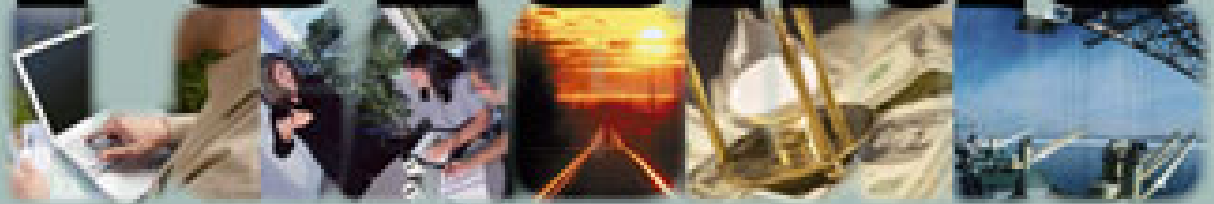


TRANSPORTATION—Are We There Yet?

How to Increase
Transportation Revenue—2009

transportation

revenue



How to Increase Transportation Revenue

Investing in transportation is unlike any other federal government spending. Transportation dollars are converted to physical assets that will last 50 to 100 years to provide future generations with a modern, globally competitive system. At the same time, such investments create and maintain well-paying “Made-in-America” jobs.

There are compelling reasons to increase transportation investment right now. In the short-term, enactment of an economic recovery bill can use transportation infrastructure investment to create and sustain thousands of family-wage jobs, in every part of the country, building “Made-in-America” infrastructure. According to FHWA, every \$1 billion of federal investment in highways supports 35,000 jobs. For the long-term, increased transportation investment can help sustain economic recovery, keep the U.S. globally competitive, reduce congestion, and save lives.

What Is Needed

To meet America’s 21st Century mobility needs and remain competitive in the world economy, surface transportation infrastructure investment must be substantially increased. According to the National Surface Transportation Policy and Revenue Study Commission 2008 Report *Transportation for Tomorrow*, today the country is investing at less than 40 percent of what is needed. That bipartisan panel chartered by Congress estimates that an investment of at least \$225 billion per year is required through 2055 in highways, transit, freight, and passenger rail to meet our national needs.

The Commission concluded that the only way investment could be increased to the levels needed is for all levels of government—federal, state and local—to continue to fund their historic shares. Over the past 20 years, the federal share of highway and transit capital investment has averaged 45 percent.

Three Steps to Investment

- Congress recognized the critical nature of this investment and took the first step by transferring \$8 billion to the Highway Trust Fund to ensure its solvency. It will need to ensure that this funding is sufficient to carry us through fiscal year 2009 and take further action if funding again falls short.
- The next major step is to increase federal transportation revenues enough to restore the purchasing power of current highway and transit programs, which has steadily eroded in the 16 years since the last revenue adjustment.
- In the longer term, we must prepare to transition revenue collection methods to alternatives capable of sustaining funding for the transportation system for years to come.

The Immediate Federal Funding Crisis

Today federal transportation funding faces two crises:

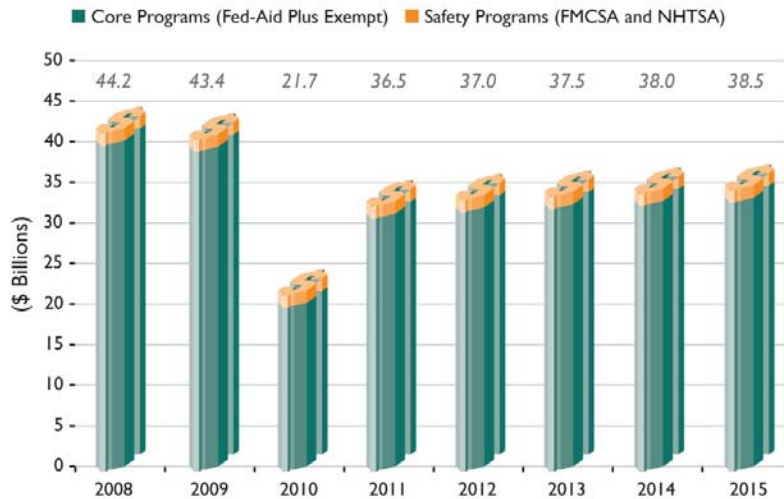
1. HIGHWAY TRUST FUND INSOLVENCY

Spending from the Highway Trust Fund has exceeded the levels of revenue flowing into it. In September 2008, Congress transferred \$8 billion back into the Trust Fund from the General Fund to enable U.S. DOT to honor the commitments made to states under the current highway and transit authorization (SAFETEA-LU) through October 2009.

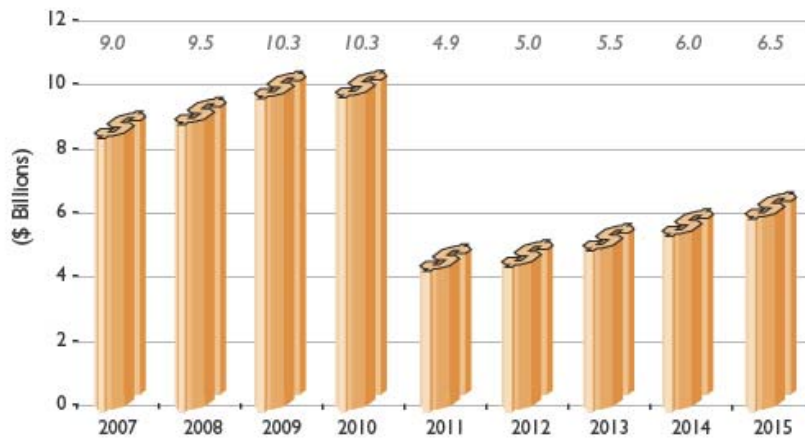
By October 1, 2009, or just before, Congress will again have to provide interim funding to simply sustain current investment levels. Otherwise, based on current revenue projections, the highway program will face a cutback of \$20 billion or more for FY 2010. The transit program will face similar drastic reductions one year later in FY 2011, unless additional revenue is provided.

Highway and Transit Programs, 2010–2015 Without Revenue Increase:

Reduced Highway Program Levels Beyond 2009



Transit Program Levels: 2007–2015

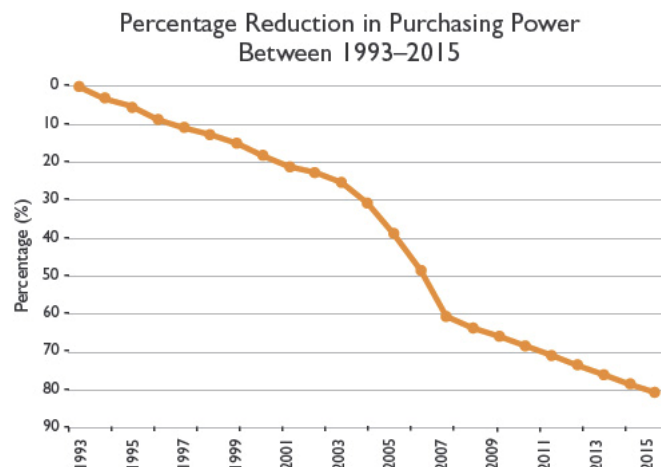


2. SKYROCKETING CONSTRUCTION COSTS

In addition to years of steady growth in inflation, from 2004 to 2008 construction prices soared for steel, concrete, asphalt, and construction machinery. It is estimated that between 1993, the year in which federal fuel taxes were last adjusted, and 2015, construction costs will have increased by more than 80 percent.

To restore the purchasing power of the program to that of 1993, federal highway funding will have to be increased from \$43 billion in 2009 to \$75 billion by 2015, and federal transit funding would have to be increased from \$10.3 billion in 2009 to \$18.5 billion in 2015.

Purchasing Power of Transportation Dollars Down 80 Percent:



Addressing Freight and Passenger Rail Investment

Surface transportation investment must also address the needs of the national freight network and intercity passenger rail.

FREIGHT FUNDING NEEDED TO MEET CAPACITY CRISIS

The nation is entering the early stages of a freight transportation capacity crisis. Truck volumes are expected to double by 2035 and rail freight to increase by 60 percent. Highways, railroads, ports, waterways, and airports all require investment well beyond current levels to maintain, much less improve, their performance.

Investment is needed to fix freight bottlenecks, improve intermodal connections, build bridges to eliminate unsafe highway-rail crossings, and fund freight corridor improvements. AASHTO recommends that a freight program be funded at \$42 billion per year, from resources outside the Highway Trust Fund.

INTERCITY PASSENGER RAIL NETWORK OVERDUE

AASHTO believes we are overdue for the United States to provide a robust intercity passenger rail network that provides competitive, reliable, and frequent passenger service, comparable to world-class systems in other countries. Current service should be brought up to a good state of repair. Ultimately service should expand to include high-speed rail corridors, regional corridors, and long-distance service. Federal funding of \$35 billion over six years is needed to begin the capital investment required.

Funding Goals for Next Surface Transportation Authorization

Highways	\$ 375 billion
Transit	\$ 93 billion
Freight	\$ 42 billion
Intercity Passenger Rail	\$ 35 billion
Total	\$ 545 billion

A Menu of Federal Revenue Options for Surface Transportation

There are several options to accomplish the dual objectives of sustaining the program at the levels currently authorized and then restoring the program's purchasing power.

Listed below are illustrative examples of revenue sources which together come to \$1 trillion. It will be up to Congress to choose from these, and possibly other options, to generate revenues sufficient to fund the \$545 billion program total recommended.

Menu of Revenue Options	Six-Year Revenue Yield
Current Highway Trust Fund Fuel Taxes and Truck Fees	\$ 240 billion
General Fund Support for Transit	\$ 20 billion
Subtotal—Current Sources	\$ 260 billion
Highway Mileage Fee (cars, pick up trucks, SUVs)	\$ 170 billion
Gas Tax (10-cent increase plus indexing)	\$ 90 billion
Diesel tax (13-cent increase plus indexing)	\$ 36 billion
Share of Customs Revenues (5%)	\$ 11 billion
Container Fees (\$20 per 20-ft equivalent unit, TEU)	\$ 8 billion
Truck U.S. Freight Bill (1% of sales)	\$ 43 billion
Freight Rail Investment Tax Credits	\$ 7 billion
Cap&Trade or Carbon Tax (1 cent/gallon or equivalent)	\$ 103 billion
Tax Credit Bonds—highways and transit	\$ 50 billion
Tax Credit Bonds—intercity passenger rail	\$ 25 billion
Other	\$ 197 billion
Subtotal—New Sources	\$ 740 billion
Total	\$ 1.0 trillion

State and Local Government Investment

If the United States is to make the substantial increase in investment needed, state and local governments must do their part as well. The good news is that they have delivered increases at this scale before. In the 24-year period between 1981 and 2005, state and local governments increased their highway capital investment from \$8 billion to \$42 billion, an increase of over 400 percent. During the period between 1990 and 2005, state funding for transit increased by over 250 percent from \$3.7 billion to \$9.5 billion.

During the past three general elections, state and local transportation measures have done well at the polls. In the 2004 elections, 78 percent of transportation ballot measures passed. In the 2006 elections, 72 percent passed. In 2008, 78 percent of ballot measure passed authorizing new transportation spending of \$75 billion. Over the past five years, several states have had the courage to raise gas taxes, Ohio by six cents, Minnesota by eight cents, and Washington state by 14.5 cents. But others have been reluctant to do so. Today states are facing one of the worst fiscal crises in U.S. history. How soon they will again be in a position to increase their transportation investment is not yet clear.

Tolls and Public–Private Partnerships Can Play a Role

Toll-generated revenues nationally came to \$7.75 billion in 2005, which represented about five percent of total highway revenues that year. Over the past 10 years, 30 percent to 40 percent of the new highway arterial capacity added in the United States has been financed through tolls. AASHTO believes this percentage could rise to as much as 50 percent in fast-growing urban states in the years ahead.

Broader interest in tolling has been stimulated by two developments. First, public–private partnerships, such as Indiana receiving \$3.8 billion for a concession on the Indiana Tollway, and the \$1.8 billion lease of the Chicago Skyway to a private concessionaire, have shown the scale of what is possible. The second development is the growing popularity of High Occupancy Toll (HOT) lanes. This concept was pioneered on an eight-mile segment of HOV lanes on Interstate 15 in San Diego. Virginia has recently entered into a \$1.93 billion agreement with a public–private consortium to add four lanes to the Capital Beltway funded using HOT-lane revenues.

AASHTO believes every state should be given all options possible in the areas of tolling and public–private partnerships, so those states can determine for themselves what is in the best interests of their citizens. However, two key points need to be recognized: first, tolls are rarely an option other than in fast-growing metropolitan areas with high traffic volumes; and second, toll revenues can, in no way, substitute for the highway and transit funding assistance needed from the federal government.

