

# Transportation Funding Challenges

---

by Richard L. Beadles

Volume III, No. 21 November 16, 2011

From strictly a political perspective, the real winners in last week's Virginia Legislative contests may have been the losers! Of course, no candidate wants to lose, but now that one party controls all three branches of Virginia government, there will no longer be a place to hide from the challenges that lie ahead. Transportation is just one of the major funding shortfall issues that those in power will soon have to confront. It is increasingly obvious that this problem will not go away. This space is primarily devoted to rail in Virginia, but the highway funding challenge looms so large that it will inevitably impact everything else that moves, whether by road, rail, air or water.

Ironically, as our highway funding situation becomes more critical, there are seductive messages which may sound enticing to the average motorist, but drivers and politicians would do well to think further. The current issue of AAA World carries a hopeful message from the organization's president, predicting that federally-mandated fuel efficiency improvements required by 2025 might save the average motorist as much as \$6,000 over the life of their vehicle. The other side of this coin is that such fuel savings might well reduce the combined federal and state gasoline tax revenue stream to Virginia by as much as \$400 million, or more, per annum. [This writer's estimate.]. Granted, 2025 is a long way off in the future, but the trend has already begun.

Transportation revenue flows, and the amounts involved, at both the state and federal levels of collection, are variable for many reasons. The total picture is hard to describe and quantify in simple terms, but the squeeze is coming, and something will soon have to be done. Already, the so-called Virginia gas tax appears to generate less than half of available Virginia (excluding federal) transportation revenue, the balance coming from the general sales tax, as well as from taxes on the sale of vehicles, and other less significant sources. To this must be added the amounts received from the federal transportation tax collection system. However, we are told that there currently exists a \$12 billion gap between what the feds are currently collecting and the promises previously made to the states. Increasingly, general funds of the U. S. Treasury (about \$34.5 billion+ to date) are being used to subsidize surface transportation (air and water subsidies would be in addition to this), due to the failure of policy makers to collect from users based upon cost of infrastructure and services actually provided all modes. Federal grants for the benefit of freight railroads (CSX,NS,UP,BNSF) are also now on the books.

If general tax revenue is to play a more significant role in transportation funding, a good argument can be made for allocating such funds where they will generate the best return in terms of capacity, service, mobility and competitiveness, and less where negative "externalities" come into play. If this were the basis for public funding of transportation, we would presume that transit, rail and water would get somewhat more, and that new highway and new aviation

projects a bit less. Don't we want to squeeze out waste and inefficiency? The next few years will be worth watching in Richmond as well as in D.C. There are no entirely free-market solutions in transportation.

---