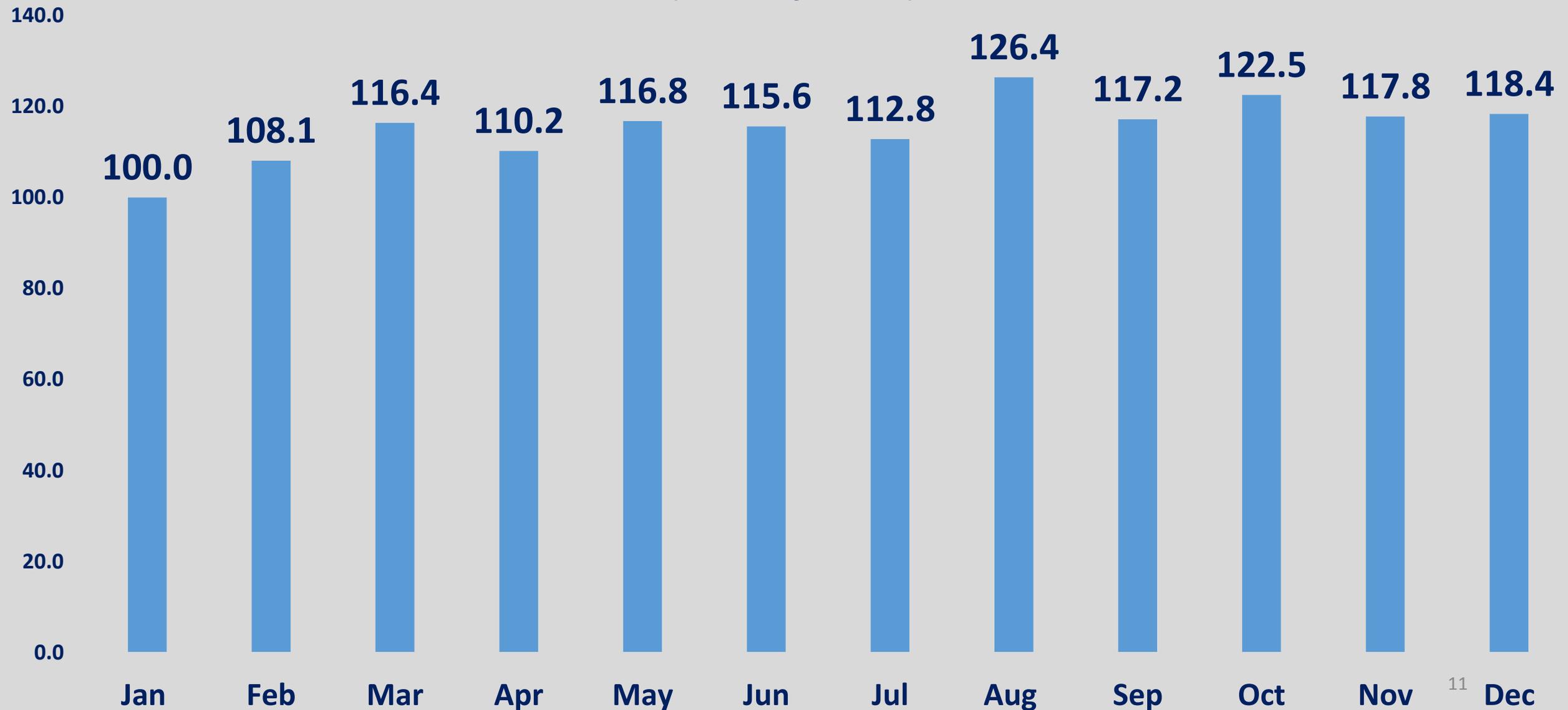
Annual Traffic Volumes: MTT and DTT, 2000-2016



The Scale of Average Vehicle Traffic By Day of the Week
Through the MTT and DTT on Weekdays (Monday = 100)



The Scale of Average Monthly Vehicle Traffic
Through the MTT and DTT
(January = 100)



How can we figure out the impact of tolls on traffic?

- Many different things affect tunnel travel. Some of them, we can measure. Others, we can't.
- Plausible factors that affect daily travel:

Tolls	Jobs in Portsmouth
Month of the Year	Jobs in Hampton Roads
Day of the Week	Port Activity (TEUs)
Universities in Session	Traffic Disruptions
Defense Spending	

- Statistically: $\text{Traffic} = f(\text{Tolls, Jobs,})$

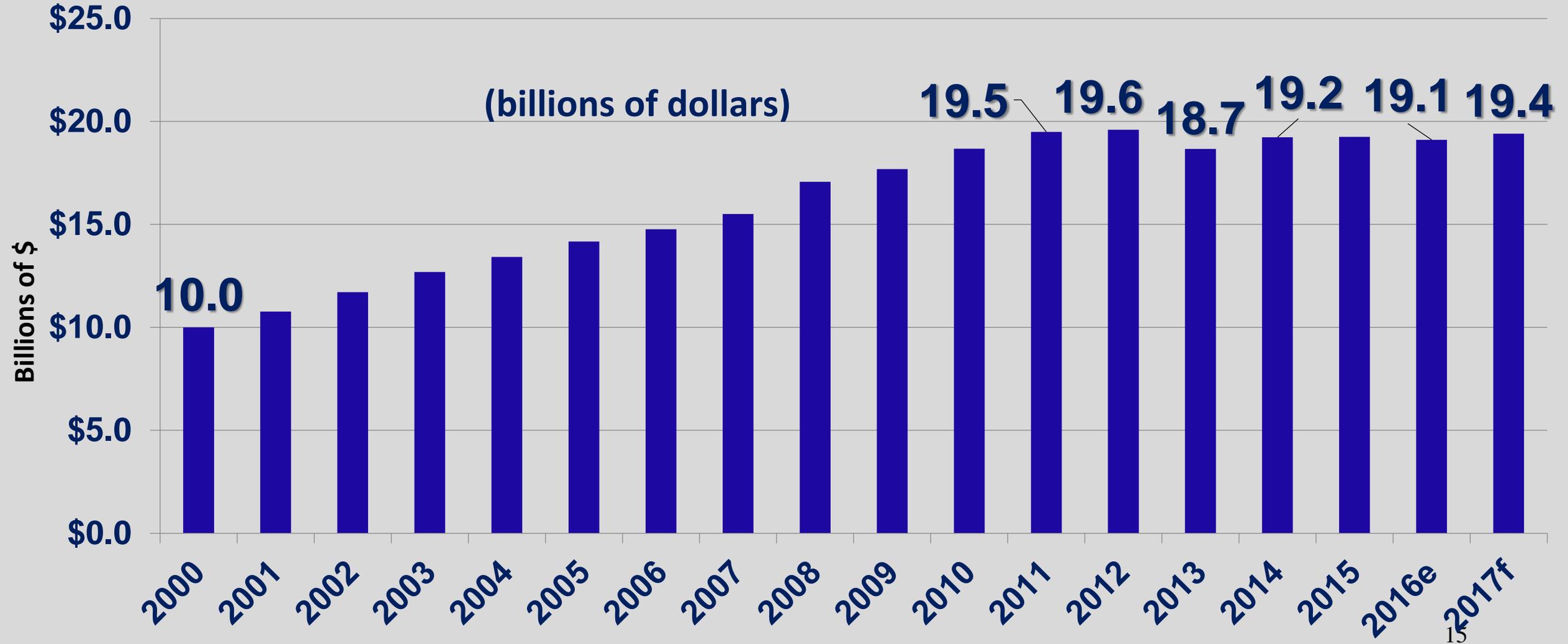
Findings

- ✓ **DTT traffic is down 9.8% compared to what it would have been if there were no tolls**
- ✓ **MTT traffic is down 12.4% compared to what it would have been if there were no tolls**
- ✓ **These are roughly three-fifths of the size of the contractions I found four years ago**

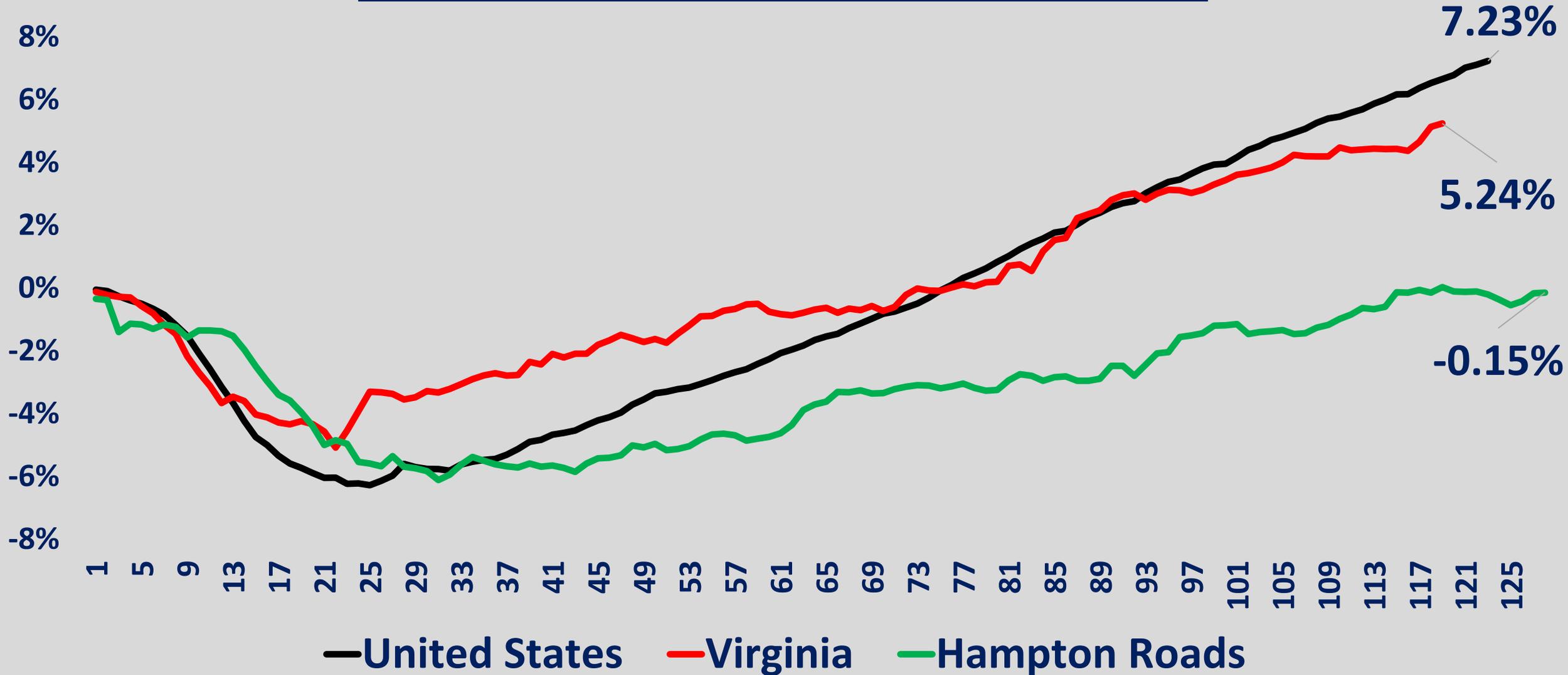
- ✓ **The most important determinant of tunnel traffic is the volume of government spending in Hampton Roads and specifically, defense spending**
- ✓ **This is a reminder that 40% of the value of our regional economic activity can be traced to defense spending, which has been stagnant (declining when the CPI is considered) in recent years**

Estimated Direct DOD Spending in Hampton Roads

Between 2000 and 2012, DOD spending in our region increased by an annual average of 5.8%. In 2017, it was about 1% lower than its peak in 2012.



Recovery from the Great Recession Measured in Total Jobs Restored, 2008-2018



Source: Bureau of Labor Statistics and Old Dominion University Economic Forecasting Project. Peak Pre-Recession Dates are January 2008 (United States) and April 2008 (Virginia). Data for USA through April 2018, Virginia and Hampton Roads through March 2018. US data preliminary for March and April 2018. Virginia data and Hampton Roads data are preliminary for March 2018.

Contract Defense Spending in Portsmouth: FY 2017

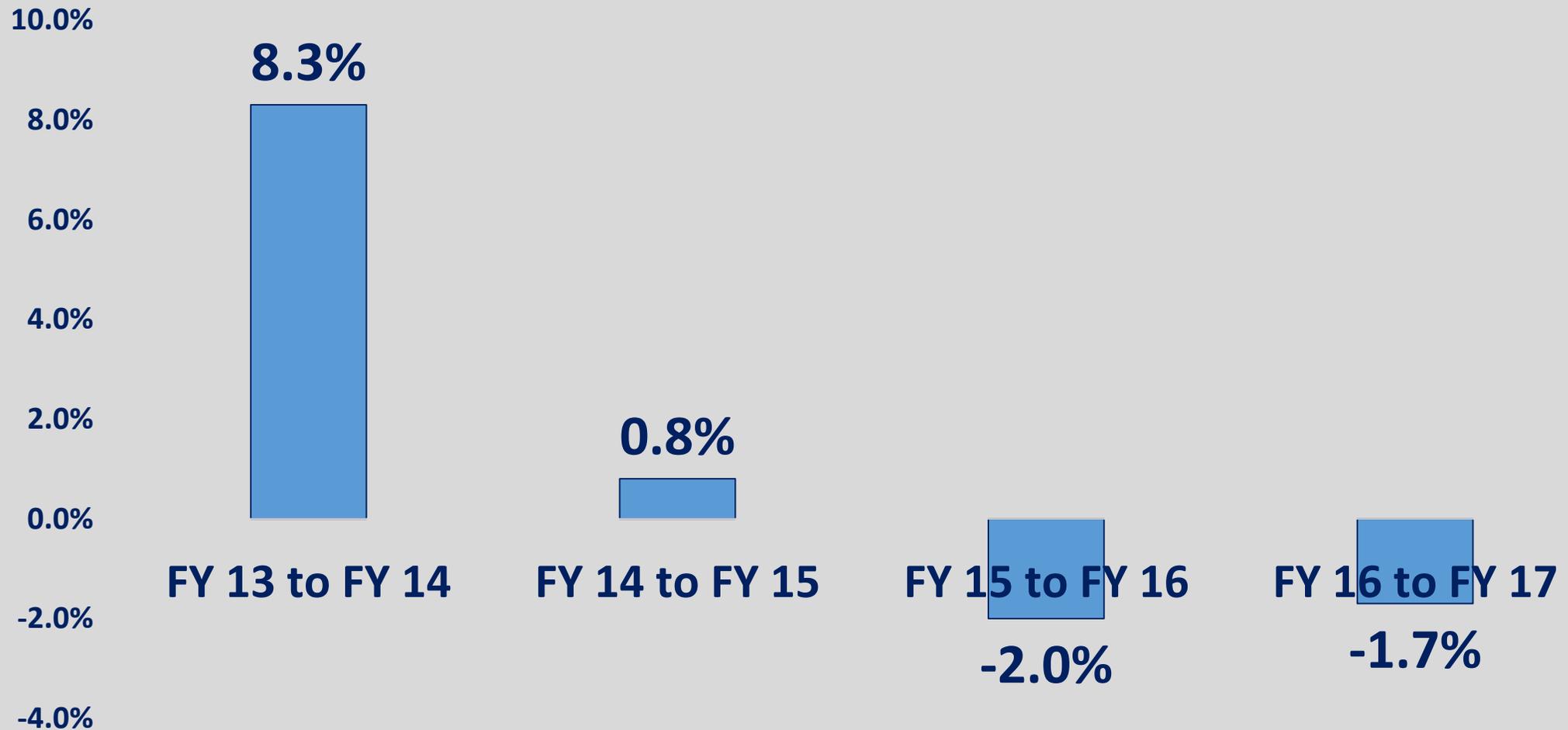
- **\$575.6 million in contracts**
- **8.3% of all jobs in Portsmouth are dependent upon those contracts**
- **2,117 individuals are employed directly on those contracts; 318 are employed by those who supply the contractors; 922 are employed by businesses where these people spend the salaries they earn.**
- **Total jobs: 3,357 (of 44,000+)**

Percent of City Jobs Dependent on DOD Contracts: FY 2017

• Newport News	33.8%
• Portsmouth	8.3%
• Norfolk	8.2%
• Virginia	5.5%
• Hampton	2.9%
• Virginia Beach	2.7%
• Chesapeake	2.5%
• Suffolk	1.7%

✓ The impact of the tolls has been particularly negative for Olde Towne Portsmouth.

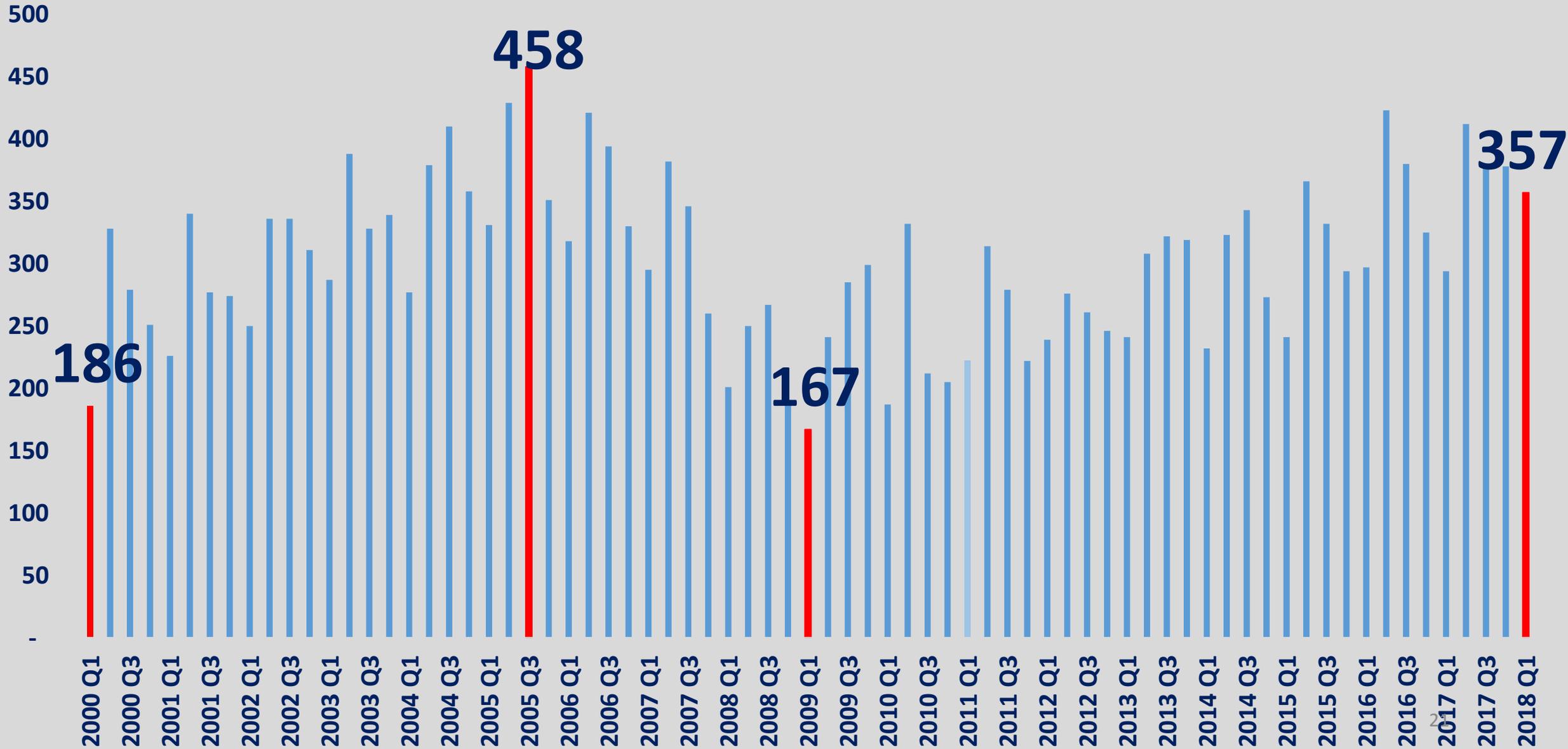
Percent Changes in Meal and Beverage Tax Revenues in the Olde Towne (Zip Code 23704) Area, FY 2013 to FY 2017



The Impact of Tolls on the Sales Prices of Existing Homes in Portsmouth: 2013 1Q to 2018 1Q

City	Percent Increase in Sales of Existing Homes	Percent Increase in Median Sales Price of Existing Homes
Portsmouth	48.13%	49.00%
Hampton Roads	24.47%	22.16%

Number of Existing Homes Sold: Quarterly Averages, Portsmouth, 2000-2018



Tolls and Assessed Real Estate Valuations

- **There is very limited evidence that assessed valuations of real estate in Portsmouth may have been rising less rapidly than those in more or less comparable cities such as Norfolk and Hampton.**
- **But, there are lots of possible influences to consider here and we will need to see quite a few more years of evidence in order to reach a conclusion.**

- **The estimated \$8.8 million reduction in annual taxable sales that has occurred because of the tolls ordinarily would translate into \$22.0 million in reduced commercial real estate values. This in turn would mean an approximate \$286,000 annual loss in real estate tax collections for the City.**
- **Those mathematically inclined can consult my report to see how this estimate was derived.**

The Future

- The negative impact of the tolls has declined from approximately -20% of traffic to about -11% of traffic (compared to “no tolls”).
- The rise in EZ Pass use also shows the gradual adjustment of drivers, who may be getting used to the tolls:

2015: 72.2%

2016: 73.5%

2017: 78.5%

2018: 82.0%

The Future

The negative impact of the tolls has been declining, but never is going to go away completely. One reason for this is the peak time tolls could rise to more than \$21.00 in 2070 (depending upon the growth of the CPI) and this will affect Portsmouth more than other cities.

City	Per Cap Income	Annual EZ Pass Peak Toll As Percent of Per Cap Inc.
Virginia Beach	\$33,250	2.50%
Suffolk	\$30,331	2.74%
Norfolk	\$25,450	3.27%
Portsmouth	\$23,878	3.48%



My analysis and commentary do not constitute official viewpoints of Old Dominion University, President John R. Broderick, the Board of Visitors, the Strome College of Business, or the generous donors who support the activities of the Dragas Center for Economic Analysis and Policy.