The Future of Federal-aid Financing

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Today’s Presentation

- Discuss the future of Federal-aid Financing vis-à-vis the Highway Trust Fund & other possible funding mechanisms.
- Present findings of the *National Surface Transportation Policy and Revenue Study Commission*.
Federal-aid Program in General

- Some say it is counterproductive.
- May be better ways to fund our transportation needs – Will discuss later.
- Needed to maintain national transportation standards.

Highway Trust Fund

- Created by the Federal-aid Highway Act of 1956.
- Tax Vs. User Fee => It’s what users pay to operate the system.
- Every $.01 brings in ~$1 Billion.
- Pay as you go.
- Current federal gas tax: $0.184/gal. – since 1993.
Highway Trust Fund

- Has worked relatively well over the years.
- Will “go broke” soon => Spending more per year than revenues coming in.
- At end of 2000: Balance = $23 Billion
- By end of 2009: Deficit = $3.2 Billion
- By end of 2010: Deficit = $8.1 Billion
- Existing obligations need to be met using future tax revenues.

One Problem: Less fuel usage in the future = fewer $ into the HTF.
- More fuel efficient vehicles;
- Electric vehicles;
- Increased use of other modes;
- HTF an anachronism?
- Will technology make the HTF structure obsolete?
- FY 2009 => Last year of SAFETEA-LU – What will happen after this?
Infrastructure Needs

- Underinvesting in our infrastructure.
- AASHTO: Need to increase gas tax by $0.10/gal through 2015.
- By 2015 we will be investing $100B - $150B below needs for roads & bridges.
- TRB: We need $105B in ’07 and $134B in ’17 to bridge funding gap to meet needs.
- Needs & Costs are increasing => Revenues not keeping pace => Getting worse.

FY 2009

- Projected deficit of $3.2 Billion to fund the highway program at the level authorized by S-LU.
- Short term fix.
- “Robbing Peter to pay Paul.”
- Currently $16.8 Billion in unobligated authority for Earmark Projects nationally.
- Rescissions directed at Earmark Projects to cover deficit???
National Surface Transportation Policy and Revenue Study Commission.

- Created by Congress in S-LU (Sec. 1909) to study the future of the Transportation Program.
- Basic charge: Study ways to address deteriorating conditions among the nation’s:
  - Roads
  - Bridges
  - Highways
  - Passenger & Freight Rail Systems
  - Public Transit Networks

Commission Members

- Mary Peters – Secretary of Transportation
- Frank Busalacchi – Wisconsin DOT Secretary
- Maria Cino – Deputy Secretary of Transportation
- Others from academia, private sector – 12 members in all.

- Commission Consensus: “Applying patches to our surface transportation system is no longer acceptable.”
Commission: Consequences of Failing to Take Bold Action

- Nation’s transportation assets will further deteriorate.
- Auto casualties will increase.
- Congestion will continue to worsen.
- Underinvestment in all modes will continue.
- Leadership in the world economy will be jeopardized.
- Continued waste of public & private $$. 
- Transportation financing will continue to be politicized.

National Interest in Quality Transportation is Best Served When:

- Facilities are well maintained.
- Mobility within/between metro areas is reliable.
- Transportation systems are appropriately priced.
- Modes are balanced and travel options are plentiful.
- Freight movement is explicitly valued.
National Interest in Quality Transportation is Best Served When:

- Safety is assured.
- Transportation decisions and resource impacts are integrated.
  - Transition away from fossil fuels.
- Rational regulatory policy prevails.
  - Policies that promote efficient operations and encourage investment.

Report Recommendations

- Too many to cover today. Here are a few:
- The Federal surface transportation programs should not be reauthorized in their current form.
  - Not be dominated by a single mode;
  - Performance driven;
  - Outcome based;
  - Generally mode-neutral;
  - Refocus on National Interest.
Report Recommendations (cont.)

- **Speed Project Delivery**
  - Emphasized environmental studies.

- **Replace 108 Federal surface transportation programs with 10 programs:**
  - Current programs too bureaucratic with no national goal in mind.
  - Performance measures and standards would be set.

- **National Asset Management Program**
- **Freight Transportation Program**

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Report Recommendations (cont.)

- **Congestion Relief Program**
  - Focus: Metro areas > 1 million & public transportation
- **National Safe Mobility Program**
- **National Access Program for Rural Areas**
- **Intercity Passenger Rail Program**
- **Environmental Stewardship Program**
- **Energy Security Program**
  - Accelerate development of environmentally friendly replacement fuels.
- **Federal Lands Program**
- **R & D Program**
Report Recommendations (cont.)

- Create a National Surface Transportation Commission (NASTRAC):
  - De-politicize federal transportation investment decisions and funding.
  - Same idea as BRAC Commission
  - Develop strategic national plan to guide future Federal investment.
  - Strengthen public confidence that tax $ are being spent wisely.

- Reorganize USDOT

- Change name of HTF to Surface Transportation Trust Fund (STTF)

Paying the Bill

- Short term: Pass legislation in FY 08 to keep HTF solvent.
  - Various suggestions to do this.
    - Increase fuel taxes
    - Reduce fuel tax evasion

- Through 2025: Fuel taxes should remain an important component until viable alternatives are found.

- Increase federal fuel tax 5 to 8 cents per gallon per year over the next 5 years after which it is indexed to inflation.
Funding for Transit

- Currently:
  - 80% comes from HTF.
  - 20% from federal general fund (GF).
- Maintain same split from same funds.
- “User pays” philosophy should extend to the transit program:
  - Levy a federal ticket tax on transit trips to supplement revenues from the HTF and GF.

Freight

- Establish a Federal freight fee to help finance freight related improvements.
  - Container Charge
  - Freight waybill surcharge
- Goal: Remediate chokepoints and increase throughput.
- Alameda Corridor in Los Angeles is a good example.
Passenger Rail

- Levy a new Federal ticket tax on users of the system to supplement funding from fuel taxes and general funds.
- To implement a new Intercity Passenger Rail Program => Initial $5 billion per year grant to States, Amtrak or other competitive service providers.
  - 80-20 Fed/Local Split
  - 80% from the new STTF

State & Local Govt. Involvement

- Increase State fuel taxes and other highway user fees.
  - Not specific on how much to increase.
  - Washington State = $0.34/gal; $0.36 on July 1; and $0.375 in 2009.
- Provide new flexibility for tolling and congestion pricing.
  - This must be part of overall solution.
  - Congestion pricing encourages the use of other routes & modes of travel such as public transportation.
  - Still issues to be resolved on congestion pricing.
- Congress should encourage use of P3s where state/local governments are willing to use them.
Interstate Tolling

- Allow tolling to fund new capacity on the I-System.
  - Include flexibility to price to manage its performance.
- Allow congestion pricing on the I-System on both new & existing capacity in metro areas >1 million population.
- Tolls collected with technologies that do not interfere with traffic flow.
  - Open Road Tolling – Illinois Tollway is good example.

Financing Beyond 2025

- Fuel taxes will be one of principle revenue sources for next 15-20 years.
- Alternatives to fuel tax will need to be explored.
  - Example: Mileage based user fees.
- Recommends the next Authorization Act require a study to investigate a transition to an alternative to the fuel tax.
Administration Views

- Most important challenge today is “...the precipitous decline in transportation system performance and increased politicization of transportation investment decisions.” => The challenge is not connectivity as it was in the 20th Century.

- "Congestion and system reliability will worsen if we continue to rely on a tax-based financing system that has little or nothing to do with the true costs of using or providing transportation infrastructure."

Administration Views (cont.)

- "Policy failures are exacerbated by a Federal-centric funding & regulatory structure that stifles creativity and innovation......yet the Commission urges an expansion of that very system."

- The Commission “...proposes to expand transportation capacity by increasing government taxation of a commodity whose consumption we seek to discourage.”
Administration Areas of Agreement

- Importance of the transportation system and need for sustained investment.
- Opportunities for simplification, consolidation, and streamlining of Federal programs.
- Need for greater accountability and rationality in investment decisions.

Administration Areas of Disagreement

- Federal Fuel Tax increases are not a solution.
  - Ineffective
  - Breeds Wasteful Spending
  - Commission didn’t consider more effective & bold alternatives
  - Prolongs a system that doesn't work
- Unnecessarily Large Federal Role.
- Inappropriate definition of “need”.
  - Should be more realistically based.
- Independent governance commission (NASTRAC) is neither practical nor good policy.
Administration Areas of Disagreement

- Increases Federal restrictions on pricing and private investment.
  - Inconsistent with passages calling for greater investment from all sources.
- Commission report is inconsistent in its approach to earmarking. Ex:
  - Set aside 7% for environmental compatibility w/o tying it to any identified needs.
  - Continue 80% participation even though some projects don’t justify that much fed interest.
- Energy research and investment recommendations are inappropriate.
  - Belong under the Dept. of Energy.

Administration Stance Conclusion

- We must make fundamental changes to the way our system is:
  - Built
  - Maintained
  - Operated
- We need to Introduce:
  - Greater State responsibility and accountability
  - Rational pricing
  - Market discipline
On October 1, 2009….

- Continuing Resolution???
- New bill similar to S-LU/TEA-21/ISTEA format & structure???
- Radically Different???
- …It’s anyone’s guess at this time.

Web Links

- [http://financecommission.dot.gov](http://financecommission.dot.gov)
- [www.transportationfortomorrow.org](http://www.transportationfortomorrow.org)