Evaluating Alternative Local Transportation Financing Techniques

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First of all, I want to thank the Transportation Research Board (TRB) for inviting Federal Highway Administrator R.A. Barnhart to this conference. The Federal Highway Administration (FHWA) has had a long and fruitful relationship with TRB. Conferences such as this are often the cutting edge of progress as new ideas are developed and information exchanged. Unfortunately, Mr. Barnhart cannot be here today because he was scheduled to attend a TRB steering committee meeting on the Strategic Highway Research Program, a program of research covering infrastructure needs.

Both FHWA and UMTA regard local transportation planning and financing as important interrelated issues. Credibility is an important resource, and we cannot afford not to do a good job of financial planning. FHWA believes that financial planning, when done as part of traditional transportation planning, can make the difference between a practical transportation plan and an impractical one. Financial planning is not simple because financial conditions vary from state to state and from urban region to urban region. Also, state and local jurisdictions are the first to feel the impact of inadequate financial planning. For this reason it is critical that state and local agencies assume primary responsibility for planning and financing local transportation systems.

At the federal level priority is being placed on:

- Continuing FHWA involvement in programs of the highest federal interest, such as completion of the Interstate system, preservation of the Interstate and primary systems, and replacement and rehabilitation of bridges on major systems. Highway user fees have been significantly increased; the shortfall for federal-aid highways alone is $5 billion a year.
- Priority will continue to be placed on sharing information among states and local governments on a variety of subjects, including evaluating and using available financial resources. It is important to share the experiences of forerunners and trendsetters as new techniques are tried.

FHWA and UMTA recognize our important responsibility to share with state, local governments, and the private sector specific knowledge on how to cope with ever-increasing financing needs. UMTA and FHWA are supporting the Joint Center for Urban Mobility. As the name implies, the joint center represents a cooperative effort by federal, state, local governments, and the private sector. The joint center is part of Rice Center, affiliated with Rice University in Houston, Texas.

The joint center disseminates technical information to state and local governments and provides assistance on new approaches to urban transportation system development and financing. Mr. Gary Brosch is the Director of the Joint Center for Urban Mobility.

The joint center has conducted, and is conducting, a number of studies that will advance the field of financial planning for urban transportation. The studies include a case analysis on financing mechanisms, an evaluation of innovative highway financing mechanisms, an examination of ways to improve public/private partnership in transportation planning, and an analysis of revenue forecasting approaches. Results of these and other studies are disseminated through reports and the joint center's newsletter, the Exchange. The center is available for technical assistance in these fields.

FHWA is participating with TRB in two important studies—a study to synthesize current knowledge on toll financing and a study to examine state and local ordinances that encourage private financing of public highway improvements.

In addition, in 1983 FHWA completed a contract study through Kimley Horn to examine the use of private funds for highway improvements. These case studies focused on the participation by developers in funding improvements on facilities affected by their developments.

FHWA maintains a solid technical assistance capability on related topics. This assistance has been manifested in several ways. For example, we have provided workshops on the use of quick response procedures for evaluating traffic impacts of developments and have sponsored the development of a microcomputer software package for applying these techniques. More recently FHWA, with help from the joint center and UMTA, developed a workshop to synthesize and disseminate findings from a number of financing studies. Called "Financing Urban Transportation Improvements," this workshop draws on these studies and presents the material in understandable and practical formats. This new workshop will be available on a pilot basis in January. The primary audience for all workshops has been state, local planning, and engineering staffs.

Beyond the federal role in financing programs of the highest federal interest and sharing information with state and local governments, the role of monitoring financing trends is becoming more important. With the passage of the Public Works Improvement Act of 1984, federal agencies will be asked to analyze and report on methods used to finance public works improvements, trends in financing methods, and other infrastructure-related data.

More than ever, state and local governments must use existing revenues effectively and identify alternative sources of revenue. Urban project financing is undergoing rather fundamental changes at the state and local levels. Motor fuel taxation at the state level, which was once the overwhelming principal highway revenue source, has slipped from two-thirds to slightly more than one-half of all user revenues. Since the late 1970s 22 states have changed their motor-fuel taxes by indexing them to automatically compensate for inflation and to offset declining fuel consumption. Unfortunately this tax delegates control over revenues to an administrative procedure that makes reliable forecasts...
of revenue difficult. Perhaps this is why most states still choose to adjust rates legislatively rather than administratively. In 1983 27 states adjusted motor fuel tax rates. Two-thirds of these states levied a tax increase of 3 or more cents.

As nontraditional revenues become more common practice, states are looking toward state sales taxes on motor fuel and vehicles. Over one-half of the states now use one of these methods. Some states recognized a need for generating more funds at the local level and implemented local-option motor fuel taxes. Most recently the states of Florida and California have passed legislation to allow their respective counties to levy between 1 and 4 cents per gallon fuel tax for local transportation projects, if county voters approve. Some states and local governments have used toll financing, such as Virginia for the Dulles Toll Road and Harris County, Texas, for the Hardy Toll Road in northwest Houston. Bonding has also received a renewed interest and makes good economic sense in many cases. The American Public Works Association publication on 17 strategies has a good summary of this and other financing techniques.

The private sector has an increasingly significant role to play in planning and implementing transportation improvements. The private sector has already played a major role in planning transportation facilities. In Houston, Texas, the Chamber of Commerce was instrumental in developing a 13-year, $17.4-billion plan for multimodal improvements. In Cleveland, Ohio, the Greater Cleveland Growth Association is tackling the difficult task of addressing the problem of severely deteriorating community infrastructure. Private-sector participants, consisting of members from business, banking, law, and industry, are working with the public sector to accomplish common goals. Private developers have financed intersection improvements, street widenings, overpasses, and interchange construction in exchange for obtaining zoning flexibility to build office, commercial, or residential developments. In some cases improvements totaled large amounts ($18 million in the case of the Joint Southeast Public Improvement Association in the Denver region). Developing public and private coalitions is critical to successful financial programming.

MPOs stand in a unique position as partners with the private and public sectors. MPOs have traditionally addressed the longer-range regional impacts of urban developments, with an emphasis on improvements that increase capacity. MPOs are in a unique position to evaluate quickly the impacts of development strategies in suburban locations, where transportation needs are mushrooming as a result of demographic shifts and accompanying private investments. In this case MPOs have the complete picture of the region and its goals. Consequently it has an important role to play in ensuring the development of a coordinated program of transportation improvements consistent with transportation needs and financial resources. In some districts MPO’s role in nontraditional project development, such as pavement management programs and assessing impacts of major new suburban developments, is yet to be defined but will certainly depend on the service a metropolitan agency can provide its local constituents. In other areas, just as the MPO’s role has evolved in coordinating project development, there are opportunities for the evolution of a role to coordinate and perhaps even facilitate project financing. Packaging financial plans for policy makers should receive a great deal of attention. The Denver Regional Council of Governments' initiative in this direction is an example of taking financial planning a step beyond the traditional for MPOs. MPOs can ensure that transportation programs subsequently developed would be more practical.

FHWA recommends increased activity in financial planning and suggests that it become an integral part of the analyses of transportation strategies. Just as there are trade-offs in transportation alternatives, there are trade-offs between financing alternatives and financing strategies.