Funding the Nation’s Surface Transportation System

Why Area Is High Risk

The nation’s surface transportation system—including highways, transit, maritime ports, and rail systems that move both people and freight—is critical to the economy and affects the daily lives of most Americans. However, the system is under growing strain, and the cost to repair and upgrade the system to meet current and future demands is estimated in the hundreds of billions of dollars. The oldest portions of the Interstate Highway System are approaching 60 years of age, and 10 percent of the nation’s bridges were rated as structurally deficient in 2015. While this percentage of bridges rated as structurally deficient improved from 13 percent in 2006, bridge conditions may become more challenging to address as a growing proportion approach the end of their 50-year design life.

Challenges to the nation’s surface transportation system are amplified by shifting demographics, the need to transport the goods and services to support a growing economy, rapid development of new technologies, and other factors. The U.S. population is expected to increase by 70 million over the next 30 years. As the Department of Transportation (DOT) has reported, this projected increase includes a growing percentage of Americans over the age of 65 with limited ability to drive or use transit to access critical services, and millennials, many of whom drive less than previous generations and choose to live in urban areas where they can walk, bike, or use public transportation. Though employment options in suburban areas are increasing, poverty is also increasing in such areas. Collectively, these changes will complicate future infrastructure planning decisions.

These trends are altering transportation investment decision making. The amount of freight moving through the country is expected to grow, a factor that will place strain on existing freight bottlenecks. Rapidly evolving vehicle technologies present new opportunities, but also pose challenges to creating a statutory and regulatory framework that will allow people to use these technologies while addressing privacy and other concerns they raise. Climate change also poses risks to existing transportation assets and presents opportunities and challenges to enhance resilience and reduce potential future losses, rather than simply pursuing a reactive approach of funding after a disaster occurs.

These challenges to the nation’s surface transportation system come at a time when traditional funding sources are eroding, and the federal government lacks a long-term sustainable strategy for funding surface transportation, as discussed below. Funding the nation’s surface transportation system is further complicated by the federal government’s
There is no rating for this high-risk area because addressing it primarily involves congressional action and the high-risk criteria and subsequent ratings were developed to reflect the status of agencies’ actions and the additional steps they need to take.

Motor fuel taxes and additional truck-related taxes that support the Highway Trust Fund—the major source of federal surface transportation funding—are eroding. Federal motor fuel tax rates have not increased since 1993, and drivers of passenger vehicles with average fuel efficiency currently pay about $96 per year in federal gasoline taxes. Because of inflation, the 18.4 cent-per-gallon tax on gasoline enacted in 1993 is worth about 11 cents today. The tax base will likely continue to erode as demand for gasoline decreases with the introduction and adoption of more fuel-efficient and alternative fuel vehicles. To maintain spending levels of about $45-50 billion a year for highway and transit programs and to cover revenue shortfalls, Congress transferred a total of about $141 billion in general revenues to the Highway Trust Fund on eight occasions from 2008 through 2015. This funding approach has effectively ended the long-standing principle of “users pay” in highway finance, breaking the link between the taxes paid and the benefits received by highway users.

The most recent surface transportation reauthorization measure, enacted in December 2015 and which authorized funding through 2020, was the Fixing America’s Surface Transportation (FAST) Act. In addition to funds authorized from the Highway Trust Fund, the FAST Act provided around $70 billion of the $141 billion in transfers from general revenues. The general revenues provided in the FAST Act represented a one-time transfer of funding, not a sustainable long-term source of revenues. After 2020, the gap between projected revenues and spending will recur. In March 2016, the Congressional Budget Office estimated that $107 billion in additional funding would be required to maintain current spending levels plus inflation from 2021 through 2026, as shown in figure 9.

1The transfers from the General Fund of the U.S. Treasury were subject to sequestration, which resulted in somewhat lower dollar amounts transferred into the Highway Trust Fund.
Congress and the administration need to agree on a long-term plan for funding surface transportation. Continuing to augment the Highway Trust Fund with general revenues may not be sustainable, given competing demands and the federal government’s fiscal challenges. A sustainable solution would balance revenues to and spending from the Highway Trust Fund. New revenues from users can come only from taxes and fees; ultimately, major changes in transportation spending or in revenues, or in both, will be needed to bring the two into balance.

A long-term sustainable plan for funding surface transportation requires congressional action and remains the pivotal action that will determine whether the funding of surface transportation remains on, or is removed from, our High-Risk List. DOT will also need to continue implementing the performance-based approach to surface transportation mandated in the Moving Ahead for Progress in the 21st Century Act (MAP-21) and discussed below. It will become increasingly important to improve the effectiveness of surface transportation programs by establishing links to performance, measuring progress toward clear national goals, and
enhancing the management of discretionary grant programs. These actions are essential to maximizing the use of available resources.

The challenge of funding the nation’s surface transportation system is magnified by the fact that spending for surface transportation programs has not commensurately improved system performance. Many programs have not effectively addressed key challenges—such as deteriorating infrastructure conditions and increasing congestion and freight demand—because federal goals and roles have been unclear, programs have lacked links to performance, and programs have not used the best tools and approaches to ensure effective investment decisions. Beginning in 2008, we recommended that Congress consider a fundamental reexamination of these programs to clarify federal goals and roles, establish performance links, and improve investment decision making. More recently, we found that it can be difficult to determine the extent to which federal funding has improved system performance. Specifically, in 2016, we found that while the Federal Highway Administration (FHWA) collects and maintains data on both federal funding for bridge projects and bridge conditions, it lacks a means of demonstrating the link between such funding and changes in bridge conditions. We recommended that the FHWA Administrator develop an efficiency measure to demonstrate the link between funding and bridge infrastructure outcomes, and report that information to Congress. DOT concurred with our recommendation and we are awaiting information on what steps DOT plans to take to implement it.

Congress passed provisions in MAP-21 in 2012 to help address the key challenges we identified in 2008. Among other things, the act included provisions to move toward a more performance-based highway and transit program. Specifically, MAP-21 established national performance goals in areas such as infrastructure condition, safety, and system performance; MAP-21 also outlined a three-stage process in which (1) DOT establishes performance measures for these national goals, (2) states and other grantees set targets based on these performance measures and report annually on their progress, and (3) DOT evaluates whether grantees have met their targets and reports to Congress.

DOT is in the process of implementing MAP-21’s performance management approach through rulemaking. In January 2017, DOT finalized the last of seven interrelated rules that will, among other things, establish the performance measures that states will be required to set targets for and report progress on in the areas of safety, pavement and
bridge conditions, and system performance. For example, the System Performance Measure rule includes measures for freight movement, traffic congestion, and air quality and received over 8,800 public comments. MAP-21 also required states to report on their progress in implementing the transportation performance management requirements to DOT by October 2016 and required DOT to report to Congress on progress made by October 2017. Because several of the final rules were recently issued, it is too early for states to report on progress, and thus DOT provided guidance to states, requesting that they instead report on their general performance management activities. We plan to report on DOT and state progress and anticipated challenges implementing the new national transportation performance management framework in the summer of 2017.

Congress and DOT have also taken steps to more strategically address freight congestion, though many of DOT's actions are in the early stages. For example, MAP-21 established national goals and directed the Secretary of Transportation to establish a national freight network, develop a strategic freight plan, and provide the tools necessary to support a performance-based approach for evaluating and selecting new freight projects. The 2015 FAST Act made some changes to, and built upon, some of MAP-21’s freight provisions. Specifically, it extended the deadline for DOT to finalize the National Freight Strategic plan from October 2015 to December 2017. The public comment period for the draft plan closed on April 2016 and, according to DOT, it is on track to finalize the plan by the new deadline. The FAST Act also directed DOT to establish for the first time a National Multimodal Freight Network and also a National Highway Freight Network.

The National Highway Freight Network is to be used to strategically direct federal resources and policies toward improved performance of highway portions of the U.S. freight transportation system. Finally, the FAST Act established a competitive grant program to fund freight and highway projects of regional or national importance. In 2016, DOT awarded approximately $760 million for the Fostering Advancements in Shipping and Transportation for the Long-term Achievement of National Efficiencies (FASTLANE) grant program to 18 freight projects.

We have reported that the historic approach to funding surface transportation, in particular highways, poses challenges to incorporating performance and accountability for results into transportation funding decisions. This situation exists because funding has been principally provided through formulas designed to yield a largely predetermined
outcome—that of returning revenues to their attributed state of origin. For three highway programs designed to meet national and regional transportation priorities, we recommended that Congress consider a competitive, criteria-based process for distributing federal funds. The FAST Act authorized about a dozen new discretionary grant programs, some of which DOT is already implementing, including the FASTLANE program. While over 90 percent of funds will continue to be distributed by formula, the FAST Act represents a promising development to address national and regional transportation priorities.

Nevertheless, we have found challenges with DOT’s implementation of discretionary grant programs, including problems documenting key evaluation and project selection decisions. For example, in May 2014, we found that DOT did not document key decisions—such as accepting and reviewing project applications received after the published deadline, or changes to projects’ technical ratings—and deviated from established procedures and recognized internal control practices in awarding Transportation Investment Generating Economic Recovery (TIGER) discretionary grants. We recommended that the Secretary of Transportation establish additional accountability measures by, among other things, issuing a decision memorandum or similar mechanism to document and approve major decisions in the application evaluation and project-selection process. DOT generally agreed with, but has not fully implemented, this recommendation.

In addition, in December 2016, we found that the Federal Transit Administration (FTA) did not document key decisions in awarding $3.6 billion in discretionary, competitive grants for projects to increase the resilience of transit systems to withstand future disasters in areas affected by Hurricane Sandy. For example, FTA did not document how it addressed reviewers’ concerns that some of the proposed—and ultimately funded—projects were outside the scope of the grant program. We also found that because FTA did not incorporate information collected from applicants and reviewers into its selection process, it may have funded projects that may no longer be needed if other resilience projects in the same region are implemented. We recommended that FTA examine its funded projects for potential duplication with other resilience efforts and determine if realigning or rescinding those funds is appropriate. DOT concurred with our recommendation and we are awaiting information on what steps DOT plans to take to implement it.

Given the continuing challenges we found with DOT discretionary grant programs, and the number of new programs authorized by the FAST Act,
we recommended in December 2016 that the Secretary of Transportation issue a directive governing department-wide and modal administration discretionary grant programs. Such a directive should include requirements to, among other things, (1) develop an up-front plan for evaluating project proposals to ensure DOT reviews applications consistently; and (2) document key decisions, including the reason for any rating changes, as well as how high-level concerns raised during the process were addressed. Developing such a directive would help to ensure the integrity of future DOT discretionary grant programs. DOT concurred with our recommendation and we are awaiting information on what steps DOT plans to take to implement it.

For additional information about this high-risk area, contact Susan Fleming at (202) 512-2834 or FlemingS@gao.gov.

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