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RESEARCH SUMMARY

GETTING MORE OUT OF STATE TRANSPORTATION INFRASTRUCTURE SPENDING

The federal role in highway spending is expected to get smaller because fuel tax revenues are decreasing and Congress is holding off on raising the federal gas tax rate. Meanwhile, states are not getting the most out of their highway spending. Traffic congestion plagues urban areas, and simply investing in highways and transit will not be enough to fix the problem.

A new study for the Mercatus Center at George Mason University discusses general principles that can help states maximize the value they get from their highway spending. While no two states are identical, policymakers can still learn from one another by observing what works and using the same general principles to create reforms that work for their states.

To read the study in its entirety and learn more about its two authors, economist Tracy C. Miller, a senior policy research editor at the Mercatus Center, and Megan E. Hansen, a master's student in economics at Utah State University, see "Getting More out of State Transportation Infrastructure Spending."

THE TRANSPORTATION PROBLEMS STATES FACE

States face a number of problems related to transportation funding and management, including costly regulations at all levels of government, competing spending priorities, asset management issues, and competing goals in urban areas. As the chart below demonstrates, decisions about highway and transit funding are affected by interactions among all levels of government.

Regulations Increase Project Costs

States must comply with all federal regulations if they want to receive transportation funding. Regulations are also imposed by the state governments themselves. For example, states often implement prevailing wage laws, which prevent less-skilled labor from working on projects, and give preferential treatment to in-state firms even when out-of-state firms would be cheaper.

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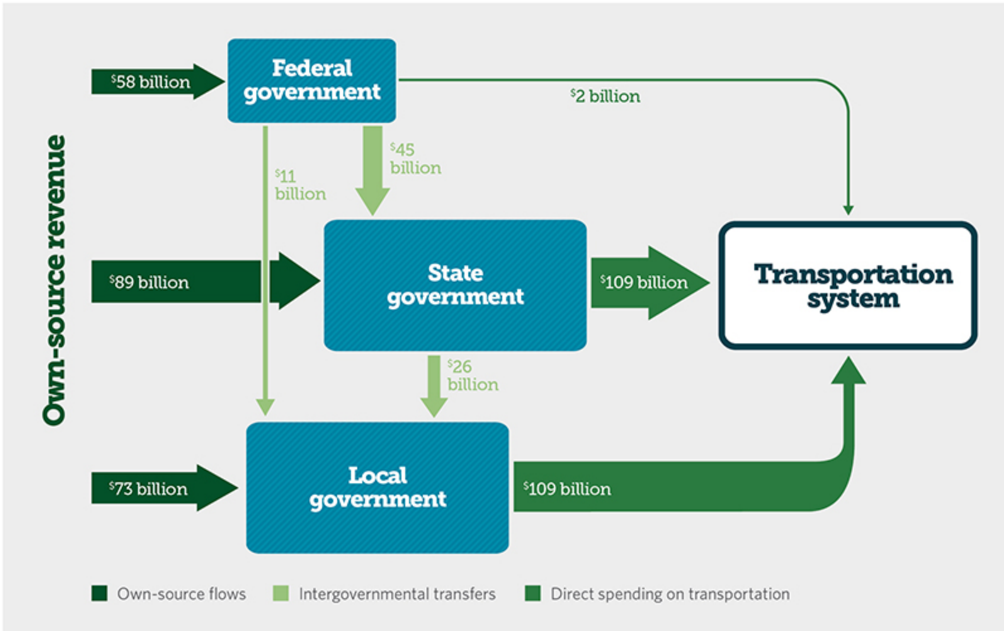
Surface Transportation Funding Flows among Levels of Government:
Spending on Highways and Transit, 2012



Note: Numbers may not add up exactly due to rounding.

Sources: Pew's analysis of U.S. Census Bureau's Annual Survey of State and Local Government Finances, 2012; U.S. Office of Management and Budget, Public Budget Database

Source: Pew Charitable Trusts, "Funding Challenges in Highway and Transit: A Federal-State-Local Analysis," February 24, 2015.

Different Transportation Modes Compete for Scarce Government Funds

Policymakers must identify whether mass transit or highway construction offers the greatest benefits and lowest costs:

- Ideally, funding is allocated based on marginal benefits and costs, but—because there is no "market price" for a stretch of highway—calculating marginal benefits and costs is difficult.
- Most transportation projects involve something supplied by the government, which makes it difficult to determine how much of the costs incurred by a government agency should be allocated for each project.

Political Considerations Affect How Much Is Spent on Transportation

Funding decisions are also influenced by interest-group lobbying instead of by benefits and costs. Costs of favored projects are often underestimated while their benefits are overestimated. This is prominent in the case of rail construction:

- Federal subsidies for rail transit expansion make expanding rail transit less costly for local transit agencies than expanding bus service. Because local costs for expanding are relatively low, cities are inclined to take advantage of this federal funding.
- Therefore, many cities focus on rail systems even when these incur high costs (considering both federal and local costs) and expanding them brings only small increases in rail use.

Asset Management Tends to Be Reactive
States should be proactive rather than reactive about asset management. While funding is scarce, they should focus on preventive maintenance to extend projects' lives rather than spending more later to replace worn-out infrastructure.

Urban Development Goals Must Be Balanced
Transportation plans must foster the kind of development people would choose for themselves rather than imposing the plans of policymakers. For example, instead of emphasizing the expansion of rail transit, policymakers should aim to reduce road congestion for drivers (e.g., by congestion pricing).

OPTIONS FOR REFORMING FUNDING AND MANAGEMENT

Change the State Political Culture and Institutions
Politics will be the driving factor in how transportation funding is used as long as governments control road funding. Combining state funding with another source of funding can help alleviate this problem.

Institute Tolling
Drivers could pay tolls that vary as demand for the road varies to help alleviate congestion. However, there's large popular opposition to congestion tolls, which are viewed as another tax, and a regressive one at that. Tolls may be more politically acceptable if they replace fuel taxes, which are also regressive.

Permit Public-Private Partnerships
Firms can lease highways from governments and fund them through tolls or state payments. However, this may enable firms to influence government decisions about transportation to be in their favor rather than in the interests of the voters using the roads. To avoid such an outcome, states could pass legislation that would prevent the government from making any agreements to limit the construction of competing modes of transportation.

Change the Source of Management and Funding
Federal funding can be provided in block grants, allowing state transportation departments greater discretion about how they use funds. Requiring local governments, rather than state governments or the federal government, to fund public transit systems and roads used primarily by local residents may provide better incentives for the efficient management of this infrastructure.

CONCLUSION

States face a variety of challenges related to transportation funding and management. This means that policymakers must consider solutions that give better incentives to all parties involved. Limiting the federal role in transportation spending to interstate highway funding would be a start. Granting local governments and private companies greater control over transportation spending would go further toward encouraging development shaped by resident preferences.