

ENERGY AND INFRASTRUCTURE

Key Issues and Reforms for State Transportation Spending

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New ways to invest in and modernize transportation infrastructure

There is a transformation occurring in the way that transportation projects and programs are financed in this country. To be clear, the traditional model where public sector costs are paid for by public sector dollars fed in large part by state and federal gasoline taxes, still dominates. However, there are strong indications that things are changing.

There is simply not enough money to build and maintain our nation's transportation network from today's taxes. According to the Federal Highway Administration, current fuel-tax revenues do not provide enough to properly maintain the existing highway system, let alone expand it to cope with soaring growth in driving and truck shipments. More and more cities, states, and metropolitan areas have turned to a variety of alternative financing options in recent years.

In 2001, the Oregon state legislature authorized the creation of the Road User Fee Task Force to examine various revenue raising alternatives for replacing the state gas tax as the primary source of revenues for repairing, maintaining, and building Oregon's roads. The group agreed that a replacement of the gas tax should be a road user fee that assesses a per-mile charge based on Vehicle Miles Traveled (VMT) within the state. A closely watched pilot program testing the potential of this financing method is scheduled to end in early 2007.

Although many states generally appear to be unwilling to raise gas taxes to address their transportation finance shortfall, there are notable exceptions. The states that have been able to increase their rates over the last 6 years are generally those that legislatively tied the rate to inflation. Such "indexing" rationalizes the process of increasing the tax rate, allows revenues to keep pace with rising costs, and avoids the acrimony of periodic increases otherwise. States such as North Carolina, West Virginia, Kentucky, and Illinois have indexed tax rates. A few others have pushed through gas tax increases by explicitly articulating how those funds would be spent. In Washington state, Governor Gregoire won passage of, and successfully defended, a 9.5-cent gas tax hike to fund needed transportation reinvestments. Iowa is among the states seriously considering an increase in the near future.

Instead of raising fuel taxes or introducing new forms of user fees, state lawmakers are responding to demand by allowing local governments to raise non-user funds locally and, in effect, are changing the basis of transportation finance to resemble the situation that existed prior to the invention of user fees (e.g., gas taxes, tolls). Cities, counties, and transit districts are thus imposing "local option transportation taxes" to fund new

transportation investments. The most visible examples in recent years have been voter-approved sales taxes on a variety of purchases to fund particular roads and rail transit projects. States such as California, Utah, and Florida encourage such approaches.

In addition to the discussion of increasing revenues to spend on transportation, other states are reviewing their procedures on how dollars are allocated. Since 1998, California has sought to level the playing field by allocating 75% of all transportation dollars to the metropolitan level. The law has enabled the state to leverage existing transportation funds by increasing flexibility, simplicity, and accountability. Ohio recently created a study commission to examine the state's allocation of transportation funds that disproportionately steer funds to rural areas. Other states like Maryland and New Jersey prioritize spending in established communities and on the repair of existing infrastructure rather than new construction on the metropolitan fringe.

Lastly, the idea of selling or leasing their toll roads to private companies to raise transportation revenues has gained momentum after the city of Chicago and the state of Indiana finalized such deals in recent years. However, the public backlash that has followed the Indiana deal has given policymakers pause. Rather than pushing such deals through, states and metropolitan areas are beginning to take a cautionary, rather than ideological approach. States such as Utah, Illinois, Missouri and metropolitan areas like Houston are taking the time to approach the issue differently. Among other things, they are conducting open and detailed studies of the immediate *and* long-term costs and benefits of making such deals. In short, they are working to ensure that any kind of sale or lease of a public asset like a toll road should be the absolute gold standard in accountability.

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