



# Federal Funding Briefing Paper

OREGON DEPARTMENT OF TRANSPORTATION

**E**ach year the federal government provides ODOT, local governments, and transit districts in Oregon over half a billion dollars in formula funding under the federal highway and transit programs. This funding comes from the federal Highway Trust Fund, which receives most of its revenue from the federal gas and diesel taxes, as well as from fees on heavy trucks.

The federal gas and diesel taxes have not been raised since 1993, and Highway Trust Fund revenues have declined significantly since 2007 as a result of economic conditions and reductions in driving due to high gas prices. At the same time, funding levels under the federal surface transportation programs have increased faster than revenues; as a result, revenues now lag significantly behind funding levels. In federal Fiscal Year 2010, the federal surface transportation programs committed over \$51 billion in funding from the Highway Trust Fund. However, revenues into the Highway Trust Fund totaled just \$35 billion—a difference of more than \$16 billion.

Because spending has been higher than revenues for a number of years, the Highway Trust Fund has exhausted its balances several times in the last few years. Starting in the fall of 2008, Congress has stepped in on three occasions and provided infusions of general fund resources totaling about \$35 billion. As a result of these

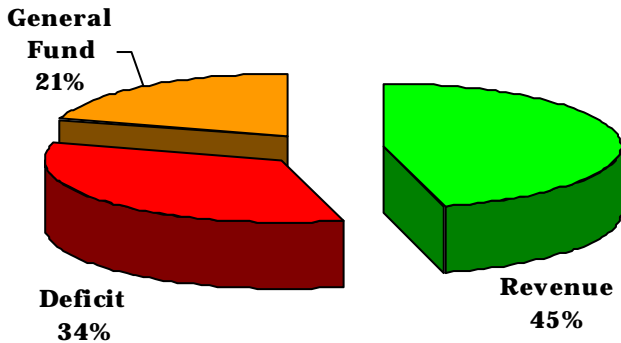
transfers, the Trust Fund has balances that could sustain current funding levels into 2012 or 2013 before the balances once again hit zero.

When the Trust Fund’s balances run out, Congress will be forced to either find additional revenue—whether through a fourth infusion of general fund resources, an increase in user fees or some other source—or cut funding for highway and transit programs to levels supported by revenue flowing into the Trust Fund. An increase in the gas tax of about 10 cents per gallon or an annual general fund transfer of about \$15 billion would likely be necessary to sustain funding at current levels in the long-term. Given the current fiscal and political situation, transferring additional resources into the Highway Trust Fund could be difficult, and increasing the gas tax could be even more challenging.

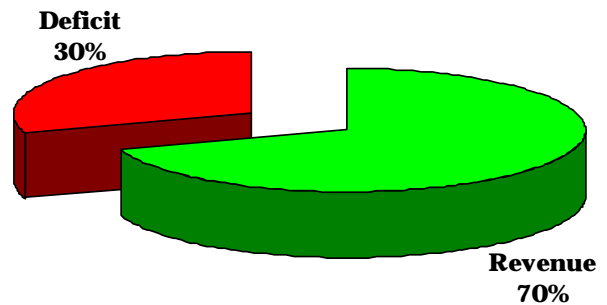
### Potential Cuts

If additional resources aren’t made available when the Highway Trust Fund’s balances are exhausted, steep cuts would have to be made to the highway and transit programs. In federal FY 2010, the Trust Fund’s Highway Account took in enough revenue to cover about 70 percent of its \$43 billion in funding commitments, so highway program funding could be slashed by about 30 percent when the Highway Account’s balances are exhausted.

### Transit Program Funding



### Highway Program Funding



*In federal FY 2010, revenue flowing into the Highway Trust Fund (primarily from the federal gas and diesel tax) covered only 45 percent of funding levels for the federal transit program and 70 percent of funding for the highway program. The remainder is being drawn from balances in the Highway Trust Fund that will be exhausted by 2013, with some funding from the General Fund for transit. This imbalance between Trust Fund revenues and funding levels leaves both programs vulnerable to cuts.*

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The transit program's long-term finances are in worse shape. In federal FY 2010 revenue flowing into the Mass Transit Account covered just 45 percent of total transit program funding of \$10.5 billion, or 57 percent of the transit programs paid for from the Highway Trust Fund. The remainder of transit funding was drawn from balances in the Mass Transit Account and from \$2.2 billion in general fund commitments, primarily for the New Starts program for fixed guideway transit projects such as light rail and bus rapid transit. With this major imbalance, transit could see deep cuts.

The political and fiscal challenges of sustaining funding at current levels indicate that transportation agencies should be prepared for deep cuts. Congressman John Mica, who serves as the Chairman of the House Transportation and Infrastructure Committee, has proposed a six-year surface transportation authorization bill that would cut program funding to the level supported by the revenues flowing into the Trust Fund. Under this proposal, highway and transit funding would fall from around \$51 billion in FY 2011 to about \$34 billion in 2012, a one-third reduction.

## **Implications for Oregon**

Under the Mica proposal, ODOT estimates that Oregon's annual highway program funding would fall by \$150-175 million. ODOT estimates that every million dollars invested in highway construction sustains more than 11 jobs in construction and related industries and throughout the economy. At this rate of job creation, this reduction in federal funding could cost Oregon's struggling economy 1650-1900 jobs.

## *Impact on the State Highway System*

Because ODOT foresaw the fiscal challenges facing the Highway Trust Fund when it was developing the 2010-13 Statewide Transportation Improvement Program (STIP), the agency assumed a reduction of about 20 percent in federal highway formula funding. ODOT has already downsized its future construction program, reducing funding for the Modernization program in the next STIP to the minimum required by state law and cutting funding for the Bridge and Preservation pro-

grams.

As a result of these program reductions, pavement conditions will begin to deteriorate and no new funding will be available for projects to expand highway capacity in 2014-2015. However, if a full one-third funding cut is imposed, ODOT will likely need to cut or delay a significant number of projects that are already included in the STIP.

## *Impact on Local Governments*

Local governments receive about 25 percent of Oregon's total highway formula program funding. Every county, metropolitan planning organization (MPO) and city with a population over 5000 that is not in an MPO receives an allocation of federal Surface Transportation Program funds, and ODOT also shares federal funding from the Bridge Program, Transportation Enhancements, Congestion Mitigation and Air Quality Improvement Program (CMAQ), and a number of other programs.

All told, local governments receive well over \$100 million per year in federal highway funding. If funding is cut by one-third, local governments could see a reduction in federal highway funding that could reach \$30-40 million.

## *Impact on Transit Providers*

Oregon's transit providers could be especially hard hit if federal funding falls to levels supportable by revenues flowing into the Mass Transit Account. This could cause a funding reduction of 40 percent, which would significantly impact urban systems that use federal funding for capital projects and to purchase buses; some rural providers that use federal assistance to cover operating costs may be forced to close their doors.

The New Starts program, which is funded by the general fund rather than the Mass Transit Account, may also be targeted for cuts, making it more difficult to fund important new light rail and bus rapid transit projects in urban areas.

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