

# Transportation Finance: Choices in a Period of Change

March 1978



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**TRANSPORTATION FINANCE:  
CHOICES IN A PERIOD OF CHANGE**

**The Congress of the United States  
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## PREFACE

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The actions of the Congress in 1978 and 1979 will determine how federal transportation assistance is to be financed in the future. The renewal of the Highway Trust Fund is being debated in this session, and the renewal of the Airport and Airway Trust Fund will be considered in the next session. In addition, legislation has been proposed to establish new trust funds for other modes of transportation, to abolish existing trust funds and rely instead on general revenues, or to take steps in the direction of a unified transportation trust fund.

At the request of three committees of the Senate, the Committee on the Budget, the Committee on Environment and Public Works, and the Subcommittee on Transportation of the Committee on Appropriations, the Congressional Budget Office has prepared this Budget Issue Paper, Transportation Finance: Choices in a Period of Change. This study examines a number of general financing options in terms of the major issues that are likely to be raised in debate. Program details such as the level of funding and the activities that qualify for federal aid are excluded from the analysis because they are separate issues that must be considered after a financing mechanism has been selected. In keeping with CBO's mandate to provide objective analysis of issues before the Congress, this report offers no recommendations.

The authors of the paper are Richard R. Mudge and Porter K. Wheeler. It was prepared in CBO's Natural Resources and Commerce Division under the supervision of Damian J. Kulash. For valuable comments and criticism, the authors are grateful to Patrick McCann and Robert Sunshine of CBO, Allen Schick of the Urban Institute, John F. Burby of the Potomac Policy Group, and the staff of the Senate Budget, Public Works, Appropriations, and Banking committees. Robert L. Faherty edited the manuscript and Laurie L. Dye prepared it for publication.

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March 1978



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## SUMMARY

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The Congress has a unique opportunity in this session to reconsider the ways in which federal transportation programs are financed. There are several reasons for this:

- o Some Congressional action is required soon since the Highway Trust Fund expires in 1979, and the Airport and Airway Trust Fund expires in 1980.
- o The Carter Administration has proposed major new highway and transit legislation that takes some important first steps toward a unified trust fund for all transportation modes.
- o Proposals for specialized trust funds are proliferating in response to demands by many modes of transportation for additional federal funds.
- o In a reversal of the trend of recent decades, maintenance costs are becoming the dominant factor in highway spending. The magnitude of these maintenance costs and the degree to which they are assumed to be a responsibility of the federal government—as opposed to the state or local government—must be addressed.
- o Largely because of the Energy Policy and Conservation Act of 1975 and other legislation now pending before the Congress, gasoline consumption is expected to decline. Thus, Highway Trust Fund revenues, which depend greatly on excise taxes on motor fuels, will grow much more slowly than in the past. Inflation will further erode the purchasing power of these revenues. This is also a significant problem for the states because their highway financing depends primarily on gasoline taxes.

## FINANCING OPTIONS

The broad range of techniques available for financing transportation is reflected in current practices. Highway and aviation programs are financed by trust funds that are supported by user charges; mass transit has

been financed using both contract authority--which will be restricted in the future--and direct appropriations from general revenues; and water, rail, and some air programs are authorized and appropriated from general revenues.

Four general financing options are considered in this paper:

- o Continuation of existing financing practices, in which highways and airways are financed by trust funds and other modes receive appropriations from general funds;
- o A unified trust fund, in which all modes would receive support from a single, multimodal fund;
- o Modal trust funds that would establish a separate, earmarked revenue source for each mode; and
- o No trust funds, whereby all modes would rely on the general fund with liberal use of advance appropriations.

For reasons of expedience, continuation of existing practices is a popular choice, but specific failings of this option have stimulated numerous proposals for change. For example, the Carter Administration's highway and mass transit proposals take important steps toward a unified trust fund, and modal interests have frequently argued for separate modal trust funds. Indeed, industry groups appear to favor specialized trust funds because of the ease with which the highway program grew under this financing mechanism. It is doubtful whether this previous experience can be repeated, however, in view of likely future inflation rates and anticipated patterns of motor fuel consumption.

#### PRINCIPAL POLICY ISSUES

Six policy issues are likely to be an important part of the debate over any proposal for changes in existing financing methods. These major issues are:

- o How would changes in financing practices affect the ability of the Congress to develop modal programs that are coordinated in an overall transportation policy as well as with regulatory policies and with nontransportation policies in areas such as energy, environment, and development?
- o How can state and local authorities be provided with the assurance about future funding levels that they need in order to plan and undertake long-term projects with confidence?

- o Can the need for assurance to states and localities be reconciled with Congressional concerns for budgetary control and for the ability to change the allocation of resources among modes as economic and transportation conditions change?
- o Would changes in financing practices reduce the differences in the processes by which assistance is provided to the various modes, and would these changes provide each mode with nondiscriminatory access to the federal purse?
- o Should user charges be an essential element of federal transportation financing policy, and can they be applied meaningfully under alternative financing mechanisms?
- o Would changes in federal financing mechanisms create serious problems for the state and local governments by requiring them to make major adjustments in their organizational structures?

There are significant trade-offs among these issues, so it is probably impossible for a single financing option to solve all of them satisfactorily. In particular, there is a direct conflict between the need for financial assurance by state and local authorities and the need for flexibility in policymaking and fiscal control by the Congress.

The Summary Table outlines how each of the financing options major issues.

### ASSESSMENT OF THE FINANCING OPTIONS

None of the options considered is superior to the others in every respect, but the option with the greatest overall strength is that of eliminating all transportation trust funds. In terms of their strengths and weaknesses on the major issues, the four financing options can be summarized and ranked in decreasing order of overall strength.

No Trust Funds. The option of no trust funds appears to be the most promising of those reviewed here because it substantially strengthens the ability of the Congress to make policy and to exercise fiscal control. By placing all modes on an equal and flexible footing, the Congress would increase its coordination of transportation policies through both the authorizing and the appropriating committees. The chief shortcoming of this approach lies in the loss of assurance that annual review and the appropriations process implies for states and localities. The use of advance appropriations, however, could provide whatever degree of assurance is deemed necessary, although this device has not been used often in the past.

**SUMMARY TABLE: TRANSPORTATION FINANCING OPTIONS AND THEIR PERFORMANCE WITH RESPECT TO SELECTED ISSUES**

MAJOR ISSUES	CONTINUATION OF EXISTING FUNDING PRACTICES	UNIFIED TRUST FUND
CONGRESSIONAL POLICYMAKING	Fragmented; intermodal coordination difficult; limited oversight of trust funds	Good intermodal coordination possibilities
FUNDING ASSURANCE TO STATES AND LOCALITIES	Adequate assurance for highways; future transit funding could use more assurance	Could present problems: the coordination advantages of this option imply low funding assurance to any given mode
CONGRESSIONAL FISCAL CONTROL	Poor control; most spending outside normal appropriations process	No control of overall transportation budget; good control of modal allocations
NONDISCRIMINATORY TREATMENT OF MODES	Modes have unequal opportunity to adjust funding	Would facilitate intermodal allocation of resources
USER-PAYS PRINCIPLE	Good for trust-funded modes; possibly unfair to certain groups of users	Poor by usual interpretation of user-pays principle; possibly justified by broad social interpretation of principle
ORGANIZATIONAL COMPATABILITY	Clumsy but operational	Full-scale implementation of this option is probably organizationally impossible at present

SUMMARY TABLE. (Continued)

MODAL TRUST FUNDS	NO TRUST FUNDS	MAJOR ISSUES
Tends to institutionalize fragmentation; restricts oversight by virtue of liquidating appropriations process	Could enhance intermodal coordination; offers good opportunities for oversight	CONGRESSIONAL POLICYMAKING
Strong assurance	Highways and airways would lose assurance; other modes may be slightly better off	FUNDING ASSURANCE TO STATES AND LOCALITIES
No short-run budgetary control	Good budgetary control, both by mode and for transportation total	CONGRESSIONAL FISCAL CONTROL
Modes have equal access but the structure inhibits intermodal adjustment	No built-in modal advantages; encourages balance	NONDISCRIMINATORY TREATMENT OF MODES
Permits close adherence to user-pays principle	No necessary adherence to user-pays principle	USER-PAYS PRINCIPLE
No special problems	Requires substantial change for highways and airways	ORGANIZATIONAL COMPATABILITY





would likely be further entrenched. This option would institutionalize the barriers to integrated policymaking and to improved fiscal control by insulating each mode from the policies of the other modes. It would make comprehensive, multimodal coordination of transportation activities even more difficult to accomplish than it is now. This approach would offer the greatest assurance to states and localities, although it would mean a substantial loss of Congressional control.

Although none of the financing mechanisms is ideal, it is clear that the current situation could be greatly improved. Strains in transportation policymaking are likely to intensify considerably in the next decade, and the Congress could reduce these strains by starting now to overhaul the financing mechanisms used for transportation assistance.



Most transportation legislation focuses on selected modes, selected geographic areas, or selected user groups. National transportation policy, such as it exists, is the outcome of numerous, highly specialized, but largely uncoordinated, decisions regarding the nation's diverse transportation systems. The lack of a cohesive, multimodal national transportation policy has been noted repeatedly in previous debates and studies; yet urgent specific problems have typically been the driving force for transportation legislation.

### A PERIOD OF CHANGE

Many of the forces that give rise to transportation legislation are now in flux, particularly those that affect the level of public financing. Urban public transportation, intercity rail passenger service, and intercity rail freight service have relied increasingly on federal funds in recent years, and their reliance is likely to grow in the future. Highway programs may also require additional federal funds in order to finance proposed activities. Moreover, many of those with an interest in one or another mode are arguing not only for changes in levels of assistance but also for shifts in the financing mechanisms themselves. In particular, advocates of the various modes, in their search for secure long-term funding, have increasingly been calling for trust funds for their individual modes. During its debate on the energy legislation in 1977, the House considered, but rejected, two new modal trust funds—one for mass transit and another for highways. As part of its energy bill, the Senate approved a trust fund financed from revenues generated by the proposed crude oil equalization tax; the fund would be used exclusively for energy-efficient transportation (however that might be defined). Early in 1978, yet another trust fund—for inland waterway construction by the Corps of Engineers—was under discussion.

At the same time, several major components of current transportation financing practice are scheduled for reconsideration by the Congress. The Highway Trust Fund is scheduled to expire in 1979 and its renewal will be a major focus of the debate on transportation in the second session of the 95th Congress. The Airport and Airway Trust Fund will expire in 1980, and the Congress will then be faced with another decision regarding financing mechanisms.

The choice among transportation financing practices is complicated by downward shifts in motor fuels tax revenues that follow actions to conserve energy. The fuel-efficiency standards for automobiles imposed by the Energy Policy and Conservation Act of 1975, along with other energy legislation pending before the Congress, are likely to mean that gasoline consumption in 1985 will be about the same as it was in 1977, even though auto travel will continue to grow. This would mean that gasoline tax revenues—the principal source of income for the Highway Trust Fund—would remain level while inflation eroded their purchasing power. This problem will exist at the state level, too, because most states, like the federal government, rely heavily on earmarked revenue from motor vehicle fuels to support their transportation programs. In addition, many states deduct from their fuel tax revenues the costs of highway patrols, traffic courts, and other highway-related activities before they allocate funds to highway construction. As the costs of these related activities rise because of inflation, the funds remaining for transportation activities from state fuel taxes will shrink even further.

Many of the changes in transportation finance reflect shifts in the nation's growth and attitudes. Because of uncertainty about the proper federal role with respect to some modes, there is no consensus about the needs of each for federal assistance. This is as true for the nation's highway network as it is for intercity rail and mass transit. The federal role in highway assistance could change as more states complete the final segments of the Interstate Highway System, as the rate of population growth declines, and as public opposition to new rights-of-way continues. In addition, many states find that rehabilitation and maintenance of highways is beginning to cost more than new construction, reversing a trend of many years. Highway maintenance traditionally has not been a federal responsibility; whether it should be in the future is an important element of the debate over the future federal role in highway finance.

In short, the Congress will make major decisions about transportation finance when current legislation expires, and these decisions will be made amidst requests for changes in the amount of funds for transportation and in the processes by which they are provided. These changes reflect shifts in a wide range of economic, environmental, and social forces that influence how much transportation is needed and what kinds. The fundamental forces that shape transportation requirements will continue to evolve, and the Congress must find ways to cope with today's conditions as well as to anticipate tomorrow's needs.

#### OVERVIEW OF CURRENT FINANCING PRACTICES

At present, virtually all of the possible mechanisms for providing federal assistance are employed for one or another of the transportation

modes. A trust fund is used to finance most highway programs. A separate trust fund finances about one-half of the air programs. General funds are used to finance programs of other modes. Across all programs and funding sources, there is a wide range of authorization and appropriation cycles. Some programs are authorized for a single year, others for many years. Most programs receive appropriations annually, but there are major exceptions to this. A summary of the existing financing practices for each mode is presented in Table 1.

Trust funds are currently attractive to supporters of virtually every mode, and they lobby strongly for separate modal trust funds. This popularity derives primarily from the assurance of long-term funding that trust funds offer to the recipient mode. In particular, the Highway Trust Fund has provided stable and generous flows of money for roads over the past two decades, and it is tempting to conclude that a trust fund might work similar wonders for other modes. But highways enjoyed favorable treatment because revenues earmarked for the trust fund grew rapidly every year. A trust fund with constant or declining revenues would not be so popular.

Trust funds are also attractive because they can exempt a mode from the restrictions on contract authority that are imposed by the Congressional Budget Act of 1974. Prior to that act, mass transit programs enjoyed contract authority; since the act, however, new authority is subject to prior appropriation. Trust funds are exempt from the need for prior appropriation, but only if 90 percent of their receipts are from "related" taxes. Whereas the gasoline tax is closely related to highway use, it is difficult to imagine the imposition of taxes closely related to mass transit use. It is, therefore, unlikely that a trust fund for mass transit would qualify for the exemption.

### LEGISLATIVE PROPOSALS

The Congressional discussion on transportation finance will center on the Carter Administration's bill, which proposed that the Highway Trust Fund be extended for four years and that all existing taxes be continued at their present levels. For public transportation, the Administration has proposed authorizations for a five-year period accompanied by appropriations one year in advance.

The Administration's proposed legislation for highway and mass transit attempts to eliminate many of the procedural and organizational differences between these forms of transportation, providing the first step toward a unified program and, apparently, a unified trust fund. The

TABLE 1. EXISTING FEDERAL FINANCING MECHANISMS FOR MODES OF TRANSPORTATION

Mode	Existing Financing Mechanisms
Highway	<p><u>TRUST FUND</u>: important (about 90 percent of funds); expires 1979; two-year authorizations, except Interstate System authorized to 1990; mostly contract authority; legislative proposal would extend to 1983 with four-year authorizations.</p> <p><u>GENERAL FUND</u>: many small programs (about 10 percent of funds); mostly two-year authorizations, but varies.</p>
Rail	<p><u>TRUST FUND</u>: none.</p> <p><u>GENERAL FUND</u>: all programs, but many loan guarantee programs off-budget; authorization cycles vary from one to five years; biggest programs are multiyear, and ConRail has advance appropriation.</p>
Air	<p><u>TRUST FUND</u>: important (almost 50 percent of funds); expires 1980; mostly five-year authorizations, but some indefinite; largest program has contract authority, but several rely on annual appropriations.</p> <p><u>GENERAL FUND</u>: important; several programs for operation and maintenance; usually indefinite authorizations and annual appropriations; one large insurance program and expired loan guarantee authority.</p>
Mass Transit	<p><u>TRUST FUND</u>: none.</p> <p><u>GENERAL FUND</u>: all programs; current multiyear contract authority is a holdover from before the Budget Act of 1974; legislative proposal has four-year and five-year authorizations with appropriations one year in advance.</p>
Domestic Water	<p><u>TRUST FUND</u>: none.</p> <p><u>GENERAL FUND</u>: all programs; one-year authorizations for both Corps of Army Engineers and Coast Guard; Corps projects specifically authorized by Congress; Coast Guard has authorizations and appropriations for entire capital projects, available for several years; Corps funds only annual costs even for multiyear projects.</p>
International Water	<p><u>TRUST FUND</u>: none.</p> <p><u>GENERAL FUND</u>: all programs; operating subsidies funded by permanent, indefinite contract authority from Merchant Marine Act of 1936; annual authorizations and appropriations for remainder of programs; major loan guarantee program off-budget.</p>

Secretary of Transportation has testified favorably both on a trust fund for mass transit and on a unified trust fund.

### SCOPE AND ORGANIZATION OF THIS PAPER

In order to focus on the characteristics of different financing mechanisms, this paper does not consider questions such as appropriate levels of funding, activities eligible for federal support, and other important program questions. These program issues would require attention under any financing mechanism. But a crucial, far-reaching set of decisions needs to be made about the financing mechanisms themselves and about which mechanisms can best support coordinated, farsighted policymaking in transportation? These fundamental decisions ought to be made before the issues of how much money, for whom, and by what means are addressed.

This paper explores the major alternatives available for funding transportation programs, particularly transportation construction. Some of the principal financing options are described in Chapter II. In Chapter III the financing options are examined in the context of six major policy issues that serve as yardsticks for analyzing the relative strengths and weaknesses of these options. In Chapter IV the conclusions of the analysis are presented.





BACKGROUND

This chapter does not attempt to provide a comprehensive review of all possible mechanisms for financing transportation; rather, it identifies four options covering a wide range of variations. None of the options is described in detail on the premise that, while detail will be required to develop specific legislative proposals, at this early stage of reexamining existing programs it is most useful to concentrate on broad options.

All transportation financing mechanisms have two components: a revenue source and a financial structure through which funds are allocated and delivered. The revenue sources for federal transportation programs are general revenues and user charges. General revenues consist largely of personal and corporate income taxes and U.S. Treasury debt. The most important user taxes in transportation are those that finance the Highway Trust Fund and the Airport and Airway Trust Fund.

Trust funds are a key part of the debate over alternative transportation financing mechanisms. As a general rule, they are financed by funds collected for specific purposes under the terms of a trust agreement or statement. Examples in other programs include the social security and unemployment trust funds. Trust funds are excluded from the federal government's general revenues; thus, they are usually available only for purposes specified in the trust agreement. Modes without trust funds usually are financed either through a regular cycle of actions by the authorizing and appropriating Congressional committees or through contract authority, provided by the authorizing committees and followed by pro forma liquidating appropriations. Any new contract authority outside a trust fund will not become budget authority without parallel multiyear appropriations, and thus is not likely to be granted as often as it is now.

Four general financing options are considered in this paper:

- o Existing funding practices,
- o Unified trust fund,
- o Separate modal trust funds, and
- o No trust funds.

Each of these options is described briefly in the remaining sections of this chapter.

## CONTINUATION OF EXISTING FUNDING PRACTICES

If the existing funding patterns are continued, both the Highway Trust Fund and the Airport and Airway Trust Fund would be preserved and other transportation programs (mass transit, water, rail, and a large part of aid to aviation) would be funded from general revenues. Only highways and, to a lesser degree, airports and airways are now financed from user charges. In the case of highways, there are a number of excise taxes, including the four-cents-a-gallon tax on gasoline and diesel fuel and a series of taxes on trucks and truck parts. The Airport and Airway Trust Fund is financed by the 8 percent tax on passenger tickets and other excise taxes. Although the level of funding is outside the scope of this paper, it should be noted that more (or less) revenue could be provided to either the Highway Trust Fund or the Airport and Airway Trust Fund without changing their fundamental characteristics as financing mechanisms.

## UNIFIED TRUST FUND

Several forms of unified trust funds have been proposed, ranging from a single fund for all modes to separate funds for functionally similar modes, such as one that would finance both mass transit and urban highways. Although such functional funds have some appeal, the principal option addressed in this paper is a single, unified trust fund that would be used to finance all federal transportation programs. No such trust fund has been used in federal programs, although one state (Maryland) uses this approach.

No specific assumptions are made in this paper about the revenue source for a unified trust fund; it must, however, be some form of user charge. <sup>1/</sup> Under this option, it is assumed that the Congress would make authorizations from total trust fund receipts to individual modes every two years (similar to the current practice of authorizing most individual highway programs every two years). Because no formal change in the present structure of Congressional committees is assumed, some process of reconciling differences between the various authorizing committees would be needed to ensure that total authorizations are kept in balance with total trust fund receipts. It is further assumed that state and local authorities would have the power to transfer funds between modes, within limits set by

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<sup>1/</sup> The Congressional Budget Act of 1974 requires that 90 percent or more of the receipts of a trust fund be "related to the purposes" of the fund; see Section 401(d)(1).

the Congress. As with the existing trust funds, the appropriations committees would provide appropriations for payment of obligations (usually called liquidating appropriations).

A unified trust fund would face severe political and organizational difficulties, at least over the short run. First, close coordination would be required among Congressional committees on a scale that would suggest a move toward a single authorizing committee for all modes--a move that has until now been vigorously resisted in both the Senate and the House. Second, depending on how the trust fund was operated, major changes would likely be required in the way that state and local authorities manage and finance transportation. Flexibility in the use of funds under a unified trust fund would be a major change from the existing system. Currently, each mode is reasonably sure of its level of funding, and these funds are usually channeled through separate modal agencies, each with its own set of procedures. The recent highway and mass transit proposals presented by the Administration would eliminate some of the organizational inconsistencies between modes at the state and local levels, making future consideration of a unified trust fund somewhat easier.

#### SEPARATE MODAL TRUST FUNDS

Under the separate modal trust fund option, each major mode would be financed through its own fund. Highway financing would remain largely as at present, except that the Highway Trust Fund would incorporate most of the smaller programs now financed by general revenues. The Airport and Airway Trust Fund would be expanded to include all federal aid to aviation. Where practicable, new trust funds would be established for the other modes: a mass transit trust fund; an inland water trust fund to cover the appropriate expenditures of the Corps of Engineers and the Coast Guard; a separate trust fund for international water transportation (including the programs of the Maritime Administration); and one or more trust funds for rail programs. A number of important forms of federal aid to transportation would not fit easily into a trust fund format, including Maritime Administration loan guarantees for ship construction and Federal Railroad Administration loan guarantees for improvements to certain essential rail rights-of-way.

As with a unified trust fund, each separate modal trust fund would have to be financed by some form of user charge in order to comply with the Congressional Budget Act of 1974. For some modes, such as mass transit or passenger trains that already have large operating deficits, a direct user charge such as a ticket surcharge is clearly impossible in practice. Under a broad interpretation of "user charge," other alternatives may be possible.

For example, a number of urban areas use highway bridge tolls to aid mass transit. Based on an argument that mass transit benefits society generally and is important for commuting to work, Congressman James J. Howard of New Jersey has proposed using 2 percent of the corporate income tax to finance a proposed mass transit trust fund.

### NO TRUST FUNDS

The fourth option assumes abolition of the Highway Trust Fund and the Airport and Airway Trust Fund, with new financing mechanisms for all modes that would require action by both the authorizing and the appropriating committees. Two major alternatives are possible here: single-year appropriations or multiyear appropriations.

Single-year appropriations would provide greater Congressional control in both a policy and a financial sense, but they also could limit the ability of state and local authorities to make long-range plans. Authorizations beyond one year would still be possible under this alternative; for example, Amtrak now receives two-year authorizations but only single-year appropriations.

Many forms of multiyear appropriations are possible; for purposes of illustration, however, it is assumed that the approach would be similar to what was proposed for the Urban Mass Transportation Administration in a bill (S. 208) passed by the Senate in 1977—specifically, a five-year authorization with a two-year appropriation (that is, a one-year advance appropriation). <sup>2/</sup> It is assumed that programs such as the Corps of Engineers and Amtrak that are currently funded on a more restrictive basis would be changed to this multiyear approach. Appropriations beyond two years are clearly possible, but they must be approved by the appropriations committees. If multiyear appropriations were to approach longer periods—say, five years—the characteristics of this option would approach those of modes funded from individual trust funds or from contract authority.

Although both alternatives (single-year and multiyear appropriations) will be mentioned frequently in the analysis that follows, the specific multi-year approach described above (five-year authorizations with two-year appropriations) will receive more attention. Unless otherwise noted, references to the no trust funds option refer to this alternative.

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<sup>2/</sup> The Administration's proposed mass transit legislation (S. 2441) has a similar structure.

Even in the absence of trust funds, the level of receipts from use-related excise taxes could still be linked to program levels, albeit less formally than through a trust fund. In fact, this appears to have been done for highways in the years before the establishment of the Highway Trust Fund. 3/

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3/ Congressional Budget Office, Highway Assistance Programs: A Historical Perspective, Background Paper (January 1978).



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CHAPTER III.       ISSUES AND ALTERNATIVES FOR FINANCING  
TRANSPORTATION

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Each of the proposed changes in transportation financing mechanisms raises policy issues that can serve to measure the merits of any proposed change. This chapter examines the four principal funding options in the context of six major issues that the Congress is likely to address in weighing the different proposals. Although trade-offs in performance on the various issues are an essential part of this analysis, the focus of the discussion is on the potential contribution of each option to a more coherent, better coordinated approach to federal transportation actions.

Three of the options under study—a unified trust fund, modal trust funds, and general revenue financing for all modes—would represent basic changes for the Congress, for the transportation industries and their users, and for state and local governments. In some cases, a change would give the Congress more control over spending at the expense of state governments, which might not be able to count as securely on funding for projects with long lead times. Other changes could increase the certainty of funding for the states but reduce the ability of the Congress to respond quickly to shifts in transportation priorities.

As noted in the preceding chapter, this analysis focuses on financing mechanisms rather than on program features. The amount of federal support given to a mode, the agencies that can qualify for such support, the means by which available funds are allocated to projects, and the types of projects that are eligible for funding are program features, and they are not analyzed here. Rather, this chapter addresses the features of the financing mechanisms themselves.

ISSUE 1: COORDINATED POLICYMAKING BY THE CONGRESS

Changes in financing practices affect the ability of the Congress to coordinate modal programs and at the same time to make transportation policy more consistent with other national policies. Currently, transportation policymaking is fragmented at both the administrative and the legislative levels. The Department of Transportation, now a decade old, is still struggling to coordinate the policies and practices of its different modal administrations, and the administration of important parts of transportation

remains outside the department. In the Congress, decisions about transportation are scattered among several authorizing committees. Closely related modes are sometimes not examined together but in alternate years. Legislative conferences can become unwieldy because of the different jurisdictions of the House and Senate authorizing committees.

In addition, policies affecting transportation are embedded in nontransportation legislation concerned with such subjects as development, energy, and the environment. These cross-cutting issues are difficult to coordinate in the best of circumstances, but the fragmentation of policymaking among the various transportation modes makes coordination even more difficult.

The financing mechanisms currently used by the Congress are not conducive to coordinated policymaking in transportation. For a variety of historical reasons, the Congress has financed transportation with trust funds, contract authority, borrowing authority, loan guarantees, and regular authorizations and appropriations from general revenues. These practices have tended to insulate some modes from consideration in a multimodal context. Highway programs, for example, have become a matter of concern in policy dealing with energy, the environment, and development, but the relative inflexibility of the Highway Trust Fund complicates the task of coordinating highway policy and energy policy.

For more than two decades, public and private task groups have tried unsuccessfully to draft a comprehensive transportation policy for the United States. The effort continues and may, or may not, succeed. It is clear, however, that even without such a comprehensive policy the operations of administrative agencies and legislative jurisdictions could be more closely coordinated with relatively minor adjustment. One such step would be to schedule simultaneous consideration of all modes by all the authorizing committees involved. Another would be to erect strong barriers against special treatment of various modes. Special treatment, such as that associated with modal trust funds, runs counter to the effort to establish an integrated transportation system.

More basic changes in the structure of transportation financing would make coordinated policymaking even more effective. For example, if all modes were financed from general revenues or from a unified trust fund for all modes, multimodal considerations could be more easily dealt with during authorization. The current system of financing is weak in this respect, and moving to a group of separate modal trust funds probably would be a step backward because it would institutionalize modal separation and would discourage multimodal decisionmaking.



The quality and scope of Congressional oversight of transportation appear to depend not so much on closer coordination among committees, but more on the level of interest that Members bring to the task and on the time that workloads make available for transportation matters. In general, the authorizing committees would be able to exercise about the same degree of oversight under each of the funding options examined here. The degree of oversight that the tax and appropriations committees would have, however, would vary according to the funding option. Under current practice, the tax committees provide revenues for some modes without knowing or specifying what programs will be financed, while the appropriations committees are limited to making liquidating appropriations for some modes.


### Existing Financing Structure

The current set of financing procedures for transportation is disjointed and inhibits coordination of policies between modes. This lack of coordination begins with Congressional committee jurisdictions that are confined to one or several modes; it is exacerbated by the use of numerous fiscal instruments, ranging from trust funds to annual appropriations; and its failings are camouflaged by legislative timetables, such as Congressional consideration of closely related modes in alternating years. Thus, on the basis of its ability to aid Congressional policymaking in transportation, the current system of financing ranks poorly.

Even if committees with jurisdiction over one or more modes were to coordinate their reviews so that all systems were examined at the same time, existing financing mechanisms would prevent a true freedom of choice among modes. In any given year, for example, the Highway Trust Fund makes it virtually impossible to deemphasize highway programs in favor of public transportation programs. The reason is that existing practices exempt most trust fund programs from the normal year-by-year appropriations process.

### Unified Trust Fund

A unified trust fund, or a small number of functionally oriented trust funds, would force the Congress to consider the programs and policies of all modes simultaneously, and would make it easier to spot policies that are inconsistent or that counteract each other. On balance, a unified trust fund would significantly improve the coordination of transportation decisionmaking by eliminating some of the fragmentation that now exists, and by making it possible to reallocate modal shares year by year. On the other hand, because a unified trust fund would provide a relatively inflexible



allocation of resources to the transportation sector as a whole, coordination of transportation policy with related programs concerning the environment, energy, and so forth might be even more difficult than it is now.

In terms of Congressional oversight, this option ranks below the other alternatives because the appropriations committees would be limited to liquidating appropriations where contract authority is provided. The role of tax committees would also be somewhat limited because a single trust fund would probably come before the Congress for renewal or reconsideration less often than a series of separate modal trust funds.

### Modal Trust Funds

Creation of a set of separate modal trust funds would intensify mode-by-mode decisionmaking and its attendant inefficiencies. By adopting long-run financial support for each mode, the Congress would have even less flexibility than it has now; it would be less able to adjust to changing conditions, to improve intermodal coordination, and to make major program modifications.

The most important reason for creating modal trust funds would be to give a clear, reliable indication of the Congress' intentions regarding long-run public financing, but it is doubtful whether enough is known at this time about future needs to justify such long-run financial commitments. The principal advantage of such funding would be lost if the level of funding and the levy on users had to be adjusted every few years to accommodate change. If no adjustments were made, and if funding proved inadequate, pressure would increase for special programs outside the fund. If revenues exceeded need, unnecessary programs might be launched to eat up the excess funds.

Perhaps the strongest general argument against modal trust funds is that they would tie the hands of the Congress as it sought to deal with changing conditions, and they would insulate all modes from annual review and the need for prior appropriation.

### No Trust Funds

Abandonment of trust funds would provide more freedom than any other option to coordinate federal policies across all modes. A shift to general revenues for all transportation financing might not produce major changes in the system in the short run but, as a consensus emerged on the appropriate federal role for each mode, the added flexibility could help accelerate implementation of new policies and programs.

Elimination of trust funds offers the best opportunity for oversight, because the appropriations committees would have similar responsibility for each mode, rather than the differentiated and often limited role they now play. On the other hand, the tax committees would be largely eliminated from involvement in transportation oversight.

## ISSUE 2: ASSURANCE TO STATES AND LOCALITIES

States and localities that receive federal assistance for transportation projects need some assurance regarding future financing in order to make the financial, political, and organizational commitments required to plan and construct their transportation systems efficiently. All modes of transportation have construction projects that require many years to plan and build. Moreover, transportation projects generally involve the cooperation of several agencies at different levels of government. State and local governments usually do most of the planning and contracting; they also share in the financing, even when the federal government is the major source of funds. In addition, several state or local governments may be represented because of a project's effects on multiple geographic jurisdictions. The organizational alliances that are formed for the construction of a transportation system typically involve several levels of government and often must be tailor-made for a specific project.

States and localities are reluctant to invest their own resources to plan or to start transportation projects unless continued funding is reasonably assured. It is clearly in the federal interest to offer sufficient assurance to make federal assistance effective in attaining program objectives. But just how much assurance is needed to plan effectively and to use current resources efficiently is a matter of considerable disagreement.

The provision of strong assurance of future assistance is, however, in direct conflict with budgetary control by the Congress. Long-term assurance can lead to almost uncontrollable spending in future years with little possibility for fiscal controls. This dichotomy between state and local assurance on the one hand and federal control on the other is at the core of the problem of transportation finance. How can a workable measure of assurance be granted without unduly restricting the ability of the Congress to make policy, to oversee its programs, or to budget its resources?

Moreover, if too much assurance is granted at the outset of a project, the federal government's ability to adjust to altered conditions is limited. Some transportation projects have gained notoriety in recent years because their costs were far greater than originally predicted; examples include the

Interstate Highway System and the Metro rail system in Washington, D.C. If some ongoing project becomes so costly that it should be abandoned, scaled down, or otherwise reduced from the original plan, the policymaking or oversight responsibilities of the Congress may clash with the states' or localities' need for assurance. The more the Congress exerts its oversight, the more likely it is to make changes—and the less certain it will be that any project will eventually be implemented as originally envisioned. The loss of assurance implicit in Congressional review could be reduced, however, if the Executive Branch improved its cost estimating procedures and its own oversight of programs.

### Existing Financing Structure

Current transportation financing procedures vary in the assurance that they afford, and some financing practices that have been used in the past cannot be repeated because of reforms in the Congressional budget process. Highways, which are now funded by the trust fund, enjoy the greatest assurance; this assurance was somewhat undermined, however, by the Federal-Aid Highway Act of 1976, which extended the trust fund and its revenues for only two years, until the end of fiscal year 1979. Long-range assurance was certainly required for the massive Interstate System that is nearing completion. The need for assurance of other highway programs is not as apparent, especially since the trend is toward maintenance-type projects.

Transit programs, which are supported by the general fund, have had strong assurance of future funds under the multiyear contract authority granted by the Urban Mass Transportation Act of 1970. Urban transportation, including both roads and public transportation, is characterized by organizational alliances among local jurisdictions that are far more fragile than those among states. Because of this organizational complexity, urban public transportation is particularly dependent upon financial assurance. Because every rail system and almost every bus system in the United States experiences operating deficits, any new major capital investments in urban public transportation will have to come from public funds at some level of government. Fairly strong assurance of continued federal support will be needed if new investments are to be encouraged.

Other forms of assistance to urban public transportation such as funds for the purchase of vehicles, for minor improvements in systems, and for operations, do not require the same strong assurance that major capital investments require. There are several reasons for this: the delays are relatively short, there is less uncertainty regarding costs, and inter-jurisdictional arrangements are less apt to be a problem.

New mass transit assistance will depend upon the regular appropriations process. This will mean a decline in assurance because, under the Congressional Budget Act of 1974, contract authority requires appropriations action to become effective. As a result, multiyear contract authority has become more difficult to obtain for all programs without trust funds. Under continuation of current policy, those airway programs that are financed by the trust fund would enjoy strong assurance, and rail and water programs would generally continue to have only project-by-project assurance.

### Unified Trust Fund

A unified trust fund for all modes could offer states and localities a measure of assurance comparable to that afforded by separate trust funds, or it could offer substantially less. If the federal government, through the Congress or through the Executive, retained an ability to reallocate fiscal resources among the modes, then the assurance offered to any single mode would be diminished. If, however, state and local authorities were given even limited flexibility in shifting their share of federal funds from mode to mode, this financing mechanism might provide a high degree of assurance, although local arguments over the proper modal allocation would reduce assurance for particular projects.

If modal shares in a unified trust fund were specified by rigid allocation procedures, then assurance for each specific mode would be strong, but the ability of the Congress to alter policy and redistribute fiscal resources among the modes would be limited. The strongest argument on behalf of a unified fund, however, is that it would facilitate coordination among all transportation modes; if that flexibility is to be maintained, assurance of funds for any one mode would be diminished.

### Modal Trust Funds

Of the four financing options, separate modal trust funds would offer the greatest assurance to states and localities of funds for each mode. Some doubt would still remain about the level of revenues entering various funds and about the real purchasing power of the fund.

### No Trust Funds

The use of general funds for all forms of transportation, even on the basis of five-year authorizations and two-year appropriations, would provide

states and localities with reduced assurance. This does not mean that the assurance would be inadequate, only that funding would be less certain than under the other options. Indeed, it can be argued that multiyear authorizations and appropriations for two years in advance offer more assurance than is typically available under existing financing mechanisms, and that gains in assurance could occur even if trust funds were abolished. In fact, a high level of assurance can be attained despite the absence of trust funds, if there is concerted action by all the relevant Congressional committees.

### ISSUE 3: CONGRESSIONAL BUDGETARY CONTROL

The federal budget is currently about \$500 billion a year, and strong controls are needed to ensure that this spending accurately reflects the intent and priorities of the Congress. Establishing financing mechanisms that permit effective budgetary control is an essential part of any overall fiscal policy. Financing mechanisms that set a rigid, long-term spending pattern restrict budgetary control, as do mechanisms that earmark revenues.

The Congressional Budget Act of 1974 instituted a number of reforms that restored to the Congress its control over federal spending. Among these reforms are strictures against backdoor spending practices such as the use of borrowing authority and contract authority. Nevertheless, because of exemptions that permit continued use of trust funds and contract authority, more than half of federal transportation spending remains outside the regular appropriations process.

Congressional control over the transportation budget can be expressed in three major ways: through the authorizing process, through the appropriating process, and through the Congressional budget process. The strength of the authorizing and appropriating processes varies considerably under the financing options discussed here, depending largely on the number and type of trust funds used. On a year-to-year basis, each of the financing mechanisms is limited by the large amounts of uncontrollable expenditures—for example, outlays stemming from obligations for programs approved in previous years.

Budgetary concerns are both short-term, focusing on the ability to adjust levels for a particular year, and long-term, regarding commitments to multiyear projects. In either case, the need for financial assurance to states and localities conflicts with the need for budgetary control by the Congress. To reconcile this conflict, various budgetary devices could be employed, each establishing its own balance between assurance and budgetary control.

## Existing Financial Structure

The manner in which budget authority is currently provided is fragmented and uneven across modes, in spite of rather similar needs by the modes for construction projects. Highways receive budget authority through their authorizing committees (House and Senate Public Works). In the early 1970s, mass transit also received budget authority through its authorizing committees (House Public Works and Senate Banking). The Congressional Budget Act of 1974, however, requires appropriations action to make budget authority effective. Most highway funding survives as contract authority without appropriations action because it is financed through a trust fund. A portion of federal airport and airway assistance is also funded through a trust fund; only part of this trust fund assistance, however, is contract authority available for obligation prior to appropriations action, because obligational authority is not authorized for all of the trust fund programs. Assistance for other modes that are not financed by trust funds is provided by the normal process of authorizations followed by appropriations.

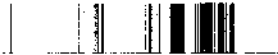
The appropriations process provides the opportunity to consider relative budget shares and modal balance, with the exception of modes financed by trust funds. Highways have been included in this process to the extent that recent transportation appropriations have incorporated a ceiling on annual obligations. This inclusion of highways reflects an attempt to establish and adhere to an annual budget total for transportation, rather than a joint consideration of funding levels.

## Unified Trust Fund

If a truly unified trust fund were established, the level of total transportation funding might be insulated from annual review by both authorizing and appropriating committees. At the same time, it is possible that the modal allocations could be varied in favor of modes with immediate needs. Creation of such a trust fund would move toward more uniform funding, but whether or not it would aid overall Congressional budgetary control would depend on procedural decisions about how the budget authority was made available. Proposals to date are not clear on how modal authorizations would be reconciled and what role would be played by the appropriations committees.

## Modal Trust Funds

A set of separate modal trust funds would provide all the modes with increased insulation from annual review. Under this option, modal spending



would be less flexible and less controllable than under any of the other options, assuming that each trust fund program was given obligational authority prior to appropriations action.

#### No Trust Funds

Traditionally, highways have received two-year budget authority; thus, action by the authorizing committees has been required only every second year, without prior appropriation. Termination of the Highway Trust Fund would require appropriations action to provide budget authority for highways as well as for other modes. This would create a more uniform funding mechanism and would facilitate coherent budgeting of transportation expenditures. Even though there is an Airport and Airway Trust Fund, most air programs are now financed through annual appropriations. If the Airport and Airway Trust Fund were eliminated, the principal effect would be on grants for airport development, which are now financed by contract authority that is made available prior to appropriation.

A coordinated system of multiyear authorizations and appropriations is one way to provide adequate funding assurance to states and localities within the requirements of the Congressional Budget Act and without the need for trust funds or contract authority. Such a multiyear framework would permit reasonable Congressional budgetary control and would have the added benefit of compelling the Congress to consider the future budgetary implications of current actions.

#### ISSUE 4: NONDISCRIMINATORY TREATMENT OF MODES

A set of financing mechanisms need not grant equal amounts of money to each mode, but it should not erect discriminatory obstacles that would deny each mode the same opportunity to seek federal funding. Changes in financing practices could reduce the differences in the processes by which public assistance is provided to the various modes and could provide more equal access to the federal purse. Financing practices are imbalanced if they place one mode on a better or a worse footing than others in competing for aid.

The concept of equal access is complicated by significant differences in the size and influence of each mode's constituencies and the ability of these constituencies to persuade the Congress to support their mode. In addition, individual committees may be favorably disposed toward some modes and not toward others because of energy policies or fiscal problems



that have nothing to do with the persuasiveness of advocates. Despite these qualifications, it is generally true that some financing mechanisms, notably trust funds, tend to provide easier access to federal funds.

### Existing Financing Structure


A trust fund facilitates access to continued financial support; thus, a mode with a trust fund has an advantage over modes without trust funds. Trust funds have special sources of revenues, and those revenues are dedicated to use in specified programs. Because of their trust funds, highways and aviation do not have to compete as hard for their funds as do modes that depend on general revenues.

Programs that are financed through trust funds avoid the normal requirement to justify periodically their claims on general revenues. Trust funds are normally set up for extended periods, and they may establish a pattern of programs and aid that is difficult to break. Yet, although the trust funds undoubtedly shield their modes from funding curtailments, they may also make it difficult to increase revenues through additional taxes or user charges. Thus, trust funds with inadequate or declining revenues could prove to be a disadvantage to a mode if they discourage legitimate increases in the level of programs.

Whether a trust fund works for or against the mode thus funded, the inherent inflexibility of this device is likely to create imbalance in the allocation of fiscal resources among various modes of transportation. The risk is particularly severe when one mode is financed through a trust fund and a closely related mode is not, because the unequal ability to make short-term adjustments distorts balanced spending. This risk is least severe when the financing of all modes is linked in some way, such as under a unified trust fund or under no trust funds. Under current Congressional practice, related modes are considered in different sessions or even in different Congresses, and promotional policies for related modes are thereby poorly coordinated.

### Unified Trust Fund

A unified trust fund is probably the best of the financing options in terms of granting each mode nondiscriminatory access to funds because the modes would be in direct competition for the resources of the fund. Modes with less immediate needs could have their support deferred in favor of modes with more pressing needs. Yet, the modes that received less assistance would have some assurance that revenues would continue to



accrue to the unified trust fund and would be available to them in future years. This advantage, however, may be purely theoretical, because shifting aid between modes on a year-to-year basis may not be either practical or possible politically. Special modal interests will not disappear simply because of the creation of a unified trust fund.

### Modal Trust Funds

It seems unlikely that individual trust funds would promote non-discriminatory access to funds, even though similar financing processes would be established. Each mode would have its own assured source of funds, but each would be locked into whatever revenues it happened to receive. Even if a proper balance between modal revenues and modal needs were established when the trust funds were created, this original balance might be inappropriate as needs changed. The stream of revenues for each modal trust fund might also change, and this would not necessarily occur in relation to the needs of the mode. In addition, separate trust funds with contract authority would reduce the role of the appropriations committees—the committees best equipped to consider all modes.

### No Trust Funds

If all transportation modes were financed from general revenues, budget requests for each mode would pass through the same process and modes would have roughly equal access to available funds. Highways and airways would no longer have a protected source of revenue, and they would have to compete with other modes for appropriations from the general fund. A number of institutional and procedural characteristics would leave some important differences between modes—for example, the number of years funds were authorized or appropriated could diverge—and it is difficult to say whether a particular mode would stand to gain. The relationship between differences in support and differences in the strength of each mode's advocates would, to a large degree, remain unaffected by changes in the way transportation is financed.

With no trust funds, the different transportation modes would, it is presumed, continue to be handled by different Congressional committees with different constituencies and different pressures. One important change would be that the appropriations committees would have equal authority over all modes; they would not be limited to providing liquidating appropriations, as is now the case for trust fund programs with contract authority.

## ISSUE 5: USER CHARGES

Should user charges be an essential element of federal transportation policy, and can they be applied meaningfully under alternative financing mechanisms? "User charges" are charges related to the use of transportation facilities. These charges may be collected at specific facilities (such as tolls on a bridge), or they may just reflect the general level of use (such as taxes on gasoline). They are a way of recapturing from the actual beneficiaries some of the costs to the general public. Yet, considerable controversy exists over the issue of whether or not user charges should be incorporated into transportation policy for two reasons: First, for deficit-prone modes such as mass transit or rail passenger service, additional direct charges on users are impractical. Second, user charges often ignore the more general public benefits of transportation. Many transportation policies affect areas—such as development, energy consumption, and environmental quality—that are well beyond the direct benefits to the users of a particular mode.

User charges promote efficiency because users pay, directly or indirectly, for the services they receive. Heavier use imposes greater costs on the user and, at the same time, generates revenues to expand facilities. User charges also help to achieve a fair distribution of costs, particularly since a large portion of federal transportation aid is aimed at facilitating commercial activities and encouraging regional development. Modes that receive the direct benefits of government aid should also help finance these improvements, especially when they are capable of financing such improvements themselves.

The absence of user charges implies subsidies, insofar as federal aid without related tax collections subsidizes the beneficiaries. This is not necessarily wrong, but the question should be raised: Are there valid reasons for the government to subsidize particular transportation modes and their users? In many cases the answer will be yes, especially if the beneficiaries are particularly needy or if the related benefits to society and the economy are particularly notable. For example, user charges might be reduced or eliminated to meet the travel needs of low-income individuals, or to encourage the use of an energy-efficient or low-pollution mode of transportation, or to promote and preserve urban centers, or to preserve vital railroad freight and passenger services.

The principle of user pays has been widely applauded in recent years. For example, the 1975 statement of national transportation policy by then Secretary of Transportation William T. Coleman, Jr., strongly endorses user charges, and President Carter's Budget for fiscal year 1979 states that one

national objective is a transportation "system wherein the user pays, to the extent possible, for the benefits received."

In principle, the phrase "user charge" should be restricted to fees that are paid for the use of specific facilities and that are spent to support such facilities, as is usually the case with a toll road. In practice, the concept has been extended to excise taxes, such as those on highway and airway use, that are dedicated to further development of these modes. The excise taxes are roughly proportional to use, and their proceeds are dedicated to improving entire modal systems and not just the facilities where they are collected. This is probably as close as the federal government will come to a pure system of user charges.

Despite what has been said on behalf of user charges, they have some important practical difficulties. Even if the user charges levied on a particular mode are in line with federal expenditures, the relative contributions of various classes of users may be imbalanced. For example, even if the user charges paid by highway users generally support the federal highway program, are payments allocated properly between auto and truck users? Between rural and urban users? Are the charges in proportion to the actual use of the federal-aid highway systems, as opposed to roads off the federal-aid systems? No matter which financial mechanism is used, these issues of cross-subsidy between different classes of users remain.

Another problem with the user-pays principle is that, as applied, it often fails to account for costs and benefits to nonusers. As transportation policies are increasingly called upon to help solve problems related to energy, the environment, and so forth, nonusers are likely to share in the costs or benefits of transportation; for example, they may enjoy cleaner air or a more stable fuel supply. Thus, a case can be made that users of a mode should pay more, or less, than their associated costs. Because there is no agreement on a method of accounting for these differences, a strict application of the user-charge principle may be ambiguous.

In general, transportation programs with trust funds are financed by user charges, and financing mechanisms that rely on trust funds are most likely to share in the costs or benefits connected with the principle that the user pays. Trust funds have generally been the legislative price for the imposition of user charges. The increased highway excise taxes and the air ticket tax are recent examples.

### Existing Financing Structure

Under the existing ways of financing federal transportation programs, the extent to which users pay their costs varies substantially from mode to

mode. The portion of costs covered by user charges depends on the degree to which expenditures are financed through a trust fund, and highways and air clearly stand above the other modes in this respect. The relationship between user fees and costs is loosest in programs financed from general revenues, including mass transit, water, rail, and a substantial part of aviation.

### Unified Trust Fund

Under a single unified trust fund, all transportation users as a group would be paying for federal aid to transportation. This follows from the requirement in the Congressional Budget Act of 1974 that at least 90 percent of the receipts be "related to the purposes" of any new trust funds. The problem of proper allocation of costs among different user groups, however, would be greater for a unified trust fund than for individual modal trust funds simply because there would be many separate user groups with widely diverging interests and requirements. This fact dilutes the apparent ease with which a unified trust fund satisfies the user-pays principle.

### Modal Trust Funds

Separate modal trust funds, each with its own set of user charges, is the best financing option in terms of the user-pays principle. There still would be the issue of a fair allocation of costs across the classes of users within each mode, but it would be much less severe than in the case of a unified trust fund. Modes that chronically operate at a deficit, such as mass transit and rail passenger service, might have difficulty finding revenue sources that could be characterized as user charges. This problem could possibly be avoided if a broader view were taken of the interactions between modes and of the social and other indirect costs that some modes cause. For example, it might be possible to use a gasoline tax to help support mass transit, similar to the way some cities now use bridge tolls to subsidize transit. Such an interpretation of the user-charge provision of the Budget Act, however, appears to stretch the original intent of the act.

### No Trust Funds

As measured by the user-pays principle, the option of no trust funds would appear to perform worse than any of the other financing options considered here, because all federal transportation funds would be provided by general revenues. This would clearly be true if all existing user charges were dropped. There are a number of alternatives, however, that would

permit adherence to the basic principles of this option, yet would retain some link between user-charges and modal expenditures. For example, receipts from user charges could be linked informally to program levels as was done for highways before the establishment of the Highway Trust Fund.

#### ISSUE 6: COMPATABILITY WITH EXISTING ORGANIZATIONS

How serious are the problems that state and local governments would have in adjusting to changes in existing financing mechanisms? Each level of government and each type of organization has its own limitations on how it can raise and use funds. Any abrupt change in federal financing procedures could create havoc at lower levels of government. While this is largely a short-term issue that is likely to fade as state and local organizations adapt to changes at the federal level, it may still be a serious problem.

State, local, and metropolitan governments generally plan, construct, and operate the transportation facilities that federal funds finance. In order to be most effective, then, federal financing mechanisms should be designed to minimize the difficulties that other agencies encounter in using transportation money. For example, funding that expands the role of one level of government (such as a metropolitan planning organization) may create a conflict with the responsibilities of another level of government (such as a city or state). A change in the cycle of federal funding may throw federal financing schedules out of phase with spending schedules at lower levels of government, forcing administrative changes and creating delays. The financing procedures for many states and other nonfederal governments have evolved around federal procedures, particularly for highways. Most states have mechanisms by which motor fuels taxes are dedicated to highway-related expenditures. Without an assured source of federal money, states with dedicated funds would lack the authority to start projects that could not be completed on funds then available; some of these states could not start a project until enough funds to cover the entire cost were actually in hand. A switch from trust fund to general fund financing could thus create serious short-run program reductions and shortfalls for states with dedicated highway funds.

This issue of organizational compatability can raise serious questions at the federal level. In both the Congress and the Executive Branch, transportation is organized along modal lines. Were the federal government to shift toward flexible multimodal financing, this could require substantial organizational adjustments from the states, but such flexibility may be

sufficiently desirable to warrant the one-time price it exacts from the states.

### Existing Financing Structure

State and local transportation organizations have, to a large degree, grown up in response to federal transportation programs, and this option would require the fewest organizational changes.

### Unified Trust Fund

Under a unified trust fund, or even under separate functional trust funds (for example, one fund for intercity transportation and another for intracity transportation), serious organizational difficulties could emerge. Existing organizations at all levels of government are poorly suited to the demands of transportation planning when diverse modes are involved. The key organizational question is not whether a financing mechanism is fully compatible with existing organizations, but whether the organizational changes that it requires can be achieved and whether they are aimed toward a desirable end product.

State departments of transportation are relatively new and often lack the capability for strong intermodal coordination. Even in areas where multimodal orientation is strong, metropolitan planning organizations generally lack the authority to implement their plans. In these cases, the establishment of a unified trust fund could create coordination problems among the separate modal organizations that would be drawing from the fund.

The organizational problems at the federal level would likely be quite severe under this option. Large entrenched bureaucracies have grown up around almost every mode, and any move to change this would likely meet strong resistance. Although a unified trust fund would not necessarily require the formation of a single authorizing committee for each house of the Congress, much greater coordination among the various committees would clearly be needed. In the past, such changes have often been resisted.

There is widespread--though not unanimous--agreement that more coordination among the modes would be good and that it would help in planning, designing, building, and operating a coordinated national transportation system. Multimodal consideration at the financing stage is an essential step toward a more coordinated transportation policy, and a unified trust fund offers one way to foster such consideration.



**Modal Trust Funds**

Separate modal trust funds need not require any major adjustments in the structure of practices of recipient agencies, and this option is not likely to generate problems of organizational compatability.

**No Trust Funds**

Of the four options explored here, using the general fund for all the modes would require the greatest organizational adjustment at lower levels of government. Both highways and airways would have to alter their financing practices substantially under this option because the long-term funding assurance that they now enjoy would be diminished.



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## CHAPTER IV. CONCLUSION

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The financing mechanisms available for federal transportation programs must be weighed in terms of many issues, six of which are identified in this paper. Table 2 presents an overview of the results of this analysis. Each column in the table provides a brief summary of how each financing option measures up against the principal issues that are identified: Congressional control of policy, funding assurance to states and localities, Congressional fiscal control, nondiscriminatory treatment of modes, the appropriate role of user charges, and state-local organizational compatibility.

No matter how federal financing is structured, there will be conflicts between what the various participants see as their best interests. The most direct of these trade-offs involves the difficulty of providing the Congress with greater means of coordinating policy and exercising fiscal control without removing from the state and local governments the assurances of long-term funding that they need. In general, the stronger the assurance to state and local authorities, the less freedom the Congress has to alter policy or to change funding priorities to meet changing conditions. None of the options cures this problem completely.

There is no clearly superior financial mechanism for transportation. Each is flawed in one or more important aspects. Nonetheless, the drawbacks of some appear to be less significant than those of others. In assessing the four financing options, the greatest importance is given to their ability to improve Congressional control over policy, to provide funding assurance to states and localities, to foster Congressional budgetary control, and to ensure nondiscriminatory treatment of modes. In particular, less weight is given to the issue of user pays—because there is considerable controversy over its applicability to all modes—and to the issue of organizational compatibility—because this is a relatively short-term problem of adjusting to changes in the existing structure. Also, emphasis is placed on transportation as a whole, rather than on how particular modes might fare under each option.

### No Trust Funds


On balance, the no trust funds option is probably the most desirable, primarily because it both strengthens the policymaking role of the Congress

TABLE 2. TRANSPORTATION FINANCING OPTIONS AND THEIR PERFORMANCE WITH RESPECT TO SELECTED ISSUES

MAJOR ISSUES	CONTINUATION OF EXISTING FUNDING PRACTICES	UNIFIED TRUST FUND
CONGRESSIONAL POLICYMAKING	Fragmented; intermodal coordination difficult; limited oversight of trust funds	Good intermodal coordination possibilities
FUNDING ASSURANCE TO STATES AND LOCALITIES	Adequate assurance for highways; future transit funding could use more assurance	Could present problems: the coordination advantages of this option imply low funding assurance to any given mode
CONGRESSIONAL FISCAL CONTROL	Poor control; most spending outside normal appropriations process	No control of overall transportation budget; good control of modal allocations
NONDISCRIMINATORY TREATMENT OF MODES	Modes have unequal opportunity to adjust funding	Would facilitate intermodal allocation of resources
USER-PAYS PRINCIPLE	Good for trust-funded modes; possibly unfair to certain groups of users	Poor by usual interpretation of user-pays principle; possibly justified by broad social interpretation of principle
ORGANIZATIONAL COMPATABILITY	Clumsy but operational	Full-scale implementation of this option is probably organizationally impossible at present

TABLE 2. (Continued)

MODAL TRUST FUNDS	NO TRUST FUNDS	MAJOR ISSUES
Tends to institutionalize fragmentation; restricts oversight by virtue of liquidating appropriations process	Could enhance intermodal coordination; offers good opportunities for oversight	CONGRESSIONAL POLICYMAKING
Strong assurance	Highways and airways would lose assurance; other modes may be slightly better off	FUNDING ASSURANCE TO STATES AND LOCALITIES
No short-run budgetary control	Good budgetary control, both by mode and for transportation total	CONGRESSIONAL FISCAL CONTROL
Modes have equal access but the structure inhibits intermodal adjustment	No built-in modal advantages; encourages balance	NONDISCRIMINATORY TREATMENT OF MODES
Permits close adherence to user-pays principle	No necessary adherence to user-pays principle	USER-PAYS PRINCIPLE
No special problems	Requires substantial change for highways and airways	ORGANIZATIONAL COMPATIBILITY



and provides greater fiscal control. The most serious disadvantage to using the general fund to support all transportation programs is that future funding levels would be less predictable. While this is a serious concern to state and local authorities, particularly as regards highways and airways, there are ways of providing greater assurance than current general funding approaches might imply. For example, the cycle of five-year authorizations and two-year appropriations described in Chapter II could provide an adequate planning and budgeting horizon for most, if not all, modes. In addition, user taxes could be continued, and they could even remain dedicated to a particular mode, although in a less formal manner than today. Precedents exist for this. For example, before the Highway Trust Fund, there was an informal linkage between the receipts from highway excise taxes and the level of the federal highway program. Also, major portions of the airport and airway program (namely, facilities and equipment and part of operating aid) are funded from the Airport and Airway Trust Fund; yet, because no contract authority has been created, regular action by the appropriations committees is required. Continuing user charges in some fashion could provide somewhat greater funding assurance to state and local authorities and could also permit adherence to the user-pays principle--thus alleviating the two most serious drawbacks to this option.

#### Unified Trust Fund

Because it allows some Congressional flexibility across modes within a total transportation budget, the unified-trust-fund option has many characteristics similar to those of the no-trust-fund option. In general, however, it is likely to be a somewhat weaker alternative because it provides considerably less Congressional control over transportation as a whole. This option has a particularly broad range of possible effects because of the numerous alternatives that it encompasses--for example, a single large fund or a few smaller functionally oriented funds. These alternatives mean that this approach has a range of consequences that are not easily generalized, and a more fine-grained analysis of these alternatives might reveal promising possibilities. In any case, there would likely be severe short-term problems implementing this option because it is not compatible with the existing organizational structures.

#### Existing Financing Structure

The existing financing practices have several serious shortcomings and relatively few strengths. Current federal practices are not conducive either to coordinated policymaking or to sound fiscal control, and they are highly uneven in their treatment of different modes. By far the most

significant practical advantage of the current system is that it already exists. While many of the agencies and interests involved in transportation finance have serious reservations about the current system, they have at least adjusted to it. Any broad, general change, such as the adoption of one of the other financing options discussed here, is likely to create some additional problems even as it solves others.

### Modal Trust Funds

The option of separate modal trust funds probably ranks the lowest of the options reviewed here because it hinders Congressional policymaking and relaxes Congressional control over the budget. In these two important areas, it represents a retreat from current practice. The greater funding assurance that it would provide to state and local governments probably does not outweigh these other weaknesses.

### Other Options

Four options have been presented here as distinct alternatives; in reality, however, each one could be modified so that the apparent differences would be blurred. For example, under the no-trust-funds option, the assurance provided to state and local authorities could vary from very weak to very strong. In fact, with multiyear appropriations, it is conceivable that this option could provide assurance that is as strong as, or even stronger than, that available under a trust fund. In the process, Congressional control over policy and fiscal matters would be greatly weakened. Similar alternatives are possible that could dramatically alter the characteristics of each option. Thus, it is important to examine the details of any proposed financing option and not merely rely on its name for guidance. In any case, the major issues and the trade-offs among them must still be faced.

The case for reform in federal financing of transportation is mixed, and some of the costs are unknown. It is unlikely that the interested parties will reach any consensus and then rally for change in the short run. Most would prefer to keep the basic existing structure, while encouraging those programmatic changes that will help their own agencies or modal interests. As the role of transportation finance evolves and as new problems and new social concerns arise, however, there will be an increasing need for broadly based federal policymaking. The Congress can improve its ability to deal with these new challenges if it starts now to strengthen its mechanisms for financing transportation programs.