INNOVATION BRIEFS
COMMENTARY

August 19, 2007

# THE MINNESOTA BRIDGE COLLAPSE AND THE POLITICS OF TRANSPORTATION FINANCING

*Adapted from remarks at the Transportation Finance Session and the Budget Chairs Roundtable, Council of State Governments, Quebec City, August 14, 2007*

The bridge collapse in Minneapolis threw a spotlight on the precarious state of the nation's infrastructure. It also has made infrastructure financing a tempting subject for an election-year policy debate.

The disaster has prompted a flurry of statements from congressional law makers, some, predictably, calling for an increase in the gasoline tax. First to react publicly was **Rep. James Oberstar (D-MN)** who, as chairman of the powerful House Transportation and Infrastructure Committee he will have a major say in how to deal with the problem of crumbling transportation infrastructure. Mr. Oberstar announced that a tax increase might be necessary to finance his proposed trust fund to repair structurally deficient bridges on the National Highway System. He proposed to fund the program with a temporary 5-cent/gallon gas tax extending over 3 years, a measure that would bring in roughly $28-30 billion. He also announced plans to hold a hearing on the state of the nation's bridges on September 5.

Ranking Member **John Mica (R-FL)** was next to react. He upped the ante by calling the chairman's proposal inadequate, "a band aid solution" which ignores the larger problem of the deteriorated condition of other transportation modes. Addressing the transportation infrastructure needs, he said, will require a dramatic investment in *all* transportation modes.

Not to be outdone, **Sen Hilary Clinton (D-NY)** called for a $10 billion 10-year program to rebuild structurally deficient bridges, an additional $1.5 billion in annual funding for public transportation, and $1 billion over 5 years for intercity rail. Other presidential candidates, so far, have not been heard from.

**President Bush**, at a press conference on August 9, threw cold water on the congressional talk. He rejected the idea of a gas tax increase, saying that Congress should first look at how it spends existing funds before calling for more money. He said, "if bridges are a priority, let's make sure they get funded first" in an obvious allusion to the congressional penchant for earmarking transportation funds for pet local projects ($24 billion or approximately 8 percent of the total SAFETEA-LU authorization.) It is clear from Mr. Bush's remarks that any congressional proposal to raise gas taxes during this session of Congress will invite a presidential veto.

**Senator Baucus (D-MT)**, chairman of the Senate Finance Committee, also came out against an increase in the federal gasoline tax, further dimming the hopes of Rep Oberstar and other tax proponents. In an interview, Baucus said continuing to rely on gas tax revenue is not practical. "There are better alternatives," he said, "I don't think an increase in the gasoline tax is needed." Baucus' opposition is particularly significant since his Senate Finance Committee (along with the House Ways and Means Committee), would have to pass upon any tax increase.

That is how the lines were drawn as Congress adjourned for the summer recess.

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With national elections 15 months away, the state of public infrastructure and how to pay for its upkeep and reconstruction could become the subject of a lively policy debate. The problem is acute enough to challenge the presidential candidates themselves. Also heard from will be a number of other voices.

Leading the list will be two congressionally-chartered commissions — the **National Surface Transportation Policy and Revenue Commission** and the **National Surface Transportation Infrastructure Financing Commission ---** whose mandates call specifically for examination of future surface transportation funding needs and recommendations for alternative approaches to financing transportation infrastructure. The Policy Commission will be submitting its report to Congress by the end of the year and the Finance Commission plans to have an interim report ready sometime next Spring. Of the two commissions, the Financing Commission, whose members include recognized financial experts, may be expected to bring more expertise to the subject of financing and will have more to say about the potential of specific financing tools and funding measures. The Policy Commission has a broad charter to develop an overall strategy for the future surface transportation program; it, too, is expected to address the question of funding.

Another major player will be the **U.S. Department of Transportation.** By virtue of its lead role in drafting the administration's FY 2009 surface transportation reauthorization proposal, the Department will be in a position to set the tone for the debate. The reauthorization bill is expected to provide a key vehicle for introducing changes to the federal transportation financing structure.

Also expected to take an active role in the debate will be **the private sector**. Private stakeholders include road builders, toll road operators, investment banks and other sources of private capital, and the "Beltway Community" of trade associations, public interest groups, environmental lobbies and think tanks. All of them have a vital stake in how the future surface transportation program will be financed and managed, and all of them are developing (or have already developed) positions on how best to face the funding challenge.

Last, but certainly not least, will be the **governors, state legislatures and state departments of transportation**. With states and local governments contributing roughly 76% of total highway revenue and 55% of capital revenue (FY 2005 data), they play a crucial role in the funding picture. A number of governors of both parties already have taken a public position on issues of transportation financing. Prominent so far have been Mitch Daniels (R-IN), Rick Perry (R-TX), Ed Rendell ( D-PA), Jon Corzine (D-NJ), and Charlie Crist (R-FL). Their number is likely to grow as the debate unfolds. The state DOTs, individually and through their Washington-based American Association of State Highway and Transportation Officials (AASHTO), have been and will continue to be a major voice in the debate.

### The Conservatives vs. The Innovators

Like any major policy debate, the financing debate will involve strongly held points of view. At the risk of oversimplification, we shall call the advocates of the opposing perspectives, the **Conservatives** and the **Innovators**. Both the Conservatives and the Innovators see a need to increase transportation funding. And both condemn the excessive use of congressional earmarks. Where they differ is how to finance the funding shortfall.

**The Conservatives** (in the Adam Smith sense of the word) look upon the gas tax as the mainstay of the surface transportation program and favor a fuel tax increase (plus indexing) as the principal means of dealing with the funding shortfall. They cite ease of collection and proven revenue raising capacity of the gas tax as compelling reasons for retaining it as the main source of highway funding. They acknowledge the value of tolling, private capital and public-private partnerships but tend to dismiss them as minor contributors to the transportation program. Nor are they convinced that congestion pricing can be a serious source of revenue. The Conservatives favor maintaining a strong federal role in the surface transportation program and oppose any movement toward devolution. Rep. Oberstar and Jack Schenendorf, vice chairman of the Policy and Revenue Commission appear as the most prominent spokesmen for this point of view.

**The Innovators**, on the other hand, tend to think that the time has come for a fundamental rethinking of how the nation's surface transportation system should be financed and managed. They question whether the gasoline tax alone can continue to fund the nation's growing transportation needs. They point to the likely trend of rising vehicle fuel efficiency, increasing cost of road construction and eroding value of the tax dollar as reasons why we need to diversify the funding sources. They do not suggest doing away with the Highway Trust Fund, for its resources will be vitally needed to help preserve, rehabilitate and upgrade existing highways and bridges. But they think that funding *new* infrastructure will require a fresh approach. They see tolling, congestion pricing, private capital, private road concessions and public-private partnerships becoming vital elements of highway financing and management. With financial responsibility for new infrastructure shifted to the states, they see the federal role in surface transportation diminishing. They think inflation-indexed tolling may become a significant source of revenue to the states and they assume that toll roads will become a sound investment for the private sector. Finally, they believe that the surface transportation program should become more targeted. Federal funding, they contend, should be focused on the most pressing problems such as traffic congestion and freight movement and not dissipated on a large number of unrelated projects of local interest.

The most prominent spokesmen for this point of view are Transportation Secretary Mary Peters, certain members of the Infrastructure Finance Commission and several governors, notably Mitch Daniels (IN), Rick Perry (TX) and Charlie Crist (FL). Secretary Peters summarized the Innovators' philosophy succinctly when she said (in announcing the winners of the Urban Partnership grants) : "We must stop relying on yesterday's ideas to fight today's traffic jams."

Public opinion and the mood of the times seem to be on the side of the Innovators.
Voters are reluctant to accept gas tax increases in the face of $3 per gallon gasoline. Even in Minnesota, 57% of respondents in a recent Survey USA poll said they oppose higher gas taxes to fix infrastructure. Equally important, the public is skeptical that new taxes would be used to improve roads and bridges. As a recent Wall Street Journal editorial pointed out, voters have had long experience with politicians promising that new taxes will go to such projects only to see them diverted to "Bridges to Nowhere" and other parochial ends.

Nevertless, a modest increase in the federal gas tax seems inevitable— if not during this congressional session then in the next Congress. The Highway Trust Fund is expected to reach a negative balance in FY 2009 and needs an injection of fresh revenue simply to maintain current levels of expenditure. However, it would seem equally inevitable that tolling, private capital and public-private partnerships, rather than new taxes, should become the primary means of expanding the surface transportation system. This conclusion does not stem from an ideological conviction. Rather, it is gounded in the reality that every last cent we can raise through the gas tax will be needed to maintain and reconstruct our aging infrastructure.

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