Research

21st Century Transportation Policy: Who Will Pay, and For What?

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EXECUTIVE SUMMARY

Federal transportation policy stands at a crossroads. Will transportation continue to be a system funded essentially by user fees? And, if so, will those fees be devoted exclusively to roads and highways or support surface transportation more broadly? Alternatively, one could imagine a system that relies much more heavily on general revenue and is treated much like other programs funded in discretionary appropriations. If so, transportation funding will be far less predictable as it competes with other domestic priorities, changing the way that Congress and states do their transportation planning and decision-making.

In recent years, a greater and greater share of the federal role in surface transportation is supported by general revenues. Overall, between 25 and 30 percent of federal surface transportation programs are currently paid by general funds, and that percentage continues to grow. Indeed, the president recently released a legislative proposal for Congress, calling for $302 billion in spending — funded in part by a $150 billion general fund transfer.

These budget realities suggest that the future could be very different from the past. If so, it is important that future transportation policy be debated and set intentionally, and not merely as the consequence of inaction.

INTRODUCTION

For the past two cycles of authorization of the federal surface transportation programs, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) in 2005 and the Moving Ahead for Progress in the 21st Century Act (MAP-21) in 2012, Congress has adopted program levels without increasing revenues, thereby assuring a growing gap between receipts and expenditures. The budget gap has been filled with transfers from the general fund, a complete reversal from the circumstances through the 1990s. In that era, Congress sought to ensure that what seemed to be endless Highway Trust Fund (HTF) surpluses would not be used to reduce annual deficits in the general fund. To that end, the mid-1990s' surface transportation authorization bill, Transportation Equity Act for the 21st Century (TEA-21), constructed a "wall" to protect HTF from such transfers. In the past several years that wall has, however, been repeatedly breached – but not as imagined by Congressional leaders 20 years ago. Instead, money has moved from the general fund into HTF to enable it to meet its obligations.

MAP-21 authorized the transfer of just under $20 billion from the general fund to HTF by the statute's expiration, September 30, 2014. These transfers over the course of the life of MAP-21 will bring the total transfers of general funds to HTF over the last several years to approximately $55 billion. In fact, because of the gap between receipts and expenditures during the life of MAP-21 was greater than projected at the bill's enactment, that number will be substantially higher by the end of FY 2014 and even greater by the end of calendar year 2014.

Projections by the Congressional Budget Office (CBO) and statements by the U. S. Department of Transportation (DOT) suggest that the HTF will be unable to meet its obligations to state agencies in a timely manner, as early as this summer. While HTF may not be technically insolvent, certainly it will face a liquidity crisis that could qualify as bankruptcy if it were a private entity.

As this history reveals, increasingly, a greater and greater share of the federal role in surface transportation is supported by general revenues, rather than by user fees. Some surface transportation programs, such as transit "New Starts," have been funded by general funds for many years. Overall, between 25-30 percent of federal surface transportation programs are currently supported by general funds, rather than by user fees, and that percentage continues to grow. Chart 1 displays the dedicated revenues, outlays, and associated deficit. Chart 2 identifies the outlays financed through general funds in recent years.

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Given these realities, it is getting more and more difficult to describe federal surface transportation programs, or even just the highway programs, as supported by user fees. As frequently occurs, public policy is as often the consequence of inaction, as it is the product of intention. So it is for the funding of federal surface transportation programs: these programs risk becoming just like almost all other domestic discretionary programs, based on general funds and general taxpayer support, rather than on user-based fees.

Thus, the issue before federal policymakers is whether this trend should be allowed to continue or even should be accelerated, or whether a concerted effort should be made to assure that transportation investment and operations, like most other networked services (whether the assets are owned and operated by public entities or by private utilities), such as electricity, water, and telecommunications, should be supported by the users, who benefit from the services, rather than by general taxpayers.

FEDERAL TRANSPORTATION FUNDING: ISSUES FOR THE FUTURE

The United States is not unusual in its broad range of national transportation programs and in its imposition of user fees (in the form of gasoline and diesel fuel taxes) – European nations, for example, impose gasoline taxes three or four times greater than those in the U.S. America is unique, however, in dedicating (at least on paper) such user fees to a trust fund, the sole purpose of which is to support transportation expenditures. In almost all other developed countries, user fees, such as gasoline taxes, are merely another source of revenue to support their general budgets, and transportation is but one of many competing programs for annual spending. Despite these circumstances, transportation infrastructure investment generally fares as well or better in other developed nations, than it does in the United States, both in terms of its share of national budgets and as a percentage of the gross domestic products (GDPs).

The U.S. cannot determine how to fund and finance the federal investment in transportation, until it settles the scope and character of the federal role in this sector. Almost 60 years after the Interstate Highway System and HTF were established, the time is long overdue for Congress to define what role, if any, the federal government should play in the renewal, expansion, and operation of the nation's surface transportation networks and facilities, its highways and roads, bridges and tunnels, urban and rural buses, metropolitan transit and commuter services, intercity passenger and freight rail, and ports and waterways. Until the federal role has been re-defined (and almost certainly drawn more narrowly than it was in the last half of the 20th Century), no reasonable and productive discussion can occur about how we should fund federal transportation programs.

One possible federal role is no role whatsoever. For the past several years some have called for the termination (or at least the dramatic reduction) of the federal role in surface transportation and for the devolution of these functions to state and local governments. These "devolutionists" would reduce the federal gasoline tax by as much as 90 percent and restrict the federal role to the maintenance of existing Interstate Highways.

To date, most of the leadership of Congress – of both parties – has regarded the effective end of the federal role in surface transportation, as too dramatic a step, and has taken the view that there are some transportation functions and investments that are clearly, and should remain, national in character. There are, however, wide differences of opinion about the exact definition of these national interests and about how federal funding should support these goals and financial support.

A somewhat limited view of the federal role in surface transportation that serves, as well, as a proposal for restoring and maintaining the viability of HTF has been articulated by Robert Poole of the Reason Foundation. Poole would preserve the basic principle of user-based funding for highways and would limit grants from HTF to states to highway projects. He would establish a system of tolling Interstate Highways to support their restoration (other proposals call for a new form of user-based mileage-based fees to be assessed on the Interstate System and to be dedicated to its renewal and maintenance). Under the Reason Foundation and related proposals, the current system of federal motor fuels taxes would fund other parts of the nation's road and highway system, but would not be available for transit or for other non-highway purposes. Non-highway projects would be left to non-user based general funds and/or to state and local funding.

The proposal falls within a group of proposals that focus on road and highway funding. These seek to preserve the viability of HTF by restricting its purposes only to highways and roads, thus reversing national policy that is more than 30 years old. However, previous efforts in the House of Representatives to strike transit funding from HTF have been unsuccessful, and there seems little enthusiasm among most members of Congress to pursue that option. Instead, Congress in 2005 and again in 2012, chose to maintain the broad range of surface transportation programs funded by HTF, to continue to allow the user fees (largely, motor fuels taxes) that flow into HTF to be used for non-highway purposes, and to fund the gap with short-term ad hoc transfers of general funds to HTF.

If the consensus is to keep the scope broader than roads and highways, and if this is to be accomplished with user-based funding and a dedicated trust fund, either an increase in, or the replacement of, the federal gasoline tax, as the primary revenue source for HTF, will be necessary. The federal gasoline tax has not been increased in over 20 years, and it is not indexed to inflation. Thus, the revenues that flow into HTF have declined approximately one-third in real terms, since the last increase. Moreover, greatly improved efficiency of light-duty vehicles, the introduction of alternative fuels, and a decline in per capita vehicle miles traveled (VMT) in the past several years have further reduced HTF receipts. Because of all these factors, it is a growing view that the federal gasoline tax is less and less effective, as a proxy for a user fee, and a less adequate source of revenues and public investment capital for the nation's surface transportation system.

In recent years there have been proposals to replace federal motor fuels taxes with mileage-based or VMT fees. While it appears that mileage-based or VMT fees may be adopted by some states or metropolitan regions (some state pilot programs are in place or under consideration), there is no greater support for the introduction of such a new (and potentially more effective and appropriate) form of user fee in Congress, than there is for an increase in the federal gasoline tax.

To the degree that user-based funding for surface transportation is expanding, it is only doing so at the state and local levels. Some states have recently increased their own gasoline taxes, and several states, state and local public authorities, and/or public-private ventures are making greater use of tolling on a project-by-project basis, in connection with large new or replacement highway, bridge, or tunnel projects. The argument for mileage-based or VMT fees and for other forms of user fees, such as tolls, is that there is a clear link between the raising of the revenue and the purposes for which it is raised, and that the use of pricing can influence overall travel demand, and how and when transportation facilities are used. Such sophisticated systems and operations management are not possible with broad-based taxes or even with gasoline taxes.

A final possibility is that the trend toward a greater and greater share of federal funding for surface transportation from general funds and from broad-based taxes, rather than from user fees, will continue. Many states and metropolitan regions dedicate a portion of general sales taxes or of taxes on petroleum at the wholesale level or other revenue sources to transportation purposes, but these generally would not be considered user-related charges and are, in any event, not likely to be relevant at the federal level.

As federal funding for surface transportation becomes increasingly dependent on broad-based taxes and general funds (one can imagine a federal surface transportation program that is supported by as much as 30 or 40 percent general funds, if present trends continue), Congress will have to consider changes in how funding decisions about these programs are made and about the appropriate roles of the authorizing, appropriating, and budget committees.

Whether general funds are transferred to HTF (in which cases "pay-fors" will have to be identified in the fiscal years, in which such transfers are made) or surface transportation funding is treated through the normal budget and appropriations processes, as are all other discretionary programs, transportation increasingly will have to compete against other spending areas for funding. No longer will specific and predictable levels of funding for transportation projects be assured. These changes all represent significant differences from the processes by which Congress has made federal surface transportation funding decisions for over 50 years.

User-based funding has provided predictable funding for investment in the nation's transportation infrastructure for many years and has allowed long-term planning and development decisions to be made by the state and local recipients of federal transportation funds about the projects that they have undertaken. Moreover, the pricing of the transportation system, even under an imperfect system based on federal motor fuels taxes, has insured that those who benefit from transportation networks and facilities will pay for them. This perception has, for many years, been the basis of political support for transportation spending.

However, dependence on the federal gasoline tax has also encouraged claims that these revenues should only be available for highways and roads and has made multi-modal approaches to planning and spending more difficult. This system of funding has also been the basis for the persistent donor-donee allocation disputes between states every time Congress considers surface transportation authorization legislation, that is, claims that federal gasoline taxes should largely be spent in the states in which they are raised and that all states should be guaranteed a minimum return on such revenues. Theoretically, redistribution of transportation funds should be easier, when general funds become a more significant source of revenues, available for transportation investment.

Even as a larger share of federal transportation funding derives from general funds, user fees will remain an important element in supporting transportation investment, although primarily at the state and local levels. Federal policy can encourage states and localities to develop new and sustainable sources of user-based funding for transportation investment and operations by expanding federal loan and credit enhancement programs, like the Transportation Infrastructure Finance and Innovation Act (TIFIA) and rail rehabilitation loans; by removing federal barriers to state funding innovations; and by incentivizing states to develop and implement sustainable user-based funding schemes.

For states and localities, the funding and financing of their surface transportation programs and projects will become more complicated and uncertain. Federal grants, both from HTF and from general appropriations, will remain an important, if diminishing, source of state and local program and project funding, but many new projects (particularly, large projects with projections of significant traffic and customer demand) will involve the use of tolls and other forms of user charges and/or a dedicated portion of more broadly-based state and local taxes. The revenues from user charges, like tolls, and from other dedicated revenue streams will be used to service tax-free state and local debt, to repay federal and federally guaranteed loans, and to provide returns to equity investors, in the case of public-private partnerships.

If present trends continue, federal surface transportation funding will move from what has been a system based on motor fuels taxes, as forms of user charges, to one characterized by a mix of general revenues and gasoline taxes and to a greater reliance on forms of federal financing for state and local projects. At the state and local levels, user charges will remain significant, but there, too, the forms and the applications of the revenues raised from the users and beneficiaries of transportation facilities and networks will change.

The full implications of these changes in policy and funding sources for transportation have never been fully explored by policy-makers at the federal and state levels, but the changes are proceeding nevertheless.

CONCLUSION

In recent years, a greater and greater share of the federal role in surface transportation is supported by general revenues. Given these realities, it is important that future public policy be debated and set intentionally, and not merely as the consequence of inaction. This involves settling the degree to which it will continue to be a system funded by user fees or rely on general funds. It also involves deciding the scope of projects suitable for federal funding. And to the extent that a broad scope of projects is funded using broad-based taxes, it means that transportation funding will be far less predictable as it competes with other domestic priorities.