



The transport bill Rocky road

Congress is also snarled up over how to keep America moving

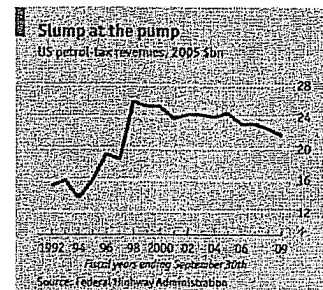
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WHILE Americans wonder whether the government will keep paying its bills, Congress is also debating how to keep roads paved and trains moving. The nation's primary transport law, which sets guidelines for spending levels and priorities, expired in 2009. It has since been extended in a series of short-term measures, the latest of which runs until the end of September. Pressed by state governments for a long-term replacement, legislators are rolling out proposals. Short-term extensions create uncertainty about federal funding and make local transport planning difficult. Yet after two years of delay, the parties are no closer to agreement.

The stumbling block is, as ever, money. Revenues from excise taxes, primarily those on petrol and diesel, are the main source of funding for federal highway and transit spending. At 18.4 cents per gallon, America's petrol tax is famously low and hasn't gone up since 1993. With petrol costs rising, drivers are filling up less, so the tax take is falling (see chart). Transport funds have repeatedly dried up in recent years, requiring top-ups from Congress—\$30 billion-worth since 2008. Any new transport law must balance the books, but neither party is keen to find new revenue.



Democrats want more investment in the nation's crumbling infrastructure. President Barack Obama's 2012 budget called for a near-doubling of transport funding, to \$556 billion over six years. Unable or unwilling to identify new funding sources, Democrats are scaling back those plans. A bill proposed in the Senate merely maintains current spending levels. Constrained by the falling tax take, the bill would run for just two years, and it still leaves a \$12 billion gap to be filled from a yet-to-be-identified source. Party leaders can only hope that by 2013 the current anti-tax mood—or the balance of power in Congress—will have changed.

The Republican solution to reduced funding is far simpler: spend less. John Mica, chairman of the transport committee in the House, is pushing a full six-year reauthorisation with no new funding source. Federal spending would fall by about 33% as a result. Mr Mica aims to bridge some of the gap by encouraging public-private partnerships in new investments, and by opening up the system to private competition where possible. Democrats call this bill a "road to ruin".

Greater private involvement is a good idea. With the economy weak, however, businesses may be no more able than local governments to fill the gaps left by cuts in federal spending. And America's roads and railways are deteriorating; the Congressional Budget Office estimates that \$20 billion more is needed each year just to keep them in their present poor state. If the parties are unable to bridge their differences, the gridlock in Washington will quickly find its way to streets around the country.

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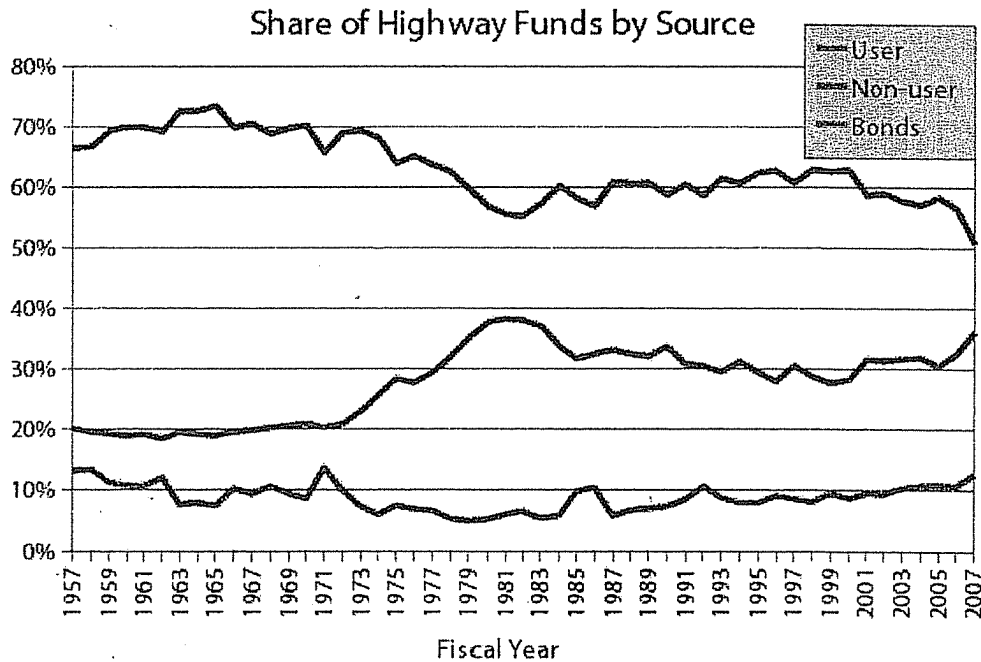
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Analysis Finds Shifting Trends in Highway Funding: User Fees Make Up Decreasing Share

The way America's roads are funded is changing. Revenues that predominantly come from users of roads ("user fees"), including fuel taxes, vehicle registration fees and tolls, pay for a decreasing share of road costs. Taxes and fees not directly related to highway use ("non-user fees") and bonds are making up the difference.

Using Federal Highway Administration statistics, Subsidyscope has calculated that in 2007, 51 percent of the nation's \$193 billion set aside for highway construction and maintenance was generated through user fees—down from 10 years earlier when user fees made up 61 percent of total spending on roads. The rest came from other sources, including revenue generated by income, sales and property taxes, as well as bond issues.



Source: *Highway Statistics, forms HF-10 and HF-210, Federal Highway Administration.*

Going back further, the trend is more pronounced. Forty years ago, user fees amounted to 71 percent of revenues spent on roads. Today, user fee revenue as a share of total highway-related funds is at an all-time low since the Interstate Highway System was created in 1957. A complete data set of [highway revenue by source is available for download](#). In 2007, non-user revenues contributed \$70 billion to the highway system. By comparison, this contribution totaled \$26 billion in 1967 (in 2007 dollars).

Not all user fees collected are made available for highway purposes. Of the 18.4 cent per gallon federal tax on gasoline, 2.86 cents are allocated specifically for mass transit projects. Another 0.1 cent per gallon is used to pay for environmental cleanup resulting

from leaking fuel storage tanks. From 1990 to 1997, the federal government also set aside a portion of taxes on gasoline, diesel and other fuels to reduce budget deficits.

However, even if those funds were fully devoted to highways, total user fee revenue accounted for only 65 percent of all funds set aside for highways in 2007, according to Subsidyscope calculations. This is down from 84 percent in 1997 and 77 percent in 1967. Subsidyscope provides a complete data set of user fee revenues and allocations for download.

Various factors account for the shift in funding away from users fees. Fuel taxes lose their buying power unless adjusted to keep pace with rising highway construction and maintenance costs. The amount of federal fuel tax allocated to highway purposes has not increased since 1997 and states have had trouble increasing fuel taxes to keep up with inflation. Further, changes in driving patterns and fuel consumption can lead to unexpected dips and peaks in user revenues. For instance, increases in fuel prices at the pump can cause vehicle owners to cut back on driving, reducing revenues. Similarly, changes in vehicle efficiency can reduce revenues available from fuel taxes while vehicle usage remains constant.

Another major funding source for roads is borrowing through bond measures, which made up almost 13 percent of highway funds available in 2007. This number has fluctuated over the years. Moreover, the use of bonds to fund roads varies widely from state to state. Subsidyscope considers bonds separately from user fees and other revenue because it is not clear which sources of revenues will be used to repay the bonds.

In addition to a decline in user fee revenue, federal dollars have gradually declined as a share of total highway funding. As a result, state and local governments have taken on a higher share of road costs and are increasingly reliant on alternative sources of revenue.

All data are from Highway Statistics, forms HF-10 and HF-210, Federal Highway Administration. All figures adjusted for inflation using the Engineering News Record Construction Cost Index.

Updated November 25, 2009.