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Confronting the Reality of Declining Federal Transportation Funding

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"There is no appetite in Congress to increase the gas tax and stakeholders will have little influence to change the congressional minds." This was one of several sober— and sobering— conclusions reached by a panel of experts at a recent meeting convened by the Bipartisan Policy Center and the Eno Foundation on the occasion of the release of their joint report entitled "The Consequences of Reduced Federal Transportation (http://www.examiner.com/topic/transportation) Investment." Panelists included Ryan Alexander, President of Taxpayers for Common Sense; AASHTO's Finance Director, Jack Basso; Tom Lynch, legislative assistant to Sen. Baucus (D-MT); Jim Tymon, staff director of the House Highways and Transit Subcommittee; and Shin-Pei Tsay Director of Cities and Transportation at the Carnegie Endowment for International Peace. The panel was moderated by Nicholas Turner, Managing Director at the Rockefeller Foundation.

BPC Visiting Scholar and co-chair of the meeting Emil Frankel, set the stage in his opening remarks by stating with commendable candor that "current fiscal and political realities suggest that federal transportation spending will be stagnant — or even declining— for many years.' The current program authorization (MAP-21) does not resolve the long-term funding issues, he said, and instead uses additional general fund revenues to support the program over the next two years.

"You don't hear the public clamoring to raise the gas tax. The only people urging higher transportation revenues are those who would benefit from them," one panel participant observed referring to the "stakeholders." Another panelist noted that the best chance to raise the gas tax would come not in a transportation bill but as part of a comprehensive and sweeping reform of the tax code— an action whose prospect appears remote.

In a typical discussion about the future of the federal program, transportation advocates assert the need for more funds and predict dire consequences if that need is not met. To their great credit, the Bipartisan Policy Center and the Eno Foundation refused to follow this script. Instead, the report's authors dared to suggest that lacking a new source of funds, Congress might simply resolve the funding dilemma by shrinking the size of the federal contribution.

But their report did not assume that a cut in federal funds would automatically lead to a corresponding reduction in spending. Rather, faced with a drop in federal funds, the states' first response might likely be to replace at least part of the lost revenue with their own funds. The report then went on to estimate just how much new revenue states and transit agencies could realistically provide and what would be the consequences of a reduced transportation budget.

The authors cautioned that such an analysis is inherently speculative. It is impossible, they said, to know exactly how states and transit authorities would react to a cut in federal funds. And it is difficult to know how the politics of raising additional revenues for transportation would play out in individual states. All one can do is use “informed judgment” in arriving at conclusions.

Uneven Impact

Eno President Joshua Schank, and co-chair of the meeting explained that the impact of diminished federal funding (assumed to be a 35 percent cut, to bring spending in line with current HTF revenues---an overall reduction of $13.8 billion in annual disbursements to the states) would fall unevenly on various states. Some states are more dependent on federal funds than others. While 10 states rely on federal funds for less than 25 percent of their overall transportation spending, 27 states rely on federal funding for 25-40 percent and 14 states for more than 40 percent.

If states recognize that the federal government is unlikely to increase the federal gas tax and that spending cuts are inevitable, they may be spurred into action, concludes the report. And indeed, eleven states have been able to increase their motor fuel taxes within the past two years. In the aggregate, state motor fuel taxes have increased by nine percent between 2009 and 2010. Hence, the report estimates that approximately 50 percent of the expected cut in federal spending is likely to be replaced by states—in higher user fees, increased use of tolls and private toll concessions.

Impact on Transit

The impact of the cuts will hit the transit sector particularly hard, according to the report. Unlike state DOTs, transit agencies are usually independent municipal or regional agencies and raising state fuel taxes may not necessarily benefit them. The largest impact will be in the area of capital spending because federal funds cover nearly 40 percent of capital costs but only six percent of transit operating costs. The response of transit agencies to cutbacks in federal revenue will vary. Large transit transportation agencies will likely defer their maintenance cycles. Smaller agencies will reduce service levels, delay upgrades to rolling stock and terminate low-productivity routes. A common reaction of all transit agencies will be to delay capital investments.

One likely consequence of the failure to raise fuel taxes— a consequence that the report and the panelists did not consider— might be the end of long-term transportation authorizations as we have known them. There is a growing sense among seasoned political observers that the prevailing fiscal and political climate will make it difficult if not downright impossible in the future to commit hundreds of billions of dollars in a single legislative package.

For example, even at FY 2013-14 (MAP-21) levels of expenditure, a six-year surface transportation authorization would require approximately $300 billion in funding. Highway Trust Fund revenue and interest over the same time frame is expected to produce only $210 billion, leaving an unfunded gap of $90 billion.

Faced with this dilemma, and unwilling to raise motor fuel taxes, Congress is likely to embrace short-term *bills as the only practical solution. Short-term authorizations, such as MAP-21 will only require modest injections of general funds, especially if, as the BPC-Eno report suggests, states will be willing to increase their own contributions.*

To be sure, the stakeholder community will contend that longer-term (i.e. five- or six-year) authorizations are necessary to allow for an orderly planning and implementation of major capital projects. But, to the extent that large highway and transit capital investments still will figure on State DOTs' and transit authorities' agendas, private capital, tolling, and credit instruments such as TIFIA and state infrastructure banks might be able to provide an adequate substitute for the funding stability offered by long-term congressional authorizations.

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