



Transportation Funding Outlook 2009

By James B. Reed

Transportation revenue is diminishing.

The revenue picture for state legislatures in 2009 is generally bleak, given the economic recession and growing needs in all sectors. Transportation revenue, essentially flat in recent years, now is diminishing as driving declines. Benefits include clean air and congestion relief, but gas tax revenues—still the primary source of state and federal transportation



funding—have correspondingly decreased. The funding decline already has forced two dozen states to make transportation program cuts or consider them in the 2009 legislative sessions.

State investment in surface transportation infrastructure is vital.

State Action State investment in surface transportation infrastructure is vital, contributing 46 percent of the \$90 billion spent annually by all levels of government. One benefit that could propel continued infrastructure investment is creation of jobs and economic development benefits that accrue from transportation spending. Every \$1 billion of investment in transportation construction directly and indirectly generates approximately 37,000 jobs. New and well-maintained transportation infrastructure also contributes to economic growth.

Some states will consider a 2009 gas tax increase.

Raise the Gas Tax. To cope, at least 12 states will consider raising the gas tax in 2009. It was difficult to raise this issue when gasoline prices hovered at \$4 per gallon. Research shows that the average state would need to raise the gas tax by 20 cents per gallon to make up purchasing power lost during the last 15 years; however, most proposed state increases will not exceed 5 cents. Given plunging gasoline prices, many legislators are beginning to think that a small increase could be somewhat more palatable to motorists.

Use General Sales Tax Revenue. A few states considered increasing the general sales tax and designating it to transportation. The argument is that, because transportation underlies the

economy and quality of life, it is therefore a common good, rightly supported with general revenue. Louisiana took this approach in 2008, while Arizona considered it. This represents a shift from the user fee approach underlying the gas tax and road tolls. Many local governments already use sales taxes extensively to fund transportation, and several states will consider this approach in 2009.

Some states used general sales tax increases for transportation.

Consider Public-Private Partnerships. Public-private partnerships gained national attention in 2004 and 2005 with the lease of the Chicago Skyway and the Indiana Toll Road to the Macquarie-Cintra consortium. These partnerships involve a host of possible arrangements where the private sector assumes a portion of the risk, financing and operation of a transportation asset. Such arrangements have addressed funding gaps in a dozen states and have been strongly promoted by the U.S Department of Transportation. Some opponents question how well the public interest is protected in such deals, however. Texas enacted a moratorium on such projects in 2007, pending an exhaustive study of costs and benefits of such partnerships for transportation facilities. Nonetheless, 24 states and Puerto Rico have enacted legislation authorizing public-private partnerships, and such projects are under way in 10 states.

Continue Tolls or Increase Fees and Taxes. Kentucky enacted new authorization for tolling in 2008, and a few states are expected to consider such legislation in 2009. Raising motor vehicle fees and taxes will continue as an option for legislatures because these revenues contribute 16 percent of average state transportation revenue.

Federal Action On Sept. 30, 2009, the current federal surface transportation act expires. The previous authorization provided \$286.5 billion for highways, public transportation and highway safety programs for fiscal years 2004-2009. This amount does not include the additional \$9 billion in general funds Congress added to the federal highway trust fund in September 2008.

A new federal surface transportation act is expected in 2009.

Both the House and Senate have begun to develop their vision for the new authorization. Although specifics were not available at press time, Congressman James Oberstar, chair of the House Transportation and Infrastructure Committee, has reported that he will release a detailed outline in early February 2009 of his plans for the new authorization.

The 111th Congress also is working on a stimulus package for the new president's early consideration. The package is expected to contain funds for ready-to-go infrastructure projects. Actual figures are still being negotiated, but tens of billions of dollars likely will go to transportation-related projects. Senate staff are concerned that including too large a transportation infrastructure component in the stimulus bill might ease the pressure to complete the new authorization by September 30.

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