

TRANSPORTATION FUNDING

Transportation funding occurs at all three levels of government, with states carrying most of the cost. On average, states are responsible for about 75% of all transportation funding in the U.S. Meanwhile, the federal government's mechanisms for providing transportation funding have become, for all intents, and purposes, bankrupt.

FEDERAL FUNDING FORMULA IS NOT WORKING

The federal government is officially responsible for 25% of the funding, but because of how it appropriates funds, it has significant impact on state transportation policies. Federal transportation funding comes from the Highway Trust Fund (HTF), which provides funding for maintenance and mass transit. To fund the HTF, the federal government levies an 18.4-cent per gallon excise tax on gasoline and a 24.4-cent per gallon excise tax on diesel fuel. These taxes are not pegged to inflation and can only be increased by Congress.

Congress authorizes transportation funding through the surface transportation bill; the most recent version was the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), originally passed in 2005. President Obama signed the newest highway bill dubbed the Moving Ahead for Progress in the 21st Century Act (MAP-21) on July 6, 2012. The bill continues many of the funding formulas from SAFETEA-LU.

Since 2015 Congress spent more than \$62 billion since 2008, and they bailed out HTF with \$18.8 billion in FY 2013 and 2014 (1).

Much of this happens because HTF spends federal tax dollars on projects that are either inherently local like parks and trails, or have minimal return on investment, like transit. Effectively, middle-class families in Nebraska are could be paying for covered-bridge improvement projects in South Carolina, or are subsidizing the commutes of Wall Street hedge fund managers who ride the New York City subway.

STATE AND LOCAL FUNDING

State and local governments generate funding for transportation through a variety of means; including fuel taxes, vehicle registration and licensing fees, and toll roads. Other states charge fees for vehicle necessities, such as motor oil and tires. Over 30 states have "infrastructure banks" that are either funded by a variety of methods.

Each state also has a Department of Transportation that makes funding and planning decisions for both mutually shared projects with the federal government and state-level projects. Consequently, states and localities take the primary responsibility for creation and maintenance of state highways and local public roads—although they often receive federal assistance to do so. They share responsibility with the federal government for interstate highway segments that run through their state.

QUICK FACTS

- The Highway Trust Fund is funded by two federal excise taxes: an 18-cent per gallon tax on gasoline and a 24-cent per gallon tax on diesel.
- Federal highway funding used to be conditioned on states setting their highway speed limits no higher than 55mph. However, the federal government no longer sets speed limit requirements as a criterion for a state to receive highway funding.

NOTABLE & QUOTABLE

"Many questionable development projects are sold to tax-payers as transportation related. However, often these projects are economic development projects masquerading as some- thing else. Taxpayers deserve the truth."

- **Baruch Feigenbaum**

In 2011, state governments spent a combined \$131 billion for transportation (2). When federal, state, and local gas taxes are combined the average tax is 49.9 cents per gallon (3).

CAN TRANSPORTATION FUNDING STIMULATE THE ECONOMY?

It is a common contention that spending on transportation and infrastructure stimulates the economy and creates jobs. This was a central argument for the American Recovery and Reinvestment Act of 2009 (ARRA), often referred to as the stimulus package. Advocates claimed that it stimulated the economy by “investing” in road improvement and other transportation projects. Some highways, for example, had signs that identified them as part of the “Putting America to Work” project funded by the ARRA. Instead of rebuilding the economy on sound free market principles, these make-work transportation projects artificially pump money into one sector of the economy by taking money from taxpayers and funneling it toward temporary road improvements and unnecessary infrastructure projects. When the money for these projects expires, construction workers return to unemployment.

CONCLUSION

Transportation funding can be a politicized issue, particularly in light of MAP-21. The bill authorized \$105 billion for surface transportation funding through 2014. Even though the states continue to foot the majority of transportation funding, the federal government continues to increase its bloated expenditures. Meanwhile, transportation funding as Keynesian make-work stimulus does not provide a true means of recovery.

"Having considered the bill this day presented to me entitled 'An act to set apart and pledge certain funds for internal improvements,' and which sets apart and pledges funds 'for constructing roads and canals, and improving the navigation of water courses' . . . I am constrained by the insuperable difficulty I feel in reconciling the bill with the Constitution of the United States to return it with that objection to the House of Representatives. The legislative powers vested in Congress are specified and enumerated in the eighth section of the first article of the Constitution, and it does not appear that the power proposed to be exercised by the bill is among the enumerated powers."

-James Madison, March 3, 1817.

Veto of federal transportation spending.

Endnotes:

1. HTF basics
<http://www.heritage.org/research/reports/2015/05/highway-trust-fund-basics-a-primer-on-federal-surface-transportation-spending>
2. Ryan Holeywell, “Study: States Lack Data To Evaluate Transportation Spending,” *Governing: FedWatch*, May 12, 2011.
<http://www.governing.com/blogs/fedwatch/Study-States-Not-Using-Performance-Measures-to-DecideTransportation-Policy.html>
3. American Petroleum Institute, “Oil and Natural Gas Overview – Motor Fuel Taxes,”
<http://www.api.org/oiland-natural-gas-overview/industry-economics/fuel-taxes>

Americans for Prosperity Foundation’s “Need to Know” informational series explores current events and recent scholarship on public policy issues from a free-market economics perspective. A full list of “Need to Know” briefings is available at www.AmericansForProsperityFoundation.org/NeetToKnow.

©2012 Americans for Prosperity Foundation. All Rights Reserved.