White Paper — Transportation Funding

Federal Funding and the Tolling Landscape

Compiled by: A-to-Be® | Mobility-Beyond

#funding #infrastructure #transportation

Executive Summary

A-to-Be invited CEO of government relations firmA10 Associates, Jess Tocco, to analyze the impact of recent federal and state financing on the tolling industry in the United States. Tocco reviews the historical landscape of tolling, past infrastructure funding, and the necessity of tolling for continued infrastructure improvements into the future.

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The Federal Aid Highway Act of 1921 provided financial assistance to states to build roads and bridges. Subsequently, **tolls were introduced on many roads, bridges, and tunnels to help states continue to pay for this building boom** and highway infrastructure. World War II created even greater reliance on the vital highway systems in the United States and several states recognized that modern, high-quality highway systems were needed to meet this new demand.

In the United States, funding for road construction and maintenance was initially financed by the federal government to rebuild after wars. As a result, state governments began to rely on federal funding over tolling in America and tolling was viewed as an unwanted tax in many parts of the country. **With current federal funding being allocated to the states for infrastructure improvements, this early view of tolling as an unwanted tax has resurfaced**, leading some state and local governments to use funding from the Infrastructure and Investment Jobs Act (IIJA) to replace or lower tolls permanently. This can be seen throughout the country especially on bridges that customarily used tolls for financing, such as the Tacoma Narrows Bridge in Washington. However, states should maintain a comprehensive view of building and maintaining roadways. **Federal funding comes and goes but states need to have a consistent revenue stream supporting improvements, maintenance, and necessary new roadway infrastructure**. Tolling is a viable option to complete the holistic approach of maintaining the roadways.

Shift in Perception

> "Opinion polls consistently show that motorists prefer tolls over taxes..."

Driver perception of tolling has changed over time. Numerous toll roads have been approved in states that are traditionally antitax. **Opinion polls consistently show that motorists prefer tolls over taxes** and support the expansion of toll roads to improve driver options and travel times. Managed lane projects, such as high-occupancy vehicle (HOV) lanes, value priced lanes, high-occupancy toll (HOT) lanes, and special use lanes allows the driver to feel in control of their expenditure by allowing them options. **Additionally, users prefer the direct verse indirect charge, based on their actual usage**, and appreciate reduced traffic aided by the more recent congestion pricing. The International Bridge Tunnel and Toll Agency (IBTTA) reported that 84 percent of Americans said tolls should be considered a primary source of transportation revenue on a project-by-project basis. **State governments needed to turn to tolls because transportation budgets were tight** and highway funding from Washington was lacking. **Now states can use the various tolling techniques to increase budgets while addressing other initiatives**, such as environmental goals by curbing congestion.

As opinions on tolling have changed over time, so have tolling technologies. On October 1, 1940, the first modern-day tollbooth was installed outside of Pittsburgh, Pennsylvania. Since then, innovation has continually brought advances to the tolling industry. **Today, the many toll road operators are replacing traditional toll booths and moving towards all-electronic tolling (AET),** supported by electronic toll collection (ETC). Electronic tolling uses Radio Frequency Identification (RFID) or dedicated short-range communications (DRSC) technology that connects with a transponder on a car's windshield, which exchanges a signal with antennas arranged in the toll area and then charges the driver's account. This improvement in tolling technology, along with improved video tolling based on license plate recognition for those who prefer not to have a transponder, has **benefited agencies and motorists by avoiding congestion and the potential for accidents at toll plazas**. Nevertheless, the transition from the original tollbooth model to AET, most of the cases to Open Road Tolling, **requires state governments and toll agencies to invest capital** in installing this new type of technology. As the private sector continues to innovate the next generation of tolling, **government leaders will be able to invest in new technology thanks to comprehensive financing plans** that include toll revenues, federal funding, and the gas tax.

> “Government leaders will be able to invest in new technology thanks to comprehensive financing plans ...”

Brief History of Infrastructure Funding

As automobiles became more prevalent in the early twentieth century, the government implemented a gas tax to collect revenue. **Today, gas taxes are collected by federal and state governments to pay for infrastructure improvements**. However, in 1932, the original federal tax on fuel was a temporary 1-cent-a-gallon tax issued by the U.S. government. **The gas tax was not dedicated to building roads but rather to deficit reduction** during the Great Depression, and the tax was scheduled to expire in 1934. In 1933, Congress voted to extend the tax and it has remained in effect since. In 1956, Congress created the Highway Trust Fund, increased the federal gas tax to 3 cents-per-gallon, and dedicated all the revenue to the Trust Fund to help pay for the interstate highway system. **Today, with inflation, that would be equivalent to about 32-cents-per-gallon. The current federal gas tax, of 18.4 cents-per-gallon, was last raised in 1993 and has since lost most of its purchasing power**. If raised to match inflation, since 1993, the current tax would be about 37 cents-per-gallon.

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Funding Landscape Today

Since 2008, Congress has transferred more than $150 billion from the General Fund to keep the Highway Trust Fund solvent. **As vehicles become more fuel-efficient, the amount collected from the gas tax has declined and will continue that path**. According to the Congressional Budget Office, rising fuel-efficiency standards will cut gas tax revenue by $57 billion through 2025. **Tolling agencies**

can help recoup these loses through road usage charging (RUC), also known as vehicle miles traveled (VMT) fees or mileage-based user fees (MBUF), whereby motorists pay for use of the roadways based on distance traveled instead of the gas tax of the past. RUC is slow to be adopted and is being viewed as an additional tax, similar to the perceptions that have plagued tolling. But, if the gas tax is already not enough to finance road maintenance and renewal, a future VMT scheme that simply replaces this tax may not be enough as well.

These factors make the government more dependent on tolling at this unique moment in time. In addition, President Biden signed the Bipartisan Infrastructure bill into law on November 15, 2021, which will help rebuild America's roads and bridges. **In the United States, one in every five miles of highways and major roads, and 45,000 bridges, are in poor condition.** The legislation will reauthorize surface transportation programs for five years and **invest $110 billion in additional funding to repair roads and bridges and support major, transformational projects across the United States**. Nationwide, the Infrastructure Law will provide **$26.5 billion to help repair approximately 15,000 highway bridges**. In addition to the Infrastructure Law, the American Rescue Plan Act (ARPA) was signed into law on March 11, 2021, as the sixth COVID-19 relief bill enacted, and provides approximately $1.9 trillion in assistance. ARPA includes $43.2 billion in resources for the Department of Transportation to continue its response to the ongoing COVID-19 pandemic. The infrastructure law directs the U.S. Department of Transportation to establish a national, per-mile, road usage fee pilot program while continuing to support state-level pilots. Another pilot program, created by the infrastructure bill, allows states to sell, transfer, or purchase toll credits. **Toll credits reward states that spend their toll revenue on projects that would otherwise require federal-aid support.** States are eligible to earn credits based on the toll authority's toll revenue for building, improving, or maintaining highways, bridges, or tunnels that serve interstate commerce.

> “Tolling agencies can help recoup [gas tax] losses through road usage charging…”

How Tolling Can Help Now

Now is a tremendous time for government agencies to seek upgrades to existing infrastructure. States across the country are experiencing surpluses due to historic amounts of funding from the federal government**. Many states ended fiscal year 2021 with the largest surpluses in their history,** thanks to surging state revenues, investment income, and federal COVID-19 aid.

When President Biden signed the $1.9 trillion ARPA, he funded federal programs designed to address the ongoing COVID pandemic and provided a third round of stimulus to Americans. But the bill also provided $350 billion in aid sent directly to states, counties, and local governments to spend as they see fit. Transportation agencies can be beneficiaries of ARPA funding. Combined with previous coronavirus response bills and spending packages, **the federal government has spent almost $5 trillion addressing the pandemic that will flow through communities over the next decade**, changing the funding landscape in states and cities.

> “Many states ended fiscal year 2021 with the largest surpluses in their history…”

One way in which tolling organizations can **tap into recent government funding is through electric vehicle (EV) charging infrastructure.** The Bipartisan Infrastructure Law provides the largest investment to date by the federal government for EV charging, $7.5 billion, and will lay the foundation for the United States to be on a path to a nationwide network of 500,000 EV chargers by 2030. The Law also provides $2.5 billion over five years for the Charging and Fueling Infrastructure Program, a competitive grant program that will assist with deploying EV charging and alternative fuel infrastructure. The federal government has stated that states should first prioritize investments along the Interstate Highway System, specifically no greater than one mile from Interstate exits or highway intersections along a designated corridor, which aligns with locations already developed for tolling. **Tolling agencies are eligible to apply for funding from the Charging and Fueling Infrastructure Program.**

The Infrastructure Law will also positively impact states in bridge repair. **The Bridge Formula Program, which received $26.5 billion from the infrastructure law, will help repair approximately 15,000 highway bridges nationwide**. Some states are planning to use this funding to repair bridges, without using toll revenues. For instance, Ohio Governor Mike DeWine is teaming up with Kentucky Governor Andy Beshear for a joint effort to improve the Brent Spence Bridge. Governor Beshear has stated the Brent Spence Bridge project will not require tolls if it receives money from the infrastructure law. However, **without including tolling or another continuous funding source, the 15,000 newly repaired bridges will come to be in disrepair again**.

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In Conclusion

Governors and state lawmakers are facing the very unusual problem of how to spend billions of dollars. These state leaders, encouraged by the surplus of funding, are launching transportation projects, and even paying down debt. Through ARPA, the infrastructure law, state surpluses, and other traditional funding mechanisms, state governments can allocate additional funding to tolling agencies. Much of the funding is left up to the states to decide how to spend the money. **Tolling agencies are well-positioned to take advantage of this funding to expedite projects** so long as lawmakers **remember how valuable tolling and consistent cash flow are to continue their infrastructure improvements** once federal funding runs out.

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