



## States Need Flexibility in Transportation Financing

June 18, 2007

by Joseph M. Giglio

Across the nation, governments are searching for ways to address deepening transportation funding shortfalls. These problems are worse in fast-growing states like Texas, where it's even harder to keep up with increasing demand for a safe, efficient transportation system that can accommodate the needs of a growing economy.

Texas has been a national leader in responding to these challenges. Watching the Texas legislature's recent efforts to confront these issues, it's clear that Texans want the ability to address their challenges regionally and with the freedom to utilize an array of options.

A critical part of the approach is the creative leveraging of private participation to deliver new transportation capacity in a timely, efficient way. That's why a recent letter signed by Rep. James Oberstar (D-MN), chairman of the House Committee on Transportation and Infrastructure, and Peter DeFazio (D-OR), chairman of the Subcommittee on Highways and Transit, is particularly disturbing.

The congressmen discourage state governments from "entering into public-private partnership ("PPP") agreements that are not in the long-term public interest." Oberstar and DeFazio even go so far as to threaten to "undo any state PPP agreements that do not fully protect the public interest."

The policy behind the letter is nothing short of astonishing on several levels. The federal gas tax, which provides revenue for road and bridge projects, has not been increased in 14 years, losing more than a quarter of its purchasing power in the interim. As a result, the Highway Trust Fund will be in the red by 2009. By failing to keep the program viable by at least indexing the gas tax to inflation, Congress has given states like Texas no choice but to seek other ways to address its transportation needs.

Congress routinely devolves financing headaches to the states. But as Texas takes up a challenge created by the federal government, the approach advocated by Oberstar and DeFazio essentially tells Texans that it's ok for states to inherit problems, but that states have to get federal permission to develop solutions. Their blatant threat to "undo" state PPP agreements will have a chilling effect on the ability to gain private financing for critical transportation improvements.

The federal government should focus its activity on clearly defined national interests and delegate most surface transportation program authority to states. Perhaps they are confusing congressional self-interest with the public interest and their real concern is that devolving more authority to the states will jeopardize Congress' age-old ability to use "earmarking" to micromanage how money is spent.

The letter notes that the Committee is already at work on the next federal transportation funding authorization, scheduled to take effect when SAFETEA-LU, the current

authorization, expires in 2009. The decline in gas tax revenue and exhaustion of the Highway Trust Fund are the best evidence of why the status quo – as embodied by SAFETEA-LU – is no longer an option. Instead, we should harness the potential of new technologies, management and governance mechanisms to transform the entire transportation funding process.

One fundamental change should be to view surface transportation as a single system, rather than a series of individual modes. Revenue from electronic highway tolling could be used to rebuild a depleted freight rail system, which would take trucks off our highways. Electronic tolls could also provide revenue to build and operate transit projects.

Instead of freezing out private participation, private entities with an interest in quality transportation – trucking, shipping, freight rail, and logistics companies, as well as motorists – should play a role in system planning and funding. Increased competition and input from stakeholders would create incentives to take a lifecycle approach to transportation infrastructure, instead of the current tendency to build new assets but fail to maintain them.

It is by incorporating these innovations – treating surface transportation as a single system, enlisting private stakeholders and making wise use of new technology, management and governance systems – that Texas has become a national leader in addressing transportation challenges. If, as they claim, proponents of the status quo like Reps. Oberstar and DeFazio are truly interested in “a safe, integrated national transportation system that can meet the needs of the 21st Century,” they should embrace the wise use of public-private partnerships, not seek to stop them.

***Joseph M. Giglio is executive professor for strategic management at the Northeastern University College of Business Administration.***

## Share and Bookmark

-  [Del.icio.us](#)
-  [Digg](#)
-  [Google Bookmarks](#)
-  [Yahoo MyWeb](#)

©Copyright 2010 Hudson Institute. All Rights Reserved