Will Increased Highway Funding Help Rural Areas?

Dennis M. Brown

Introduction

In June 1998, the Federal-aid highway program was reauthorized with the enactment of the Transportation Equity Act for the 21st Century (TEA-21). The new highway legislation, which authorizes sharply increased funding for major roads, is the single largest public works bill in U.S. history, providing $171 billion for the Nation's highways from 1998 to 2003 and increasing annual State highway apportionments by 45 percent, on average.

The purpose of this report is to examine Federal highway funding in the context of rural transportation needs and Federal transportation policy. It begins with a discussion of the importance of highways for rural development and provides a general overview of the highway funding formula, which distributes aid to States. Next, various limitations of the formula are highlighted, and spatial patterns of funding based on previous funding levels are described. A key question examined here involves whether the recently passed legislation, which provides for relatively larger funding increases to donor States (those that contribute more to the Highway Trust Fund than they take from it), helps address rural highway problems. Other TEA-21 provisions that are particularly important for rural areas are also examined. The report concludes with an analysis of the TEA-21 legislation and examines how changes in the funding formula may affect rural areas.

Why Is Federal Highway Investment Important for Rural America?

Investing in highways has often been viewed as an effective economic development strategy, particularly for underdeveloped rural areas. Activities such as building new roads, widening existing lanes, putting in new interchanges, or constructing bridges can result in numerous benefits for nonmetro areas, including improved access to services and jobs for rural residents, better access to customers for businesses, and reduced transportation costs (Brown, 1999). Other potential benefits include reductions in travel time, decreased vehicle operating costs, safety and environmental gains, and cost savings for local consumers as goods and services become more competitively priced. If an improved highway network leads to expansion or diversification of a local area's economic base, it may also bring higher wages for workers and greater net income for owners of local businesses.

In recent years, the Nation's rural road network has fallen into a state of disrepair in many areas, with nearly 50 percent of county roads and 45 percent of local bridges rated as inadequate for existing travel patterns (U.S. Department of Agriculture [USDA], 1996). Similar conditions exist for other classes of rural roads. Such deficiencies are especially acute in rural areas that have recently attracted significant numbers of in-migrants, such as high-amenity areas, retirement destinations, and some exurban areas. Added population pressures and increased congestion in these areas put stresses on all types of public infrastructure, but few are as visible as the transportation systems. Transportation infrastructure deficiencies are also evident in some poor rural communities whose lack of sufficient revenue for road maintenance limits the communities' economic development potential.

Federal funding for highways provides money for roads deemed to be of national importance. Approximately 950,000 miles of roads are eligible for

Federal funding out of a total national network of 3.9 million miles. Roads eligible for Federal aid include those in the National Highway System, a 163,000-mile network of the most important roads in the country, such as interstates, as well as other principal arteries covered under the Surface Transportation Program, a block-grant-type program. Each State decides how to allocate Federal-aid funds to highway projects within the State. The result is that the amount of money available locally to nonmetro areas varies considerably, with nonmetro per capita funding highest for areas in the West (fig. 1).

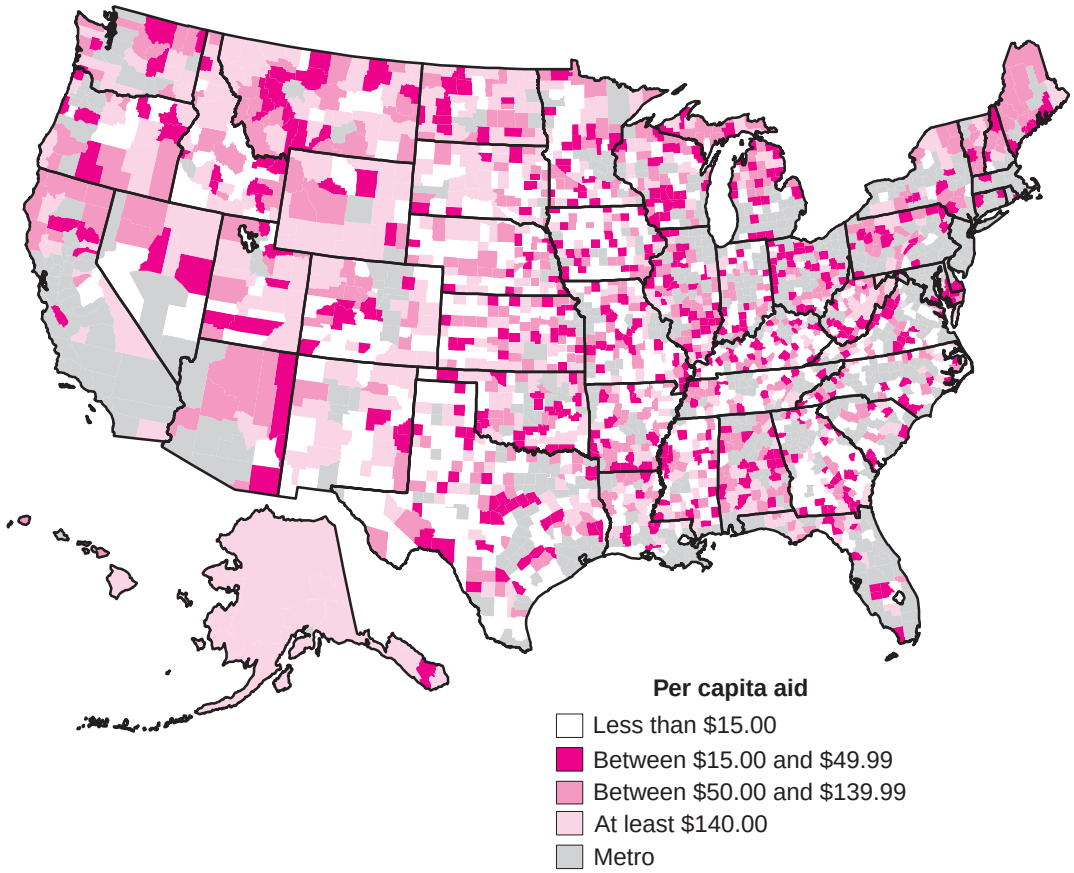
According to economic theory, national economic efficiency requires that Federal transportation investments overcome anticipated underinvestment by localities in their transportation systems. The anticipated underinvestment in local areas partly results from a failure to consider nonlocal benefits (externalities) when making local investment decisions. Also, in places with relatively high highway construction and maintenance costs and low local tax bases, effective local demand for highways may be reduced below that which is optimal for national economic efficiency. Rural areas often incur high per capita highway costs because their roads and bridges serve scattered populations of smaller communities. In addition, local tax bases and highway investments are expected to be low in places that, for equity reasons, the Federal Government may want to help develop in order to raise local incomes and economic well-being. Thus, Federal highway aid can be important for reasons of both efficiency and equity.

Federal highway assistance can also help ensure that minimum safety and environmental air pollution standards are maintained in all places. Failure to meet these standards can result in reductions in highway aid, a potentially important incentive given the amount of Federal highway aid received by the States.

Figure 1

Nonmetro per capita highway aid, FY96, under ISTEA (old legislation)

Funding was highest for counties in the West



Source: Calculated by the Economic Research Service using Census Bureau data.