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The State Surface Transportation Funding Crisis

By James B. Reed

State transportation revenues can no longer meet needs.

State transportation revenues are not keeping pace with escalating construction costs and burgeoning needs. All states face a shortfall between revenue expected from existing sources and projected needs to both maintain existing infrastructure and build new projects. These shortfalls, coupled with construction cost increases that exceed inflation by two to three times, mean that states are well short of needed transportation revenues. The cumulative national shortfall for transportation funding to keep pace with projected needs has been estimated at $1 trillion through 2015. Of this, $34 billion is the annual unmet need to maintain existing roads and transit facilities.

Prospects for 2008. States will seek new revenues for transportation in 2008 by tapping traditional funding sources such as the gas tax and motor vehicle fees and increasing other sources such as tolling and private capital. The Minnesota bridge collapse last year has lent urgency to finding solutions. State general funds will increasingly be considered as a source of transportation revenue, and the trend to borrow funds for transportation projects will continue. States will attempt to save money through more efficient project completion and improved overall performance in the existing transportation system. Public transit improvements also are expected as lawmakers seek to provide alternatives to automobile travel in an era of much higher gasoline prices.

State gas taxes are the primary source of transportation funding.

State Action

State Gas Tax. The primary source of state transportation funding is the state motor fuels excise tax, commonly called the gas tax. In most states, however, this tax has lost as much as 50 percent of its purchasing power during the past decade. To keep pace with inflation since the beginning of the Interstate era, it would be necessary to immediately raise the average state gas tax by 20 cents. Because such a step is politically challenging, only 14 states have raised the gas tax during the last 10 years, and most increases have been modest. Washington is an exception. The state successfully passed a bipartisan gas tax increase totaling 14.5 cents in 2003 and 2005 to pay for specifically identified projects. In several states, a variable component allows the fuel tax to rise based on an inflation index. In 2008, a number of states will debate a gas tax increase to meet projected needs.

Public-private partnerships can be used to fund transportation projects.

Public-Private Partnerships. To find needed funds, states have increasingly turned to partnerships that involve the private sector in transportation project financing, construction, maintenance and operation. The partnerships involve a variety of arrangements, from fee-based contract services to full sale of assets. Since the early 1990s, 56 such partnerships have been completed, accounting for $30 billion in transportation investments. Sixteen states considered legislation to authorize or refine public-private partnerships in 2007; 23 states and Puerto Rico authorize some type of public-private partnership. Long-term leasing of a transportation asset (monetization) occurred in Indiana in 2006 when the state leased the Indiana Toll Road to a private consortium

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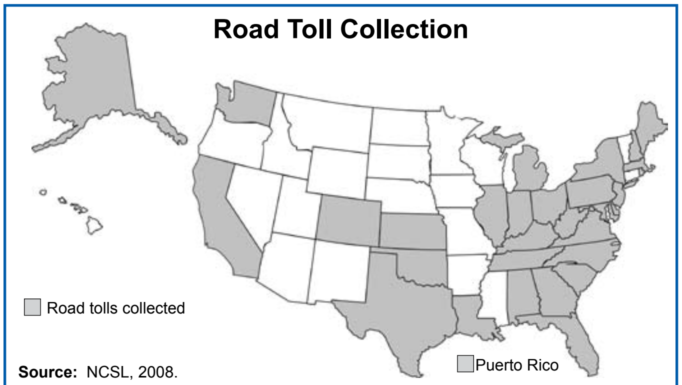
for 75 years. The state received an up-front payment of $3.84 billion that has been used to fund a 10-year transportation improvement plan. This strategy also has been used in Chicago, Colorado and Texas, and has been considered in New Jersey and Pennsylvania.



Source: NCSL, 2008.

Tolling. Tolls—direct user fees assessed on motorists who drive on certain roads, bridges and tunnels—are a growing revenue source in many states. At least 31 states and Puerto Rico collect tolls, which have increased by more than 30 percent in recent years and now represent 5 percent of total revenues for roads. Electronic tolling has reduced costs and eased collections and makes tolling a more viable option. Typically, tolls are used to pay bonds sold to construct the road and to cover maintenance and operation costs.

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Innovations. Oregon has successfully tested a vehicle miles traveled (VMT) fee as an alternative to the gas tax. An onboard computer and GPS system is used to account for miles motorists have driven. The fee is collected electronically at the pump in lieu of the gas tax. A University of Iowa study with 15 states is testing a state-to-state mileage fee. Many view the VMT fee as a possible future replacement for the gas tax.

Local and Regional Authority. Local and regional transportation funding also is increasing. Several states, including California and Virginia allow local governments to assess sales tax and/or collect development fees to help pay for transportation projects. Florida allows counties to assess an additional gas tax. In Texas, local governments can create regional mobility authorities that use bonds and tolls to meet transportation needs.

Federal Action

The 110th Congress fully funded transportation programs in FY 2008 at the SAFETEA-LU-authorized level; additional funding was made available for bridges. States are faced with a FY 2009 shortfall in the Highway Trust Fund of $5 billion, however, and are awaiting congressional action. States also are anticipating the new federal surface transportation authorization in 2009, when the current authorization for SAFETEA-LU expires. Enacted in 2005, SAFETEA-LU authorized $286.5 billion for transportation programs through FY 2009. Now that the Interstate Highway System is complete, numerous national commissions, working groups, policy projects and stakeholder meetings are under way to define a new federal vision for surface transportation.

Additional federal funds are available for bridges.

Resources

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