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U.S. Highways Are At A Turning Point

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Over the last few months, I've observed a growing number of commentators questioning whether the federal Highway Trust Fund will survive the current reauthorization process. They point to repeated injections of general fund monies, either into the Trust Fund itself or into transportation infrastructure (via the stimulus and the TIGER grants program). The more that highway spending depends on the general fund, the more it will depend on political preferences (such as our current DOT Secretary's preference for shifting people from cars to transit, and freight from trucks to rail) rather than on a set of agreed-upon program categories and priorities.

What's also at stake here is the principle that has governed most highway funding for nearly the past century: users-pay/users-benefit. The original idea of a highway trust fund, taking in revenues from highway users (mostly via fuel taxes) and spending the funds on those very same users, originated in Oregon in 1919, and within a decade or so had spread to every state. The same principle was adopted at the federal level in 1956, as the mechanism to fund the building of the Interstate system.

There are many strengths to this model, which would be lost if highways become just one mode in a public works-type multimodal transportation program. The strengths include:

•Fairness—those who pay are generally those who benefit;

•Proportionality—those who use highways more pay more (and those who don't use them don't pay);

•Self-limiting—the amount of revenue is limited to what is needed for justified investments;

•Predictability—a revenue stream largely independent of government budget pressures;

•Investment signal—where demand exceeds capacity, increased usage (and revenues) signals where investment is needed. (This one is more direct with tolls than with fuel taxes.)

The case for scrapping the users-pay/users-benefit connection has been building up for a number of years. That was part of the message of the Infrastructure Policy & Revenue Commission, which would have used fuel-tax revenue as a slush fund for all modes of surface transportation, and that call has since been echoed in various forms by reports from the Brookings Institution and the Bipartisan Policy Center. They all want to convert the Highway Trust Fund into an all-purpose transportation fund, with the "Good and Great" in Washington, DC, deciding which mode should receive how much (of revenue, remember, generated almost entirely by highway users).

This model had wider appeal several years ago, when there were serious hopes of doubling federal fuel taxes. Even one year ago, Rep. James Oberstar drafted his reauthorization bill to nearly double the size of the federal program—but with no idea where the revenues to do so would come from. But the Obama administration has recently reiterated that it will not support a federal fuel-tax increase.

In today's no-tax-increase reality, where does that leave the future of highway funding? One view is that of the Administration: The U.S. DOT's Draft Strategic Plan treats the U.S. highway system as essentially completed. To be sure, they stress spending to keep it in a state of good repair, but you will search that document in vain for any proposals to expand either urban or long-haul highway capacity. That's also the case with Oberstar's bill, and it's also true of the new freight bill just introduced with much fanfare by a group of Senators, backed by railroads and environmental groups.

The Administration's answer to the funding shortfall is likely to be "congestion pricing" on urban Interstates. But not the kind of congestion pricing that adds tolled express lanes and rebuilds bottleneck interchanges—projects that lend themselves to P3 toll concessions. No, their view of pricing is to charge what the traffic will bear for the existing, under-sized system and use the revenues not to improve it but rather to subsidize transit and bikeways. (Economists would call this monopoly exploitation).

Yet there is a very solid case for expansion and modernization of our highway system. Early this year the Federal Highway Administration released the latest of its biennial reports on the Conditions & Performance of the U.S. highway system. Even with a required threshold of only including projects with a benefit/cost ratio greater than 1.5, needed highway investment should be 75% more than the current annual total of $78.7 billion. Looking only at the critically important Interstate system, the annual shortfall is from $8 billion to $22 billion, depending on the extent of pricing used. The American Association of State Highway & Transportation Officials has followed up with two solid reports in its The Case for Capacity series—one on "unlocking gridlock" and another on "unlocking freight." These reports are based on the reality of population growing from 308 million to 420 million by 2050 and the consequent doubling of freight movements.

Thus, there is a very strong case for restoring the Highway Trust Fund to a highways-only vehicle, and focusing it on the highways that are most critical at the national level: current and future Interstates. That way, all the monies produced by current fuel taxes could be dedicated to the highway modernization and expansion this country needs in order for our economy to keep growing. And since those monies are likely not enough, the states need maximum flexibility to use tolling, pricing, and P3s.

These changes would restore the users-pay/users-benefit principle, just when we are at serious risk of losing it. And that is important for another reason. This country is about to embark on the R&D needed to begin the process of replacing fuel taxes with per-mile charges, based on vehicle miles traveled (VMT). Some of those supporting this change want the replacement to be a “VMT tax,” rather than a “VMT charge.” The former would be what they have not quite converted fuel taxes to, yet—an all-purpose source of funding for any and all forms of surface transportation, but all paid for by highway users. By contrast, a VMT charge would

be a true users-pay/users-benefit payment to road owners, just like utility bills paid to the providers of electricity, gas, and water.

Everyone interested in the long-term future of tolling and P3s should support continuation and strengthening of the users-pay/users-benefit principle. That is really what’s at stake in the current reauthorization battle. ■