Title
A Funding Compromise Can Set Transportation on Path Toward Sustainability

Author
Niemeier, Deb

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Deb Niemeier
Department of Civil and Environmental Engineering
University of California, Davis

For more information, contact Deb Niemeier
dniemeier@ucdavis.edu

POLICY BRIEF

Issue

Current discussions surrounding the imminent collapse of the U.S. Highway Trust Fund (HTF) and the future of transportation funding present an important opportunity to create a more sustainable transportation system that advances national goals that include funding sustainability, environmental sustainability, and social equity.

The HTF originated as the cornerstone of mid-century vision to build a debt-free Interstate System that would be financed by highway users and serve the national interest. Today, the HTF hobbles from one fiscal cliff to the next. In the red since 2001, the fund has incurred substantial debt and relies on cash infusions from the U.S. General Fund ($54 billion since 2008) to maintain a positive balance. This practice raises questions about long-term transportation funding sustainability as well as social equity, as non-users are now paying for road use through those General Fund transfers.

Federal excise taxes on the sale of gasoline and diesel fuel have traditionally been the mainstay of HTF revenue, supporting highway improvement and maintenance as well as mass transit investment. Yet, the U.S. Congress last raised these taxes in 1992, leaving the HTF to lose considerable purchasing power to inflation and rising construction costs. For example, the current gasoline tax of 18.4 cents per gallon is worth just 60% of what it was when set in 1992; had it been indexed to inflation over that period, it would now be 31.1 cents per gallon. Additionally, rising fuel efficiency has decreased HTF receipts while the practice of deferring regular roadway maintenance has increased the need for investment.

At current spending levels, the Congressional Budget Office estimates the total HTF shortfall will reach approximately $110 billion by 2022. A number of think tanks, commissions, and experts have weighed in on the viability of various funding mechanisms that can be organized into three categories: 1) increase the gasoline excise tax, 2) implement strategies that replace and/or augment the gas tax, most popularly a mileage-based road user charge, and 3) initiate strategic reforms to make any tax increase unnecessary. In addition, the Obama Administration has proposed using a 14 percent one-time tax on U.S. companies' untaxed foreign earnings to raise an additional $238 billion for the HTF over six years.

Policy Implications

None of the proposals currently being discussed independently forms a coherent federal transportation policy. Also, these proposals define national goals largely in terms of maintaining economic interests with virtually no discussion of how transportation funding policy might be used to address transportation's contribution to both climate change and reduced ambient air quality. The proposals do not address the full cost of transportation (up front capital costs, operations, and maintenance) and rarely discuss indexing of revenue sources over time. Additionally, existing proposals seldom disentangle fundamental questions about who (federal versus state government) should pay for what (capital versus maintenance and rehabilitation).

To constructively move forward, individual elements of various floated proposals could be combined and reformulated to create a more coherent funding strategy that delivers on all aspects of sustainability: funding sustainability, environmental sustainability, and social equity. A federal funding solution crafted in this vein is presented in the table below.

In sum, clearer linkages are needed in federal transportation funding between investments serving the national interest and those able to advance environmental goals and social equity. The VMT fee and the gas tax are often discussed as two separate mechanisms, one to the exclusion of the other. In fact, both are likely to be necessary in order to advance a more sustainable transportation future.

Further Reading

This policy brief is drawn from the full white paper, "A Funding Compromise Can Set Transportation on Path Toward Sustainability," by Deb Niemeier, which can be found at: http://bit.ly/TransportationFunding

A Federal Funding Solution for Transportation

Grant one-time corporate taxation of offshore assets to address pressing maintenance needs. The Obama Administration's proposal for a one-time increase on untaxed foreign earnings by U.S. companies is a sound strategy with a slight modification. These funds should be part of a transition strategy that moves transportation funding and decision-making to the states. Funds should be designated solely for addressing maintenance backlogs on federal highways and bridges and regional transit programs, with improving passenger rail as a key focus. States should receive funding based on cost-benefit analyses that prioritize poor infrastructure needs.

Continue gas tax at current level and index it to inflation. One-third of gas tax revenues should be directed toward the maintenance of nationally strategic transportation infrastructure resources, such as ports. The remaining revenue should be allocated to the states for reducing transportation GHG emissions. As GHG emissions decline, states should be able to opt out of the federal gas tax as long as GHG emissions remain low. This would allow the states enough time and sufficient funding to transition to a low- to zero-carbon transportation network. This approach would require that transportation GHG reduction targets be set for each state.

Give states pricing and tolling authority on federal highways. This action will better link supply and demand, and address congestion.

Require states to implement a vehicle miles traveled (VMT) tax. The VMT tax is a direct usage fee that can be structured as a flat or variable per-mile charge. The variable charge can be based on the time of actual use, or be reflective of the level of congestion or type of facility. Revenue should go directly to states to use as needed without federal intervention. States are better positioned to implement, collect, and distribute a VMT tax given the existing administrative framework already in place. All maintenance and modernization should be assumed by the states for all roads.

Provide an earned income tax credit for low-income families. This action will help offset the regressive nature of fuel and VMT taxes and could be paid for by the states using federal funds received for transitioning to a low-carbon transportation system.

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