Highway Funding: Is There a Crisis?

Public Affairs Research Council of Louisiana, Inc.

Publication 318 March 2009

EXECUTIVE SUMMARY

Highway user and highway builder groups, local economic development officials, planners, interested citizens and state highway officials have been raising alarms and pressing for additional transportation funding for many years.

The state faces three current or imminent highway funding crises, each with a different timetable for required action. A looming national funding crisis requires congressional action to replace the expiring transportation act and put the federal highway trust fund on a sound footing. A current crisis in the state TIMED program requires immediate state action to provide bond funding to finish two major bridge projects without raiding funds for the regular highway program. A long-term crisis of decline in purchasing power of the regular highway program's funding requires corrective legislative action within the next couple of years.

Despite the amount of new money recently directed to transportation, Louisiana faces significant funding problems and uncertainties in the short run. In the long run, the cost of meeting the state's transportation needs will continue to outstrip available revenues. This will undermine the development of the efficient intermodal transportation system that is essential to expand the state's economy.

There is little question that Louisiana's citizens and economy would benefit from a significant increase in highway and bridge funding in terms of less congestion, shorter commute times, lower vehicle maintenance bills, fewer traffic casualties, new and expanded business, and improved tourism. An additional half-billion dollars or more annually could be put to work effectively. The question is a matter of state priorities and the ability and willingness of the state's citizens, the federal government or the private sector to make the investment. This report, the first in a two-part series, examines a number of problems confronting highway funding and assesses their severity and the impact of recent actions to deal with them.

Recently legislated increases in highway funding have come not from new revenue, but from shifting revenue from the general fund and away from other purposes. This was easier to do when the state was piling up surpluses each year. While an $865 million surplus for FY08 remains to be appropriated, mid-year cuts were made to avoid a $341 million deficit in the current fiscal year (FY09). The estimated $1.3 billion revenue decline for FY10 makes it less likely that highways will receive much of the FY08 surplus. However, the federal economic stimulus package will provide a modest, one-time boost to the state's highway construction program, with $298 million to be spent over the next couple of years. This falls far short of the state's $1.3 billion request list of "shovel-ready" projects and makes only a small dent in the state's backlog.

Highway funding faces difficult times ahead and much uncertainty. The state's Transportation Trust Fund (TTF), fueled primarily by a volume-based gasoline tax, has lost purchasing power. The future of federal highway aid is uncertain, and the expected economic stimulus funding is modest and temporary. Funding for the state's Transportation Infrastructure Model for Economic Development (TIMED) program is running short with major

projects remaining. State surpluses that have been funding construction have run dry and the next few state budgets will be austere. Recent actions at the state and federal levels to avert serious highway funding problems have provided only partial or temporary solutions. Difficult funding decisions remain to be made at both levels.

In the past, questions about DOTD's administrative efficiency have been used to deflect efforts to increase highway funding. However, recent comparative data shows that DOTD has achieved the sixth lowest administrative expenditures-per-mile rating in the nation. Clearly, further administrative economies would contribute little to solving the state's highway funding problems.

Highway Conditions

Nationally, Louisiana's highways and bridges rank poorly on most measures. Failure to improve the highway system will jeopardize the development of new and expanded business and tourism. Highway users will continue to bear the cost of repairs, lost time and costly, too-often fatal accidents due to poor roads. However, the system would not improve immediately with a significant funding increase, nor would it suddenly become worse without an increase.

The state Department of Transportation and Development (DOTD) estimates a $14 billion backlog in work needed on existing state highways and bridges, excluding proposed new routes such as urban loops. Recently, DOTD has been able to keep the backlog from growing, in terms of work to be done, although the cost of doing that work continues to rise. Construction costs have outstripped general inflation in recent years. If the state added $650 million a year in highway funding, as DOTD has suggested, it would still take about 22 years to clear the backlog in existing highway needs, assuming no cost increases. Adding inflation could double that time. Several potential fiscal problems could further accelerate the deterioration in the quality of the highway system.

Other Transportation Needs

Besides the $14 billion list of projects awaiting funding for basic maintenance or essential upgrade, DOTD maintains a separate wish list of projects that would greatly enhance the economic development potential of the state's transportation infrastructure. The Statewide Transportation Plan has identified $17.2 billion in mega-projects that could be undertaken over a 30-year period to expand the transportation system for economic development and other reasons. The mega-projects are highly desired by regional economic developers, but are far beyond the ability of the state to fund alone. These will require federal, state, local and possibly even private funding through innovative partnerships. To help with mega-projects, a special Transportation Mobility Fund was recently created with a very small revenue dedication that barely scratches the surface.

Some 6,000 miles of state highways are ineligible for federal aid and have for years received lower priority than highways for which the state could use its funds to leverage matching federal aid. Efforts to secure a separate revenue stream to maintain these roads resulted in a dedication of truck license revenue. However, fully phased-in, this $40 million a year will provide only about one-third of the $120 million estimated annual cost to maintain these roads.

Beyond highway construction and maintenance, DOTD is responsible for intermodal transportation planning to provide a system effectively tying together the various modes of transportation − airports, ports, trucking, public transportation, railroads and even bicycle paths. Ports receive substantial state aid while airports and public transit receive a modest state match for federal aid. The statewide transportation plan calls for $1.6 billion for non-highway infrastructure over 30 years, including $175 million for light rail from the New Orleans airport to downtown. The current transportation funding structure does not support this construction plan.

Funding Crises Loom

The three separate transportation funding crises looming on the horizon will each require a different federal or state response. Both the federal and state transportation funds are dwindling in comparison to needs, and Louisiana's TIMED program has run out of funding to continue a set of constitutionally mandated projects.

National Funding Crisis The federal aid that normally pays for roughly half of the state's highway construction is becoming uncertain. A complete redrafting of the federal highway act, which expires this year, may be postponed. The volume-based, 18.4-cents-per-gallon federal fuels tax has steadily lost ground to inflation and, more recently, to a reduction in gasoline use. Recent congressional action temporarily plugged an $8 billion hole in the federal Highway Trust Fund averting major aid cuts this year. Without a sizeable federal fuels tax increase or other new revenue, states could suffer significant cuts in federal highway aid in the near future.

State Highway Funding Crisis Louisiana's Transportation Trust Fund (TTF) supports the Louisiana Department of Transportation and Development (DOTD) operations ($546 million this year) including administration, engineering and highway maintenance districts; a portion of this year's $1.3 billion highway construction program; and some constitutionally required dedications and non-highway expenditures. The TTF receives the 20-cents-per-gallon gasoline and motor fuels tax and federal highway and aviation funds. The TTF faces the same problems of inflation and declining gasoline use that have devastated the federal highway fund. The 16-cent basic tax enacted in 1984 is now equivalent to about 7 cents, and collections actually declined by 1.1 percent from FY07 to FY08.

DOTD has argued the need for an additional $650 million per year for highways and bridges. A new dedication of motor vehicle sales tax revenues to the TTF was to be phased in beginning in FY09 and ultimately shift $391 million a year from the general revenue fund by FY15. However, a provision triggered by a deficit forecast has stopped the dedication for FY09 and possibly for future years as well. If the phase-in continues, the TTF could see a healthy annual growth for the next six years, but would again begin losing ground when the phase-in is complete. A recent lobbying effort was aimed to get $600 million a year in added highway spending by accelerating the sales tax phase-in and shifting other revenue and expenditures to the TTF. The difficulty with these proposals is that they all would divert funding from other state purposes without adding new revenue to the pot.

TIMED Funding Crisis The Transportation Infrastructure Model for Economic Development (TIMED) program, created in the Constitution in 1990, specified 16 projects to boost economic development. To pay for the projects, a dedicated 4-cents-per-gallon gas tax was levied. The original cost estimate of $1.2 billion has since ballooned to $5.2 billion. Two major bridge projects are still underway and two major projects have not yet gone out to bid. Money on hand will run out by June stopping construction on the two bridges.

The 4-cent tax will not fully support the nearly $1 billion in bonds needed to finish the projects currently under contract, if and when bonds can be sold. The regular TTF 16-cent tax revenues will have to make up the difference if the state cannot find another revenue source.

The cost of the final two projects is not yet known, but would require millions of dollars each year, for decades. Requiring the TTF to pick up the funding for these projects and/or for completing existing contracts would delay priority program projects and lead to further delay in addressing the state's backlog of standard maintenance projects.

Conclusion

In recognition of Louisiana's tremendous transportation infrastructure needs, the Legislature in recent years has directed surplus revenue and redirected general fund revenue to transportation construction. However, much of the added revenue was temporary and the new dedications fall short of what is needed to effectively attack the $14 billion backlog in existing highway needs, much less undertake desired mega-projects. Louisiana currently faces a potential highway funding crisis on three fronts, each with a different timeframe for required action.

A potential federal highway aid crisis must be addressed at the national level. Louisiana, in concert with other states, can only petition and cajole congress to act responsibly.

Immediate action is required to assure sound funding for completion of the TIMED program without draining funds from regular highway construction and maintenance.

Action is not required this session to deal with the slow growth of the TTF; however, serious planning should begin so that legislation can be enacted within the next few years. The state needs to adopt a rational approach to adequately address its highway funding needs and place the TTF on a sound footing for the future without waiting for either a budgetary or disaster-related emergency to prompt action.

If these three problems aren't addressed, the potential crisis situations include: another unexpected drop in TTF revenues, a loss of federal aid, a decision to bail out the TIMED program with TTF revenue or the termination of the new dedication phase-in.

Most of the proposed transportation mega-projects, currently beyond the state's funding ability, are primarily of regional interest and are not urgent statewide priorities. These will require unique and individual funding approaches involving cooperative efforts of the localities, state, federal and, perhaps, private entities. A special commission should be created and charged with assessing funding options and recommending legislation.

A second PAR report on highway funding will evaluate the potential for providing additional funding through traditional revenue sources and examine innovative approaches, including public-private partnerships, to fund mega-projects.

INTRODUCTION

Is Louisiana facing a highway funding crisis? The state's fortunate three-year period of higher-than-normal revenue growth has provided an opportunity, unprecedented in several decades, to cut into a $14 billion backlog of highway projects. The surpluses of FY06 and FY07 and the recent $1 billion issuance of TIMED revenue bonds have been supporting a construction program that has averaged $1.5 billion a year for four years running. While another $1 billion in planned TIMED bonds and $308 million in federal stimulus funding could continue the building for a couple of years, hopes of highways getting a large portion of the $865 million, FY08 surplus are dimming. Money for new construction may soon become scarce and even basic highway maintenance could feel the pinch.

The temporary increase in funding has not altered the long-term trends. The traditional user tax base for highways has not kept pace with construction cost inflation—a situation the Louisiana Department of Transportation and Development (DOTD) has referred to as "the Transportation Trust Fund crisis." In addition, a congressional bailout temporarily averted a national crisis as a deficit in the federal Highway Trust Fund threatened to cut aid to the states. Another crisis has arisen in the TIMED program, which has run out of bonding capacity to begin the last two projects or to finish two major bridge projects now under construction. A crisis of expectations is occurring at the regional level where local groups are struggling to find funding for new major state highway projects to spur their local economies. The highway construction industry is facing a sharp drop in state work when the surplus and TIMED bond money runs out. The prospect of continued tight highway budgets in the future means fewer state resources directed to non-highway modes of transportation.

The Legislature recently took steps to deal with several of these situations. Primarily, it dedicated to highways significant general fund revenues that, at best, may only be enough to compensate for inflation and the slowdown in motor fuel taxes over the next six years. If this is the case, the backlog in work on the existing system will continue to grow and new construction projects will remain on the shelf once the current and expected construction funds have been spent. Capital outlay funded by excess revenues has provided a boost in infrastructure building that will be short-lived. A recent dedication of revenue to non-federal-aid-eligible highways provided only a partial solution to the chronic lack of state funding for these essentially local roads.

Considering the nearly $1.2 billion in general fund surplus money that has been directed to highway construction in the last two years, it is difficult to think of Louisiana's current transportation funding as being in crisis. Yet, Louisiana faces significant funding problems and uncertainties in the short run and, in the long run, the cost of meeting the state's transportation needs will continue to outstrip available revenues. This will undermine the development of the efficient intermodal transportation system that is essential to expand the state's economy.

This report examines the severity of the "crises" facing the state in adequately funding the maintenance and construction of state highways and bridges. A follow-up report will deal with the potential for expanding highway funding using traditional revenue sources and the more innovative funding approaches, such as public-private partnerships, particularly for financing transportation-related mega-projects.

HIGHWAY AND BRIDGE CONDITIONS

DOTD claims responsibility for 16,691 miles of roads, including 903 miles of interstate, and 7,914 state-owned bridges. Another 44,235 miles of road and 5,261 bridges are under local control. National comparisons indicate that Louisiana's total road mileage, licensed drivers and miles driven correspond to the state's share of the national population, roughly 1.5 percent (see Table 1). However, the state has a higher relative share of interstate mileage, bridges and state-owned highway mileage. Louisiana's road and bridge condition ratings are significantly worse than the national averages.

The Reason Foundation recently published its 17th annual report on the performance of state highway systems, which ranked Louisiana 40th in overall performance and cost-effectiveness based on 2006 data. This was down from 30th place in 2005. This drop in ranking was attributed to a rise in the percentage of rural interstates in poor condition and an unusually large increase in capital outlay and bridge disbursements. However, the rankings failed to recognize that much of the increase in disbursements resulted from federal aid for hurricane recovery and the expedited TIMED program.

While other measures used in the overall ranking may also have been affected by the 2005 hurricanes, there is no denying Louisiana's poor relative standing in most areas. The state ranked 32nd in urban interstate congestion, 44th in rural interstate condition, 42nd in urban interstate condition, 17th in deficient bridges and second highest in highway fatality rates.

Highway Conditions

The share of Louisiana highway mileage that is rated to be in mediocre or poor condition was considerably higher than the U.S. average in 2006. DOTD's most recent assessment of highway needs (published in 2007) found $14 billion in work that needed to be done on the existing state roads. While the state has apparently been able to stem the growth in the deficiencies, the estimated cost of repairing the deficiencies in the system has continued to grow rapidly.

Table 1. Comparing Highway Related Measures, Louisiana and U.S.

Rank		Louisiana	United States	La./U.S.
25	Population 2006	4,287,768	299,398,484	1.4%
24	Licensed drivers 2006	3,014,191	202,810,438	1.5%
27	Vehicle miles traveled 2006	45,417,000,000	3,014,116,000,000	1.5%
33	Public road/street mileage 2006	60,926	4,016,734	1.5%
25	Urban road mileage 2006	15,933	1,029,363	1.5%
32	Rural road mileage 2006	44,993	2,987,371	1.5%
25	Interstate mileage 2006	903	46,630	1.9%
21	Bridges 2007 (state and local)	13,342	597,620	2.2%
24	Toll road mileage 2005	2	4,622	0.0%
10	% Highway mileage state owned 2006	27%	19%	142.1%
44	Roads in poor condition 2006	13.26%	7.75%	171.1%
15	Bridges % deficient 2007	29.7%	25.3%	117.4%
49	Highway fatality rate/100M miles 2006	2.16	1.41	153.2%
31	% Urban freeways congested 2006	17.98 %	21.18 %	84.9%
27	% Urban freeways congested 2000	7.8 %	13.5 %	57.8%
26	Federal highway funding 2008	$535.9 M	$35.1 B	1.5%
27	Federal funding per capita 2008	$125	$116	107.8%
13	Federal funding per capita 2006	$155.81	$ 104.13	149.6%
36	% Road/Street mileage federally funded 2005	22.0%	24.5%	89.8%
15	Motor fuels excise tax per capita 2006	$153	$120	127.5%
28	Gasoline tax per gallon 2007	20 cents	21 cents	95.2%
49	Average miles per gallon 2006	13.32	16.76	79.5%
50	MV and operator license per capita 2006	$33.95	$70.81	47.9%
23	MV registrations 2006	3,872,744	244,165,686	1.6%
44	% Poor miles rural interstate 2006	7%	2 %	350.0%
42	% Poor miles urban interstate 2006	10%	5%	200.0%
45	% Poor miles rural arterial 2006	5%	2%	250.0%
49	Fatality rates/100 million miles 2006	2.16	1.42	152.0%
	Reason Foundation Data			
18	Ratio lane miles/State mileage 2006	2.30	2.37	97.0%
22	Receipts/State mile 2006	106,032	128,538	82.5%
32	Cap. outlay/Bridge $ exp./Mile 2006	74,886	67,089	111.6%
35	Mntc. $ exp./Mile 2006	28,082	20,953	134.0%
6	Admin. $ exp./Mile 2006	2,832	8,611	32.9%
23	Total $ exp./Mile 2006	111,319	122,254	91.1%
37	% Deficient bridges 2006	29.88	24.13	123.8%
32	% Narrow lanes, rural 2006	9.98	10.6	94.2%

SOURCES:
- *Morgan Quitno, State Rankings, various years and CQ, State Rankings 2008.*
- *Driving Louisiana Forward*
- *Reason Foundation, 17th Annual Report on the Performance of State Highway Systems (1984-2006) July 2008, David T. Hartgen and Ravi K. Karanam [2006 data]*
- *U.S. Department of Transportation, Federal Highway Administration, Highway Statistics 2006, Report Number: FHWA-PL-08-018*

NOTES:
- *The national data differ slightly from DOTD data on miles of highway and number of bridges.*
- *TIMED bond receipts may be shown in receipts although not spent that year.*
- *35 states also charge a sales tax and/or other taxes in addition to the motor fuels tax. 9 states also have additional local fuels taxes.*

Bridge Conditions

A recent U.S. Department of Transportation report shows that as of 2006 13.7 percent of Louisiana bridges were structurally deficient and 16.4 percent were functionally obsolete. These percentages are only slightly higher than the national averages of 12.4 percent and 13.4 percent, respectively. However, Louisiana has nearly 50 percent more bridges per capita than the United States as a whole, three times the bridge area per capita and more than three times the bridge area per capita that is structurally deficient or functionally obsolete.

The fact that 30 percent of the state's bridges are categorized as deficient or obsolete does not mean that these bridges are on the verge of collapsing. Older bridges may be structurally sound but too narrow to meet current standards or might require weight restrictions and thus would be considered obsolete. Bridges deemed structurally deficient may require more frequent inspection and some repair work but again are not necessarily unsafe. However, a great deal of maintenance, upgrading and even replacement is needed.

The state is spending $172 million on bridges in FY09, up $13 million from last year. Congressional efforts to give states additional funding for bridges have stalled. In June, DOTD posted the 49-year-old Grand Ecore Bridge (1,879 feet) over the Red River, banning heavy vehicles due to deteriorating concrete. No other large bridges have been closed or posted recently. Of the 43 bridges posted in 2008, all but one were under 300 feet.

Outlook Louisiana's highway and bridge conditions rank poorly in a nation struggling with a decaying infrastructure. This situation has existed for years and cannot be completely corrected for years to come regardless of how much additional money the state can spend. However, targeted improvements in the system could enhance business attraction and expansion as well as tourism. Poor roads carry added expenses for users and are a matter of life and death for those potential victims of accidents caused by structural deficiencies.

THE $14 BILLION BACKLOG

DOTD conducts an annual assessment of unmet needs of the existing state highway system. This assessment excludes new proposed so-called "mega-projects" such as I-49 North, I-49 South or the proposed Baton Rouge and Lafayette loops. Due to a change in administration and in the assessment methodology, the 2007 and 2008 needs studies were delayed but are due in early 2009.

The 2006 "Highway Unmet Needs" report, published in 2007, estimated the cost at $14 billion. The types of work needed are presented in four categories as follows:

Pavement preservation	$ 814 million	5.8%
Bridge preservation	2,110	15.1%
Safety	3,249	23.2%
Capacity projects	7,837	55.9%
Total	$ 14,010	100.0%

Capacity projects make up a majority of the backlog project costs and include such things as additional lanes, widening and other improvements to increase traffic flow.

The unmet needs assessment is not to be confused with the highway priority plan that lists projects to be funded in the annual operating budget. DOTD has about $400 million a year in discretionary funds to address the unmet highway needs, yet the total cost of meeting those needs continues to grow. The cost of the unmet needs backlog has doubled since 1998. However, recently this growth has been due primarily to the increase in construction and materials costs rather than an increase in the amount of actual work required.

If one considers the backlog similar to a 20-year mortgage and assumes a very conservative cost inflation rate of 4 percent, then eliminating the backlog over 20 years would require an additional $1 billion expenditure each year over that period. With or without additional funding, many of the required improvements to existing roads will have to wait for years. But the added funding would substantially shorten the wait. It is imperative that DOTD's annual assessment accurately prioritizes the needed projects and identifies those that are critically time-sensitive.

Impact of Backlog on Priorities

With limited revenues, DOTD's method for setting spending priorities ensures that some projects in each of the categories of preservation, safety and capacity (congestion mitigation by widening, adding lanes, etc.) make it into the annual highway priority plan. This approach also makes it less likely that large new projects are initiated. It is difficult to justify funding one major project in place of dozens of smaller badly needed projects.

Outlook The $14 billion backlog in highway deficiencies is certainly a significant problem, but one the state has struggled with for years. DOTD's new highway needs update will provide a better idea of whether the state has made any headway recently on the backlog with the influx of surplus cash. While the growth in the backlog may have been temporarily halted, maintaining the status quo means maintaining a substandard system. Unfortunately, several fiscal problems on the horizon could begin a further deterioration in the quality of the highway system within a few years.

Highway Priority Program

The state's Highway Priority Program is a process by which construction projects are selected for inclusion in the annual budget to be funded by the Transportation Trust Fund (TTF). The process begins with DOTD's ongoing needs analysis that grades potential projects using various measures of condition and use. A preliminary list of projects is prepared for each of the nine highway districts and public hearings are held in each district by the Joint Legislative Committee on Transportation to get input from elected officials, metropolitan planning organizations and the public. In-house committees make the final selection of projects considering the input received, timing of the project, costs and budget limits. Projects are selected for several major categories: preservation, safety, capacity and operational efficiency/motorist assistance (rest areas, traffic control devices, etc.). Preservation projects are further subdivided into on- and off-system bridges and interstate and non-interstate pavement. The Legislature cannot add but may eliminate projects in the Highway Priority Program submitted by DOTD.

MEGA-PROJECT FUNDING

The Louisiana Investment in Infrastructure for Economic Prosperity Commission (LIIEP) was created in 2001 to rank and prioritize transportation-related economic development projects. These projects were to be supplemental to and not a replacement for the highway priority program. The ranked projects were not in the priority program, but were eligible for federal funding.

The Intermodal Advisory Council, with input from a variety of transportation advisory councils, submitted a draft plan to the LIIEP. The planning consultant, Wilbur Smith Associates, conducted an analysis and prepared the final report, "Louisiana Statewide Transportation Plan" (LSTP), which was released in 2003. With some cost updating, this will remain the operable long-range plan until a complete update can be done using 2010 census data for travel estimates.

As an intermodal plan, the LSTP is concerned not only with highways but with all of the inter-related transportation elements: aviation, ports, mass transit, rail, freight and even bicycle paths. The next plan update will include the additional non-transportation infrastructure for flood control, water resources and hurricane protection.

The plan identified $16.7 billion in mega-projects (high-cost, capacity-enhancing projects of statewide interest) and suggested blocks of projects that might be undertaken over 30 years depending on the level of funding provided. The plan presented several scenarios. Under the least aggressive scenario (continuing existing revenue without inflation adjustments), DOTD would be basically a maintenance operation with only $125 million to spend on small capacity projects each year for seven years. The most aggressive funding scenario presented (adding $250 million in new state money and $150 million in federal money for a total of $400 million each year, with revenues periodically adjusted for inflation) would have funded $6 billion in construction, leaving $10 billion in projects undone after 30 years. DOTD has since raised the additional revenue requirement for the most aggressive funding scenario from $400 million to $650 million a year.

Now, five years later, some new revenue is possibly being added. To help with mega-projects, a special Transportation Mobility Fund was recently created and granted 7 percent of the motor vehicle sales tax dedication to transportation that is to be phased-in by FY15. However, this very small dedication will not be appropriated this year and, if fully phased in, will provide less than $30 million a year.

Even if the phase-in of this revenue is allowed to continue to completion in 2015, it would amount to only about half of the $650 million addition suggested in the plan's best funded scenario. That percentage could be much less depending on inflation and possible losses in existing revenue.

Outlook The LSTP list of mega-projects is a long-range program designed for 30 years but sure to take longer. While the mega-projects are highly desired by regional economic developers, there is no critical immediacy to undertaking most of them. (The LA 1 project has been one of the significant exceptions and is well underway.) Many of these mega-projects are based on the "field of dreams" concept of build it and they will come. They are all quite beyond the state's ability to fund single-handedly and will require a combination of federal, state, local and possibly private funding through innovative partnerships.

Undertaking new mega-projects when the revenue/needs gap is already large and growing will require stepping outside of the existing funding pattern. The TIMED program did this by dedicating a new funding stream, but increasing the gas tax was not stepping far out of the box. Furthermore, the new tax was offset by eliminating the state sales tax on gasoline. More innovative funding approaches are being considered for some of the new proposed mega-projects.

NON-FEDERAL AID HIGHWAYS

Some 6,000 miles of minor, low traffic routes in the state system are ineligible for federal aid. These non-federal aid (NFA) roads have for many years been a lower priority as the state tried to leverage the most federal aid with the matching state dollars available. This was a particular concern for rural residents and their legislators. The problem came to a head in the 2004 legislative session as numerous bills unsuccessfully proposed the dedication of various revenue sources to deal specifically with these roads.

In 2006, the Legislature enacted a phased-in dedication of truck and trailer vehicle license tax revenue to the State Highway Improvement Fund (SHIF) to fund NFA roads. The fund will be receiving about $40 million a year. This was three-quarters of the $60 million DOTD originally estimated would be needed to maintain these roads. However, the cost estimate has since been doubled to $120 million, thus reducing the impact of this relief effort.

It should be noted that many, but certainly not all, of these NFA routes are among the 5,000 miles of the state system that the state plan has suggested should be returned to local control. That suggestion, while reasonable, would have to be accompanied by additional local revenue authority or the state would remain on the hook to aid local governments.

Outlook A politically sensitive situation was apparently ameliorated by the new revenue dedication. However, the new cost estimate doubled the expected funding requirements raising questions regarding the future maintenance of the NFA roads. At best the dedicated revenue will cover only one-third of the cost and the disparity will likely grow over time.

FUNDING OTHER MODES OF TRANSPORTATION

DOTD is responsible for intermodal transportation planning that aims to provide a system effectively tying together the various modes of transportation. The department has program responsibilities involving 61 general aviation and seven commercial airports; seven deep draft and 32 shallow draft ports; public transportation systems in 38 parishes and 19 freight railroads. The airport, port and transit systems are operated by separate authorities, each with its own revenue and bonding authority. Railroads are operated privately. State funding provides special types of limited infrastructure assistance to the entities. While state transportation funding goes primarily to highways and vehicular travel, the state also has a limited role in funding aspects of other modes of transportation.

The 2003 statewide transportation plan, in its next to most aggressive funding scenario, proposed spending an additional $1.6 billion over 30 years for non-highway modes of transportation. This was to include additional one-time spending of $175 million for light rail between New Orleans airport and downtown, $100 million for a new runway at New Orleans airport and $5 million for a one-stop truck center.

The plan also called for $89 million in additional annual state spending, much of it to match federal and local spending, including $40 million more for the port priority program, $20 million for an intermodal connector program (access to ports, airports, etc.) and $10 million for aviation infrastructure. Smaller amounts were proposed for local mass transit, maintaining the truck center, railroad improvements, rail crossings, and marketing for aviation and maritime. Since 2003, none of this proposed additional spending has been enabled except in the case of the port priority program, which received one-time infusions from the state's surpluses for FY06 and FY07.

The federal stimulus program will provide $63 million for public transit in Louisiana with $48 million going to urban transit and the remainder to rural areas. The state will also share in airport funding and can compete for high speed rail, maritime and multi-modal grants.

AIRPORTS

DOTD develops a five-year aviation priority program, the first year of which becomes the annual aviation capital outlay budget. The state portion of the funding comes solely from the sales tax on aviation fuel. The current FY09 priority program includes 21 air carrier and 26 general aviation infrastructure projects for a total cost of $65 million. The state puts up $6.2 million to match $58 million in federal money. The state spends another $2 million on a number of aviation-related programs for a modest total state expenditure of $8.2 million.

There is a large backlog in unfunded projects. The Aviation Program for FY09 includes 48 unfunded commercial service airport projects at a cost of $187 million and 214 unfunded general aviation airport projects totaling $142 million. The amount of the aviation fuels tax dedication is scheduled to triple in FY10 (from $9.7 million to $29.8 million) due to a triennial reassessment procedure that is used to estimate the taxes collected. This will reduce the TTF money available for highways by $20 million.

It is yet to be seen what role state funding might play in certain proposed aviation mega-projects such as the state assumption of the New Orleans airport or the creation of a new freight airport between Baton Rouge and New Orleans. However, it is assumed that the freight airport primarily would involve private investment.

Public Transportation

DOTD functions as a pass-through agency for federal money to metropolitan transit planners and rural transportation programs serving primarily the elderly and disabled. Local public transit is basically on its own. DOTD's $22.4 million public transportation budget for FY09 is primarily federally funded. The $63 million in stimulus funding is a shot in the arm for the local transit systems. However, the impact will be limited since it is being allocated among 38 parishes.

New Orleans officials claim rapid transit between the city and the North Shore and the airport is essential to its economic development. There also remains some interest in rapid transit between Baton Rouge and New Orleans. However, there is no ready funding for these mega-projects.

Ports

DOTD also develops a Port Construction and Development Priority program for infrastructure improvements and an annual appropriation is made from the TTF to fund it. The funding was $25 million for FY08 and $22.3 million for FY09. In these two years, however, ports have received considerable appropriations from the FY06 and FY07 surpluses. The priority program received a total of $42 million from the FY06 surplus. The $1.1 billion FY07 surplus provided $42.4 million for the port priority program, $24.6 million for a Port of New Orleans container terminal and $10 million for the Port of Terrebonne. While the projects singled out for funding may be very important, it does raise a question as to why this money was not run through the port priority program.

In addition to this funding, port and harbor district projects are included in the bond portion of the capital outlay budget. For example the FY09 budget includes nearly $55 million in projects for 16 districts; however, $33 million of that amount is in priority 5 where it is unlikely to be funded for some time. The ports cannot count on receiving part of the FY08 surplus and will likely have to return soon to their previous level of funding for the foreseeable future. There is no stimulus money for large ports; however, small shipyards will be able to compete for maritime grants.

Freight Rail

The state has helped local development groups with providing rail spurs to prospective industrial sites. Funding for these projects is often run through the Department of Economic Development rather than through DOTD. Some spur work is done by port districts. Except for some rail crossing issues, the state spends very little to assist railroads.

TRIO OF CRISES: FEDERAL, STATE AND TIMED

NATIONAL HIGHWAY FUNDING CRISIS

The federal Highway Trust Fund, which pays for 45 percent of the nation's road and bridge building, ran out of money in 2008. Louisiana was set to lose $130 million in funding in FY09 and $160 million in FY10; however, an $8 billion general fund bailout was finally enacted to prevent massive cuts in federal highway aid. In spite of this short-term solution, the future of the federal highway trust fund remains in doubt as motorists drive less, federal gas tax revenues decline and Congress continues to avoid a gas tax hike.

The prospects for future funding of the nation's highways are grim. A recent Reason Foundation report shows that highway spending rose about 50 percent in eight years prior to 2006. The 2005 federal highway bill added some funding but the level of that funding has remained flat since then and the future of the federal Highway Trust Fund is now uncertain.

The federal highway act expires in September of this year and must be entirely rewritten and adopted. Failure to enact new legislation and adequately fund the trust fund could result in an estimated 30 percent loss in federal aid to the state.

On the positive side, the federal economic stimulus package should help to temporarily bolster Louisiana's highway construction program. Louisiana is expecting $430 million for highway and bridge construction and another $63 million for local public transit. However, $119 million of the highway funds would go to local governments, leaving DOTD with $298 million in discretionary spending. The state-level funding, spread over two or more years, would cover only one-fourth of the $1.3 billion DOTD requested for prioritized, “shovel-ready” highway construction projects and will make little headway on the state’s construction backlog.

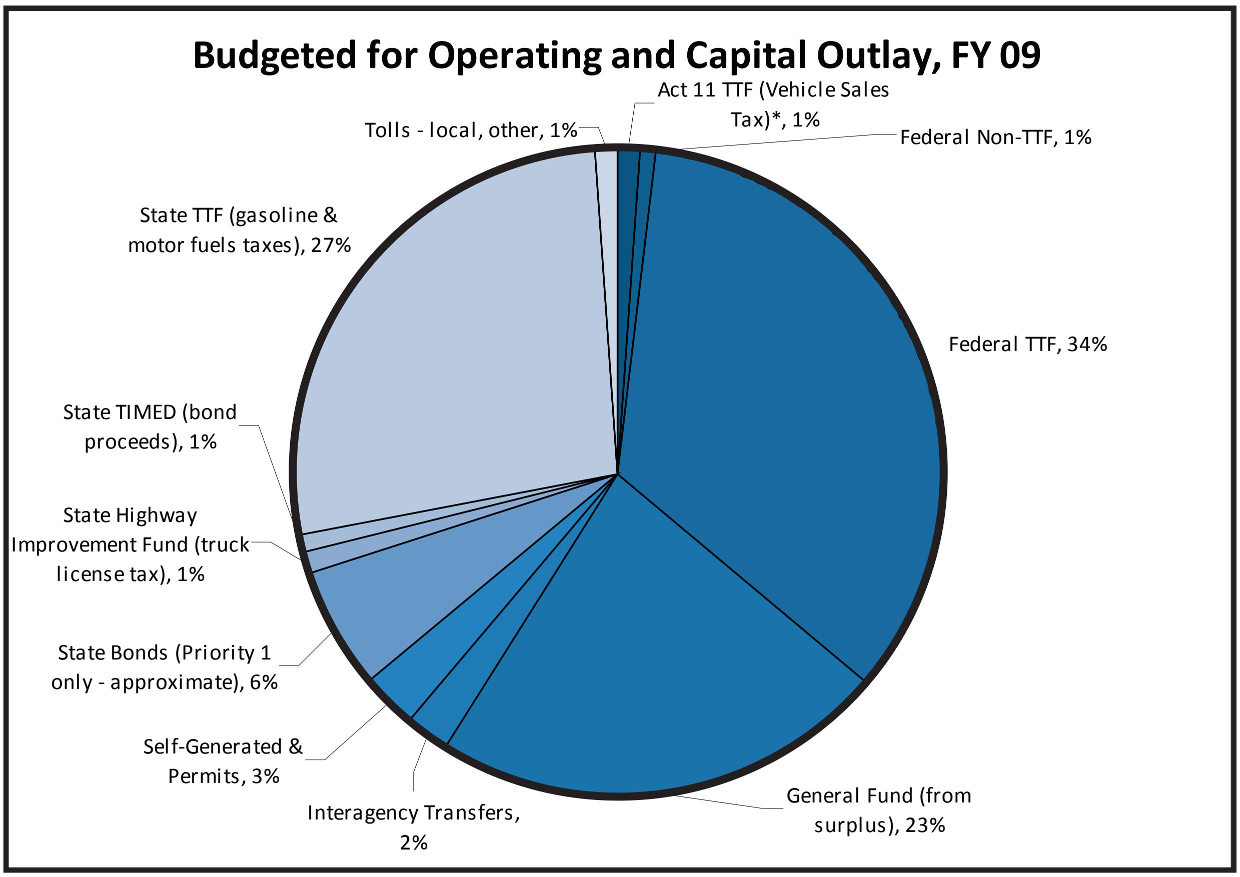
Outlook The loss of federal aid or a significant portion thereof would be a serious blow to Louisiana’s highway maintenance and construction programs. The immediate crisis was temporarily averted, but, until Congress acts, a potential crisis remains.

The stimulus package will help buoy state highway construction for a couple of years. However, once this money is exhausted, Louisiana’s basic highway funding problems will remain.

STATE HIGHWAY FUNDING CRISIS

Louisiana’s Department of Transportation and Development (DOTD) is funded from the following sources. However, the motor fuels (gas) tax and federal funds provide the bulk of the revenue:

- 20 cents per gallon (cpg) gasoline and motor fuels tax (16 cpg basic plus 4 cpg for the TIMED Program)
- Federal funds (18.4 cpg tax, transit funds, earmarks)
- Self-generated revenue (weights, fines and interest)
- Tolls (Crescent City Connection—bridge and ferry tolls)
- Vehicle license tax (originally budgeted for FY09, has been suspended)
- State General Fund appropriations
- State capital outlay bonds
- Motor vehicle sales tax (beginning FY09)
- Inter-agency transfers (IAT)



SOURCE: DOTD
**suspended for FY09 at mid year.*

The gasoline and motor fuels tax, Louisiana's primary source of state funding for highways, averaged a 2.01 percent annual growth in collections from 1991 to 2007 (inflation averaged 2.67 percent annually for the same period.) Just prior to the storms, however, these revenues were growing at only 1.2 percent to 1.8 percent a year.

Collections grew rapidly in the first two years after the hurricanes due to recovery activity and long commutes. However, from FY07 to FY08, collections fell by 1.1 percent. The recent resumption of lower gasoline prices may signal an increase in driving; however, the volatility oil prices makes prediction difficult. In addition, a protracted slump in auto sales would seriously undermine vehicle sales tax revenues.

Proceeds from a $1.1 billion issuance of TIMED bonds inflated DOTD's FY07 budget, while appropriation of

Table 2. Transportation Revenues and Expenditures (in $millions)

	FY06 Budget	FY07 Budget	FY08 Budget	FY09 Budget[8]
Revenue				
State TTF[1]	521	584	630	599
Hwy. Improve. Fund[2]			10	33
TIMED TTF & bonds[3]	761	924	339	16
Self-generated[4]	44	58	88	64
Federal funds[5]	663	656	631	738
IAT[6]	7	32	46	35
G.O. bonds[7]	78	83	113	132
General Fund (surplus)	0	4	700	474
Total Revenue (Total w/o surplus)	**2,074**	**2,341**	**2,557 (1,857)**	**2,091 (1,620)**
Expenditures				
Operating budget	438	485	538	546
TIMED Program	755	918	336	12
Capital Outlay Hwy.	766	674	1,330	1,292
Total Hwy. Const.	(1,521)	(1,592)	(1,666)	(1,304)
Non-DOTD dedications	74	83	48	48
Capital Outlay non-Hwy	41	181	305	193
Total Expenditures	**2,041**	**2,341**	**2,557**	**2,091**

SOURCE: State Budget documents. Figures reported at the beginning of each fiscal year.

NOTES:

1. *State Transportation Trust Fund (TTF) includes 16-cent gasoline tax, vehicle sales tax, license fees, interest, weights permits and fines and aviation fuel sales tax.*
2. *State Highway Improvement Fund (HIF) includes 75 percent of the truck permit fees.*
3. *TIMED TTF represents the lettings scheduled.*
4. *Self-generated includes toll revenue from the Crescent City Connection, other state ferries and permit fees.*
5. *Federal funds include approximately 92 percent of the 18.5 cents per gallon in federal gasoline tax, transit funds and some opportunity grants.*
6. *Inter-agency transfers include payments to other state agencies such as Risk Management, Highway Safety Commission and others.*
7. *GO bonds and local match include state capital outlay bonds approved by Bond Commission in priority 1 and any local match for projects.*
8. *For FY 09, General Funds include Act 7 of 2008 2nd Special Session. Although approved as a supplemental appropriation for FY 08, it is included in this fiscal year due to timing on lettings.*

the FY06 surplus inflated the FY08 budget. However, the surplus was directed to specific projects. When gas tax collections dropped off leaving DOTD's operating budget $27 million short near the end of FY08, the Legislature provided $16 million in general fund money to partially make up the loss.

DOTD's FY09 budget is inflated by inclusion of a 2008 supplemental appropriation of $471 million in surplus general funds. In spite of this, total revenue for FY09 was down $466 million from the prior year. These wide fluctuations in revenues are reflected in capital outlay spending, whereas the DOTD operating budget only had a small (1.5 percent) one-year increase for FY09.

The FY10 highway budget will receive a modest boost from the federal stimulus ($308 million to be spent over a couple of years). It is uncertain whether highways will share in the FY08 surplus. However, if not further postponed, $485 million in TIMED bonds should be issued this year followed by a $500 million issue to complete two major bridge projects.

Roughly 40 percent of the $546 million operating portion of the FY09 DOTD budget is for the headquarters staff, including engineering, while the other 60 percent funds the maintenance crews and operating costs in the highway districts throughout the state.

Transportation Trust Fund

A 1989 constitutional amendment created the Transportation Trust Fund (TTF) and phased in the full dedication of revenues from gasoline, motor fuels and special fuels. Prior to this, general fund appropriations for transportation equaled less than 12 cents of the 16-cents-per-gallon tax. At the same time, an additional 4-cent tax was levied and dedicated to a list of 16 "TIMED Program" transportation projects fixed in the Constitution. This new tax levy was offset by the elimination of a state sales tax on gasoline. The 4-cent tax will remain dedicated until the TIMED bonds are paid off.

The TTF is constitutionally limited to paying costs associated with construction and maintenance of state and

Table 3. Forecast of Revenue Dedications to Transportation (in $millions)

Transportation Dedication	FY08	FY09	FY10	FY11	FY12	FY13
MFuels tax TTF	480.3	476.8	473.6	476.0	488.0	500.0
MV Lic. Tax TTF	43.9	33.9	34.6	38.0	41.6	42.0
Aviation fuel tax TTF	9.7	9.7	29.8	29.8	29.8	29.8
TTF int./fees	43.3	38.4	38.4	38.4	38.4	38.4
MFuels/TIMED	120.1	119.2	118.4	119.0	122.0	125.0
MV Lic. Tax HF#2	10.7	8.9	9.1	10.0	11.0	11.1
St. Highway Improve. Fund [1]	6.8	25.3	34.4	37.8	41.4	41.8
Unclaimed Prop/I-49	15.0	15.0	15.0	15.0	15.0	15.0
Total	**729.8**	**726.9**	**753.3**	**764.0**	**787.2**	**803.1**
% change		(0.4%)	3.6%	1.4%	3.0%	2.0%
Vehicle Sales Tax to TTF dedication phase-in [2]	0	26.0	53.0	86.7	155.5	235.5
Total (including vehicle sales tax)	**729.8**	**752.9**	**803.7**	**850.7**	**941.1**	**1,033.0**
% change		3.2%	6.7%	5.8%	10.6%	9.8%

SOURCE: Revenue Estimating Conference 2/17/09 forecasts for FY09 through FY13.

NOTES:

[1] Enacted in 2006, phased in over four years, a dedication of the vehicle license tax to the State Highway Improvement Fund, to fund projects on highways not eligible for federal aid. A Second S.S. 2008 act accelerated the phase-in to be completed in FY10 instead of FY11.

[2] A 2008 act phases in a dedication of motor vehicles sales tax to TTF over seven years, reaching $340 million or more by 2015. It allocates 7 percent of this dedication to the Transportation Mobility Fund. The REC excluded the planned dedication phase-in from its latest FY09-FY13 revenue forecasts explaining that the legislation apparently intended to disallow the dedication when the general fund revenue forecast fell below the earlier forecast of $9.7 billion for FY09. The forecasts for all years through FY13 fall below that figure.

federal system roads and bridges, flood control, ports, airports, transit, State Police for traffic control and the Parish Transportation Fund (PTF). The ports, flood control and PTF are limited to 20 percent of the state tax money in the fund. The PTF must receive no less than the equivalent of a 1-cent tax. All aviation fuel sales tax revenues must go for airports. All spending from the TTF on highways must go through the highway priority program.

Special session legislation last year dedicated the state sales tax on motor vehicles to the TTF and accelerated the phase-in of the truck license tax dedication to a new State Highway Improvement Fund for non-federal-aid-eligible roads. The budget for FY08 freed an additional $34.8 million in the TTF for transportation uses by shifting the funding for State Police traffic control from the TTF to the state general fund. This shift was continued in the FY09 budget, but traffic control remains a constitutional use of the TTF and the funding requirement could be easily shifted back. As explained below, the vehicle sales tax phase-in will not begin in FY09 as originally budgeted.

Revenue Projections

The most recent five-year projections show total state taxes, licenses and fees continuing to decline through FY10 from the FY08 post-storm peak and then begin some growth. However, these revenues are expected to be only 96.4 percent of the current (FY09) level by FY13. By contrast, these revenues had nearly a 4.5 percent annual growth in the decade prior to the storm. Future revenue growth will remain at the mercy of a weak national economy and highly volatile energy markets.

The February 2009 revenue forecast projected motor fuels tax collections to rise only about 4 percent from FY08 to FY13. The annual growth rate is pegged to reach about 2.5 percent for FY12 and FY13.

As shown in Table 3, revenue dedications to the various transportation funds and purposes are forecast to grow slowly from FY09 to FY13—10 percent over four years. However, this forecast excludes the phase-in of the vehicle sales tax dedication, which had been scheduled to rise from 10 percent of collections in FY09 to 100 percent in FY15 (see Note 2). The mid-year recognition of a $1.3 billion revenue shortfall for FY10 has already triggered a provision nullifying the $26 million vehicle sales tax dedication for FY09. Depending on its ultimate interpretation, the provision also could cut the dedication in future years. Even if the dedication is determined to be applicable for FY10, there will likely be an effort in the upcoming legislative session to delay or discontinue the phase-in of the vehicle sales tax dedication and possibly the vehicle license dedication as well.

Initially, the vehicle sales tax dedication was forecast to reach $391 million by FY15 when fully phased in. Recent forecasts would lower it to about $340 million. Still, this revenue should grow somewhat faster than motor fuels taxes in the long run.

If the vehicle sales tax phase-in had proceeded as planned, it would have provided substantial growth in the total dedicated revenues at least through FY15. Annual growth in total dedications might have reached about 10 percent toward the end of the phase-in. After FY15, however, the rate of growth in total transportation revenues likely would have slowed significantly and again begun losing ground to construction cost increases once the phase-in was complete.

Construction costs are quite variable but have had large increases in recent years. Highway and construction producer prices were up 11.8 percent in January 2008 from the prior year, compared to a 4 percent rise in the Consumer Price Index (CPI) for the same year. Construction costs, which rose only about 2.5 percent annually from 1993 to 2004, jumped 43 percent from FY03 to FY07 while the CPI rose 12.7 percent. DOTD has projected a 70 percent increase in construction costs from 1993 to 2015; however, market volatility makes even short-term projections difficult.

The disconnect between the growth in construction costs and transportation funding has driven the estimated cost of unmet highway needs ever higher over recent years.

Outlook The use of state surpluses has provided temporary relief from the downward spiral in highway funding. The enactment of the vehicle sales taxes dedication promised to continue substantial growth in the Transportation Trust Fund, allowing it to hold its own against cost increases over the next few years. However, the dedication, nullified for FY09, is in danger of being further deferred or even repealed. The revenue forecasts indicate that after FY15 and possibly earlier, the TTF will again begin losing purchasing power. In the immediate future, transportation may actually fare better than many other state functions due to the TTF's constitutionally dedicated gasoline tax revenues.

Recent State Funding Legislation

The 2007 and 2008 legislative sessions were particularly active in highway funding legislation.

2007 Legislation
The capital outlay bill and supplemental appropriations enacted in 2007 authorized $1.5 billion in cash spending on highways. In addition there was another half-billion dollars in general obligation bond authorizations for state and local projects that are less certain to be funded soon.

Act 203 appropriated $695 million in one-time money to DOTD from the FY06 surplus. Of this amount, $600 million was for highway projects, primarily those in the FY07 priority program, which otherwise would not have been funded, and future year priority projects as well. The act also placed $53 million with DOTD for hurricane flood protection and $42 million for the port priority program.

Act 28, the capital outlay bill for FY08, authorized spending for the Highway Priority Program and specified state highway projects totaling $1.2 billion, of which $907.6 million was funded by cash and 25 specified state projects by $302.8 million in GO Zone bonds. Another 85 local road projects were included to be funded by $232 million in GO Zone bonds.

Act 320 amended a 2005 act creating an Unclaimed Property Leverage Fund. The act dedicates $15 million a year, beginning in FY08, from unclaimed property to a fund to be split between I-49 South and I-49 North. The fund can be used to support bonds or on a pay-as-you-go basis, but must be used to match federal funds.

Act 18, the budget act, moved $34.8 million in funding for State Police traffic control from the TTF to the state general fund.

2008 Legislation
Act 7 of the second extraordinary session appropriated $530 million of the FY07 $1.088 billion surplus for transportation-related purposes. Including the road work for a cyber center and parish bridges, but excluding the port projects, the total surplus allocated to highways and bridges was $396 million.

Act 11 of the second extraordinary session enacted the seven-year, phased-in dedication of the state sales tax on motor vehicles to transportation beginning in FY09. Required allocations of the money include 93 percent to the TTF and 7 percent to the Transportation Mobility Fund. The TTF money is further allocated: 30 percent to capacity projects, 7 percent to port projects and 63 percent to priority projects. The dedication is to be reduced by the amount of a deficit in the current year resulting from a lowered official revenue forecast.

Act 11 also accelerated a phased-in dedication (enacted in 2006) of truck and trailer vehicle license tax revenue to the State Highway Improvement Fund (SHIF).

Act 29 of the 2008 regular session authorized capital outlay spending on state projects totaling $973.2 million, of which $828.3 million was cash and $144.9 million was general obligation bonds. Another $73.4 million in GO Zone bonds was authorized for 56 local road projects.

TIMED PROGRAM FUNDING CRISIS

The constitutional amendment creating the Transportation Infrastructure Model for Economic Development (TIMED) program specified 16 projects to be funded by a 4-cent gasoline tax. The total cost of these projects was estimated at $1.2 billion in 1990 but has since risen to more than $5.2 billion. Remaining major projects underway include a new, $404 million Mississippi River bridge at St. Francisville (Audubon Bridge) and the $1.2 billion Huey P. Long Bridge expansion. The cost of bridge construction rose dramatically after 2005 due to the storms, the price of steel and the scarcity of bridge contractors. Available money for the two bridge projects is running out, and construction could be halted if bond money or other sources cannot be tapped by mid-2009.

Early in 2008, the DOTD secretary told the Legislature that the TIMED program was bankrupt and the situation has since worsened. The dedicated 4-cent gas tax is no longer sufficient to support the debt needed to complete the projects already under construction, much less to fund the last two major projects - a Florida Avenue bridge in St. Bernard Parish and the LA 3241 corridor in St. Tammany Parish. These two are the only TIMED projects not completed or currently under construction.

Total project costs, without the last two projects, are pegged at $4.6 billion, which would have been covered with two more planned bond issues ($485 million in 2008 and $500 million in 2010.) However, the $485 million issue was a swap arrangement that has run into problems in the national credit crunch and has been delayed. The 2010 issue could be delayed as well. With the decline in gasoline tax collections, the dedicated TIMED revenues can no longer fully support these two planned bond issues.

Funding the two bond issues would require additional revenue equivalent to one-quarter of a cent of the 16-cent tax beginning in 2010 and growing to 2.5 cents by 2045.

An added problem with the $485 million swap is that the state could be stuck with a $130 million (or greater) termination penalty if it is not able to meet the terms of the agreement and sell bonds by May.

Outlook DOTD takes the position that it has a constitutional responsibility to complete all of the TIMED projects. The final two projects do not represent an immediate funding crisis. One requires a two-year environmental study and options for the second are still being debated. On the other hand, discontinuing work on the two major bridge projects currently underway would be a tremendous waste. However, forcing DOTD to dip into regular TTF funds to support the new debt needed for unfinished TIMED projects would increasingly compromise the highway priority program. The state cannot afford to delay finding a satisfactory funding solution to complete the TIMED projects, protect the TTF and avoid the costly bond swap termination penalty.

THE ANNUAL HIGHWAY REVENUE DEFICIT

Calls for increased highway spending continue to be made by local development groups, highway user groups, contractors and transportation planners. Successive administrations at DOTD have argued the need for additional revenues. Yet, there has been no discernible citizen or legislative interest in supporting new or additional taxes for highways. Political objections have often been grounded in the argument that DOTD must improve its efficiency before new taxes or other revenues could be considered. The recent new revenue dedications and surplus appropriations may represent tacit recognition that there have been improvements in the efficiency of highway operations.

With each successive state administration, there has been a renewed effort to reorganize, redesign, right-size or down-size DOTD. Not all of these efforts have been deemed major successes; however, the department has cut its staff nearly by half in the last 20 years. One would hope that this has been accompanied by improved efficiency and productivity and not simply a reduction in work being done. Comparative data from the recent Reason Foundation report indicate that DOTD may have achieved a relatively high degree of administrative efficiency. The report ranked Louisiana 23rd in total spending per mile of highway (91 percent of the U.S. average), but sixth lowest in administrative expenditures per mile (33 percent of the U.S. average). Care must be taken in attempting to interpret these data. Lower in-house design and other administrative costs can be achieved by outsourcing, which could be more expensive. Also, state highway agencies may differ widely as to their functions.

DOTD's July 2007 analysis of what it called "Louisiana's TTF Crisis" claimed the department needed an additional $500 million a year to improve the transportation system. Driving Louisiana Forward, a state-level organization of highway users and construction firms, has promoted increased highway spending and suggested that an additional annual revenue of $450 million to $515 million would represent solid growth. Both of these pronouncements preceded the decline in gas tax revenue and the addition of the dedicated auto sales tax. More recently, Driving Louisiana Forward has been lobbying for an added $600 million a year in highway spending by accelerating the sales tax phase-in and shifting other revenue and expenditures.

As discussed above, DOTD estimated an updated annual added cost of $650 million for an aggressive effort to take on the highway needs backlog and begin to make a serious dent in the mega-project list. The new dedicated vehicle sales tax revenues would provide only about half of the $650 million amount and then, only if and when the phase-in is completed in FY 2015. That would leave funding roughly $300 million short of the aggressive funding scenario. The delay due to the phase-in and the shortfall in ultimate funding would allow the highway backlog to grow by at least several billion dollars more by 2015.

There is some question as to how much of a net increase this new $340 million or so could provide after six years of cost inflation and the expected slow growth in the other TTF revenue are factored in. One thing is clear: Inflation aside, it would take 41 years to eliminate the current $14 billion backlog at $340 million a year. Even adding the full $650 million that DOTD has suggested would take about 22 years. This assumes no additional federal aid, no diversion of funding to finish the TIMED projects or any of the other mega-projects and no new needs arising. Completing the TIMED program could require many millions more.

The current highway funding structure should be able to maintain the status quo regarding the projected backlog of existing needs for the foreseeable future, although the total cost may continue to rise due to inflation. Once the last of the state surplus and federal stimulus money is gone, there are no foreseeable new revenue sources on the horizon to make inroads on the backlog or to fund mega-projects.

What then is Louisiana's annual highway revenue deficit? Whether it is $100 million, $650 million or something else depends on the answer to a number of political and economic questions.

What level of service do the citizens of the state want?

What are they willing to pay for?

What is the bare minimum required to maintain a highway system according to acceptable standards?

What pressures are state and local economic developers bringing to bear on proposals for speculative infrastructure investment?

What level of spending can the state afford?

What alternatives to public funding can be employed?

The political questions tend to be resolved in the state Legislature, and the Highway Priority Program helps assure that the more pressing needs are met first. DOTD's needs assessments will provide a basic standard against which to judge the state's efforts in maintaining the existing highway system. Beyond the top priorities in the state transportation plan, many of the economic development mega-projects fall into the category of wishful thinking.

CONCLUSION

At a time when many other states are battling revenue deficits, Louisiana's highway construction spending has been at an unprecedented level. However, the warning barrels are out. The state's traditional highway revenues were down sharply at the end of FY08 and collections are expected to remain flat, and the new vehicle sales tax dedication phase-in may fall victim to the state's revenue downturn. State general fund surpluses will soon disappear. The TIMED program is out of money and bonding capacity, while major projects remain undone. The federal Highway Trust Fund is in serious trouble, and the stimulus package promises only a very modest, one-time $308 million boost for state highway construction over the next couple of years.

Louisiana's $14 billion backlog in work on existing roads and bridges has continued to rise as construction costs outstrip both the CPI and revenues. Efforts to provide a funding base for undertaking $16 billion in mega-projects over the next 30 years have been largely fruitless. The condition of the state's highways and bridges remains poor relative to the national ratings.

A number of potential crises could further darken a bleak picture. A possible reduction in federal highway aid, inability to sell TIMED bonds, a severe reduction in TTF revenue collections and construction cost inflation are among the possible conditions that singly or in combination could wreak havoc on the state's highway program.

The Legislature's recent limited efforts to shore up the basic funding for DOTD are now in jeopardy of being rescinded. The additional funding from dedicated motor vehicle sales taxes and truck license fees would have temporarily offset inflation and the decline or slow growth in gas-tax revenue, but would not have significantly cut into the highway project backlog or provided funding for new mega-projects. When the phase-in of new revenue is discontinued or completed, the TTF will again begin losing purchasing power, causing a reduction in regular highway maintenance and construction. Hard decisions regarding revenue increases and other funding approaches will be needed if there is to be real progress on implementing the statewide transportation plan.

Louisiana currently faces an actual or potential highway funding crisis on three fronts, each with a different timeframe for required action.

The National Highway Funding Crisis will require decisive congressional action, preferably within the next year, to shore up the Highway Trust Fund on a long-term basis and adopt a new federal highway act. The state can do little more than cajole and admonish.

The TIMED Program Crisis requires immediate state action to avoid the bond swap penalty in May. Moreover, difficult decisions must be made in the upcoming legislative session to either cancel projects or assure sound funding for completion of the TIMED program without draining funds from regular highway construction and maintenance.

The state's regular highway program funding is not currently in a state of crisis, but there is reason for considerable unease regarding the near future. Among the potential situations that could create real crisis for highway funding are: another unexpected drop in TTF revenues, a loss of federal aid, a decision to bail out the TIMED program using TTF revenue or the termination of the motor vehicle sales tax dedication phase-in. The traditional method of funding the state highway system is failing. The long-run prognosis is for a continued downward spiral. At best, the TTF will again begin losing ground to inflation in six years, if not earlier. In the meantime, DOTD will make little, if any, headway on the highway needs backlog and the mega-projects will remain on the shelf.

DOTD's Statewide Transportation plan and its estimated need for an additional $650 million a year represent reasonable objectives for Louisiana. The state must adopt a rational approach to adequately address its highway funding needs and place the TTF on a sound footing for the future without waiting for the impetus of a major crisis. Action is not required this session; however, serious planning should begin so that legislation can be enacted within the next two or three years. A special commission should be created and charged with assessing funding options and recommending legislation.

A second PAR report on highway finance will evaluate the potential for providing additional funding through traditional revenue sources and examine innovative approaches, including public-private partnerships, to fund mega-projects.

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