

# **Meeting Our Transportation Funding Challenges: We Must Build A New Consensus**

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*Prepared by*

**Michael C. Genest**

**Capitol Matrix Consulting**

## Executive Summary

There is universal agreement that a well-functioning transportation system is essential to the nation's economic health and future economic growth. But, there are two views about how to achieve that goal. One view is that "An ever-expanding backlog of investment needs is the price of our failure to maintain funding levels—and the cost of these investments grows as we delay", while the other is that "A failure to properly align supply and demand, not a failure to generate sufficient tax revenues, is the essential policy failure." Either way, however, it is clear that the nation has failed to invest enough in our transportation to maintain its performance at historical levels, let alone to maximally improve it.

According to the CBO, the balance in the Highway Trust Fund will fall to \$3 billion in 2014 and the fund would have a deficit of \$12 billion in 2014, which would grow to \$164 billion by 2024. These estimates assume that the current federal gas tax is extended, but not increased. The proximate cause of the shortfall is the failure of gas tax revenues to keep up with inflation and the unwillingness to continue the general fund subsidies that have been used to prevent HTF deficits in recent years.

There is a strong case for reforming transportation funding and delivery through more market-based approaches. Yet, even the advocates for these approaches recognize that they will take years to fine-tune and roll out. In the meantime, the President's proposal for transportation contains no realistic or detailed proposal for filling a \$150 billion gap between what it proposes to spend in the next four years and gas tax revenues. The Senate bill suffers the same deficiency, but at a slightly lower amount, \$61 billion. The House has not adopted a bill, but appears to be stuck between its desire to fund transportation without a gas tax increase and the Ryan budget, which provides no general fund subsidy.

There seem to be three major options for filling the funding gap, raising the federal gas tax (and probably tying it to inflation or making it an ad valorem tax), continuing the general fund subsidy, or adopting market-based solutions, such as tolling or a vehicle miles traveled tax. At the moment none of these seem politically possible. While public private partnerships are much discussed and they offer some significant advantages, only those that rely on toll or fare increases actually bring new money to the table. But, transit is a special case in that there are several positive externalities that argue for continued subsidization of fare box revenues with both (state and federal) gas tax revenues and general purpose revenues as well. And, while a federalist approach could allow states to pursue innovative solutions, these would take years to come to fruition and would never fully replace the federal role, especially in the areas of transit and interstate coordination.

While a grand compromise, involving either a gas tax increase or a continued general fund subsidy in exchange for market-based reforms and more state flexibility might be possible, none has been seriously proposed, so whether one is even possible is unknown. On the other hand, we may just end up "muddling through" with small steps in each of these directions, i.e., continuation of the current gas tax, some general fund subsidy and more permission for states to undertake pricing and operational reforms.

## Introduction

In my 37 years of working in and around state and local governments, I have received a standing ovation only one time, when I rather cavalierly proposed to a group of Republican legislative candidates that the way to solve our transportation infrastructure problems in California would be to sell all our major freeways to private companies to be operated as toll roads and to use the proceeds to upgrade the remainder of our transportation system. I am pretty sure that my only hope of getting a similar response from a group of Democratic candidates would have been to suggest instead a large tax increase to fund “adequate investment in our infrastructure”. This monograph explores that philosophical divide and attempts to find ways to bridge it.

The nearby box contains key statements about transportation funding that appear in the 2012 planks of the Republican and Democratic platforms. With most of the inflammatory, political language edited out, the two parties seem to have much in common on this issue. Both acknowledge the importance of transportation to the economy, both support funding transportation and both suggest that some reforms are needed. But, political platforms are general and with transportation finance, as with many issues, the devil is in the details.

Since I am not an expert on transportation, I rely for those details on a wide range expert sources. The place to begin is with the broad-based consensus that exists regarding the critical role that transportation plays in the economy and in the nation’s prospects for future economic growth.

## The Nation’s Economic Future Depends on Transportation

A variety of experts from across the political/ideological spectrum agree that the economy would come to a literal standstill without transportation and that an adequate and well-functioning transportation system is essential for the country’s future economic growth.

Michael S. Bronzini laid out the case for the critical role that transportation plays in the economy in his monograph prepared for the Free Congress Foundation in 2011<sup>1</sup>:

### Party Platforms on Transportation

#### Republican

“infrastructure networks are critical for economic growth, international competitiveness, and national security.”

“a renewed federal-State partnership and new public-private partnerships are urgently needed”

“shorten the project approval process, eliminate unnecessary programs, and give States more flexibility to address their particular needs.”

“Securing sufficient funding for the Highway Trust Fund remains a challenge given the debt and deficits and the need to reduce spending.”

#### Democrat

“support long-term investments in our infrastructure. Roads, bridges, rail and public transit systems, airports, ports ...”

“critical for putting Americans back to work and strengthening America’s transportation system to grow our economy.”

“proposed to go substantially further, including a significant up-front investment in our infrastructure followed by sustained increases in investment paid for with part of the savings from winding down our overseas wars, together with reforms that will better leverage government dollars and target significant projects.”

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<sup>1</sup> “Surface Transportation: The Case for Growth,” Michael S. Bronzini, PhD, P.E., September 20, 2011

- “The role of transportation in modern agricultural and industrial societies is well known, and stems from the economic concepts of specialization of labor and efficient utilization of natural resources, sometimes studied under the rubric of —location theory... Efficient production requires transport of people and resources to locations that allow maximum output at minimum cost, and subsequent movement of that output to demand points.”
- “A review of highway economics studies published by the American Road and Transportation Builders Association (ARTBA) found that: ‘The benefits of highway investment to private sector productivity and economic activity are well documented in the economics literature.’”
- He also cited a recent RAND study, which found that locations near transportation investments have higher land values than other sites; that investments in non-local roads over the period 1950 to 1989 yielded annual production cost savings to industry of 24 cents for each dollar of investment; and, that during the 1980s the net social rate of return on investment in the road network was 10 percent. For non-local roads the return was an even higher 16 percent.

Public transit also contributes significantly to economic growth. A recent study<sup>2</sup> found that, “Increased public transportation investment can lead to

significant economic growth, as a consequence of both the short-term stimulus impact of public transportation outlays and a longer-term, cumulative impact on economic productivity. The latter is enabled by increasing investment to improve our nation’s urban transportation systems and sustaining the investment over time...Investment in public transportation expands service and improves mobility, and if sustained over time can potentially affect the economy by providing:

- travel and vehicle ownership cost savings for public transportation passengers and those switching from automobiles, leading to shifts in consumer spending;

**The President’s 2015 Budget:** “A well-functioning transportation system is critical to America’s economic future.”

**Chairman Bill Shuster (R-PA) of the House Committee on Transportation and Infrastructure:** “Transportation is a critical part of how the supply chain functions, how raw materials get to factories, how finished products get to markets, and how food gets from farms to our kitchens. It allows American businesses to be competitive in the global marketplace and for our economy to prosper and grow.”

**The American Public Transportation Association:** “transportation is an investment in American jobs and in protecting global economic competitiveness. Public transportation is the way that millions of Americans get to and from jobs, school, medical care, and other places they travel to everyday.”

**US Chamber of Commerce:** “The stakeholders in this debate agree that our infrastructure system is a critical national asset that drives growth, jobs, safety, mobility, trade, and enhanced global competitiveness...”

**“Hard Hats for Highways”, a national coalition of labor unions and business associations:** “Investing in roads and bridges not only makes our broader economy more efficient and vibrant, it puts a lot of men and women to work in every part of the country.”

**Brookings Institution;** “In the past, strategic investments in our nation’s transportation infrastructure—the railroads in the 19th century, the interstates in the 20th—turbocharged growth and transformed the country.”

**Randal O’Toole, the Cato Institute:** “The benefits of mobility are huge and undeniable...Economists estimate that the construction of new highways contributed to nearly one-third of the rapid economic growth the United States enjoyed in the 1950’s and a quarter of the growth in the 1960’s.”

<sup>2</sup> “Economic Impact of Public Transportation Investment, 2014 Update,” American Public Transportation Association.

- reduced traffic congestion for those traveling by automobile and truck, leading to further direct travel cost savings for businesses and households;
- business operating cost savings associated with worker wage and reliability effects of reduced congestion;
- business productivity gained from access to broader labor markets with more diverse skills, enabled by expanded public transit service areas and reduced traffic congestion; and
- additional regional business growth enabled by indirect impacts of business growth on suppliers and induced impacts on spending of worker wages.

At a national level, cost savings and other productivity impacts can affect competitiveness in international markets.”

Indeed, as the nearby box illustrates, there seems to be universal agreement that a well-functioning, adequately financed transportation system is essential to the nation’s economic well-being and its prospects for economic growth. However, a consensus on how to go about achieving this important goal remains elusive.

## **The Transportation Funding Problem — Two Schools of Thought**

There are two schools of thought about transportation funding. Broadly speaking, one holds that the problem is a lack of adequate government revenue and the other holds that it is a failure to properly align supply and demand. Both of these views are reflected in the final report of the National Surface Transportation Infrastructure Financing Commission<sup>3</sup>, as shown in the two quotes below, the first from the commission’s majority and the second from the minority’s dissent:

- “An ever-expanding backlog of investment needs is the price of our failure to maintain funding levels—and the cost of these investments grows as we delay. Without changes to current policy, it is estimated that revenues raised by all levels of government for capital investment will total only about one-third of the roughly \$200 billion necessary each year to maintain and improve the nation’s highways and transit systems.”
- “A failure to properly align supply and demand, not a failure to generate sufficient tax revenues, is the essential policy failure. When consumer demand determines supply, it will engender funding sufficient to meet the demand. The problem is not how to raise a certain level of revenue, but rather how to develop a policy framework that will unleash efficient capital investments, empower consumers, reduce congestion, stimulate technology improvements, improve America’s quality of life, and support the increased productivity of American businesses.”

Of course, it is possible that both views are right, that there is an objective shortfall in funding and that there is a need for better alignment of supply and demand and greater efficiency. I consider the arguments for each view below.

## **A History of Under-Investment**

The Federal Highway Administrations 2013, “Status of the Nation's Highways, Bridges, and Transit: Conditions & Performance<sup>4</sup>” report provides a relatively objective way to assess whether America has “adequately” funded its transportation infrastructure in recent years.

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<sup>3</sup> The Final Report of the National Surface Transportation Infrastructure Financing Commission, “Paying Our Way — A New Framework For Transportation Finance,” February, 2009.

<sup>4</sup> <http://www.fhwa.dot.gov/policy/2013cpr/>

For highways and bridges, the report provides estimates of the costs to “maintain” them at the level of performance in the base year (two years prior to the publication date). Maintaining the system at its current level of performance does *not* reduce congestion nor improve safety or driving conditions. It merely means holding roads and bridges at the level of performance in the base year. However, the report also provides estimates of the costs to “improve” the overall system. Improvement costs reflect the aggregate costs of all projects whose benefits (reduced congestion, improved safety, better road conditions, etc.) would exceed their costs. The report then compares these costs on an average annual basis over a 20-year time span with the level of funding that existed in the base year.

Table 1 displays, for each report starting in 1997, the percentage by which the projected costs to maintain, or to improve the national inventory of highways and bridges exceed the base year funding for doing so. For example, in 1997 we would have had to increase average annual funding for the next twenty years by 21 percent to keep the system functioning at the level of the base year for that report (1995) and by 108.9 percent if we wanted to improve it as much as possible.

Clearly, if the engineers got the costs right (and I certainly have no basis for casting any doubt on their accuracy), the nation has been substantially underfunding its highway and bridge infrastructure for a long time<sup>5</sup>. This long-term trend of under investing suggests that the system’s performance has been deteriorating over these years, a presumption with which most drivers would readily concur.

**Table 1**

**Costs to Maintain or Improve Highways and Bridges Have Exceeded Funding**

Report Year	Maintain	Improve
1997	21%	108.9%
1999	16.3%	92.9%
2002	17.5%	65.3%
2004	8.3%	74.3%
2006	12.2%	87.4%
2008	34.2%	121.9%
2010	10.8%	86.6%
2013	-13.9%	45.7%

The report shows a similar underfunding for transit, although the transit estimates are presented on a somewhat different basis. They reflect the estimated costs of bringing the current system into a state of

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<sup>5</sup> The exception is the 2013 version of the report, but that is somewhat of an anomaly due to the temporary spending increases provided by the American Recovery and Reinvestment Act (the base year for the 2013 report was 2011) and to a presumably temporary, recession-driven reduction in construction costs. Moreover, even with that, the funding was inadequate to fund the “Improve” scenario.

good repair. This approach would seem to give a result somewhere between “maintain” and “improve” since it reflects bringing all current transit infrastructure up to a state of good repair, but does *not* include the costs of any projects to improve the performance of the system (such as extending rail lines or adding new bus routes). The report estimates that the nation’s transit systems in aggregate had an unfunded backlog of projects needed to raise its infrastructure to a state of good repair totaling \$81 billion in 2013.

The shortfall in funding for highways, bridges and transit is at least partially to blame for the significant underperformance of the nation’s transportation system. The Bureau of National Affairs cited the following evidence that insufficient funding has led to deteriorating performance of the nation’s transportation system:

- “From 1980-2006, vehicle miles traveled increased 97 percent for automobiles and 106 percent for trucks...(while) the total number of highway lane miles grew only 4.4 percent.”
- “Hours of delay per traveler almost tripled from 1982-2005, and total hours of delay increased fivefold. In urban areas alone, congestion resulted in 4.8 billion hours of traveler delays and consumption of an additional 3.9 billion gallons of fuel in 2009. Freight movements have been similarly affected: the top 25 truck bottlenecks in the U.S. account for about 37 million truck hours of delay each year.”
- “These problems aren’t only the result of a steadily growing usage, but also of deteriorating conditions. As of 2006, more than half of total vehicle miles traveled on the federal highway system occurred on roads that were not in good condition.”<sup>6</sup>

The problem with urban roads is particularly acute, as indicated in a 2013 report by a national transportation research group: “These days, potholes and pavement deterioration make it a challenge to keep the wheel steady on America’s roads and highways. More than a quarter of the nation’s major urban roadways – highways and major streets that are the main routes for commuters and commerce – are in poor condition. These critical links in the nation’s transportation system carry 78 percent of the approximately 2 trillion miles driven annually in urban America.”<sup>7</sup>

Finally, the American Society of Civil Engineers estimates that: “American families and businesses are losing money and time. Congested roads cost an estimated \$101 billion per year in wasted time and fuel, and driving on roads in need of repair costs motorists an average of \$324 per year in vehicle repair and operating costs.”<sup>8</sup>

## **The Highway Trust Fund Shortfall**

While the nation’s recent track record in maintaining and improving its transportation systems is discouraging, the prospects for the future are much worse. According to the Congressional Budget Office, “In 2013, governments at various levels spent \$156 billion to build, operate, and maintain highways, and they spent \$60 billion on mass transit systems. For both types of infrastructure, most of that spending was by

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<sup>6</sup> “Modernizing U.S. Surface Transportation System: Inaction Must Not Be an Option,” Jack Schenendorf and Elizabeth Bell on Behalf of the Association of Equipment Manufacturers (AEM), 2011.

<sup>7</sup> “Bumpy Roads Ahead: America’s Roughest Rides and Strategies to Make our Roads Smoother,” TRIP, October 3, 2013.

<sup>8</sup> “Ten Myths About the Highway Trust Fund,” American Society of Civil Engineers Round Up, June 3, 2014.

state and local governments; about one-quarter of that total came from the federal government, mostly through the Highway Trust Fund.”<sup>9</sup>

The CBO also reports that the balance in the Highway Trust Fund will fall to \$3 billion in 2014 and the fund would have a deficit of \$12 billion in 2015, which would grow to \$164 billion by 2024.<sup>10</sup> These estimates assume that the major source of revenues into the fund — the gasoline tax — will be reauthorized at the current 18.4 cents per gallon level and that spending will continue at historical levels, adjusted for inflation. It also assumes that General Fund transfers into the HTF will end this year.

The looming shortfall in the HTF is almost exclusively due to its traditional reliance on the federal gas tax. As the nearby box details, in recent years gas tax revenues have not kept up with the growing needs of highways, bridges and transit, mostly because the tax is an excise, not an ad valorem tax. As fuel efficiency and gas prices have increased, therefore the revenues from the gas tax has dropped on a per-mile basis.

The American Society of Civil Engineers summarized the problem succinctly: “The gas tax is not tied to inflation and hasn’t been raised in more than 20 years. We are trying to run a 2014 transportation system on 1993 dollars.”<sup>11</sup>

By law, the HTF may not run a deficit, however. So, something will have to be done to avoid this result. According to the CBO, if Congress does not do something to address the revenue shortfall, no new obligations could be undertaken in 2015. Over the period 2015-2024 the highway account of the HTF would have to reduce spending by 30 percent and the transit portion by 65 percent, as compared to historical trends.

### **The Origins of the HTF Shortfall**

**(Excerpt from “The Impact of Fuel Use Trends on the Highway Trust Fund’s Present and Future”, January, 2013, The College of William & Mary Thomas Jefferson Program in Public Policy)**

“Since the 1956 Federal-Aid Interstate Highway Act, federal fuel taxes have nearly exclusively gone to the Highway Account within the HTF, which then distributes funds to states by formula. The states subsequently execute highway maintenance and construction projects. This scheme was designed so that federal highway expenditures would be self-funded and would not contribute to national debt. In recent years, though, the all-important federal fuel tax revenues have not kept up with highway financing needs, resulting in the projection of large future supplements from general revenues to meet HTF obligations. Two distinct trends are responsible for this. First, federal gas and diesel tax rates (18.44 and 24.44 cents/gallon, respectively) have not been changed since 1993. Despite the fact that gas prices themselves have essentially tripled since 1993, stagnant tax rates mean that motorists are paying less per-mile, in real terms, for highway use than they did in 1956. Second, modest increases in historical fuel efficiency have meant that, while the total vehicle miles traveled (VMT) has increased overall since 1993, fuel consumption, particularly with respect to gasoline, has stagnated.”

“There is a strong indication that increases in fuel efficiency and inflation have hurt the Highway Trust Fund’s investment capabilities in recent years.”

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<sup>9</sup>“The Status of the Highway Trust Fund and Options for Financing Highway Spending,” Testimony of Joseph Kile, Assistant Director for Microeconomic Studies, Congressional Budget Committee, Before the Committee on Finance United States Senate, May 6, 2014.

<sup>10</sup> *ibid.*, Page 5, Table 2

<sup>11</sup> “Ten Myths About the Highway Trust Fund,” American Society of Civil Engineers Round Up, June 3, 2014.

Given the fact that our transportation system has been underfunded for several years, it seems obvious that cutting federal expenditures to this degree can only be expected to lead to its further deterioration, with all the negative economic consequences that would entail. No one in Congress wants that to happen.

## **The Case for Market-Based Solutions**

The case for market based solutions has been laid out by prominent transportation economists for decades. These economists assert that the main problem is that the incorrect pricing of the system of roads, transit systems and parking facilities has resulted in inefficiencies in the use of the system (such as overuse at peak hours). I present the case for a market based-approach through the words of these economists.

**George W. Hilton.** As long ago as 1974, the economist George W. Hilton found that federal transit subsidies had “failed to arrest the decline of public transit, to reduce traffic congestion and atmospheric pollution, to improve the mobility of the urban poor, and to develop viable alternatives to the traditional modes of moving people about major metropolitan areas.<sup>12</sup>” He argued that this failure is the result of incorrect pricing and decisions in favor of monopolized, linear transit systems instead of competitive jitney systems.

**Robert Poole.** In his, “Interstate 2.0: Modernizing the Interstate System Via Toll Finance”, September 2013<sup>13</sup>, Poole found that the cost to repair and expand the interstate system (which handles 25 percent of all vehicle miles traveled even though it accounts for only 2.5 percent of all US highway lane-miles) would be on the order of one trillion dollars. He noted that “there is a growing consensus that the 20th century system of paying for highways via fuel taxes is not sustainable long-term.” The study found that a 3.5-cents-per-mile average toll on the entire interstate system coupled with “congestion pricing” on key segments would be sufficient to repair and extend the interstate system.

**Randal O’Toole.** In his, “Getting What You Paid For — Paying For What You Get”<sup>14</sup>, O’Toole stated:

- “Infrastructure may be publicly or privately owned, but most infrastructure—including virtually all transportation infrastructure—is privately used. That means it can be funded out of user fees such as tolls and fares.”
- “Funding infrastructure out of user fees ensures that infrastructure investments are worthwhile, because a key test of value is whether users are willing to pay capital and operating costs. Infrastructure funded out of user fees also makes no long-term contribution to federal deficits.”
- “Two fundamental concepts—efficiency and cost efficiency—should be at the center of a sound federal transportation policy. Unfortunately, these concepts have been neglected in recent decades. ... (transportation funding) laws included no enforceable mechanisms to ensure that funds are efficiently spent. As a result, state and metropolitan transportation planners made almost no efforts to ensure that their programs are efficient or cost efficient, and in many cases it is clear that they are extremely inefficient.”

**Clifford Winston.** In his, “On the Performance of the U.S. Transportation System: Caution Ahead”<sup>15</sup>, Winston examines a wide range of the empirical evidence on the efficacy of public sector provision of transportation. Some examples of his findings are:

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<sup>12</sup> Federal transit subsidies: The urban mass transportation assistance program, George W. Hilton, AEI, 1974.

<sup>13</sup> Reason Foundation, September 12, 2013.

<sup>14</sup> Cato Institute, Policy Analysis No. 644, September 15, 2009.

<sup>15</sup> Brookings, September 26, 2013.

- “Public provision of... infrastructure is characterized by growing budget deficits, travel delays, and physical deterioration because it has not been guided by basic economic principles: prices do not reflect social marginal costs, especially a user’s contribution to congestion and delays; investments are not based on cost-benefit analysis and have failed to maximize net benefits; and operating costs have been inflated by regulations. In addition, those static inefficiencies have been compounded by dynamic inefficiencies that are attributable to the slow rate of technological advance...”
- The “gasoline tax... is an inefficient charge because it does not account for (the) contribution to congestion. Vehicles should be charged for their use of lane capacity that contributes to congestion by paying efficient (marginal cost) congestion tolls, which can be assessed using modern technology without disrupting motorists’ and truckers’ journeys or invading their privacy. By substantially reducing—but not eliminating—delays and reducing residential sprawl because the out-of-pocket cost of commuting would no longer be underpriced, such tolls could generate annual gains of \$40 billion, accounting for the travel time savings for commuters, savings for taxpayers from lower costs of public services from greater residential density, and greater revenues to the government.”
- “Field studies suggest that as much as one-third of traffic in some parts of San Francisco and Los Angeles is attributable to drivers circling as they hunt for spaces. ...studies suggest that nationwide costs are in the billions of dollars. ...An efficient congestion-based pricing policy, which is currently being tested in San Francisco, sets real time prices at parking meters to raise the price of parking on the city’s most crowded blocks and to lower it on its emptiest blocks”
- “Replacing the fuel tax with an axle-weight (marginal cost) charge would encourage truckers to shift to vehicles with more axles that do less damage to road pavement, thereby reducing maintenance expenditures and producing an annual welfare gain exceeding \$10 billion.”
- “Users of urban bus and rail transit pay fares that are set by transit authorities below marginal cost, some even ride at discounts from those fares, and some federal employees ride free...such subsidies are hard to justify on distributional grounds because transit users generally live in households with incomes that are above the national average.” Although, “public policies that subsidize certain travelers and carriers to pursue social goals, such as improving the mobility of low-income households, may be justified if the goals are supported by the public and the subsidies are provided at minimum social cost.”
- “Investments in highway capacity have been distorted by prices that have been set below marginal cost...at the margin, the benefits from additional roads have fallen short of the costs ... increasing the provision of roads is unlikely to relieve congestion.”
- “investments in highway durability—that is, pavement thickness—should minimize the sum of initial capital and ongoing maintenance costs...building roads with thicker pavement at an annualized cost of \$3.7 billion would generate an annualized maintenance saving of almost 4 times as much—\$14.4 billion...Driving on damaged roads is estimated to cost U.S. motorists \$67 billion in additional annual operating costs and repairs.”
- “Policymakers have wasted resources by investing in highway projects that have not been selected on the basis of careful cost–benefit analysis...highway officials could reduce highway costs \$13.8 billion per year...if expenditures were explicitly targeted to those areas of the country with the greatest congestion.”

Undoubtedly, transportation managers at the federal, state and local levels would respond that they have more urgent priorities than maximizing social utility: they are trying to keep things moving with increasingly inadequate funding. It is true that designing, testing and implementing the kinds of market-based solutions proposed by economists takes time and resources. Yet, given persistent funding shortfalls and the

resulting deterioration of the nation's transportation infrastructure, these economic principals have to be part of any sustainable, long-term solution.

In the following sections I review the various proposals to address the transportation funding shortfall beginning with the President's proposal to re-authorize and revise the statutory foundation for federal transportation policy.

## **Surface Transportation Reauthorization — The Current State of Play**

The Associated General Contractors of America succinctly summarized the re-authorization situation:

“In 2012, Congress passed and the President signed into law the federal surface transportation authorization, Moving Ahead for Progress in the 21st Century (MAP-21) which funds highway and transit investments through FY 2014. MAP-21 makes landmark reforms in the highway and transit programs that will greatly improve our transportation infrastructure network. It focuses the program on high priority investments and removes redundant procedures that had delayed project delivery for years in many cases. The legislation contains several provisions important to the construction industry including: reforming the environmental review and planning process, addressing highway workers safety, establishing performance measures, and expanding the Transportation Infrastructure Financing and Innovation Act (TIFIA) program...Unfortunately, MAP-21 did nothing to resolve the long-term funding problem facing our federal-aid highway and transit programs and in order to reauthorize the bill Congress must now find additional revenue to support the Highway Trust Fund (HTF). MAP-21 used a general fund transfer of almost \$20 billion to supplement declining HTF revenue.<sup>16</sup>”

**The President's Proposal.** The President's proposal for reauthorization is the GROW AMERICA Act (the Generating Renewal, Opportunity, and Work with Accelerated Mobility, Efficiency, and Rebuilding of Infrastructure and Communities throughout America Act). It would authorize spending \$302 billion over the next four years, a net increase of \$87 billion or about 40 percent over current spending levels. The funds would be allocated as follows:

- \$199 billion for highways and highway safety – a 22 percent increase
- \$72 billion for transit – a 70 percent increase
- \$19 billion for rail programs
- \$10 billion for a new multi-modal freight program

However, the proposed amount assumes that \$150 billion in will be made available from an as yet unspecified “corporate tax reform”. For this reason, as Gary Hoitsma, a veteran transportation journalist and a respected commentator and analyst, notes that “the details of the specific tax reforms involved are nowhere to be found in any of the Administration's explanatory documents on the transportation bill.. (and therefore) ...the funding plan is not considered to be a serious proposal, but rather a place-holder designed to prompt a ‘dialogue’ with Congress on funding, while encouraging others to come up with something that is more politically realistic in this election year.<sup>17</sup>”

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<sup>16</sup> [http://www.agc.org/cs/surface\\_transportation\\_reauthorization](http://www.agc.org/cs/surface_transportation_reauthorization)

<sup>17</sup> May 5 issue of the Washington Letter on Transportation, the Carmen Group ([www.washingtonletter.com](http://www.washingtonletter.com)).

Despite this obvious shortcoming, the President's plan does include some interesting policy proposals. Specifically, it continues and expands the reforms included in MAP-21 and it calls for ending the ban on tolling on the interstate.<sup>18</sup>

**The Senate Bill.** As reported in The Hill, “The Senate Environment and Public Works Committee unanimously approved a plan that would spend \$265 billion on transportation projects over the next six years — if Congress can come up with the money. This bill reauthorizes the federal gas tax, which collects \$34 billion a year. That would provide \$204 billion over the next six years, which is not enough to pay for the projects the panel wants to fund. The Senate Finance Committee will have to look at other funding mechanisms to make up the difference.<sup>19</sup>” So, like the President's plan, even the lower-expenditure Senate Bill lacks a viable funding source to make up the shortfall of gas tax revenues.

**The House Plan.** The House has not adopted any transportation plan as of this writing. House Transportation and Infrastructure Committee Chairman Bill Shuster has indicated that his committee is likely to address the approaching HTF insolvency separately from any policy reauthorization. However, funding the shortfall and the reauthorization would be in direct opposition to Congressman Ryan's budget, which proposes to cut spending for transportation to the levels supported by the current gas tax. That spending level constitutes a substantial reduction from current spending levels.

Kathleen Bower, Vice President of the American Automobile Association said of the Ryan budget:

“AAA agrees with Chairman Ryan that user fees should be a guiding principle of the Highway Trust Fund. User fees are deficit neutral and provide predictable funding on which state and local transportation officials can rely. However, (it) will not provide a... level of investment necessary to build and maintain the nation's 21st century transportation system... The best solution for the near term would be a fiscally responsible proposal — such as increasing the federal gas tax coupled with improved accountability — that adds additional revenue to the Highway Trust Fund and helps make America globally competitive over the long term.<sup>20</sup>”

The bottom line is that the President, the Senate and the House all agree that maintaining and improving the nation's transportation system requires both a reauthorization of surface transportation authority and an increase in spending above current levels, yet none of them has proposed any realistic funding mechanism to accomplish this goal.

There has been a plethora of proposals floated to address the transportation funding shortfall, but they can be grouped into five basic concepts: (1) increase the gas tax, (2) commit to permanent augmentation of user-fee revenue with federal general fund support, (3) adoption of market-based, user-pays solutions, (4) greater use of Public Private Partnerships (PPP), and (5) a federalist reform that minimizes the federal role in favor of states. I discuss each of these individually below, plus the special case of transit funding.

## **Increasing the Federal Gas Tax**

As the US Chamber of Commerce says, “When you look at the big picture, the simplest, most straightforward, and most effective way to generate enough revenue is by increasing federal gasoline and diesel taxes..<sup>21</sup>” However, there are three basic arguments against doing so.

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<sup>18</sup> A limited number of tolling and “value pricing” demonstrations are authorized under current law.

<sup>19</sup> “Senate panel approves \$265B highway bill,” The Hill, May 15, 2014.

<sup>20</sup> “Transport advocates bash Ryan budget,” The Hill, April 3, 2014.

<sup>21</sup> <https://www.uschamber.com/blog/its-time-raise-federal-gas-tax>

First, in the long run, a gas tax increase does not solve the funding problem because the trend of cars and trucks becoming more fuel efficient is expected to continue and the potential for converting some of the fleet into non-petroleum based fuels means that the percentage of the fleet paying the tax is likely to diminish. Of course, the former could be addressed, at least in part, by indexing the tax to inflation or making it an ad valorem tax. But neither of those would directly address the latter issue.

Second, the gas tax does not reform the pricing structure to better align supply and demand. It simply charges all drivers the same price regardless of whether they drive at times or in areas with heavy congestion. As discussed above, transportation economists have shown that charging every driver the same price regardless of when and where she drives is inherently an inefficient way to finance transportation.

Finally, there is strong public and political opposition to increasing the gas tax. A poll, conducted by the Reason Foundation in 2011 found that “77 percent of Americans oppose increasing the federal gas tax... The public thinks the government wastes the gas tax money it already receives. Sixty-five percent say the government spends transportation funding ineffectively, and just 23 say the money is spent effectively... The survey shows Americans believe new roads and highways should be paid for by the people driving on them.”<sup>22</sup> A Gallup poll conducted in April of 2013 found that two-thirds of Americans would vote against an increase in their states’ gas taxes<sup>23</sup>.

On the other hand, a poll conducted by the Mineta Transportation Institute in April of 2013 found that “58 percent of Americans say they would support a 10-cent increase in the gas tax in order to maintain streets, roads and highways, and 54 percent say they would support the same tax if it were used to reduce accidents and improve safety... While the results may run counter to the conventional thinking in Washington, they do underscore a tenant that most policymakers are well aware of: When voters know what they're getting in exchange for a tax hike, they're more likely to support it.”<sup>24</sup>

The Chamber cited the Mineta study as evidence that the public could be persuaded to support a federal gas tax increase. On the other hand, “the conventional wisdom in Washington” certainly *does* seem to swing the other way. One Congressmen issued a press release announcing that he would submit a gas tax increase bill and was unable to find even one co-sponsor. Ultimately, he instead introduced a study bill.

## **General Fund Augmentation**

When Congress was faced with a transportation funding deficit in 2008, it stepped in with a general fund subsidy. As of this writing, that subsidy has totaled \$55 billion and now accounts for 27 percent of HTF revenue. Some believe that Congress is now of a mind to continue the move away from reliance on user fees by providing continuing general fund subsidies. As Joshua Schank of the Eno Center for Transportation recently wrote, “it is now the official policy of this Administration to use general fund-based revenues to fund surface transportation in lieu of raising user fees, and this has been Congress’ de facto policy since 2008.”<sup>25</sup>

However, the availability of general purpose revenue for transportation is far from certain in light of the nation’s soaring debt. The Federal Reserve Chair recently stated that the nation’s debt “will rise to unus-

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<sup>22</sup><http://reason.org/news/show/reason-rupe-transportation-infrastr>

<sup>23</sup> <http://www.gallup.com/poll/161990/oppose-state-gas-tax-hike-fund-repairs.aspx>

<sup>24</sup> <http://www.governing.com/blogs/view/gov-gas-tax-increase-hike-politically-unpalatable.html>

<sup>25</sup> <https://www.enotrans.org/eno-brief/the-bell-tolls-for-user-based-funding>

tainable levels” in response to a CBO projection that the federal debt will rise to \$27 trillion by 2024<sup>26</sup>. Moreover, the prospects of cutting other federal spending to redirect it to transportation seem equally remote. It seems inevitable that Congress will ultimately be forced to cut federal spending, by reducing entitlements and cutting “waste, fraud and abuse.” Given the magnitude of the changes that will ultimately have to be adopted to balance the federal budget, I believe that the prospects that cuts to non-transportation programs will be used to help fund transportation are poor.

Moreover, despite Shank’s predictions to the contrary, the policy of financing most or all of transportation costs from user-based taxes remains popular, at least among economists. Many conservative commentators would agree with Ronald D. Utt of the Heritage Foundation that the inevitability of cuts to federal general fund support for transportation provides Congress “the opportunity to do it in a way that lays the groundwork for fundamental reform in the future by refocusing the program on cost-effective mobility and eliminating the many marginal, inefficient, and non-transportation programs...”<sup>27</sup>

## **Market-based Solutions**

Most economists who study transportation support moving our funding systems toward a more market-based approach. As discussed above, this is because when consumer demand determines supply, it will engender funding sufficient to meet the demand. The question then becomes how to move our funding approach from one based on gas taxes and general fund subsidy to one more aligned with consumer demand for transportation. Fundamentally, there are two approaches.

**Vehicle Miles Traveled Tax.** Many economists support transitioning from the gas tax to a Vehicle Miles Traveled (VMT) tax. As the CBO summarized in a 2011 report: “VMT taxes that are aligned with the costs imposed by users would provide a better incentive for efficient highway use than fuel taxes do because the majority of those costs are related to miles driven. However, VMT taxes’ effect on overall efficiency also would depend on how much it costs to put the taxes in place and to collect the money. Estimates of what it would cost to establish and operate a nationwide program are rough. One source of uncertainty is the cost to install metering equipment in all of the nation’s cars and trucks. Having the devices installed as original equipment under a mandate to vehicle manufacturers would be relatively inexpensive but could lead to a long transition; requiring vehicles to be retrofitted with the devices could be faster but much more costly, and the equipment could be more susceptible to tampering than factory-installed equipment might be. Despite the various uncertainties and impediments, some transportation experts have identified VMT taxes as a preferred option.”<sup>28</sup>

Oregon has experimented with a federally authorized VMT, but these tests of the concept have been limited to a few voluntary participants. It is clear that many of the details of how to implement a nationwide VMT have yet to be worked out. Even once that happens, however, it is clear that the actual implementation would take many years. Therefore, while the VMT concept continues to get much discussion and support, it can not provide an immediate solution to the current funding shortfall.

**Tolling and Congestion Pricing.** Economists also generally support the idea of using more tolls. Even the President’s GROW AMERICA plan proposes to greatly expand the authority for tolling. Of course, tolling will never be the way to finance all roads and highways, but as Robert Poole demonstrated in his Interstate 2.0, a tolling system based on 3.5¢/mile for cars and 14¢/mile for trucks, indexed annual-

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<sup>26</sup> <http://www.cnsnews.com/news/article/terence-p-jeffrey/fed-chair-deficits-will-rise-unsustainable-levels>

<sup>27</sup> <http://www.heritage.org/research/reports/2011/01/how-to-create-an-effective-transportation-program-in-an-age-of-fiscal-austerity>

<sup>28</sup> <http://www.cbo.gov/publication/22059>

ly for inflation would be able to generate sufficient revenues to complete renovate, update, expand and maintain the entire Interstate system.<sup>29</sup>

Congestion pricing is a special form of tolling that allows tolls to vary depending on the amount of congestion on the roadway at a given time. This approach is gradually gaining ground, not just with transportation economists, but with local transportation agencies around the nation. A study by Deloitte Research concluded that:

“The implementation of road pricing programs is likely to continue to grow in the United States over the next decade. The available pricing options enabled by modern technology allow decision makers to create systems endowed with the flexibility necessary to meet the needs of the very unique populations they serve, to change as the population and its needs change, and to enable interoperability across systems and over time. When drivers see an obstacle ahead in the road, they will change lanes to avoid it. So too must legislators and leaders move away from the path of gridlock and disrepair and onto a new course for mitigating congestion and funding the repair of America’s infrastructure.”<sup>30</sup>

However, the study also makes it clear that the growth of this approach must be organic and geographically incremental, with the impetus coming from local transportation leaders undertaking efforts to solve local problems. While over time, congestion pricing offers great hope for reducing congestion and increasing revenues for transportation infrastructure, it is clearly not an immediate solution to the nation’s transportation funding shortfall.

**Political and Administrative Barriers to Implementing Market-Based Solutions.** Even economists who are advocates for market-based solutions such as VMT taxes, tolling and congestion pricing recognize that there are substantial practical and political barriers to their successful adoption. For example, Winston acknowledged:

- “The absence of evidence that extensive and costly government failure in transportation policy is likely to be corrected by efficient reforms in the near future motivates serious consideration of privatization... the available empirical evidence does not resolve the uncertainties about whether those conditions are likely to materialize in practice in the United States...a critical step ...should be that policymakers carefully design and conduct modest, localized privatization experiments to produce credible empirical evidence of economic effects.”
- “The available evidence does not preclude the possibility that privatization and deregulation of the U.S. transportation system could result in market failure attributable to the abuse of monopoly power or inadequate management of uncertainty in demand, costs, and the like that could lead to a financial collapse.”<sup>31</sup>

Moreover, the public generally resists converting freeways into toll roads and while the middle ground of High Occupancy Toll (HOT) lanes has met with general public acceptance once implemented, these successful efforts have been preceded by careful study and slow, incremental implementation. And, to top it off, the Republican Platform contains this not very veiled opposition to most forms of the VMT: “We oppose any funding mechanism that would involve governmental monitoring of every car and truck in the nation.”

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<sup>29</sup> <http://reason.org/studies/show/modernizing-the-interstate-highway>

<sup>30</sup> [http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us\\_ps\\_ChangeLanesFinal\\_0908.pdf](http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_ps_ChangeLanesFinal_0908.pdf)

<sup>31</sup> Brookings, September 26, 2013.

## Public Private Partnerships

The term, public private partnership (P3's), would seem to be virtually self-defining. It simply refers to any of various arrangements whereby a public entity partners with a private firm to build, finance and/or operate a public infrastructure asset. In practice, however, there have been a variety of types of these partnerships undertaken. To quote Virginia Tan:

“There are usually two fundamental drivers for (P3s). Firstly, (P3s) enable the public sector to harness the expertise and efficiencies that the private sector can bring to the delivery of certain facilities and services traditionally procured and delivered by the public sector.

“Secondly, a (P3) is structured so that the public sector body seeking to make a capital investment does not incur any borrowing. Rather, the P3 borrowing is incurred by the private sector vehicle implementing the project and therefore, from the public sector's perspective, a P3 is an "off-balance sheet" method of financing the delivery of new or refurbished public sector assets.”<sup>32</sup>

In my view, the concept breaks down into one of two types, user-funded or taxpayer funded P3. In the world of transportation user-funded means that tolls or fares stand behind private borrowing that is used to build and maintain the infrastructure. As such, P3s of this type are simply toll roads or transit systems that are privately financed. There are two major advantages to this approach to tolling. First, it relieves the responsible governmental unit of the necessity to borrow money and to a great extent shelters the public from the risk that toll or fare box revenues might not be sufficient to cover the costs of building the infrastructure. Second, it provides the more flexible and farsighted management that a private company can bring to bear, an example of which is proper consideration of the lifetime costs of a project. Maintenance is always a large and important component of the lifetime costs of transportation infrastructure and too often governments under-invest up front with the result that maintenance costs are increased. Private investors tend to strive to minimize present discounted costs of both capital and maintenance, so they might spend more up-front to build a road that will require less maintenance in the long run.

Proponents of P3s sometimes conflate the advantages of user-funded and taxpayer-funded projects. When P3's are used as a management and financing mechanism, they can still bring some of the same advantages as toll-funded projects. However, in the end they do *not* add to the total pot of funding for transportation infrastructure. Instead, they rely on borrowing from future revenues, often at borrowing costs above what the governmental entity could achieve. Such projects can still make sense, especially when the immediate benefits of the project outweigh the long-term costs. But, they do not contribute to reducing the total ongoing transportation funding shortfall.

Congressman Duncan (R-TN) chairs a panel on P3's that may shed light on how the nation can continue to use this approach to augment the overall effort to provide transportation services. The panel will announce its findings later this summer, focusing on: “how P3s can accelerate the delivery of projects across all modes of infrastructure. .. (and) on how P3s can accelerate the delivery of highway and transit projects.”

### Transit — The Special Case

The economic argument for financing transportation infrastructure through user fees and user taxes applies to transit systems as well as to roads, highways and bridges. But, in the case of transit there are four reasons why some degree of subsidy of fare box revenues is appropriate: cross-modal benefit, social benefits, environmental benefits and agglomeration benefits. Because none of these benefits accrues solely to transit riders, they all argue for subsidization of costs not covered by fare revenues.

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<sup>32</sup> “Public Private Partnerships”, Virginia Tan, Allen & Overy, Advocates for International Development, June 2012.

**Cross-Modal Benefits.** The cross-modal benefit simply refers to the fact that transit systems benefit road users; that is, moving some motorists off the roads and into transit frees up space on the roads for the remaining users. Presumably, it was this argument that convinced Congress in 1973 to begin dedicating 20 percent of federal gas tax revenues to transit.

**Social Benefits.** The social benefit argument is explained by Yonah Freemark, editor of the pro-transit blog, “The Transport Politic” as follows: “The clearest economic arguments for transit are fundamentally reliant on the fact that it is a second-best approach. The best approach to providing universal mobility would be for everyone who needs it to be provided money to spend on transportation, or, if you’re a true libertarian, just money that you can spend on things you care about. That’s also referred to as welfare. Given that there is very little support for welfare in the U.S. right now, transit provides clear second-best benefits. It allows us to provide mobility for people who cannot afford (or use) cars, in a way that is also politically acceptable. While some conservatives will sometimes say it would be cheaper to buy everyone a car than to build a transit line, no one is seriously proposing doing so, nor are they offering free mobility money for people.<sup>33</sup>”

**Environmental Benefits.** By reducing automobile trips transit not only benefits the remaining drivers, it also reduces the amount of pollution contributed by transportation.

**Agglomeration Benefits.** Transit facilitates mobility within high density population areas. This agglomeration, in turn, creates economic growth and efficiency that could not be achieved to the same degree in less densely populated areas or in densely populated areas without transit. Those external benefits to the economy have been detailed by Chatman and Noland. Specifically, they found “that there is a fairly large external productivity benefit from transit investment and that current benefit–cost frameworks in the US undervalue the benefits of transit service improvements, particularly in large cities with existing transit systems.<sup>34</sup>”

Each of the positive externalities of transit identified above argue for continued subsidization of transit fare box revenues with (state and federal) gas taxes and with general purpose revenues. However, a market-based restructuring of transit funding in the long run could still make sense from an efficiency perspective. The pro-transit blogger David Levinson has suggested a seven-step plan, “How to Make Mass Transit Financially Sustainable Once and for All —The seven-part case for operating public transportation as a public utility<sup>35</sup>.”

1. “Competitive Tendering”, meaning transit systems using private contractors to service some of their routes.
2. Raising fares with subsidies to lower income riders. But he cautions this should only be done in the context of full cost pricing for all transportation modes, i.e., higher higher gas taxes and/or tolls.
3. Use of smart cards and seasonal passes in lieu of per-ride fares.
4. Cancellation of money-losing routes or requiring jurisdictions that benefit from them to subsidize them to the break-even point.

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<sup>33</sup> E-mail to the author from Yonah Freemark, June 5, 2014.

<sup>34</sup> s “Transit Service, Physical Agglomeration and Productivity in US Metropolitan Areas,” Urban Studies, January, 2013.

<sup>35</sup> <http://www.citylab.com/commute/2014/06/how-to-make-mass-transit-financially-sustainable-once-and-for-all/372209/>

5. Funding capital costs with permanent real estate tax increments to capture some of the added land value that is created by transit.
6. Use of private equity and bonds to help finance capital needs.
7. Phasing out federal funding to shift responsibility to the local and state governments that benefit most and can better decide the most efficient investments.

As a practical, political matter, however, this seven-step plan would take many years to fully implement and would need to be adjusted to meet each jurisdiction's needs and circumstances. For example, it would clearly look different in jurisdictions with higher gas taxes and/or more tolling than in those with lower taxes or little tolling. In the mean time, in my view, Congress could use the opportunity of the re-authorization to encourage and facilitate local transit agencies that want to adopt some or all of Levinson's plan (for example, by explicitly authorizing or even requiring as a condition of receiving federal subsidies, a plan to deal with money-losing routes and for contracting out to reduce costs).

### **Federalism**

There is a growing sense among many conservatives, economists and state/local transportation officials that the key to solving our transportation problems is to reduce the role of the federal government and increase state/local flexibility. O'Toole summarized the history that led to this perception in his "Getting What You Paid For/Paying For What You Get"<sup>36</sup>:

"When Congress passed the Federal Aid Highway Act of 1956, it gave the Bureau of Public Roads a clear mission: oversee construction of a safe, high-speed Interstate Highway System. As that system neared completion in the 1980s, the mission of the Department of Transportation became increasingly murky. Now the department is supposed to reduce congestion; attract people out of their automobiles; clean the air; promote economic development; improve livability; create a sense of community; and accomplish a variety of other often conflicting goals—most of which are not easily quantifiable. As the mission became muddled, each surface transportation reauthorization since 1982 has included an increasing number of earmarks, divided revenues among more and more different funds, and added lengthy rules for how those funds may be spent. Each earmark, apportionment, and rule has made transportation spending incrementally less efficient."

Conservative Columnist Daniel J. Mitchell's pithier version of this sentiment appears in the nearby box.

### **On May 10, 2014 conservative columnist Daniel J. Mitchell called for repealing the gas tax and eliminating the USDOT. His rationale was:**

1. Washington involvement is a recipe for pork and corruption. Lawmakers in Congress – including Republicans – get on the Transportation Committees precisely because they can buy votes and raise campaign cash by diverting taxpayer money to friends and cronies.
2. Washington involvement in transportation is just the tip of the iceberg. As I said in the interview, the federal budget is mostly a scam where endless streams of money are shifted back and forth in leaky buckets. This scam is great for insiders and bad news for taxpayers.
3. Washington involvement necessarily means another layer of costly bureaucracy. And this is not a trivial issue since the Department of Transportation is infamous for overpaid bureaucrats.
4. Washington involvement gives state and local politicians an excuse to duck responsibility for low-quality infrastructure. Why make adult decisions, after all, when you can shift the blame to DC for not providing enough handouts."

<sup>36</sup> Brookings, September 26, 2013

The American Legislative Exchange Council (ALEC) has taken the position that Congress should just turn the entire matter over to the states:

- “If the federal government significantly cut or eliminated its gas tax, states would respond by increasing their gas taxes (or finding funds from other sources such as toll roads or taxing miles driven). This would shift control of transportation funding to the state level, and would avoid the current Tragedy of the Commons. ALEC’s Resolution to Restore Transportation to the States, urges just such an action because it will only require states to pay for transportation projects which directly benefit them, instead of bearing a portion of the cost of every wasteful project no matter where it is.
- “While the DOT might be busy finding new ways to increase revenue for the Highway Trust Fund, the federalist solution likely remains their best option. When states are responsible for the costs of transportation projects, better spending decisions and improved oversight are likely to follow.<sup>37</sup>”

Adopting a somewhat more incrementalist approach, in 2011 Utt laid out a specific set of proposals for getting to a federalist solution in the longer term in his “How to Create an Effective Transportation Program in an Age of Fiscal Austerity.”<sup>38</sup> His suggestions for how Congress could use the opportunity to improve the state/federal relationship with a goal of greater efficiency in how infrastructure is funded and delivered included these suggestions, which could still be applicable today:

- “Delay the enactment of a new highway reauthorization bill for at least two years and keep the program in temporary operation with transitional legislation.
- “Allow states...to temporarily ignore existing legislative mandates, including earmarks, and use federal funds for their own transportation priorities. Allowing states the freedom to better prioritize their needs and ignore wasteful mandates would help offset the diminished level of funding.
- “Suspend...all competitive grant programs...money otherwise authorized for these programs would instead be provided to the states as part of their formula allocation and applied to priorities of their choice.
- “Limit transportation spending totals authorized for the remainder of the (year)... to no more than the existing, dedicated revenues flowing into the trust fund.
- “Use the two-year transition period to reconsider the goals and purpose of a federal transportation program and devise a system that shifts greater responsibility to the states and encourages the states to focus on modes and projects that provide cost-effective mobility.
- “Subject Amtrak to significant budget cuts and terminate the President’s costly high-speed rail program.”

In fact, to some extent the federalist approach is already taking hold. As Orski notes “A growing number of states aren’t waiting for the financially troubled federal government to come to the rescue with new money. They are taking matters into their own hands and taking control of their infrastructure agendas. Our recent survey identified as many as 20 such “Can-Do” states. In addition, eight states are financing big-ticket highway and bridge projects with long-term credit and private financing without direct federal funding. Indeed, except for mass transit projects there are no major transportation facilities under construction or on the drawing board today whose completion hinges on federal appropriations. The states’

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<sup>37</sup> <http://www.americanlegislator.org/highway-trust-fund-hit-dead-end/>

<sup>38</sup> <http://www.heritage.org/research/reports/2011/01/how-to-create-an-effective-transportation-program-in-an-age-of-fiscal-austerity>

drive toward fiscal independence in transportation is getting noticed<sup>39</sup>.” Despite these positive steps, few would argue that states can solve all their funding issues without changes in the way the federal government raises and allocates transportation funds.

### **Is A New Consensus Possible?**

This review so far seems to suggest that the search for a solution to our nation’s transportation funding problem is a case of an irresistible force meeting an immovable object. The seemingly irresistible force is the strong and bi-partisan consensus that (1) a well-functioning transportation system is essential to the nation’s economic health and (2) that the current level of funding is inadequate to provide that system, even though there is disagreement whether that shortfall is due to inadequate tax revenues or a failure to enact a policy framework that will unleash efficient capital investments through better pricing that aligns supply and demand.

The immovable object is, on the one hand a resistance to increasing taxes and on the other the need to avoid increasing federal debt by using general fund revenues to support adequate transportation investment. So far, neither the President’s budget nor the Senate or House proposals have provided an actionable answer.

While this stand-off continues, states have found ways to make small, but significant improvements through innovative borrowing, local revenue enhancements and pricing reforms. But, no one really believes that states can truly solve the ongoing funding shortfall on their own. Economists point to better ways of financing transportation that rely on more accurate pricing, but even they admit that it will take years to both fine tune those reforms and bring them to fruition. While a federalist approach could allow states to pursue innovate solutions, these would take years to come to fruition and would never fully replace a federal role, especially in the areas of transit and interstate coordination.

So, it seems that one of two things can happen now. Either the nation can find a “grand compromise” or we can muddle through until a new paradigm for funding takes hold, probably starting at the local/state level.

It is interesting to imagine how a grand compromise could be structured. Clearly, it would have to involve agreement to either raise the existing gas tax (and probably to also convert it to an ad valorem tax or tie it to inflation) or to set aside any hopes of deficit reduction coming from the transportation elements of the federal budget and to continue providing general subsidies to transportation. It would have to involve continued support for transit. Agreeing to immediate and longer term reforms, such as increasing state flexibility in their use of federal funding and encouraging states to deploy new pricing and operational models would probably be the price for such concessions. Ultimately, this could lead to, if not the elimination, then at minimum the substantial diminution of the federal role in transportation funding and regulation. Whether such reforms would constitute adequate trade-offs for funding or taxation concessions is impossible to predict until someone actually puts a specific proposed grand compromise on the table.

In the absence of a proposal for a “grand compromise”, it seems that muddling through is the more likely outcome. What would that look like? For one thing, it would seem to accept at least for the immediate future that we are not capable of redesigning our transportation financing structure so as to provide a truly optimal level of funding for highways, bridges and transit. Since the emergence of a shortfall in funding is so unpalatable to all, however, it would likely involve some amount of “give” from all sides. This would mean extending the current federal gas tax, including retaining the 20-percent share that is dedicated to transit. It would likely mean some amount of general fund subsidy, whether or not that could be offset by

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<sup>39</sup> Are We Ignoring the Obvious Solution to the Transportation Funding Crisis?  
Posted by Ken Orski on Monday, July 29th, 2013

cuts elsewhere in the federal budget. In exchange, for accepting what would certainly be a reduction in total transportation funding as compared to recent years, there could be some concessions made to states to allow them to better manage the limited funding. These could include adopting the President's proposal to allow more tolling on the interstate; rule changes to facilitate more public private partnerships and innovative borrowing approaches ; giving states more freedom to set their own transportation policies, with the expectation that many of them would raise local revenues or adopt more tolling or higher fares and probably pursue innovative ways of cutting costs. None of these steps would have to be large enough to be overly controversial. Of course, the true solution to the longer term transportation funding problem would still remain to be adopted, but some progress could be made, especially in those states with aggressive and innovative transportation leaders.