



# TACIR

The Tennessee Advisory Commission  
on Intergovernmental Relations



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## ***MEMORANDUM***

**TO:** TACIR Commission Members

**FROM:** Harry A. Green  
Executive Director

**DATE:** September 16, 2008

**SUBJECT:** Infrastructure Challenges

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Since the tragedy in Minnesota last summer, concerns about the ability of the state and local governments to finance infrastructure needs has been growing. There are concerns that the Federal Highway Trust Fund could be insolvent in the near future.

The Honorable Mark Norris has been invited to address the Commission on the challenges of financing transportation infrastructure. Attached you will find a copy of the executive summary from the report, "Financing Transportation in the 21<sup>st</sup> Century", from the Intergovernmental Forum on Transportation Finance published in January 2008. Senator Norris, as a member of the Council of State Governments, was a principal member of this forum.

Attachment.

**A REPORT OF THE INTERGOVERNMENTAL FORUM ON TRANSPORTATION FINANCE**  
*Convened by the National Academy of Public Administration on behalf of the  
Intergovernmental Cooperation Consortium*

**FINANCING TRANSPORTATION**  
in the 21st Century:  
**AN INTERGOVERNMENTAL  
PERSPECTIVE**

January 2008

## **PRINCIPALS: Intergovernmental Forum on Transportation Finance**

**Mortimer Downey**, Chair. Academy Fellow, Chairman of the Board, PB Consult, Inc.  
**Andrew Abrams**, Chief, Transportation and GSA Branch,  
U.S. Office of Management and Budget  
**Jack Basso**, Director of Management and Business Development at AASHTO  
**The Honorable Capri Cafaro**, Senator, State of Ohio  
**The Honorable Richard M. Daley**, Mayor of Chicago  
**Suzette Denslow**, Deputy Director, Virginia Municipal League  
**Ed DeSeve**, Academy Fellow, Professor, Fels Institute of Government,  
University of Pennsylvania  
**Tom Downs**, Academy Fellow, President, ENO Transportation Foundation  
**R. Michael Eastland**, Executive Director, North Central Texas Council of Governments  
**Anthony Giancola**, Executive Director, National Association of County Engineers  
**The Honorable Bill Graves**, Former Governor of Kansas, President and CEO,  
American Trucking Associations  
**The Honorable Scott Haggerty**, President, Office of the Board of Supervisors,  
County of Alameda, California  
**Jim Hearn**, Director of Federal Programs and Budget Process, Minority Staff,  
U.S. Senate Budget Committee  
**Jim Kolb**,<sup>+</sup> Staff Director, House Committee on Transportation and Infrastructure,  
Subcommittee on Highways and Transit, U.S. House of Representatives  
**The Honorable Marcia Marcoux**, Council Member, City of Rochester, Minnesota  
**The Honorable Mark Norris**, Senate Majority Leader, Tennessee State Senate  
**Rudolph Penner**, Senior Fellow, The Urban Institute  
**The Honorable Phyllis F. Scheinberg**, Assistant Secretary for Budget and Programs  
and Chief Financial Officer, U.S. Department of Transportation  
**The Honorable Bruce Starr**, Senator, State of Oregon and Chair of  
the Senate Transportation Committee  
**Jim Tymon**,<sup>+</sup> Minority Staff Director, House Committee on Transportation and Infrastructure,  
Subcommittee on Highways and Transit, U.S. House of Representatives

<sup>+</sup> *Jim Kolb and Jim Tymon participated in the discussions at the meetings of the Principals Group, but do not necessarily support all of the recommendations in this report.*

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The views expressed in this report are those of the Principals. They do not necessarily represent the views of the Academy as an institution or the other organizations that make up the Intergovernmental Cooperation Consortium.

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## **EXECUTIVE SUMMARY**

### **A Major Financial Problem**

In recent years, the financing of America's highway and transit systems has become out of step with the performance that Americans expect of those systems. Present financing mechanisms consist of a complex set of federal, state, and local revenue sources, federal and state aid programs, and public-private partnerships. Spending constraints at all levels of government are also an issue. These financial arrangements are no longer sufficient to maintain existing facilities and services, or to meet changing demands and improve services to people and businesses. Revenues and investments have not kept pace with growing and shifting populations, inflation, changing technologies, evolving patterns of travel, current trends in globalization, and new policies that address energy conservation and environmental protection.

Of immediate concern is the fact that the federal Highway Trust Fund, which funds both highway and transit programs, is being spent-down at a rate that could make it insolvent in the near future unless Congress acts. Two separate National Commissions have been created by Congress to address the long-term sustainability of funding for highway and transit programs, and many national organizations have prepared or are preparing reports to contribute to this national dialogue. One of these commissions issued its final report on January 15, 2008, and the other is expected to release its findings and recommendations later in 2008. As the dialogue proceeds, it is important to consider the intergovernmental implications of efforts to modernize highway and transit financing mechanisms at all levels of government so they can sustain the current and future program needs.

The purpose of this Forum report is to provide a more fully developed intergovernmental perspective on options being considered for strengthening the nation's transportation finances.

### **Intergovernmental Challenges**

The effort to re-craft transportation financing arrangements so that they can reliably support future highway and transit needs will face several difficult intergovernmental challenges; effectively addressing these challenges will be central to success. Responsibilities for financing and delivering services in both the highway and transit programs are shared by the federal, state, and local governments. Governments also share many of the same tax bases, and are accountable for results to the same voters and transportation system users. What one level of government does affects what the other levels can or must do, or sometimes cannot do. For many years, federal-aid programs for highway and transit have played very important roles in holding the transportation finance and service delivery systems together with matching grants, planning standards, and many other intergovernmental requirements. The "ecology" of the intergovernmental relationships in these programs is finely tuned; sudden or major long-term shifts in these relationships will impact the whole intergovernmental system for financing and delivering transportation services.

One significant shift in the intergovernmental system is the gradual movement away from financing highway and transit programs with revenues based on user-pays and beneficiaries-pay principles. Over many decades both the federal and state governments have used the motor fuels tax, other vehicle-related fees, and transit fares as the mainstay of their transportation finance systems, but these revenues are now falling short of meeting demonstrated program needs.

These shortfalls are being shouldered increasingly by local governments and general taxes (such as sales and property)—rather than by user fees. Of the local revenues that now provide approximately 35 percent of the financing for highway and transit programs, only about 4 percent of all local funds are generated by taxes on fuels and vehicles, and the transit-generated revenues (mostly fares) contribute only 6 percent of all surface transportation funds. Dedicated portions of state and local sales and property taxes, generally approved by referenda, may be beneficiary-based if carefully linked to transportation improvements, but the use of general funds and general-obligation bonds significantly blurs the linkage to users and direct beneficiaries.

### **Options for Strengthening Transportation Financing**

A number of revenue sources are in use now at each level of government to help sustain the nation's highway and transit programs—as well as the essential intermodal links that these two programs contribute toward meeting growing demands for freight and passenger movement by all transportation modes. Various financing scenarios have been developed by many organizations to narrow or even close the current and projected gaps in maintaining existing surface transportation systems and services, as well as the gaps in improving services. All of these scenarios rely on increasing revenues from multiple sources at all levels of government and would require political justification in the context of increasingly constrained and highly competitive budget deliberations. They may also require reconstituted relationships among the instrumentalities of federal, state, and local governments that have highway and transit roles and responsibilities.

There is no magic bullet in any of the postulated revenue raising scenarios, and certainly no easy or sure answer to questions about how best to fill current and future financial gaps with increases in existing sources and funds from new sources. In addition, no effective process is currently in place to ensure that intergovernmental analysis and dialogues will be part of this essential rebalancing effort. Yet, the impacts of federal revenue proposals on state and local governments, as well as any unfunded federal mandates created by provisions in federal-aid programs, can be very significant. They are seldom addressed in the President's budget, as has been recommended by a previous Intergovernmental Forum (Academy, July 2006). Furthermore, they are not required to be considered in Congress' legislative process. This same lack of explicit attention to intergovernmental impacts often applies within states as state-aid programs and locally generated revenues are being designed to supplement each other.

### **Recommendations**

Briefly stated, the Forum's six recommendations are:

1. Congress and the Administration should take immediate action to ensure the sustainability of the federal Highway Trust Fund, and should work with the nation's state and local governments to ensure sustainable financial resources adequate to maintain existing surface transportation infrastructures and operations in the future, as well as to support the increased capacity needed to improve performance.
2. National surface transportation performance goals and the intergovernmental roles and responsibilities needed to achieve these goals should be established collaboratively.
3. All levels of government should maintain the revenue-raising principle that the users and beneficiaries of surface transportation systems and services should pay as much as possible of the costs of providing established levels of service.
4. In establishing intergovernmental and public-private roles and responsibilities for raising needed surface transportation funds, public policymakers should examine a wide range of sources and scenarios.
5. When examining these revenue raising scenarios, public policymakers should consider the intergovernmental impacts of proposed actions for each level of government, relative to the other levels of government.
6. When the federal and state governments make major changes in their surface transportation financial assistance programs, they should provide transition time to allow the governments receiving assistance to adjust to these shifts.

These recommendations are more fully stated in the final chapter of this report.