

# Infrastructure Funding: Taking the Wrong Path

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*A recent American Society of Civil Engineers (ASCE) report estimated the United States will need to spend \$2.2 trillion over the next few years to bring the country's infrastructure to acceptable levels. A \$2 trillion projected estimate for infrastructure sounds daunting, but it is important to examine what planners consider "infrastructure."*



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**What Is Infrastructure?** Traditionally, infrastructure spending included highways, railroads, bridges and waterways. Infrastructure now encompasses public parks and recreation, schools, and high-speed rail and transit projects. Public transit is often inefficient, underutilized and subject to cost overruns. Yet the ASCE Report Card includes these items as investment *needs*, rather than optional amenities. For example:

- The \$2.2 trillion in infrastructure spending needs outlined in the civil engineers' report card includes \$63 billion for improvements along highly questionable Amtrak routes as well as railways that carry freight.
- The total also includes \$160 billion for schools and \$85 billion for parks and recreation.
- In addition, there is \$265 billion for public transit bus and light-rail projects.

### State of U.S. Infrastructure.

The engineers' 2001 Report Card gave 12 categories of U.S. infrastructure an overall grade of D+ and estimated that \$1.3 trillion was needed over the next five years to bring conditions to acceptable standards. The report card used such parameters as structural soundness

and technological currency. An updated report in 2003 called for an overall investment of \$1.6 trillion over the subsequent five years.

However, there does not appear to be a connection between public spending and an improvement in the condition of the infrastructure. Between 2003 and 2007, total public spending on U.S. infrastructure was over \$1.8 trillion, yet U.S. scores on the ASCE report card did not improve.

**How Infrastructure Is Funded.** Most federal funding for infrastructure is allocated through formulas based on a variety of factors, such as highway lane miles per state, population, fuel usage, vehicle-miles traveled and how much each state contributes to the Federal Highway Trust Fund through its gas taxes. Once Congress allocates the funds, states then determine what projects are priorities and should be undertaken first. When federal money is spent on a project, states are usually required to match up to 20 percent of it with state and local funds.

Although there has been a push by the federal government to increase federal infrastructure investment, states and localities account for the lion's share of the spending. As the figure shows:

- Federal spending represented only 23 percent of total public spending on infrastructure in 2007, according to a Congressional Budget Office report.

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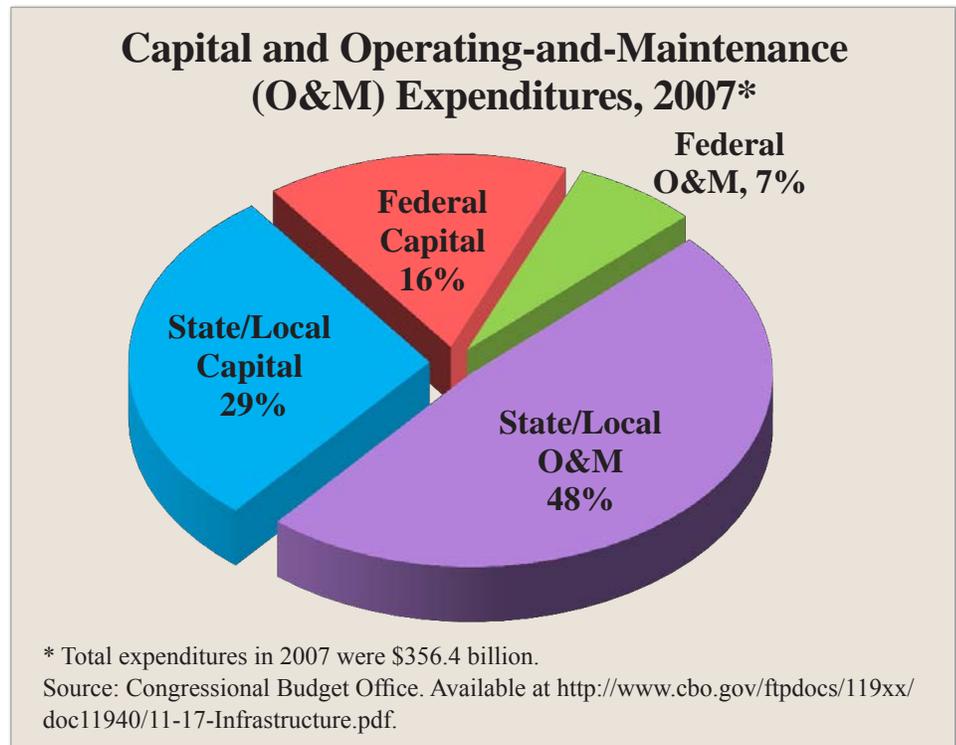
- Of this 23 percent, just 7 percent went toward operating and maintenance expenses for already established infrastructure.
- The other 16 percent was capital funding for new projects.

**The Effects of Stimulus Spending on State Budgets.** The American Recovery and Reinvestment Act of 2009 included additional funding for state transportation projects. It provided over \$48 billion to the U.S. Department of Transportation for existing programs and for new competitive grants to state and local governments. Over half of all Recovery Act transportation funds were designated for the construction, rehabilitation and repair of highways, roads and bridges. The other half was set aside for new projects, such as high-speed rail lines.

Some states saw the additional federal funding as an opportunity to begin new major transportation projects. For example, California received funds for its high-speed rail project linking Southern California and Northern California. However, California is financially overextended and it is unclear how the state will be able to fund the project. Consider:

- The rail line was initially expected to cost \$43 billion, including \$17 billion to \$19 billion in federal funding.
- Total costs are now expected to range from \$65 billion to \$81 billion.
- To date, however, the state has only received \$3.6 billion in federal funds.

Federal policy also clashed with state interest in the case of Wisconsin. Wisconsin won \$810 million in funds for a new rail line between Milwaukee and Madison as part of



the stimulus. The seed grant was initially accepted by then-Governor Jim Doyle (D). Current Governor Scott Walker (R) opposed the project and the Obama administration has since taken the money and redistributed it to other states. Walker opposed the project because the majority of the cost would have to be absorbed in the already strained state budget.

Funding for most new rail initiatives falls short. According to transportation economist Randal O'Toole, costs for rail projects are underestimated by 40 percent, on average.

**Importance of Maintenance.** Pursuing costly new systems will not only add to the fiscal pressures facing state and local governments, but lead to neglect of the current infrastructure. Spending \$1 to maintain roads in good condition avoids spending \$7 dollars to reconstruct the road if it falls into poor condition, according to the Minnesota Department of Transportation. Moreover,

America's highways, streets and roads, which have a total estimated value of \$1.75 trillion, are an asset to be "managed and preserved (maintained)" rather than a project to be built or fixed, says the American Association of State Highway and Transportation Officials.

**Conclusion.** The United States has the capability to address the country's infrastructure issues, but there is only a loose connection between federal spending and improvements in public infrastructure because of misguided federal policies. Typically, the federal government offers seed funding to states to initiate capital spending projects, but leaves the states to complete and maintain them. As a result, state and local governments are encouraged to spend money on projects that may be a lower priority than projects initiated and funded locally.

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