

Transportation Finance & the States: Stopgap Solutions & Indecision Spell an Uncertain Future

By Sean Slone

As state governments are faced with major infrastructure needs and declining tax revenues, many are searching for new revenue options to fund transportation improvements. But the lack of consensus about the viability of those options and uncertainty about federal programs has left states trying to plug holes temporarily.

State infrastructure needs got some much needed attention in 2009 as the American Recovery and Reinvestment Act allowed states to tackle a huge backlog of road repaving, bridge repairs and other “shovel-ready” projects. But in many ways, the Recovery Act only put a bandage on a problem that will likely continue to plague state governments in the years ahead—how to fund transportation improvements as tax revenues continue to decline and as traditional revenue sources seem tapped out.

As the year wound down, Congress was struggling to find a way forward on a new multi-year authorization bill for federal transportation programs that will likely require increased user fees and revenue enhancements. The previous authorizing bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, known as SAFETEA-LU, expired at the end of September. Yet with health care reform dominating most of the political debate in Washington, with an economy still trying to recover and with mid-term elections coming up in 2010, authorization of a new transportation bill and a potential tax increase to pay for it were unable to gain much traction.

The indecision at the federal level makes it an uncertain time at the state level as well. State governments, facing not only declining tax revenues but also significant budget crises, await a new authorization bill that will speak to how transportation will be financed at the federal level in the coming years and what level of financial commitment will be made. That will likely determine what they will have to come up with in state revenues to close the gap in tackling infrastructure needs.

Infrastructure Needs

Those infrastructure needs are daunting. According to the American Society of Civil Engineers, one-third of America’s roads are in poor or

mediocre condition; 36 percent of major urban highways are congested; and one in four of the nation’s bridges are structurally deficient or functionally obsolete. The group said \$186 billion is needed annually to improve the nation’s highways, yet annual spending for highway capital improvements is only \$70.3 billion. The Recovery Act provided \$27.5 billion for highways and bridges, but that made the overall investment still far short of the amount analysts say is needed.¹

Meanwhile state road budgets continue to be slashed. Virginia transportation officials announced in November they were cutting \$851.5 million from road-building operations over the next six years.² In Maine, an October report outlined how the state faces a \$3.3 billion gap over the next 10 years in transportation funding.³ And in Nevada, which has seen rapid growth in recent years, legislators adjourned their 2009 session without addressing a looming \$7 billion state transportation funding shortfall over the next decade. In fact, Nevada lawmakers haven’t even addressed the issue of road funding since 1991, when a gas tax increase was approved but never enacted.⁴

Fuel Taxes

Twenty-four percent of state revenues for highways come from state fuel taxes. But motor fuel tax revenues continue to decline for a number of reasons. Among them, fewer drivers are on the road while fuel efficiency has increased. Fuel taxes have also lost purchasing power due to inflation since in many cases they have not been adjusted to compensate for the rising costs of road construction and materials. That has led many to conclude that fuel tax revenues are no longer sufficient by themselves to finance the nation’s large and growing infrastructure needs.⁵

There appears to be little consensus on how to replace or supplement fuel taxes. Some states are simply seeking to increase fuel taxes or index them

to an economic indicator such as the Consumer Price Index or the Construction Cost Index to improve their stability.

Still, though 15 states considered raising state fuel taxes, motor vehicle fees or both in 2009, only three jurisdictions actually enacted increases: Oregon, Vermont and Washington, D.C. Oregon increased fuel taxes by 25 percent and raised registration, title and driver's license fees. But opponents of the fuel tax increase filed a 2010 referendum petition in an attempt to block it from going into effect in 2011.⁶

Other Revenue Options for Transportation

States are also relying on increased fees, other taxes and borrowing to fund transportation needs. In 2009:

- Colorado hiked vehicle registration fees to raise an estimated \$250 million a year for transportation.⁷
- Iowa lawmakers agreed to Gov. Chet Culver's plan to borrow \$830 million, with the bonds paid off from casino gambling profits.⁷
- Illinois financed a \$31 billion construction program by legalizing video poker, raising fees and hiking taxes on candy, beauty products and alcohol.⁸ But there have been delays in getting video poker up and running, with a number of communities choosing to opt out.⁹
- North Dakota shifted excise taxes on motor vehicle sales, which normally go to human services and education, to road spending.¹⁰
- North Carolina lawmakers voted to allow counties to increase their sales taxes to support transportation projects.¹¹
- Tennessee lawmakers passed a bill that will allow the state to issue \$701 million in bonds, more than half of which will go toward transportation projects.¹²

But as credit markets tightened, some states seeking to issue bonds or access credit and private capital encountered challenges.

This affected public-private partnerships for infrastructure projects. Once seen as a potential savior for transportation funding, the public-private partnerships, in which state governments agree to sell or lease roads or other facilities to private operators for large sums, appear to have all but dried up in the credit crunch, *USA Today* reported in October. At the very least, mega-deals like the 2003 \$1.8 billion lease on the Chicago Skyway or

the 2006 \$3.8 billion lease on the Indiana Toll Road may be things of the past, some analysts say.¹³

But others point to two projects in Florida—the \$1.7 billion I-595 project and the \$900 million Port of Miami Tunnel—as proof that private investment is not dead as a financing option, since both of those deals closed as the credit crunch was already well underway. Proponents of the public-private partnerships also point to signs that financial markets are gradually opening up again in the U.S. and say many of the projects that have fallen apart in recent months could easily be revived.¹⁴ Take for example Pennsylvania Gov. Ed Rendell's plan to sell the Pennsylvania Turnpike which was blocked by the Legislature or the plan to privatize Florida's "Alligator Alley," the 78-mile road across the Everglades that connects Fort Lauderdale with Naples, which collapsed in May 2009 due to a lack of bidders.¹³

Some states certainly remain hopeful that the promise of big paydays with public-private partnerships will come to fruition. The governors of Arizona and North Carolina both signed legislation in 2009 allowing their state departments of transportation to enter into such partnerships.

Tolling

One trend analysts say is likely to continue in transportation finance is the increase in various forms of tolling, particularly around major cities like Washington, D.C., and Los Angeles.

"Why is this happening?" wrote *Washington Post* metro columnist Robert McCartney in October. "Mostly because we need new roads and politicians are scared to raise the gasoline tax to pay for them. It's pretty much that simple."

That's despite evidence that simply increasing the gasoline tax would be a smarter alternative, McCartney wrote. "(Increasing the gas tax) would be more efficient, because the collection apparatus is in place and there'd be no need to pay for new E-ZPass equipment, tollbooths or machines to photograph license plates," he wrote.

In the Washington, D.C., area, tolls are on the way for a new inter-county connector in Maryland and for portions of the Capital Beltway and Interstates 395 and 95 in Virginia. Tolls will also increase on the toll road that connects to Dulles Airport by 2012.¹⁵

Elsewhere, tolls were increased on the West Virginia Turnpike in 2009 for the first time in 28 years.¹⁶ But on the flipside in Massachusetts, in a development that may bear watching, toll opponents filed

**Table A:
State Funding Sources for Transportation**

<i>State</i>	<i>State excise tax on fuel (cents per gallon) (a)</i>	<i>Other state taxes on fuel (a)</i>	<i>Vehicle registration fees (b)</i>	<i>State bonding authority</i>	<i>Tolls</i>	<i>General funds</i>	<i>Public-private partnerships</i>
Alabama.....	16.0	4.9	★	★		★	★
Alaska.....	8.0	0.0		★	★	★	★
Arizona.....	18.0	1.0	★	★			★
Arkansas.....	21.5	0.3	★	★		★	
California.....	18.0	29.4	★	★	★	★	★
Colorado.....	22.0	0.0	★	★			★
Connecticut.....	25.0	15.8	★	★		★	
Delaware.....	23.0	0.0	★	★	★	★	
Florida.....	4.0	30.5	★	★	★		★
Georgia.....	7.5	13.4		★	★	★	
Hawaii.....	17.0	27.4	★	★			
Idaho.....	25.0	0.0	★	★			
Illinois.....	19.0	17.7	★	★	★	★	★
Indiana.....	18.0	13.7	★	★	★		★
Iowa.....	21.0	1.0	★	★			
Kansas.....	24.0	1.0	★	★	★	★	
Kentucky.....	21.1	1.4	★	★		★	
Louisiana.....	20.0	0.0	★	★	★	★	★
Maine.....	29.5	1.5	★	★	★		
Maryland.....	23.5	0.0	★	★	★		★
Massachusetts.....	21.0	2.5	★	★	★		★
Michigan.....	19.0	14.2	★	★			
Minnesota.....	27.1	0.1	★	★		★	★
Mississippi.....	18.0	0.8	★	★			★
Missouri.....	17.0	0.3	★	★		★	★
Montana.....	27.0	0.8	★	★			
Nebraska.....	26.4	0.9	★	★		★	
Nevada.....	23.0	10.1	★	★			★
New Hampshire.....	18.0	1.6	★	★	★	★	
New Jersey.....	10.5	4.0	★	★	★	★	★
New Mexico.....	17.0	1.8	★	★			★
New York.....	8.0	36.8	★	★	★	★	★
North Carolina.....	29.9	0.3	★	★			★
North Dakota.....	23.0	0.0	★	★		★	
Ohio.....	28.0	0.0	★	★	★	★	
Oklahoma.....	16.0	1.0	★	★	★	★	
Oregon.....	24.0	1.0	★	★		★	★
Pennsylvania.....	12.0	20.3	★	★	★	★	
Rhode Island.....	32.0	1.0	★	★	★		
South Carolina.....	16.0	0.8	★	★	★	★	★
South Dakota.....	22.0	2.0	★				
Tennessee.....	20.0	1.4	★			★	
Texas.....	20.0	0.0	★	★	★	★	★
Utah.....	24.5	0.0	★	★	★	★	★
Vermont.....	19.0	4.3	★	★		★	
Virginia.....	17.5	1.8	★	★	★	★	★
Washington.....	37.5	0.0	★	★	★		★
West Virginia.....	20.5	11.7	★	★	★	★	
Wisconsin.....	30.9	2.0	★	★		★	
Wyoming.....	13.0	1.0	★			★	

Sources:

(a) American Petroleum Institute, "Notes to State Motor Fuel Excise and Other Taxes (Effective 10/1/09)" Accessed from: http://www.api.org/statistics/fueltaxes/upload/State_Motor_Fuel_Excise_Tax_Notes10_2009_2.pdf

(b) National Governors Association, "How States & Territories Fund Transportation: An Overview of Traditional and Nontraditional Strategies, 2009".

ballot measures for 2010 that would eliminate all turnpike, tunnel and bridge tolls in the state.¹⁷

Vehicle Miles Traveled: The Future?

Many are looking to a vehicle miles traveled charge as the potential revenue mechanism of the future. Three federal commissions concluded the U.S. should adopt just such an approach, under which motorists pay a fee based on miles actually driven in a state. Oregon was the first state to conduct a successful yearlong pilot project that Oregon officials said demonstrated the viability of the concept as well as its popularity among pilot participants. Other states are currently conducting ongoing research and pilot projects. The Oregon pilot program used Global Positioning System-based receivers in cars to estimate the number of miles driven in different zones. That mileage data was transmitted wirelessly on a short-range radio frequency to receivers at gas stations.

Vehicle miles traveled-based fees are already a reality in Europe, and in 2009 the University of Minnesota added to the body of evidence with a report showing such a system in the U.S. is technologically feasible and could be implemented in the near future.¹⁸ The National Cooperative Highway Research Program also issued a report that examined nine potential vehicle miles traveled systems and found three options most promising: mileage estimates based on fuel consumption, onboard units using cellular tracking, and on-board GPS units as in the Oregon pilot project. The report examines the risks and benefits of each and also identifies strategies to position the country for a phased-in transition beginning in 2015.¹⁹ A separate report by two Oregon Department of Transportation officials offers a six-year plan to define what a national vehicle miles traveled tax system should do and how it would operate and also to engage the public in order to develop a national consensus on a system.²⁰

Despite these successes and studies, however, a number of technological and institutional challenges remain, including everything from retrofitting cars already on the road to alleviating privacy concerns. That's led many analysts to predict that a full-fledged vehicle miles traveled tax system in the U.S. is likely a decade or more away.

Political Impact

After months of hearing about "shovel ready" projects, the delayed authorization bill and state struggles to come up with additional revenues to

fund transportation, it was perhaps appropriate that as 2009 wrapped up, transportation finance issues may have factored into off-year gubernatorial contests in New Jersey and Virginia. Incumbent Democratic Gov. Jon Corzine, who lost to former U.S. Attorney Chris Christie in New Jersey, said during the last months of the campaign he would be open to increasing the state's fuel tax rates and diverting money from other budgets to roads. Christie opposed increasing fuel tax rates.

In Virginia, Republican Robert McDonnell, who defeated Democratic state Sen. Creigh Deeds, announced on the campaign trail an extensive plan to pay for the state's mounting list of transportation needs, which included tolls for Interstates 85 and 95, rerouting transportation money going to other sources, and tapping into public-private partnerships, but which notably did not include tax increases.²¹

Whether policymakers can derive some lesson from those elections and whether transportation will have an impact on the political landscape in 2010 remains to be seen. But transportation finance will likely continue to be a significant concern for state governments in 2010 and beyond. A November report by the National Governors Association and the National Association of State Budget Officers forecasts that "with states having entered the recession in 2008, revenue shortfalls persisting into 2014 and a need to backfill deferred investments into core state functions, it will take states nearly a decade to fully emerge from the current recession."²² That may mean America's transportation needs will once again have to wait for another day.

Notes

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About the Author

Sean Stone is a transportation policy analyst at The Council of State Governments. He staffs CSG's Transportation Policy Task Force and writes about transportation policy for CSG publications such as *Capitol Ideas* magazine and *Trends in America* policy materials. He is the author of two CSG national reports: *Transportation and Infrastructure Finance* (2009) and *Shovel-Ready or Not? State Stimulus Successes on the Road to Recovery* (2010). He has also written about health policy for CSG's Healthy States initiative.