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Metropolitan Policy Program
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Transportation Finance: Current Issues, Challenges, and Impacts on Local Governments

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National League of Cities

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CENTER ON URBAN AND METROPOLITAN POLICY

Improving Efficiency and Equity in Transportation Finance

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A complex responsibility involves many governmental bodies, continually influenced by numerous interests, companies, and civic leaders, finances our nation's transportation system. But the nature of the responsibility is changing. Originally offset by a variety of user fees, tolls, and fuel taxes, the burden of financing transportation programs is gradually being shifted to local governments and voter-approved initiatives. This shift to local transportation users raises increasing issues for public policy. This brief outlines the intricate and complicated system of transportation financing by describing the relationships that define the federal, state, and local roles. It summarizes the most pressing problems facing the transportation network, and argues that expanded reliance on user fees remains the most promising way to promote equity and efficiency in transportation finance.

I. Introduction

Ever since the widespread adoption of automobiles, the American highway system has generally been financed with “user fees”—money collected from those who use the roads. Tolls and fuel taxes, which levy charges roughly proportionally to travelers’ use of roads, have been the most common.

However, tolls have traditionally been costly and difficult to collect because of the need to construct toll plazas and staff them with salaried workers. In addition, revenues from fuel taxes have for three decades been rising more slowly than program costs as legislators become ever more reluctant to raise them to meet traffic. As a result, the burden of raising the funds for transportation programs is gradually being shifted to local governments and voter-approved initiatives that are, in most instances, not based on user fees. As a result, new sources of revenues, especially local sales taxes have come to pay for transportation infrastructure.

In fact, seemingly modest local tax increases enacted as short-term solutions to immediate problems are setting a major national trend. Without any deliberate or conscious change in policy, transportation finance is gradually devolving to local governments and lowering its reliance on user fees. User fees are, however, more efficient and more equitable than local sales taxes for transportation projects. In the short run, increases in fuel taxes are viable and practical. In the longer term, tolls collected electronically promise the most appropriate and flexible method of user fee financing.

This policy brief outlines the complex series of relationships that define federal, state, and local roles in financing transportation systems. It summarizes some of the most pressing problems regions and the nation face in paying for the growth, management, and maintenance of the American transportation system. And it argues that continued or expanded reliance on user fees remains the most promising way to promote efficiency and equity in transportation finance.



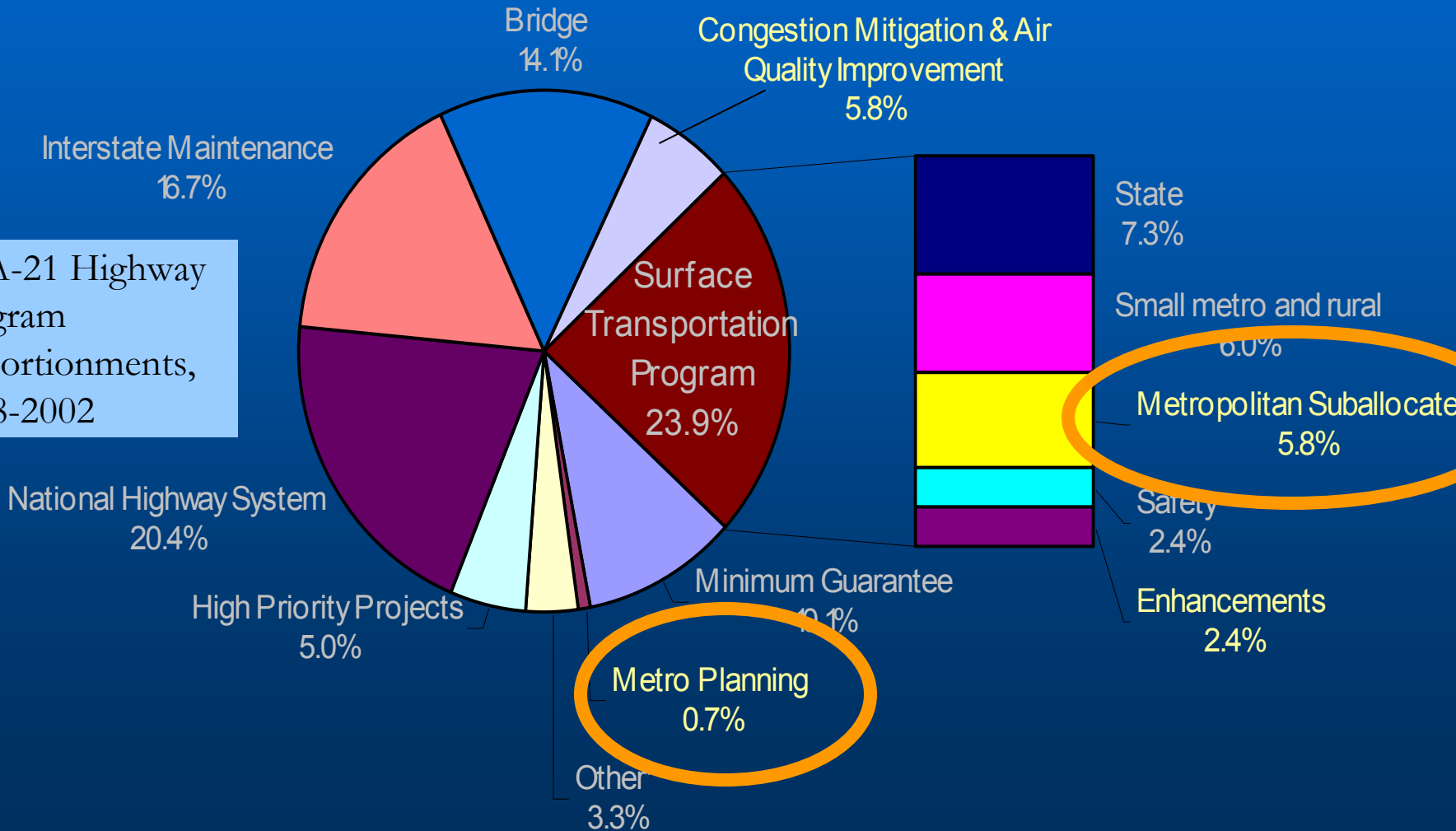
ISTEA and TEA-21 marked a seachange in federal transportation policy

As a framework the laws are sound.



The vast majority of federal transportation funds do not go to local or regional entities.

TEA-21 Highway Program Apportionments, 1998-2002





Local roads compose the vast majority of the nation's transportation system.

	Miles	% of total
Rural Roads		
Counties	1,628,510	41.1%
Towns, Townships, Municipalities	606,398	15.3%
States	662,855	16.7%
Federal	117,751	3.0%
Other Jurisdictions	56,254	1.4%
Urban Roads		
Counties	144,615	3.6%
Towns, Townships, Municipalities	624,163	15.7%
States	110,434	2.8%
Federal	2,819	.1%
Other Jurisdictions	12,695	.3%
TOTAL	3,966,494	100.0%

Ownership of American Roads, 2002

Source: FHWA, 2002; Wachs, 2003

75.7% of national total



However, local roads account for a minority of all travel.

	Miles Traveled	% of total
Rural Roads		
Interstate	279,962	9.8%
Other Principal Arterial	257,587	9.0%
Minor Arterial	176,218	6.2%
Major Collector	213,503	7.5%
Minor Collector	61,504	2.1%
Local	139,386	4.9%
Urban Roads		
Interstate	408,618	14.3%
Other Freeway & Expressway	189,634	6.7%
Other Principal Arterial	408,336	14.3%
Minor Arterial	339,387	11.9%
Collector	141,874	5.0%
Local	239,747	8.4%
	2,855,756	100.0%

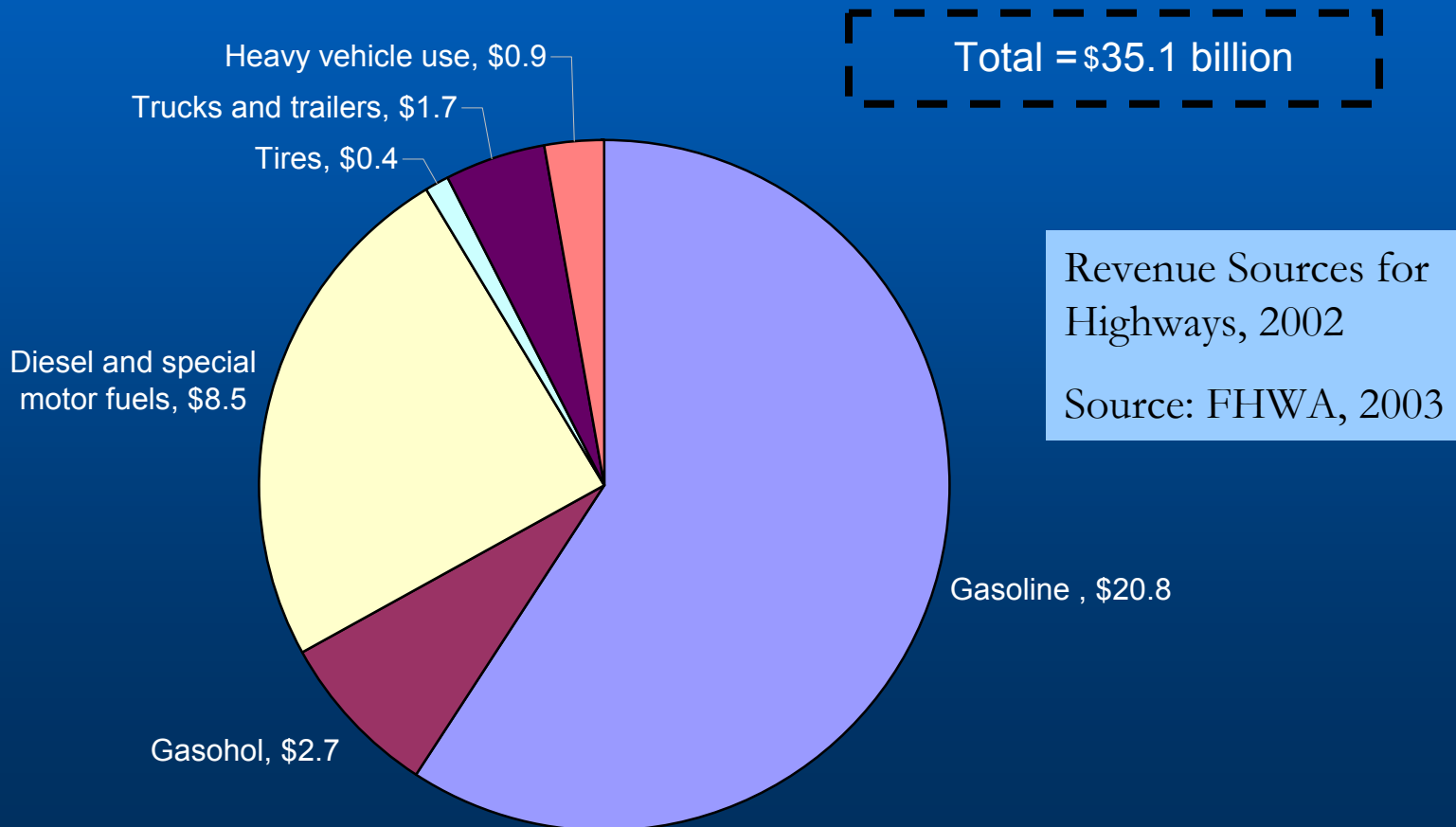
Highway System
Travel, 2002

Source: FHWA,
2002; Wachs, 2003



The majority of highway funds on all levels continues to be generated by gasoline and other fuel taxes.

Highway Trust Fund Receipts For Fiscal Year 2003 (in billions of dollars).





However, the share of gas taxes and user fees continues to decrease from year to year.

		△ 95-98	△ 98-03	△ 95-03
Federal	Highway Trust Fund	79.6%	-14.4%	53.7%
State	Fuel & vehicle taxes	18.0%	3.5%	22.0%
	Tolls	24.2%	15.7%	43.7%
	General funds	37.4%	54.2%	111.8%
	Bonds	92.2%	14.8%	120.7%
Local	Fuel & vehicle taxes	13.8%	35.7%	54.5%
	Tolls	11.2%	91.0%	112.4%
	General funds	14.1%	39.0%	58.6%
	Bonds	20.1%	15.0%	38.2%
	Property taxes	-6.3%	63.9%	53.6%

Changes in transportation revenue

Source: Federal Highway Statistics



The challenge facing transportation revenues

Declining reliance on the gas tax

Increased reliance on local transportation taxes

An explosion in borrowing

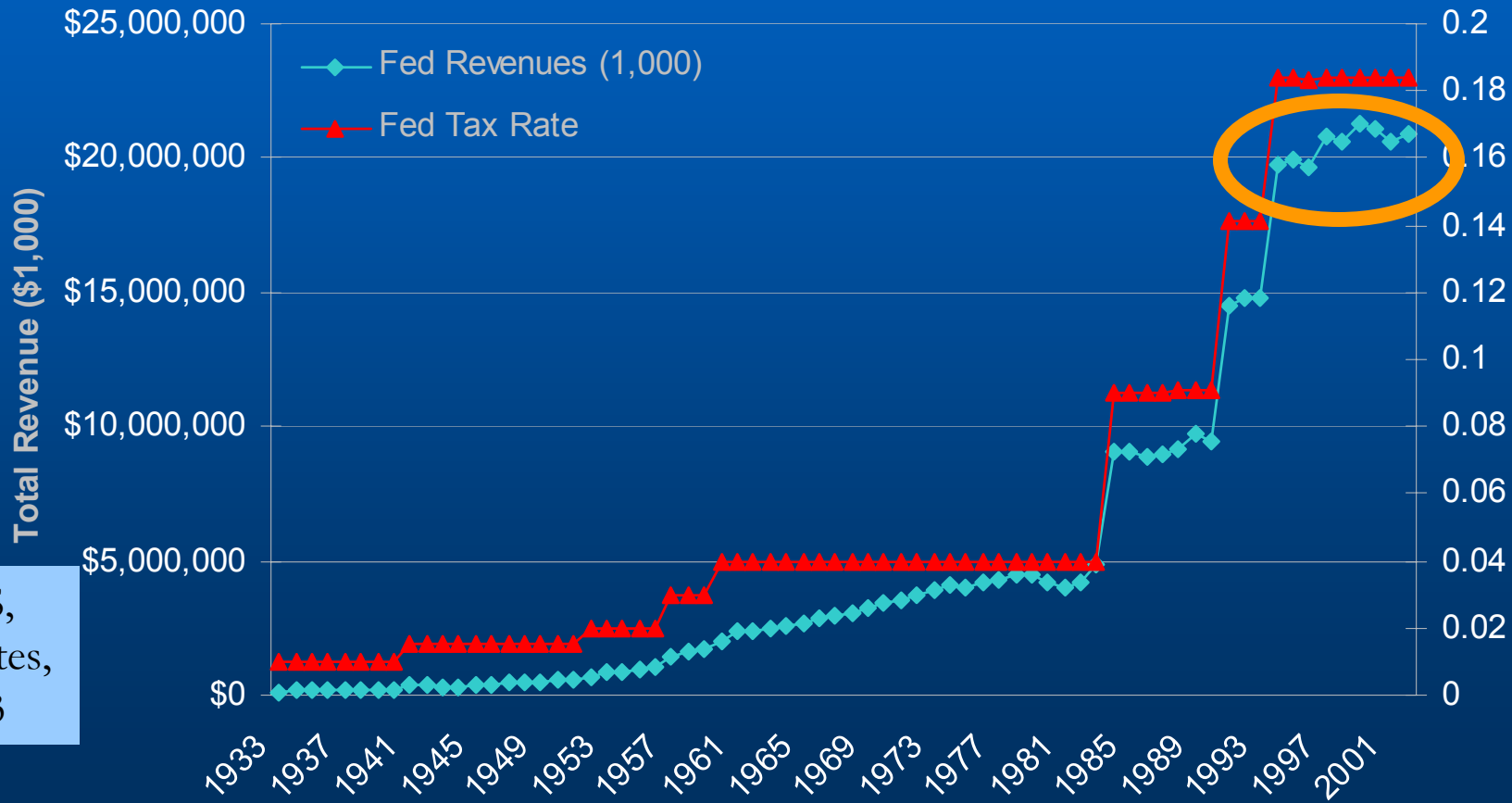
The politics of spending highway user fees

Increasing competition for federal funds



After years of steady growth, federal gas tax receipts have plateaued

Federal gas tax rate and revenues

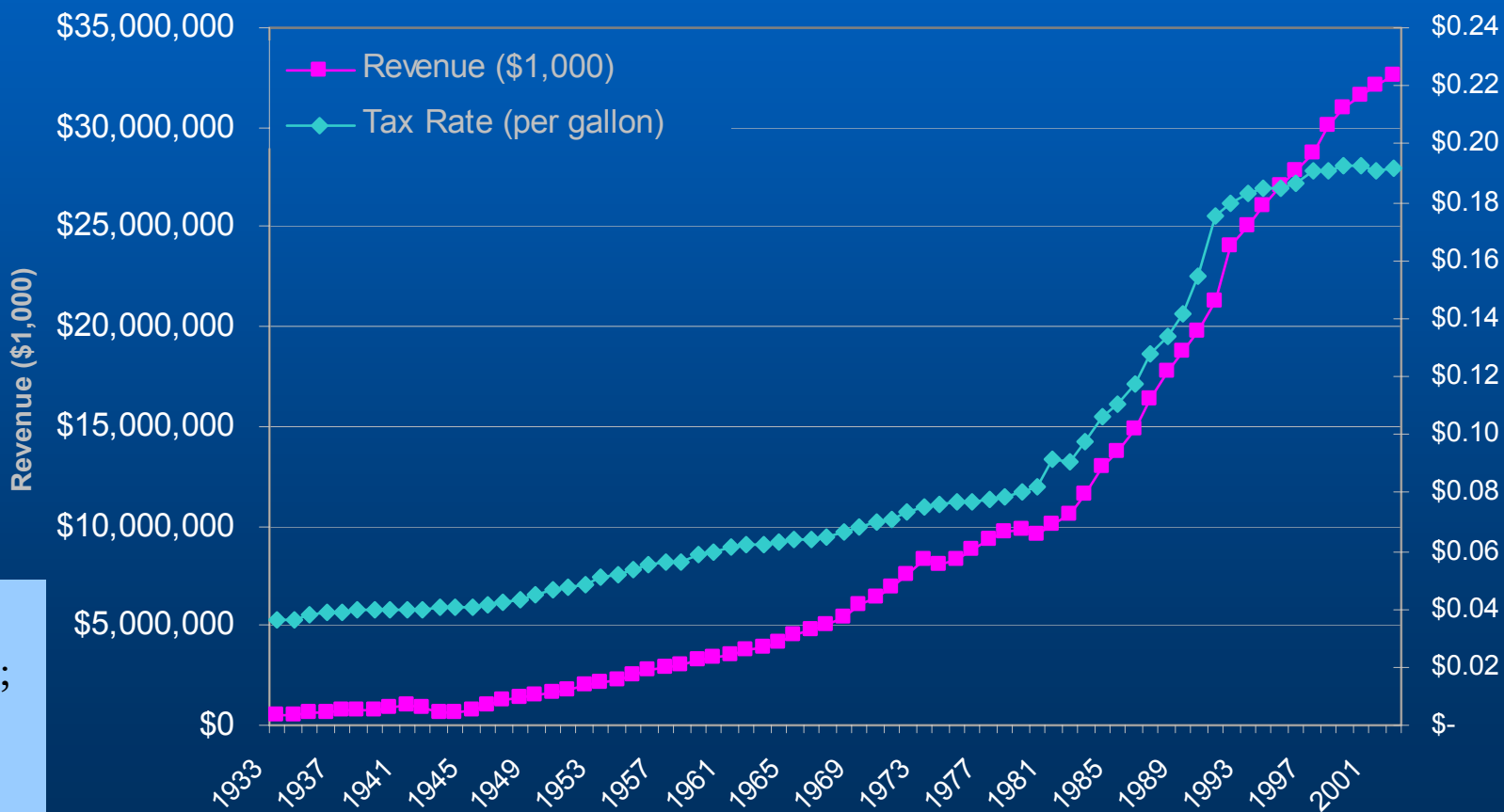


Source: IRS, 2004; Puentes, Prince 2003



State gas tax revenues are slowing down as the average tax rate remains stagnant

Average state revenues and gas tax rate

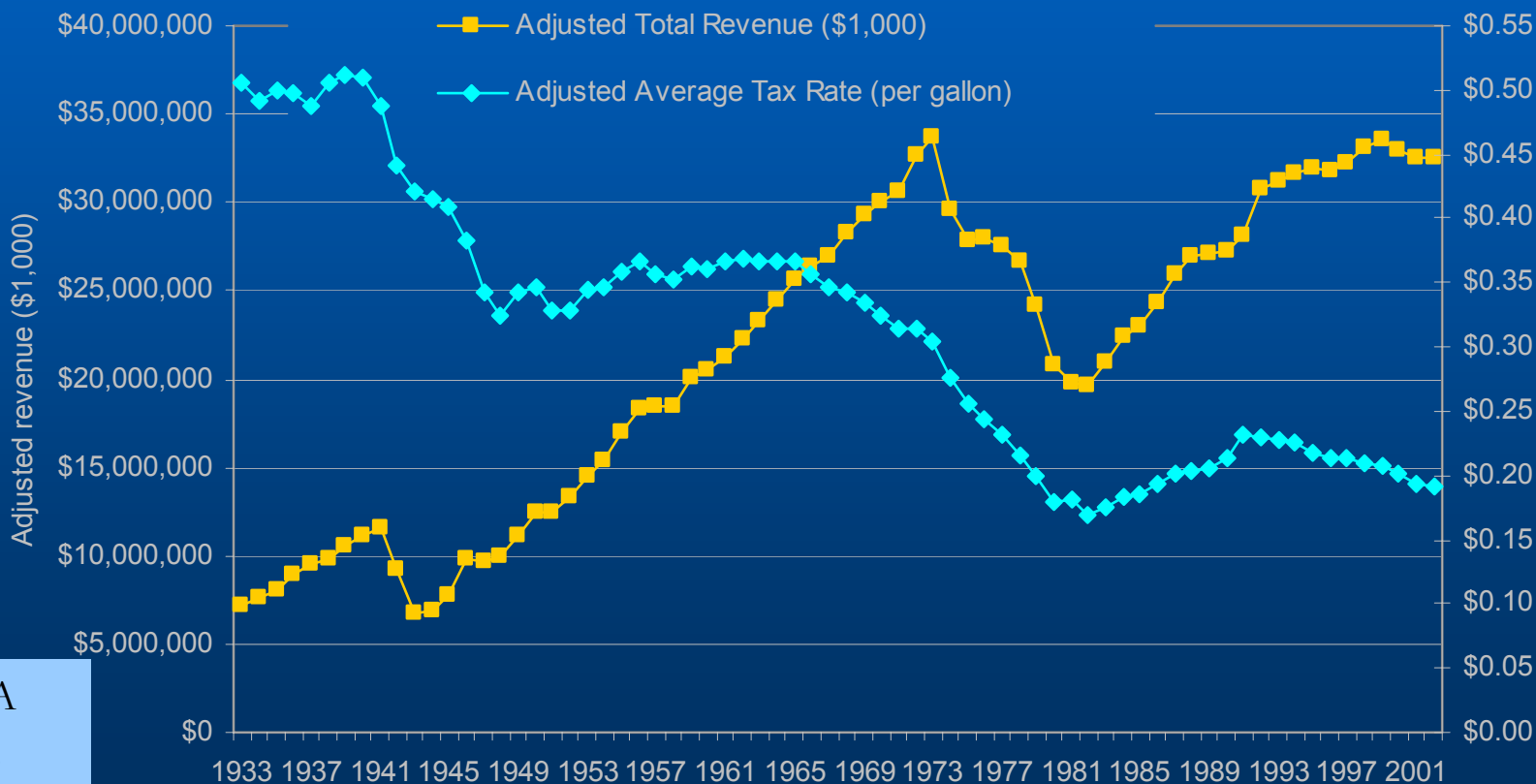


Source:
FHWA, 2002;
Puentes,
Prince 2003



After a precipitous decline in the 1970's and 1980's, "real" state gas tax receipts are again leveling off

Inflation-adjusted state revenues and gas tax rate



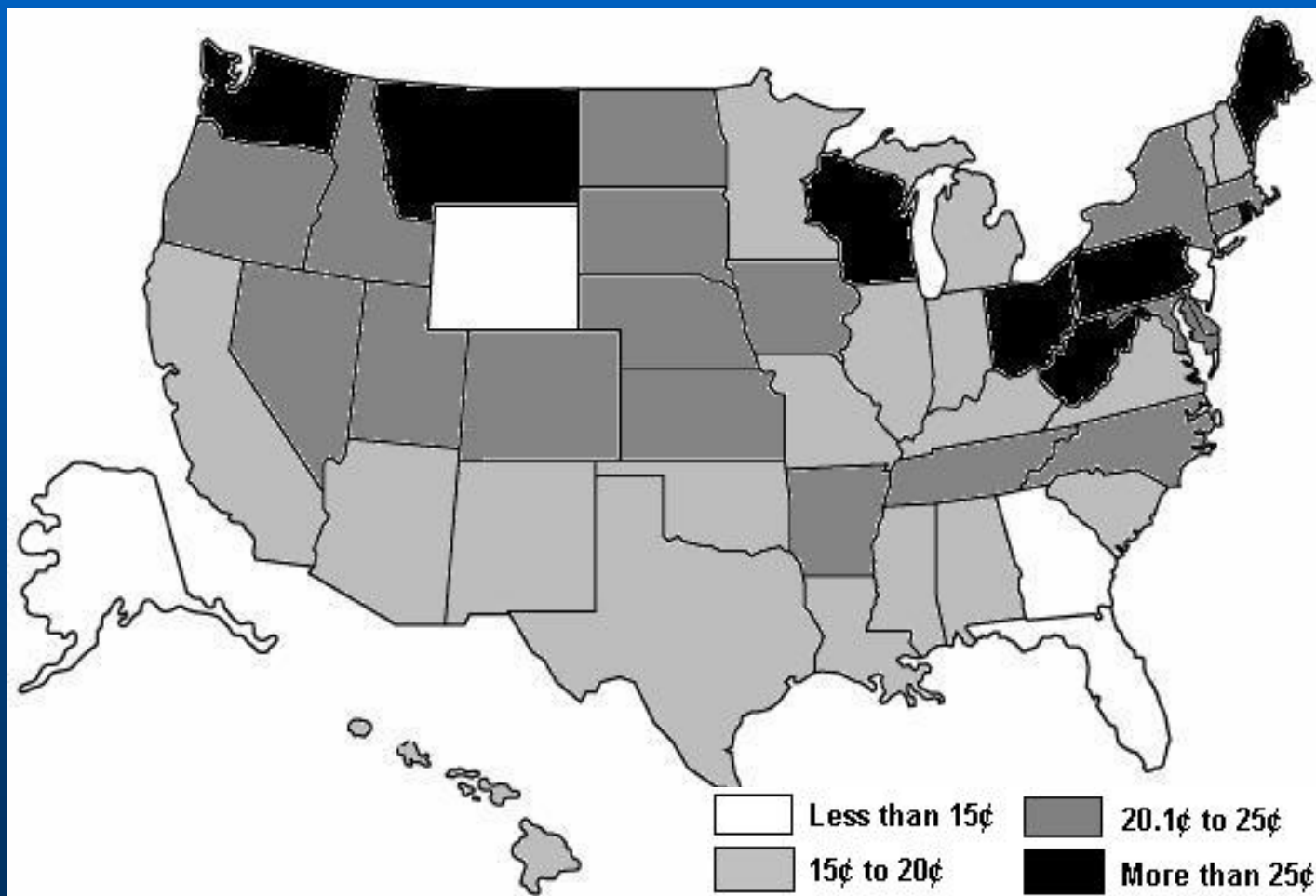
Source: FHWA
2002; Puentes,
Prince 2003



Of the 32 states that have increased their gas tax since 1991, only one* raised it as fast or faster than inflation

State gas tax rates.
Source: Puentes,
Prince, 2003

* Wyoming,
which started
out with the
3rd lowest rate





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Local governments are taking up the slack left by the stagnation of fuel tax revenues on the state and federal level

→ Voters considered 70 ballot measures for transportation spending in 2000 and 41 in 2002.

Myers and Puentes, 2001 and STPP, 2002

→ In 2004, 23 of 31 ballot measures to launch or expand bus and rail lines were approved in 11 states worth more than \$40 billion.

Center for Transportation Excellence, 2004

→ In 2004, voters also approved 19 of 24 other tax or bond measures for roads and bridges.

El Nasser, 2004



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State borrowing is the fastest growing source of transportation “revenue”

→ From 1995-2003 revenue from state bond proceeds increased by 120%. Local bond proceeds increased 38%

Federal Highway Statistics

→ In 2003, 9 states principal source of highway revenue was from bond proceeds. By contrast, only 3 states principal source was the state gas tax

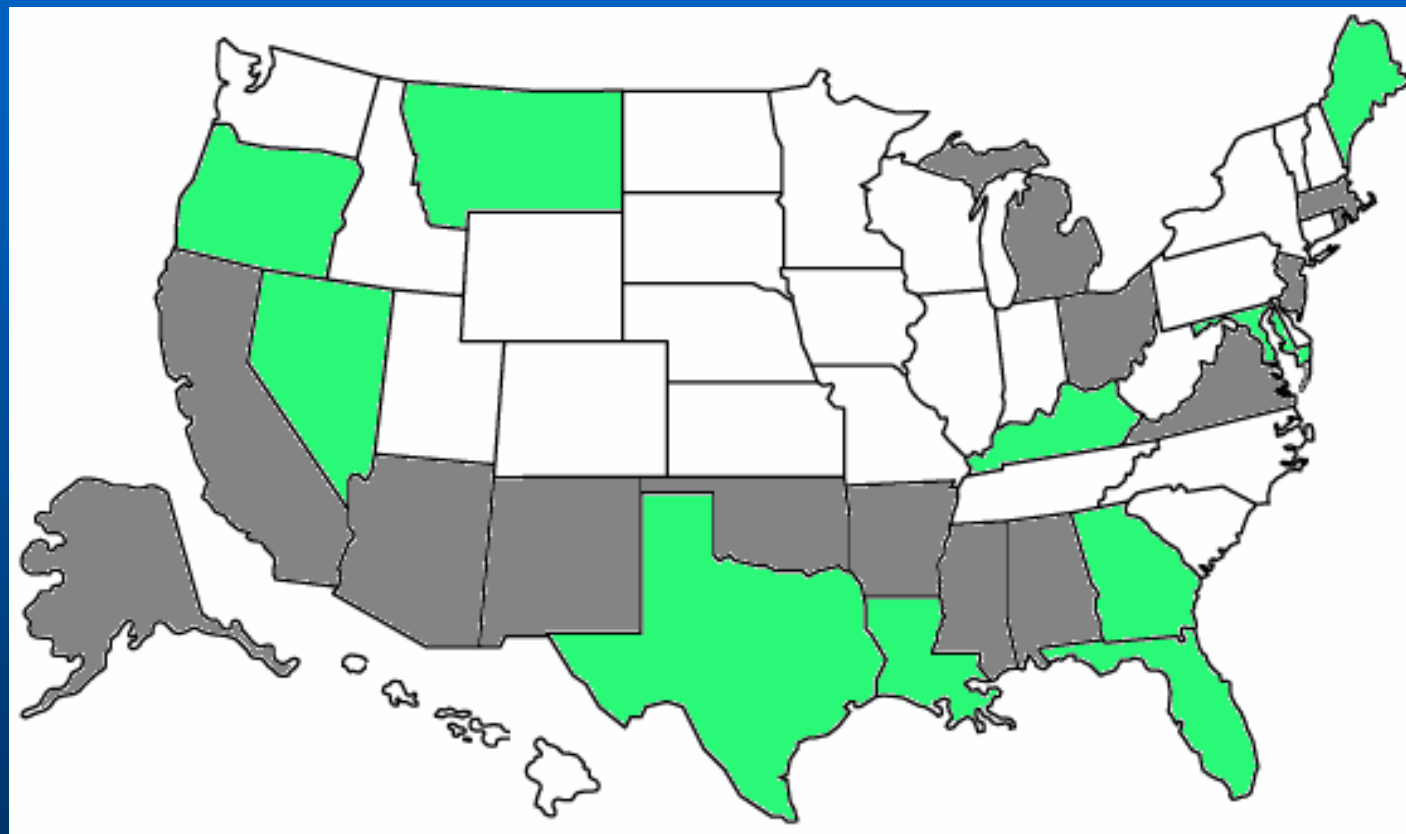
Federal Highway Statistics, 2003

→ Since they were granted the authority to do so, 15 states have issued GARVEE-style bonds worth \$7.5 billion.

Puentes, *forthcoming*



GARVEE-style bond issuances are concentrated in the southern half of the country.



States GARVEE
and Related Bonds
Issuances

Source: Puentes,
forthcoming

State has issued GARVEEs (plus PR and VI)

State has authority to issue GARVEEs



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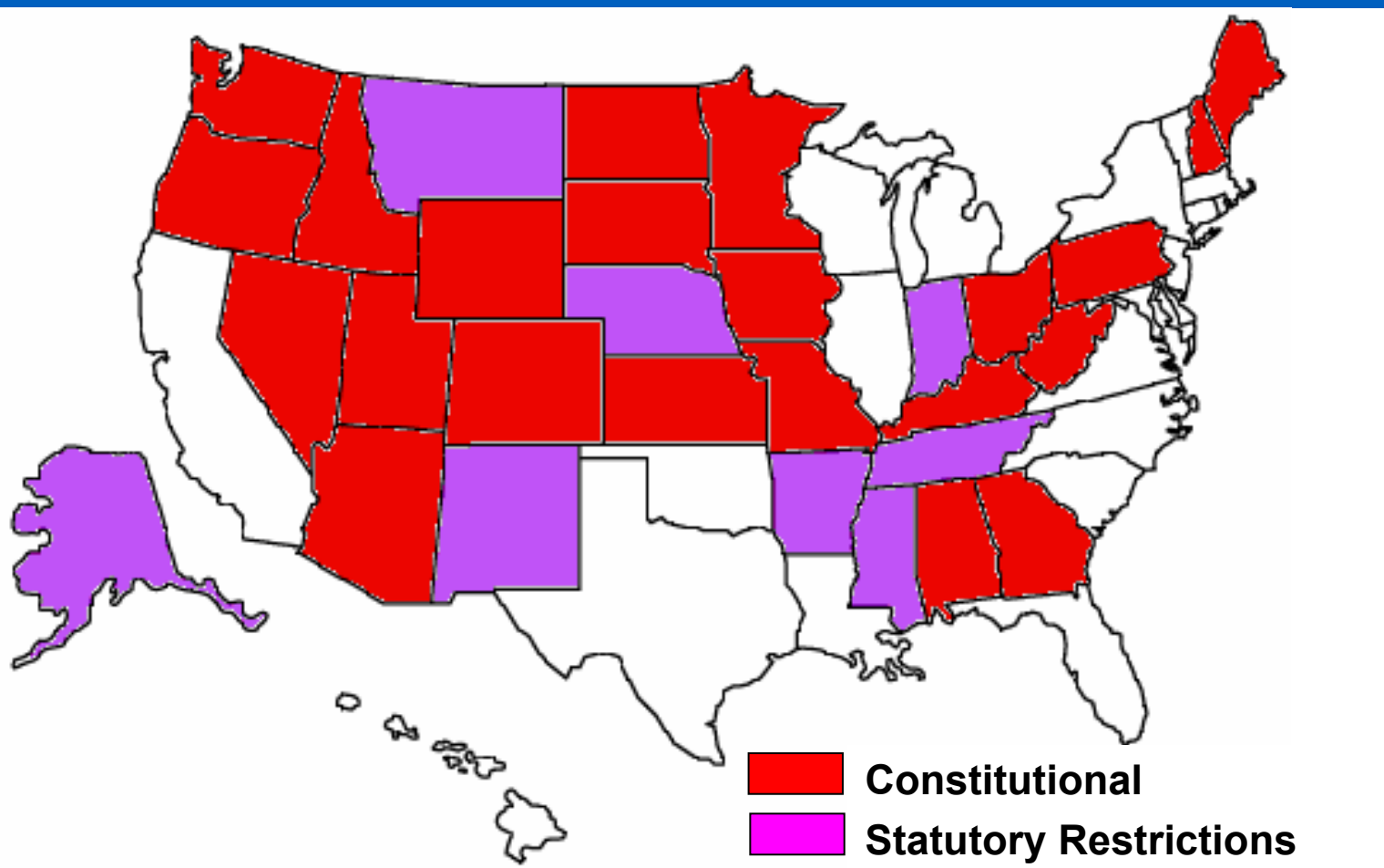
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Thirty states restrict the use of their gas tax revenues to highway purposes only.



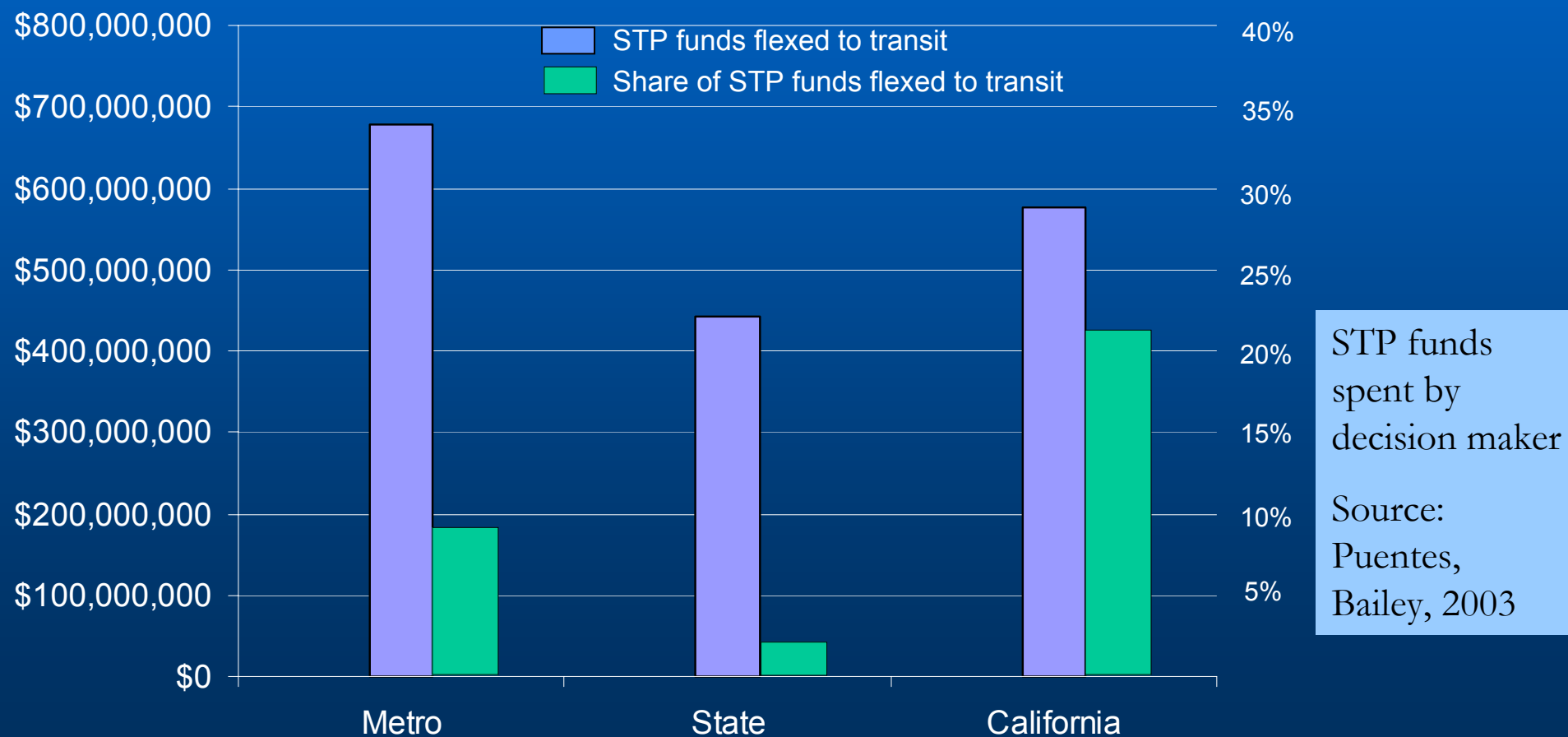
State gas tax restrictions

Source: Puentes, Prince, 2003



MPOs spent 2.5 times more and a greater share of STP funds on transit than states.

Total obligations: 1998-2002



STP funds spent by decision maker
Source: Puentes, Bailey, 2003



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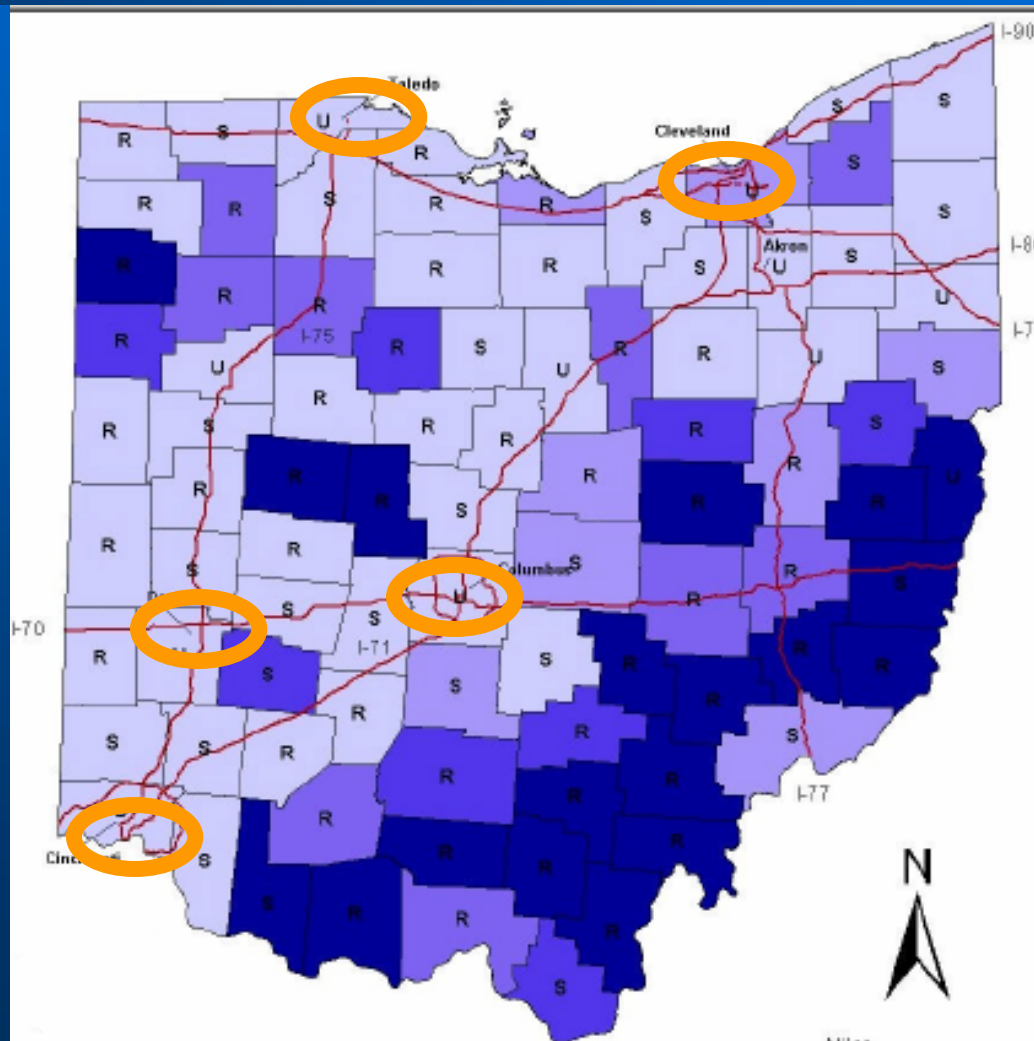
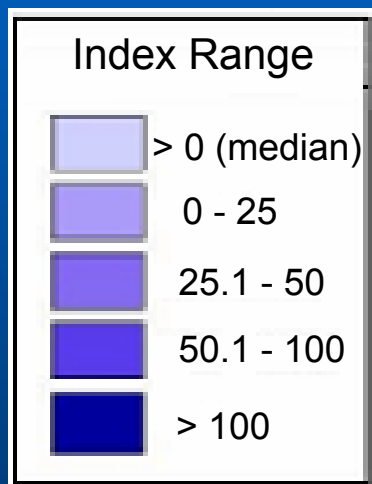
Political debates about “donor” and “donee” states dominate the national legislative discussion

		% of Apportionments to Payments 1998-2003	Cumulated % since July 1956
Top 5 states	Alaska	640.0%	667.3%
	South Dakota	236.8%	208.7%
	Rhode Island	232.0%	224.1%
	Montana	230.9%	236.3%
	North Dakota	227.8%	205.5%
Bottom 5 states	New Jersey	91.6%	98.7%
	Arizona	91.1%	108.6%
	Florida	90.1%	89.6%
	Georgia	90.1%	91.8%
	Texas	89.5%	86.3%

Source:
Federal
Highway
Statistics



In the donor / donee debate *within* states, metro areas are often the donors.




Total Spending by ODOT (1980-1988) per Average Dollar of Gas Sales: Ohio Counties (1982, 1987, 1992, 1997)
Source: Hill et al, 2003



Conclusions / Recommendations

States should assume responsibility for increasing revenues, rather than devolving the obligation to local governments.

- ➔ Consider raising their gas taxes (or indexing to inflation) after applicable reforms
- ➔ End the “highways-only” exclusion, or make it “transportation-only.”
- ➔ Look at a range of other revenue sources for the long term (electronic tolls, VMT user charges)



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