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HIGHWAY FINANCE

FEDERAL, STATE AND LOCAL

By Thomas H. MacDonald, Chief,

Bureau of Public Roads.

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Highway finance in all its phases would not be exhausted as a topic for exposition if all the sessions of this Association were limited to this one subject.

There is great progress in the professional field of highway engineering. There is fully comparable progress in the field of power and mechanical equipment and its utilization for construction and maintenance of highways.

The growth in the production of materials is apparently keeping pace. The developments in the field of highway transportation continually reach beyond our expectations. First, we were astonished by the increase annually in the number of automobiles brought into use. Next, the motor truck appeared in numbers beyond our belief. Now we are just awakening to the spectacular and wide-spread ramifications of motor bus services. Already in the common carrier field the motor truck is insignificant as compared with the motor bus.

In this great nation-wide panorama of highways and highway transport, the laggard in the procession of progress is highway administration and the very core of highway administration is this matter of highway finance.

Highway administration as here used is not to be confused with the administration of State highway departments or their handling of public funds. Much progress is being made in methods and economy of production by a majority of these departments.

For these same results generous credit should also be given to the material and equipment industries and to the road contractors and their organizations.

Highway administration in the national sense, is the business of organizing into systems, under responsible authority, 3,000,000 miles of public roads and improving, maintaining and policing them for the safe and economical operation of 20,000,000 motor vehicles - and one thing more, financing these operations on a profit earning basis. This is a statement of the partial problem. The whole includes many thousand miles of urban streets. A big business enterprise conducted by the public for itself and the foundation for the whole structure is the financing.

The highway expenditures for a nation must be considered in their relation to all the factors constituting a nation's economy. For several years the United States has been operating on an annual program of approximately one billion dollars for rural highways. This is a large program. It is large for a nation liberally endowed with natural resources and with vast accumulated wealth. The dimensions are so large, their continuation undiminished is the best evidence of general public support. But this alone is not sufficient to give confidence. There are and should be questions. Can a program of such proportions stand the test of cold analysis? Can it justify itself in a critical determination of its relative importance in the whole list of desirable public activities? Are its dimensions in harmony with the service needs of the traffic. These questions are timely and sane. They should be answered. But they only concern themselves with the total money outgo. There are other questions equally as important. For example, are the taxes falling too heavily on some classes of property and on certain governmental entities? This and many similar questions relate to the other side, that is, the incomes or receipts to support the program. Perhaps, most important of all are these questions. What progress is being made and what will be the trend of the total annual highway bill in the future? Will it be up or down?

These aspects of the subject of highway finance appear to be the most important since there is constant need for legislative and executive determination of highway policies - financial, engineering and administrative, and unless more progress is made soon than resulted during the past year, the business cannot succeed.

The financial program cannot stand alone, and while it may be said that in these, the earlier years of the great development of motor transport, the financial policy determines the engineering policies and program of road construction and maintenance, in the course of a period of years the present engineering policies will determine what the financial program must be. The two are intimately interwoven, and of the two the economic engineering aspect will in the end govern. It will govern because there are certain laws which can never be defeated over a period of time. These are economic laws, and the most important one bearing upon highway finance is the law of compensation for waste. All waste must be paid for in one form or another. This is inevitable and the waste in highway transport resulting from the lack of adequate highways will cost the nation more than to provide them. This truth I have stated over and over in many forms, and the results of transport surveys and economic studies as they become available in larger measure are supporting the certainty of the workings of this principle. It is no longer necessary to hazard guesses. While it is not yet possible to present all the facts which have a bearing on the subject of a nation's highway finance, in an entirely correct form, the facts and statistics available are fairly accurate with reference to Federal and State finances, and can be estimated with reasonable exactness for the local expenditures and results.

The study of a mass of available data leads to certain conclusions that appear so important and so indicative of needs for thorough going revisions, modifications and adjustments of our present practices in highway finance and expenditure, that this paper is presented in two parts: - first, the conclusions with only incidental reference to the data upon which the conclusions are based, and second, the supporting data which is too lengthy to be presented before this Association. These conclusions are presented in this form for the frank purpose of placing before the public and particularly before the highway executives and legislative bodies facts which indicate the necessity for drastic changes in legislative and administrative highway policies. Also, careful consideration of the data here presented together with other available information leads directly to the conclusion that unless major changes are made in administrative and engineering highway policies we cannot hope for a reduction of expenditure or a decrease of the taxes necessary to provide the annual costs of highways unless this be at the sacrifice of the capital investment through deterioration or loss to the public through avoidable waste in highway transportation. These conclusions cover a wide range, but aim to touch phases of the subject of highway finance which are presently of outstanding importance.

CONCLUSIONS

1. The major responsibilities of the public business of the nation fall most heavily upon the Local rural and Urban governments, next upon the Federal Government and least upon the State governments. The ratio fixed by 1923 expenditures is about 5.1 Local, rural and urban; 3.5 Federal, 1.5 State.

2. Federal expenditures over several years for highways are about 2.5 per cent of total Federal Budget. For 1925, the peak, about 3 per cent of 1925 total Federal expenditure.

Federal aid to roads, 1924 basis, was about 7.5 per cent total of $90,000,000 Federal funds, $910,000,000 State and local, $300,000,000 urban.

3. The failure of one governmental agency to do a full share of any activity common to all does not lessen the total expense for this activity, but only shifts the burden between budgets.

4. There is a direct relation between bonds and progress in the construction of durable roads evidenced by the fact that only those States which have issued bonds have made any considerable progress in the mileage of durable pavements built. At the end of 1924, of the 467,000 miles of surfaced highways reported, 65.8 per cent were low type, 24 per cent were medium, and only 10.2 per cent consisted of the more durable forms of pavement.

5. The pay-as-you-go policy adopted by a considerable number of States is having two principal effects. First, to limit the expenditure of funds to types of road that admittedly are not adequate for present traffic. Second, to force upon the counties bond issues. In 24 States which have no State bond issues there have been issued since 1921 upwards of one-half billion dollars in county road bonds, and these same States had issued prior to 1921 about the same amount in road bonds, again supporting the conclusion above that the failure of one governmental unit to carry a full share of the cost of this public undertaking is only shifting the burden to other units of government and increasing rather than decreasing taxes.

6. Of the funds available for expenditure under the supervision of the State highway departments in 1924, 15.9 per cent was transferred from counties, 16.5 per cent came from Federal aid, 40 per cent from motor vehicle fees and gas tax. That is, 72.4 per cent of the total State highway program estimated at $555,000,000 was financed other than by using the credit of the States or the general taxing power of the States.

7. That the financing of the State highway program through contributions from the counties is wrong in principle and will cost the public more in the end.

8. Interstate traffic is indicated for a number of representative States at upwards of 18 per cent of the total on the State highway

system. The funds available from Federal aid for the 1924 State highway program amounted to 16.5 per cent of the total. Considering only the funds available for the State highway program it appears there is a reasonable contribution from the Federal Government. Considering the whole program, State and local, the contribution from Federal funds amounts to an average of not over 7.5 per cent or 8 per cent.

9. Principles of highway finance adopted by the American Association of State Highway Officials are supported by the evidence now available.

10. A greater percentage of State highway funds should be expended for more durable construction, and the State highway departments should be financed without recourse to county contributions.

11. The States must extend the supervision of their State highway departments over a larger mileage of local roads to insure their maintenance, thus preserving the investment. Unless this is done we are headed toward larger local expenditures for highway purposes or a depreciation of roads already built.