The Highway Funding Formula Has Been Criticized

The U.S. General Accounting Office (GAO) recently described the formula as cumbersome, relying on factors and data that, in some cases, are outdated and have little relevance today (U.S. General Accounting Office, 1995). For example, one of the factors used to determine funding allocations is the number of miles of postal roads in each State, a factor that has little relevance today.

The formula also attempts to meet a relatively large number of objectives, some of which are in conflict with one another. For example, one objective is to return funds to the States where the revenue is collected, based on the principle that popular support will be greater for a project if taxpayers see that their money is being spent on their behalf. At the same time, the program must address national goals and deal with "externalities," which often require redistributing resources from one State to another. In addition, the formula has sought to safeguard each State's historical funding levels, a recognition that it may be difficult to enact legislation that reduces funding for some States. Reconciling these and other conflicting goals is impossible, so compromises have resulted. Over time, these compromises have created unintended consequences as conditions have changed to the detriment of one group or another. This may help to explain why large, rapidly growing States in the South and Southwest, such as Texas and Florida, have received proportionally less aid than States in the Northeast with minimal population growth, such as New York and Pennsylvania.[2]

TEA-21 attempts to redress this funding imbalance by stipulating that every State be guaranteed at least a 90.5-percent return on the share of money it provides to the Trust Fund (under the Minimum Guarantee

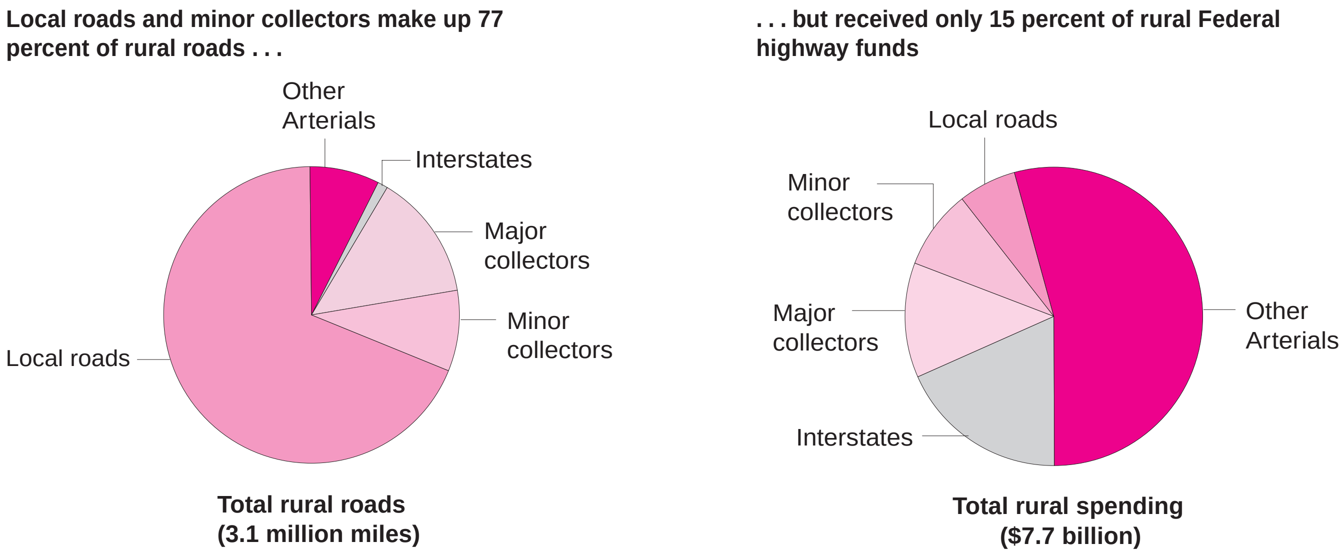
[2] Spatial patterns of Federal highway funding are examined in greater detail in the following section of this report.

Table 1--Largest highway-aid programs under TEA-21 (Title I)
More than 80 percent of funding goes to five programs

Funding category	Total funding level (1998-2003)	Percentage of total
	(billion dollars)	
Minimum Guarantee *(States guaranteed at least a 90.5-percent return)*	35.1	20.5
Surface Transportation Program *(Main Federal-aid highway program)*	33.3	19.5
National Highway System *(163,000-mile network of heavily traveled roads, including interstates)*	28.6	16.7
Interstate Maintenance Program *(Provides money for maintenance on interstates)*	23.8	13.9
Bridge Program *(Provides funding for bridges on public roads)*	20.4	11.9
High-Priority Projects Program *(Funds 1,850 high-priority projects)*	9.3	5.5
Congestion Mitigation and Air Quality Improvement Program *(Helps meet requirements of Clean Air Act)*	8.1	4.7
Appalachian Development Highway System *(Provides money for roads in Appalachia)*	2.3	1.3
Other programs *(Other smaller programs)*	10.2	6.0
Total	171.1	100.0

Source: U.S. Department of Transportation, 1998. *Transportation Equity Act for the 21st Century: Moving Americans into the 21st Century.*

Figure 3
Rural road mileage and Federal aid by functional class, FY97, under ISTEA (old legislation)
Most funding went to nonlocal roads



Source: Calculated by the Economic Research Service using U.S. Department of Transportation data.

Program) (table 1). This significant change will affect rural and urban areas differently, depending on each particular State.

Under the Surface Transportation Program (STP), the second largest highway aid program covered by TEA-21, all roads are eligible for Federal funding except those classified as local or rural minor collectors.[3] For rural areas, this funding definition is restrictive because the majority of rural public roads (about 77 percent, based on mileage) are classified as local or rural minor collectors and are therefore ineligible for regular Federal STP funding (fig. 3).[4] Without access to this major source of highway funding, some rural areas may have significant unmet local transportation needs. One solution is to provide for greater flexibility in classifying rural roads, perhaps reclassifying some roads as major collectors. Doing so would offer rural areas greater use of Federal transportation funds under the formula.

TEA-21 continues aid for the smallest rural communities under the STP “special rule” that targets highway funds to areas with populations less than 5,000. Although this is an important source of funding for some rural areas, it fails to take into account that many rural communities have populations greater than 5,000, and are therefore ineligible for funding under this set-aside.

---

[3] Eligibility is determined according to provisions in the highway legislation. Roads eligible for Federal aid include: arterials (the highest functional classification), urban collectors, and rural major collectors. See U.S. Department of Transportation (1989) for a formal definition of the different classes of roads.
[4] These roads are eligible for limited rural set-aside funds. In contrast, about 70 percent of urban roads (based on mileage) are ineligible for Federal STP funding, as measured by the financial classification of roads.