Brookings Metro

THE REGIONAL TRANSPORTATION BLOCK GRANT
PRINCIPLES FOR A NEW FEDERAL SURFACE TRANSPORTATION PROGRAM

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SUMMARY

Since the completion of the Interstate Highway System, congressional lawmakers have routinely revisited surface transportation programs to better reflect the country's contemporary investment needs. A long-standing gap is investment at the local and regional level. Those transportation networks keep the economy moving every day, and their roadways and industries contribute significant direct funding to federal transportation accounts. However, even with enormous demand for both routine maintenance and transformative projects within their jurisdictions, current federal programs fail to deliver adequate funding to the local and regional level.

A new **Regional Transportation Block Grant program (RTBG)** is ideally suited to address these deficiencies and modernize the federal commitment to regional prosperity. A new formula program can reduce administrative costs, promote faster project delivery, improve accountability, and simply deliver more projects in regions of all sizes. Using current tax contributions as a baseline, we recommend a $10 billion annual program that includes the following characteristics:

- Metropolitan planning organizations (MPOs) should be the direct recipients, whose boards would then suballocate funds to municipalities. State officials would distribute money to municipalities outside MPO boundaries.
- The RTBG can use the same project eligibility and matching rate rules as the Surface Transportation Block Grant program.
- Congress should modernize accountability requirements, permit spending on multisectoral planning, and expand asset management practices with states and regions.

BACKGROUND

With the Infrastructure Investment and Jobs Act (IIJA) set to expire in November 2026, federal policymakers are preparing to reauthorize surface transportation programs. While every reauthorization entails significant policy debates, the IIJA offers even more data points than what is typical. The bill's writers adopted a more diverse mix of formula and competitive funding programs than any prior surface transportation law. As they consider the path forward, lawmakers and external stakeholders are sorting through the effects of these funding approaches.

One of the most important areas for lawmakers to evaluate is how well funds flow to the states and localities responsible for delivering projects. The IIJA's variety of approaches reveals four key patterns:

- The number of applications to competitive grant programs confirmed enormous demand among local and regional entities for funds to implement their transportation projects. However, administering these programs is burdensome for federal agency staff. Preparing so many applications also overtaxed local and regional officials, yet they were still generally unprepared to execute when an application did win funding.
- Federal planning grants have a demonstrated record of bringing together multiple jurisdictions and civic groups to develop long-range ideas for their region. The problem is that the federal government doesn't follow those planning grants with dependable capital grants, limiting pathways for regions to execute their plans.
- Traditional formula funding programs continue to offer lower administrative costs, build understanding of federal compliance, and generally accelerate project delivery. Unfortunately, no current formula program delivers funding directly to local governments and regional entities.
- Current federal laws do promote coordinated planning between state and regional governments, and some formula programs require spending to occur in populated areas. However, states still wield disproportionate authority over project selection, raising the specter of state investments that are out of step with regional ambitions.

This reauthorization can finally address long-standing revenue and spending imbalances. Recent Brookings research found that in 2022, 34% of all national driving took place on locally owned roads, which is a relative proxy for tax contributions to the Highway Account within the Highway Trust Fund (HTF). However, federal formula programs do not guarantee any of those roadway-focused revenues return to the local and regional level, instead only sending money to states. Concerns about this imbalance are not new; a 2004 study found metropolitan areas consistently contributed more in transportation tax revenues than they received back in funding. Transferring general funds into the HTF only worsens the imbalance, as metropolitan counties already shoulder a larger federal tax burden.

Failing to fund local roadway projects likely contributes to their lower physical quality, as 49% of locally owned principal arterial mileage is in poor condition compared to 7% of similar state-owned mileage. Poor roadway conditions on major roads limit transportation reliability and economic development opportunities—both of which are congressionally defined objectives.

JUSTIFICATION

A new block grant program to support regional and local surface transportation networks is uniquely suited to address the weaknesses of the current programming framework. The advantages include:

- Returning HTF revenues directly to regions would better reflect user-pay principles and address the current subsidization of states at local expense.
- Folding multiple competitive programs into a single flexible program would reduce the administrative burden on both federal staff and local applicants, freeing up more time to focus on program administration and project planning, respectively.
- Guaranteeing direct annual funding to every region would build an understanding of federal compliance and improve fiscal capacity, which would accelerate project delivery and replicate the experience states already enjoy.
- Expanding regional fiscal capacity will give localities more bargaining power with state agencies, creating

greater incentives to collaborate on planning documents and write complementary investment plans, including transportation improvement programs.

REGIONAL TRANSPORTATION BLOCK GRANT PROGRAM DETAILS

RTBG funding should be eligible to cover construction costs on a wide range of relevant projects. The explicit goal of the RTBG program should be to facilitate construction of projects that address the goals stated in each MPO's Long Range Transportation Plan (LRTP), or capital plans for municipalities outside MPO boundaries. To enable flexibility while still adhering to established federal requirements, we recommend Congress copy the same eligible project guidelines as the current Surface Transportation Block Grant program. According to the Government Accountability Office (GAO), using such broad eligibility "allows states and localities to select projects best suited to their diverse needs."

Direct RTBG recipients should either be MPOs or the state on behalf of non-metropolitan counties. MPO staff are already familiar with federal compliance rules, maintain direct relationships with the municipalities that constitute their boards, and offer technical assistance to local partners. They can also better consider the goals of transportation projects given their regional expertise in areas such as economic development and housing. For those counties without an MPO, states would play the MPO's role by sub-awarding grants to municipalities and offering technical assistance. From a federal perspective, this would limit annual RTBG recipients to qualified MPOs, the 50 states, and Puerto Rico (all of which already receive annual federal awards).

RTBG rules should mandate suballocation to member municipalities, but also offer flexibility for MPO boards to pool funds for regionally significant projects. Federal law should allow each MPO board (which is made up of member municipalities) to determine how much funding to suballocate to each municipality. Such flexibility adheres to the country's republican ideals and recognizes that some MPOs own major assets while many others do not. However, federal law should also establish guardrails to ensure no municipalities overly benefit at the expense of others, particularly if board representation is misaligned with regional population. Congress should also include language that permits member jurisdictions to pool funding for large-scale projects that benefit the entire region; these could extend to partnerships among neighboring MPOs as well, for joint project development that crosses MPO boundaries.

Projects receiving RTBG funds should be required to include a regional or local match, using the same guidelines adopted in Section 120 of Title 23 of the United States Code. This will give regional and local recipients the same fiscal advantages as their state counterparts. These rules would also give local and regional governments the flexibility to devote more own-source revenue to specific projects and extend the reach of their federal dollars to more projects overall.

RTBG recipients should be allowed to use their federal funds to procure state construction services, effectively using state capacity to help deliver projects. Such a transfer would maintain MPO or municipal control over project selection, while also creating opportunities to bundle funding with state resources—and state construction capacity—to expand project size and accelerate project delivery.

Congress should enhance current performance management rules to include RTBG accountability and improved asset management practices. Federal regulations on transparency and accountability in project selection are already more stringent for regions than they are for states, including a requirement that regional LRTPs include fiscally constrained project lists. To keep up with this new program, however, lawmakers should add requirements to track how RTBG projects address federally mandated performance goals. The relevant state or metropolitan transportation improvement program (TIP) should include which goals each

RTBG-funded project intends to address, plus clear ways to track performance over time. Congress should also improve asset management rules, requiring states to work with their MPO partners to include the conditions of the entire federal-aid highway system and other critical, locally owned assets in their geospatial databases.

Congress should include a planning set-aside to promote regional coordination among various stakeholders. With the launch of the RTBG, it's paramount that planners working across multiple disciplines such as economic development, housing, water, energy, and broadband can come together to understand their shared transportation needs and opportunities (including build-once policies). This set-aside will promote that coordination, leading to better projects and greater buy-in across the region. It also would expand upon established rules under Section 134 of Chapter 23 of the U.S. Code.

Congress should evaluate how RTBG recipients may be limited in raising own-source revenue. Currently, state law limits some regional entities and local governments from raising own-source revenue. As part of unlocking greater local investment in regionally significant projects, Congress can ask the GAO to investigate what those legal restrictions are and how they may be limiting overall investment levels and the ability to address national transportation priorities.

FUNDING AND FORMULA DESIGN

The surface transportation program Congress launched in the 1950s was initially designed to construct a modern highway system from scratch, including prioritizing fiscal transfers directly to states that would own that network. When the network's construction was still underway, it made sense to capture gas taxes and other vehicle-based revenues from all users and consolidate them into a single account bound for the states. Now that the network's construction is complete, using taxes collected from locally owned roadways to subsidize the state-owned network no longer makes sense.

Therefore, gas taxes and other revenues collected from locally owned roads are a critical reference point to determine RTBG funding. Current public accounting makes it impossible to track federal revenue to roadway owners, but it's possible to use vehicle miles traveled (VMT) estimates as a relative proxy. Using 2022 VMT estimates—the last year of geospatially detailed data—we estimate roughly $10 billion in federal transportation revenue was derived from locally owned road use, or 34% of VMT.

Whether using the $10 billion amount or a different total figure, federal lawmakers will still need more detailed formulas to subdivide spending by states and the regions within them.

For state apportionments, we recommend considering a state's share of national HTF contributions sourced from their locally owned roads. Such an approach promotes tax fairness. Critically, any RTBG formula is well suited to accommodate any new revenue instruments Congress adopts, such as a national registration fee or electric-vehicle-related fees.

For determining regional distributions within states, we recommend using population shares. Similar formulas are already in place within multiple formula programs. Another alternative would be to copy the fiscal-related formula from the prior paragraph, but that will require more granular data to allow estimates down to the county level.

Finally, Congress may want to give special consideration to the impact of general fund transfers. Those public funds disproportionately come from metropolitan areas due to their outsized share of household income taxes and gross domestic product (as a proxy for business taxes).