



Federal Funding Briefing Paper

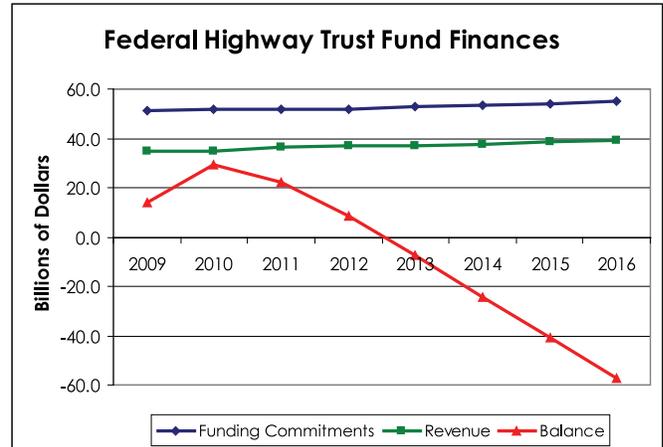
OREGON DEPARTMENT OF TRANSPORTATION

Each 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 the recession and reductions in driving due to high gas prices. However, funding levels under the federal surface transportation programs have increased; as a result, revenues now lag significantly behind funding levels. In federal Fiscal Year 2010, the federal surface transportation programs committed \$51.5 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 significant balances that will sustain current funding levels into 2012 or 2013 before the Trust Fund's balances once again run dry. The Congressional Budget Office (CBO) estimates that the Highway Account could exhaust its balances as early as 2012, and the CBO expects the Mass Transit Account to remain solvent into federal FY 2013.

When the Trust Fund's balances are exhausted, Congress will be forced to either find additional revenue—whether through a fourth infusion of general fund resources or an increase in user fees or some other tax—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. 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.

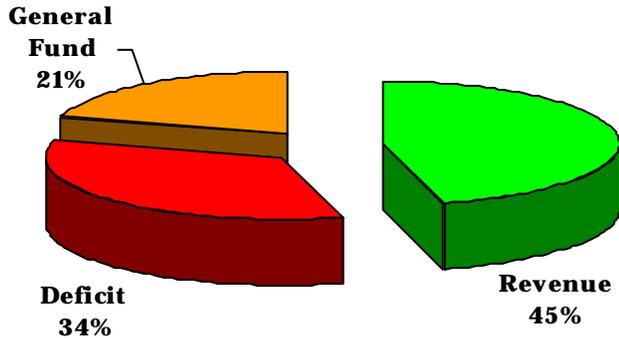
Potential Cuts

A recent rule change in the U.S. House of Representatives making the authorized funding level for transportation programs purely advisory to the Appropriations Committee opens the door for Congress to cut surface transportation funding in the current fiscal year's budget. This action, when combined with the failure of Congress to enact a new surface transportation authorization bill in the year and a half since SAFETEA-LU expired, have injected significant uncertainty in federal funding and made it clear that transportation may not be spared from cuts.

If additional resources aren't made available when the Highway Trust Fund's balances are used up, 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 \$43.1 billion in funding commitments, so highway program funding could be slashed by up to 30 percent when the Highway Account's balances are exhausted.

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Transit Program Funding



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.

These numbers represent a worst case scenario. If revenues increase to previous levels as the economy grows, these cuts could be reduced.

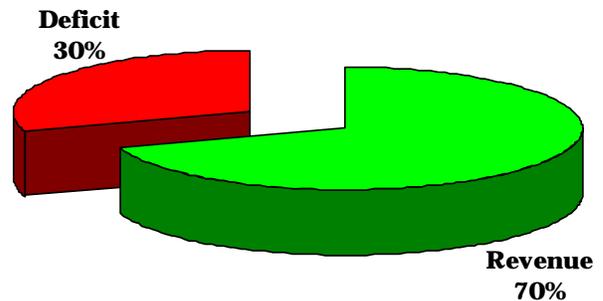
Implications for Oregon

Though the surface transportation formula programs may be spared deep cuts in the current fiscal year or even in next year's budget, the political and fiscal challenges of sustaining funding at current levels indicate that transportation agencies should be prepared for deep cuts. A worst case scenario that produced a 30 percent reduction in federal highway formula funding could see Oregon's annual funding fall by about \$150 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 1600 jobs.

Impact on ODOT

Because ODOT anticipated this challenge when it was developing the Statewide Transportation Improvement

Highway Program Funding



Program (STIP), the agency assumed a reduction of about 20 percent in federal highway formula funding. ODOT has already downsized the STIP, reducing funding for the Modernization program to the minimum required by state law and cutting funding for the Bridge and Preservation programs. As a result, pavement conditions will begin to deteriorate and no new funding will be available for projects to expand highway capacity in 2014-2015.

Impact on Local Governments

Local governments currently receive about 20-25 percent of Oregon's total highway formula program funding through the Bridge Program, Surface Transportation Program, Transportation Enhancements, Congestion Mitigation and Air Quality Improvement Program (CMAQ), and other programs—a total of around \$100 million per year. Local governments thus could see a reduction in federal highway funding of \$20-30 million, depending on the level of cutback.

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 produce a funding reduction of 40 percent, which could impact urban systems that use federal funding to 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 fixed guideway projects in urban areas.

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