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Transportation Policy Review

The Quest for Sustainable Highway Funding

by Robert W. Poole, Jr.

Governors and state DOTs are struggling to find ways to increase transportation funding. The 2010 FHWA Conditions & Performance Report estimates the annual shortfall just for the federal-aid highway system to be $9.5 billion (just to maintain current conditions and performance) and $64.3 billion to significantly improve conditions and performance. And this month saw the release of the ASCE's 2013 Report Card for America's Infrastructure, giving bridges a grade of C+ but highways and transit a grade of D.

Governors in three states have made news recently with transportation proposals aimed at supplementing or replacing their state fuel tax systems:

- Virginia Gov. Bob McDonnell proposed eliminating the fuel tax and replacing it with an increase in the sales tax, with the increase used for transportation (including passenger rail and rail transit). What the legislature gave him is a dog's breakfast of new wholesale sales taxes on gasoline and diesel, an increase in the general sales tax, and even northern Virginia taxes on hotel bills and home sales.

- Massachusetts Gov. Deval Patrick has proposed a $1 billion per year increase in transportation spending, to be paid for by increasing the state income tax from 5.25% to 6.25% while decreasing the sales tax from 6.25% to 4.25% and dedicating the sales tax to transportation, especially mass transit.

- Pennsylvania Gov. Tom Corbett has proposed a tax shift aimed at raising an additional $1.8 billion a year for transportation (all modes), by increasing the Oil Company Franchise Tax while reducing the fuel tax from 12 cents to 10 cents per gallon.

In addition to raising constitutional issues in both Virginia and Pennsylvania, what these plans have in common is a further departure from the users-pay/users-benefit principle on which fuel taxes were based. That bodes real trouble in future years. Sales taxes and other non-user taxes have no built-in safeguards to ensure their revenues are spent only on highways (or only on highways and transit). Those spending decisions are entirely at the discretion of future governors and legislators, who will have to weigh the priority of transportation against that of Medicaid, schools, and numerous other budget categories. And as the price of oil goes up and down by significant amounts, the revenues from a sales tax on petroleum fuels will fluctuate accordingly, making it far more difficult for state DOTs to project their future revenues.

Jeffrey Brown of Florida State University recounted in the Fall 2001 issue of Access (from the University of California transportation center), that the gasoline tax was first implemented in Oregon in 1919 as a way to get highway users, rather than general taxpayers, to pay for the large and growing costs of creating paved roads and highways. The logic was so compelling that all 47 others states did likewise within the next decade. As Brown points out, "The gasoline tax remained a popular user fee as long as the proceeds funded highway construction and maintenance." But even in its first few decades, legislators began diverting these abundant revenue streams to other purposes, especially during the Depression. That led to legislation and state constitutional amendments creating highway trust funds. That restored voter trust into the 1950s and 1960s, enabling Congress to enact the 1956 legislation, using the same principle, to create a federal fuel tax dedicated to a new Highway Trust Fund to build the Interstate highway system.

Unfortunately, what Congress has done since then is to divert ever-larger shares of federal highway user revenues to non-highway purposes: about 30% as of now. This has converted the federal Highway Trust Fund—in voters' eyes—into a Federal Highway Slush Fund, available for streetcars, bikeways, sidewalks, recreational trails, etc. in addition to the highways for which it was created. No wonder motorists generally distrust the Trust Fund and are unwilling to support increases in the federal gas tax.

Those of us interested in the long-term viability of the U.S. highway system should resist states' piece-meal efforts to supplement or replace highway user taxes with various non-user taxes. We need to restate the benefits of the users-pay/users-benefit model, as we work toward replacing per-gallon user taxes with per-mile user fees. Assuming we could do this, among the advantages would be the following:

- Users would pay more for costly highways and less for inexpensive streets and roads (compared with paying an inadequately low average price today, via fuel taxes).

- Those who make little or no use of roads would pay (or not pay) accordingly, a system far more fair than gas taxes, let alone sales taxes or other non-user taxes.

- If the mileage-based user fees were dedicated to specific roads or road systems, motorists would regain trust in the user-fee system.

- Especially for major limited-access highways (Interstates, expressways), a sustainable per-mile revenue stream would be bondable for major capital expenses like widening and reconstruction, with guaranteed maintenance included in the package.

- And with today's all-electronic tolling, the per-mile charge could be varied to serve as congestion pricing in corridors where traffic demand exceeds lane capacity.

That's a very powerful set of benefits. And what that kind of funding system could well lead to is rethinking highways as a kind of network utility. We don't see the kind of political gridlock over revenues and spending that we see in transportation when it comes to other network utilities. For electricity, water, natural gas, telephones, and cable or satellite, people are accustomed to getting a monthly bill based on how much they have used of these services. The investment decisions are made by those companies, often under some kind of regulatory oversight, but in general we have very few concerns over major investment shortfalls in these areas. Those problems exist largely in highways, transit, waterways, and air traffic control, all of which get their capital funding from a mix of general taxes and user taxes appropriated by elected legislative bodies—and hence, politicized.

It's time for the transportation community to recognize that when it comes to highways, while the fuel tax/trust fund model worked tolerably well in the 20th century, it is not sustainable for the 21st century. We don't just need a replacement user tax. Rather, we need to rethink the category mistake that left highways out of the commercial model used for other network utilities. They all have sustainable funding systems, in which users pay their providers directly, rather than sending the money to governments to allocate. We need to start moving toward that model for highways, as well. n