Focus On

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The Crisis in Federal Transportation Programs

For more than 50 years, there was a consensus that users of our transportation system would pay the taxes necessary to support substantial federal programs for highway and transit. Most of the taxes paid by the users were taxes on gasoline and diesel fuel.

Recently, this consensus has been breaking down, and it has become clear that the public will not support any increase in the taxes now supporting federal transportation programs. The existing tax rate of 18.4 cents per gallon of gasoline, which was established in 1993, no longer produces enough revenue to support existing programs. Unless revenues can be increased, federal programs will have to be reduced by 20 percent or more. This reduction will come at a time when the demands placed on our transportation system are increasing and the condition of the system is deteriorating. In the face of nationwide budget constraints, the states are not in a position to pick up the slack through increased spending in their programs. The unfortunate outcome of a federal cutback will be increased congestion that will impose billions of dollars of added costs on drivers and shippers.

The Consensus

The consensus on which our system has been based for the past few decades began with legislation passed in 1956 that established the interstate highway system. This consensus consisted of several key expectations:

- The federal government would provide substantial assistance for the development of highways and transit.
- Users of the system would fund the federal programs through taxes and fees, which would have to be increased periodically to cover inflation.
- Because the federal program would be funded by user taxes and fees, funding for the program would not be subject to annual adjustments dictated by general budget policies. Rather, the federal program would be allowed to spend, over a period of 5 years or more, all the revenues contributed by users. Thus, because they could be confident that federal funds would be available, state and local governments would be able to establish multiyear plans for transportation.

History of the Consensus

The consensus began in 1956 with passage of the National Interstate and Defense Highways Act, which committed the federal government to the construction of a 40,000-mile interstate highway system. According to estimates, it would take 13 years to complete the project. This undertaking and the program necessary to implement, oversee, and maintain it were to be funded with a federal gas tax of 3 cents per gallon that would be placed in the Highway Trust Fund.

Although it may not have been apparent in 1956, it soon became clear that because of the effect of inflation on expenses, revenues for the trust fund would have to be increased over time to keep the federal programs at their historic levels. Unfortunately, the main source of revenue for the trust fund—the gas tax—was set at a flat cents-per-gallon rate, which does not adjust automatically for inflation. Had gas taxes been set at a percentage of the cost per gallon, revenues would have increased automatically as gas prices rose over time.

Since 1956, the program has been reauthorized every five or six years, with overall funding increased to keep pace with inflation. However, inflation has not been the only obstacle the trust fund has faced. Over time, the programs supported by the fund have expanded to include transit and alternative transportation. To account for this increase in the type of programs supported by the trust fund, and to provide additional offsets for inflation, the gas tax has been raised periodically. The last increase in the gas tax (to the current rate of 18.4 cents per gallon) occurred in 1993—nearly two decades ago.

In recent years, the level of federal support for transportation infrastructure has not varied widely. Since 1990, the federal government has covered 20–30 percent of total public (federal, state, and local) spending for highways and transit, which ranged from $125 billion to $155 billion per year range, measured in constant 2009 dollars.[1]

History of the Gas Tax

Until recently, a bipartisan consensus has existed that gas taxes should be increased periodically to support Highway Trust Fund programs at their historic levels. The gas tax was first established at one cent per gallon during the Hoover administration as a deficit reduction measure. When the Highway Trust Fund was established in 1956 during the Eisenhower administration, the gas tax was increased to three cents per gallon, then later to four cents per gallon in 1959, with the proceeds going to the Highway Trust Fund.

In 1982, during the Reagan administration, the tax was increased to nine cents per gallon. President Reagan indicated his support for this increase in his weekly radio address broadcast Nov. 27, 1982, during which he was quoted as saying the following:

> But let's face it. Lately, driving isn't half as much fun as it used to be. Time and wear have taken their toll on America's roads and highways. "We simply cannot allow this magnificent system to deteriorate beyond repair." [The expanded program] will be paid for by those of us who use the system, and [the five-cent increase] will cost the average car owner about $30 a year. That's less than the cost of a couple of shock absorbers. Most important of all, it'll cost far less to act now than it would to delay until further damage is done.[2]

The gas tax also was increased during both the George H.W. Bush and Bill Clinton administrations. The most recent increase—in 1993—raised the tax to the current 18.4 cents per gallon.

In the years since 1993, tax issues have become so politically charged that neither party can support any revenue measure that can be called a tax increase. Proposed increases in the gas tax are given this label, despite arguments that the gas tax is in reality a user fee and that any increase will be only an adjustment for inflation.

In the early days of the Obama administration, Press Secretary Robert Gibbs announced that the administration would not support any increase in the gas tax. The White House has maintained this position and also appears to be opposed to proposals that would increase trust fund revenues by replacing the gas tax with a charge for each mile driven. The Obama administration has supported an increase of $231 billion in spending for transportation over six years but has not made any specific proposal for a tax increase, other than to state that the White House will work with Congress to find a way to increase the revenues of the Highway Trust Fund.[3]

Costs Resulting from the End of Consensus

The use of general fund revenue to support some of the programs now funded by the Highway Trust Fund has not received significant support. Therefore, this failure to increase the revenues paid into the Highway Trust Fund would appear to require substantial reductions in federal programs for highways and transit.

The Congressional Budget Office estimates that, if there is no increase in the gas tax, the revenues paid into the fund over the next six years will be about $90 billion below the level needed to cover the continuation of existing programs, indexed for inflation.[4] Such a shortfall in funds would require cutting the programs by about 25 percent.

These cuts would come at a time when even the existing programs are widely perceived to be inadequate. A recent report issued by the Department of Transportation concluded that, in 2006, 43 percent of the national highway system's miles were rated as being below "good" ride quality. Other reports by the Department of Transportation also have concluded that nearly one out of every four highway bridges are structurally deficient or functionally obsolete and that more than 14,000 public transit vehicles are not in good condition.[5]

The deficiencies in the existing system impose substantial costs on individuals as well as businesses. The Texas Transportation Institute's 2009 report on urban mobility found that, in 2007, unnecessary congestion imposed costs of $87 billion as a result of wasted fuel and added driving time for individuals. These costs were $14 billion higher than the costs in 2004 were. Unnecessary delays also impose costs of billions of dollars a year on businesses. These delay-driven costs can mount extraordinarily quickly. Consider the following statistic: UPS has estimated that an increase of just five minutes in average driving time costs the company $100 million year.[6]

Many believe that failure to increase funding for highways and transit will only make the current situation worse. The National Surface Transportation Policy and Revenue Study Commission concluded that, if infrastructure spending remains at current levels, drivers' delays on major highways will increase by more than 50 percent by 2020 and the physical condition of the nation's highway assets will "deteriorate significantly." The Obama administration and many members of Congress have concluded that beginning the process of making necessary improvements requires that funding for the federal highway system and transit programs be increased from the current six-year baseline level of $223 billion to a level of $450–$500 billion.

Conclusion

The breakdown in the consensus for supporting federal transportation programs has blocked any long-term reauthorization of the programs for several years. Since the last long-term reauthorization ended in October 2009, the highway and transit programs have been continued at historic levels through a series of seven short-term extensions. However, these extensions were not a mere continuation of the status quo. Because levels in the extensions could not be supported by current tax levels, monetary infusions of $35 billion have been transferred from the general fund to the Highway Trust Fund. These infusions will

PROGRAMS *continued on page 38*

PROGRAMS *continued from page 37*

keep the fund solvent until the end of calendar year 2012.[7]

There is great pressure for Congress to make decisions before the end of 2011 on Highway Trust Fund programs for the next five to six years. There appears to be little appetite for any further infusion of general funds to support short-term extensions, but the best opportunity to make adjustments in funding mechanisms and to create program stability is at hand. As the 2012 presidential election approaches, political pressures will make it increasingly difficult to tackle the tough decisions required for long-term reauthorization.

In short, the next few months are critical to the future of federal transportation programs. Now is the time when interested practioners and the public alike will discover whether the new consensus we need can be forged so that the country can improve its transportation system—a system that is crucial for enhancing the quality of citizens' lives and maintaining an efficient and productive economy. **TFL**

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Endnotes

[1]*See* Report of the Congressional Budget Office, *Public Spending on Transportation and Water Infrastructure*, November 2010, Appendix A.

[2]Richard Weigoff, *Palace Coup: President Ronald Reagan and the Surface Transportation Assistance Act of 1982,* Highway History, Federal Highway Administration

[3]Transportation Weekly, 8 (March 9, 2011).

[4]*Ibid.*

[5]Federal Highway Administration, *2008 Status of the Nation's Highways, Bridges and Transit: Conditions and Performance,* undated, pages 3-3, 3-18, and 3-28.

[6]James L. Oberstar, Former Representative, D-Minn., Remarks to the Transportation and Infrastructure Summit, August 10, 2010.

[7]*See* Transportation Weekly, 8 (March 9, 2011).

RULEMAKING *continued from page 29*

On Feb. 16, 2011, the DOT published a notice of regulatory review (76 FR 8940) that invited public comment on how the department could most effectively implement Executive Order 13563. On March 14, 2011, the DOT hosted a Retrospective Regulatory Review public meeting in Washington, D.C. That meeting, in which the department's general counsel and the chief counsels of each DOT agency participated, was broadcast via a live webcast, allowing the panel to hear from a variety of speakers, both in person and by phone. In late March/early April, FMCSA sought similar feedback on existing regulations from its Motor Carrier Safety Advisory Committee, a committee that consists of representatives from safety advocacy groups, motor carriers, shippers, truck and bus associations, labor, and state motor carrier enforcement agencies. FMCSA held the April 1, 2011, portion of the advisory committee's public meeting during the 40th Anniversary Mid-America Truck Show in Louisville—the nation's most widely attended trucking convention and an ideal forum for receiving feedback from small businesses and independent truck drivers.

To allow for less formal submissions to the DOT and its agencies on regulatory review, the department created a website using IdeaScale, dotregreview.ideascale.com. The blog-like, interactive website allows visitors to file their suggestions by transportation mode and to vote in support of other users' comments. The website is designed particularly for individuals and small entities that might be uncomfortable or unfamiliar with the normal method of submitting comments to the DOT. The site also may assist participants in refining their suggestions and gathering additional information or data to support those suggestions.

As President Obama ordered, federal agencies must ensure that regulations protect the public interest and our safety, health, and environment while promoting economic growth. To do our jobs, federal regulators must leave the office, get out of Washington, D.C., and employ technology creatively so that they can hear the voices of experts, businesses, and the general public on how best to strike that balance. With these tools and with some creativity, even small agencies like the DOT's Federal Motor Carrier Safety Administration can take advantage of limited resources to engage the public in the critical work that agencies do. **TFL**

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