

Current Trends and Emerging Issues in Surface Transportation Finance

presented by
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National Surface Transportation Policy and Revenue Study Commission

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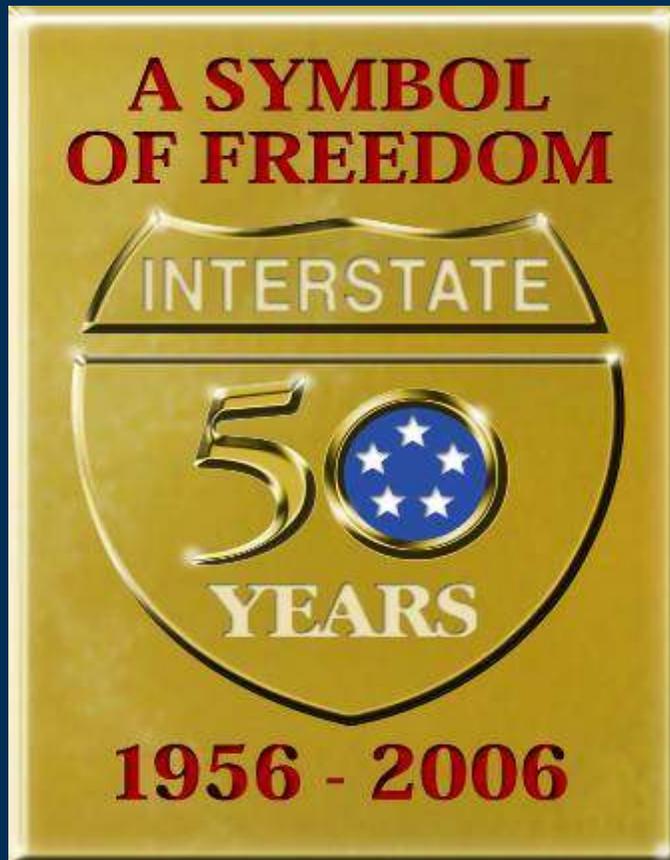
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Presentation Objective

Discuss current trends and emerging issues in surface transportation finance

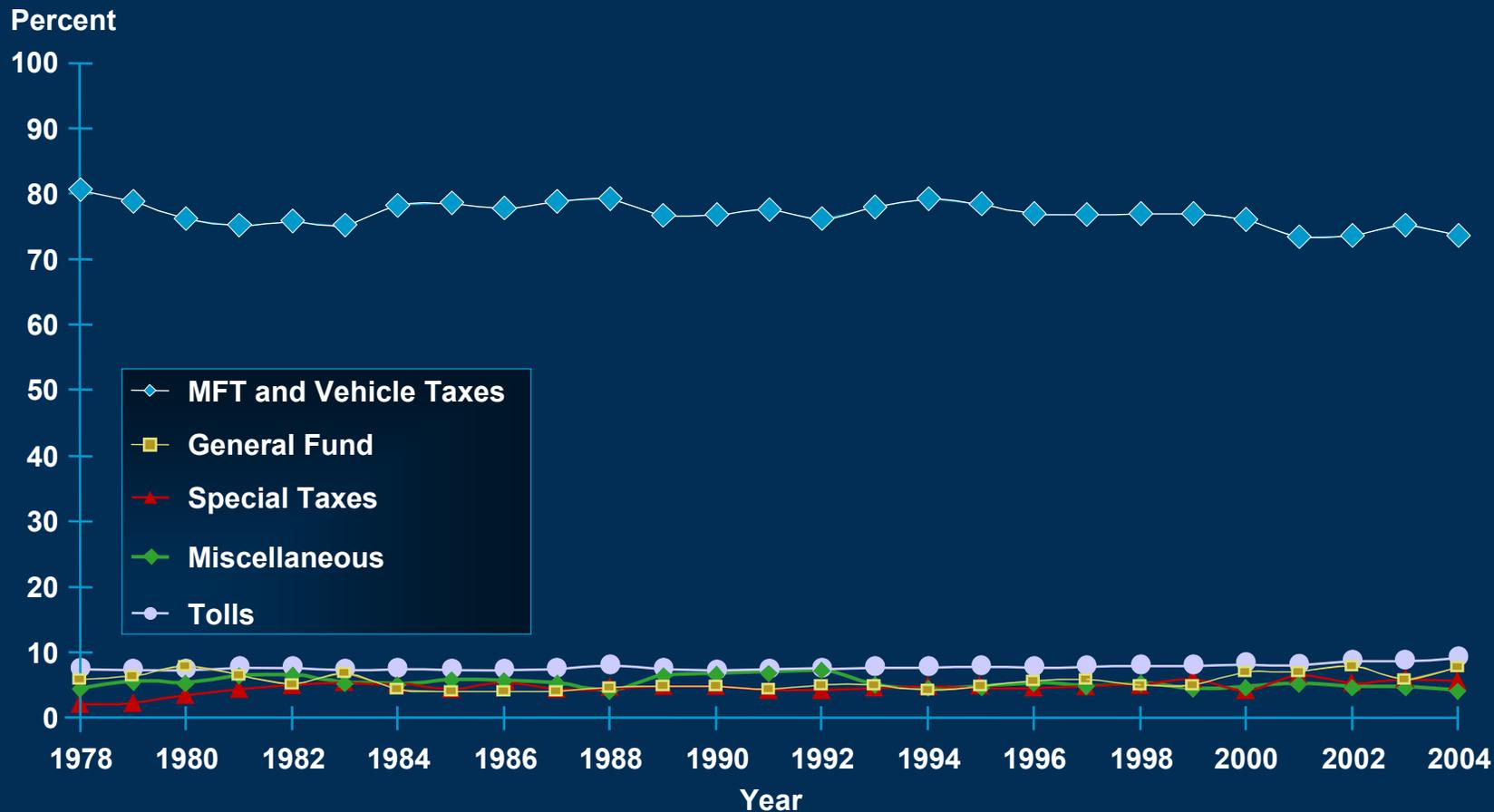
Main Sources: U.S. Chamber Future Highway and Public Transportation Finance Study (2005), NCHRP Future Finance Study (2006 ongoing), TRB Policy Study: The Fuel Tax and Alternatives for Transportation Funding (2006)



June 29, 1956 President Eisenhower signed the Interstate Highway Act setting up funding mechanism; Highway Trust Fund with dedicated fuel and heavy vehicle taxes

Celebrating the 50th Anniversary

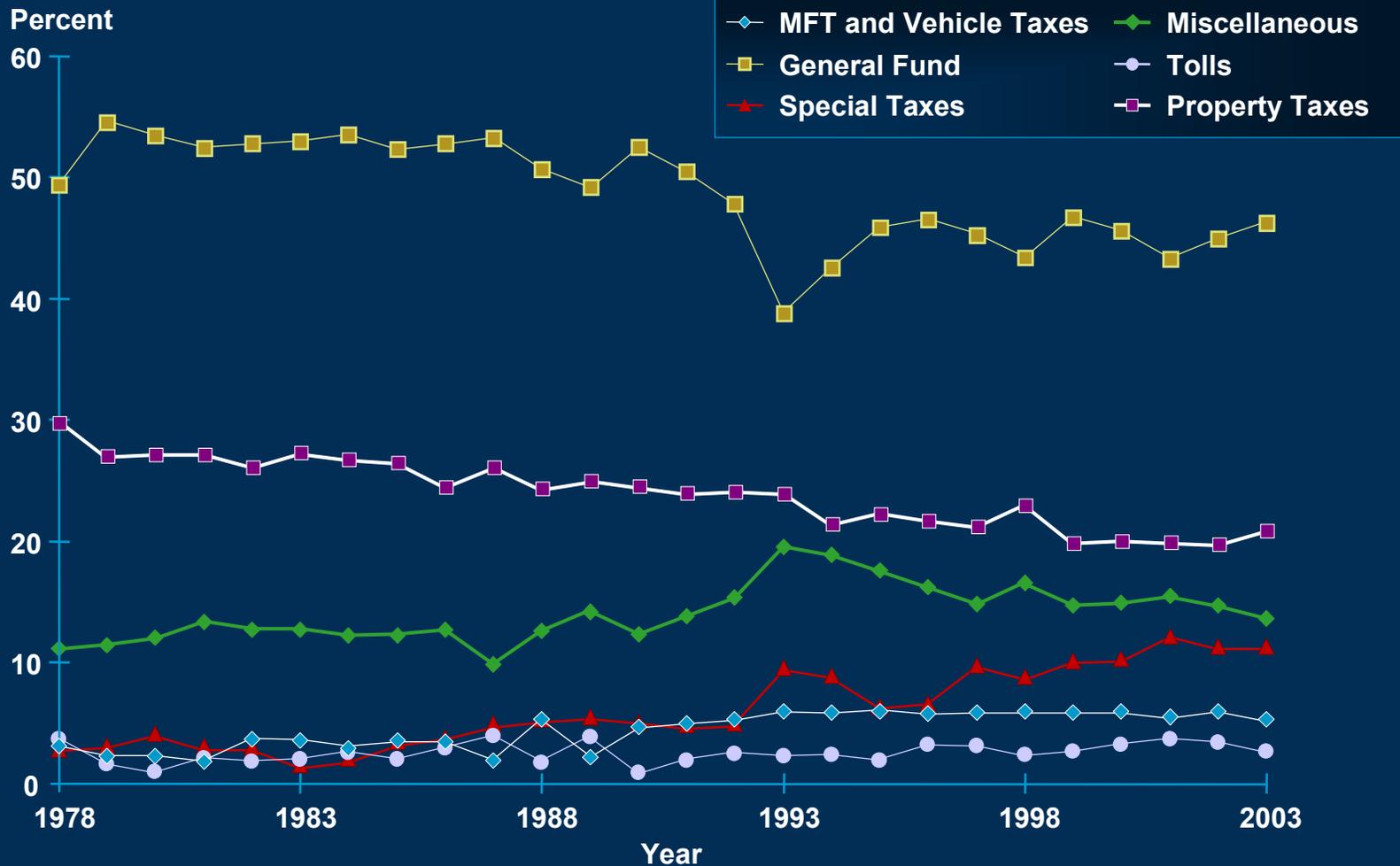
States also Relied on Fuel and Vehicle Taxes as Mainstay of Highway Programs Fiscal Years 1978-2004



Source: Highway Statistics, Table HF-10.

Local Highway Funding Sources Dominated by General Sources and Property Taxes

Fiscal Years 1978-2003



Source: Highway Statistics, Table LGF-1.

Highway and Transit Revenue Sources Allocated by Level of Government In 2004 (Billions of Dollars)

	Highway and Transit Revenue			
Revenue Type	Federal	State	Local	Total
<i>Highway</i>	\$30.9	\$62.5	\$36.1	\$129.5
<i>Transit</i>	\$6.9	\$7.8	\$23.9	\$38.6
Total	\$37.8	\$70.3	\$60.0	\$168 Billion
Percent	25%	40%	35%	100%

Key Short and Long Term Funding Challenges

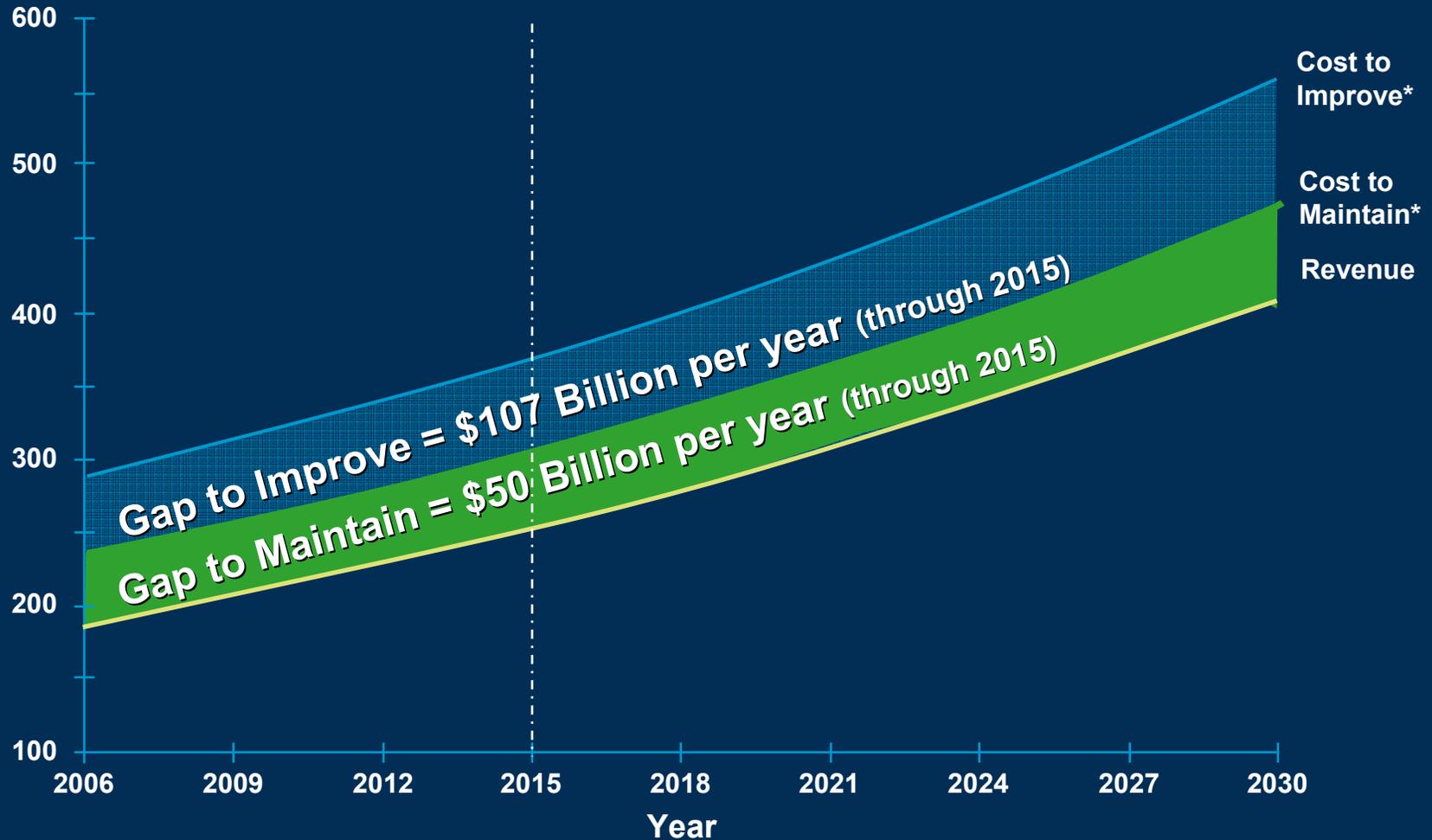
National Chamber Foundation Study 2005

1. National Funding Gap
2. Highway Trust Fund Faces Deficit
3. Short-Term Revenue Solutions Needed
4. Motor Fuel Tax Revenues Vulnerable Long-Term
5. New Long-Term Revenue Solutions Needed



Chamber Finding #1 National Funding Gap

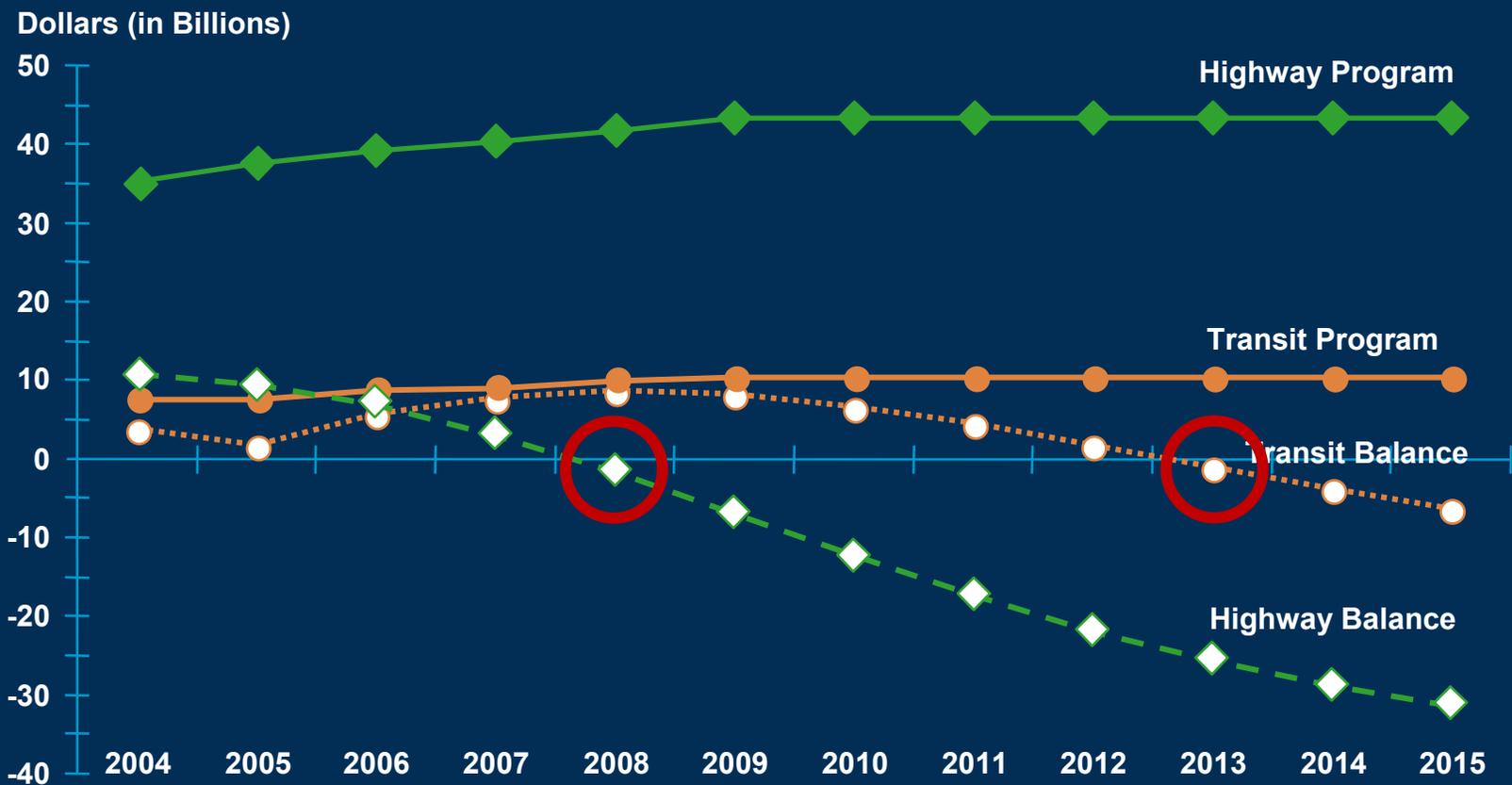
Year-of-Expenditure Dollars (in Billions)



Chamber Finding #2 Highway Trust Fund Faces Deficit

The Highway Trust Fund is likely to be in deficit before the end of the SAFETEA-LU authorization period

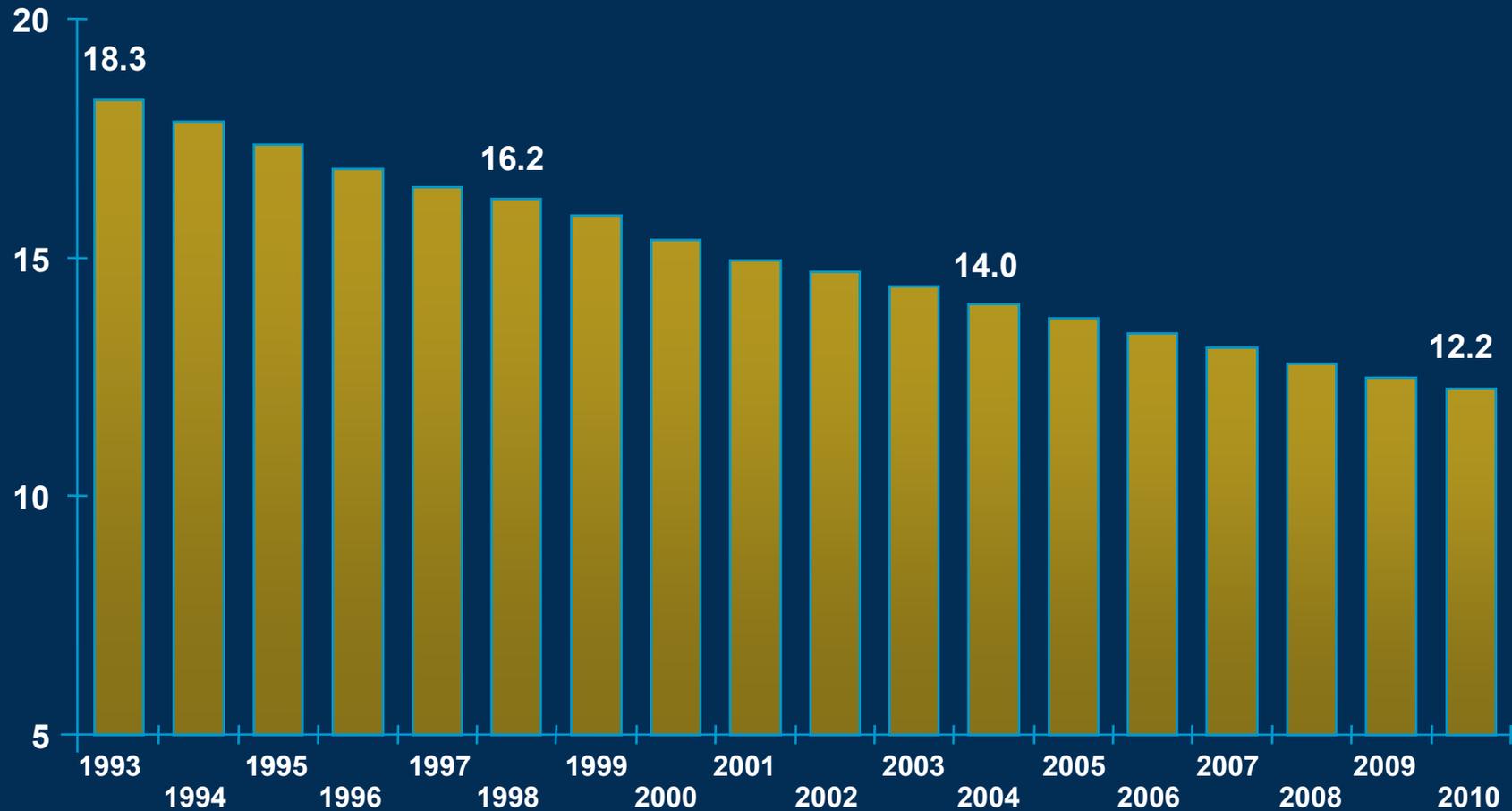
Estimated Highway and Transit Program Levels and HTF Account Balances * Assuming Level Funding After 2009



*Based on President's 2006 Budget and 2006 Budget Mid Session Review revenue estimates

...And Fuel Tax Purchasing Power is Eroding

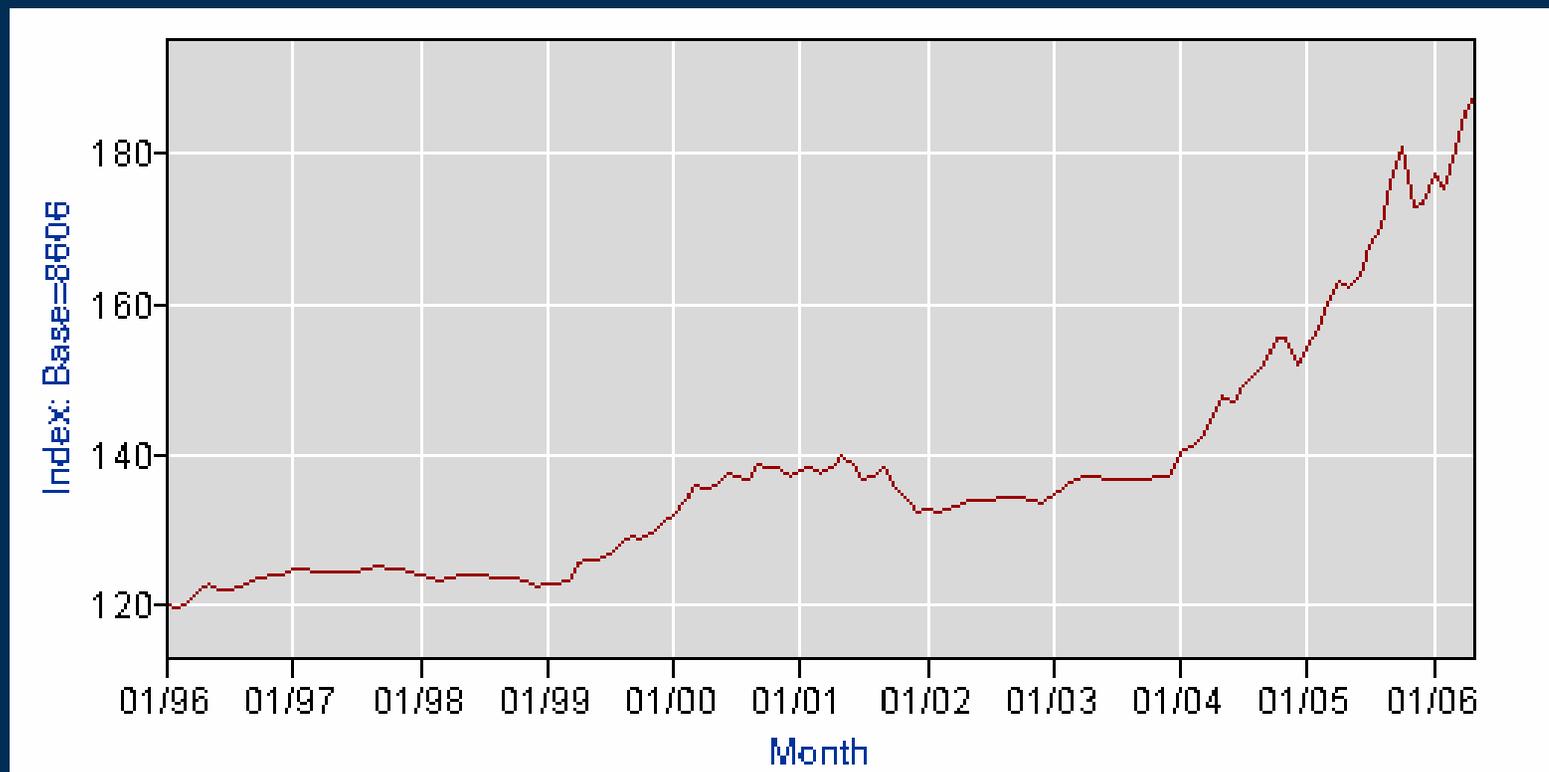
Cents per Gallon



Source: AASHTO.

...While Construction Costs are Increasing

- Street and highway construction costs have increased dramatically over the past few years



* Table shows the Bureau of Labor Statistics Producer Price Index rates over the past twenty years as indexed

Chamber Finding #3

Short-Term Solutions Needed

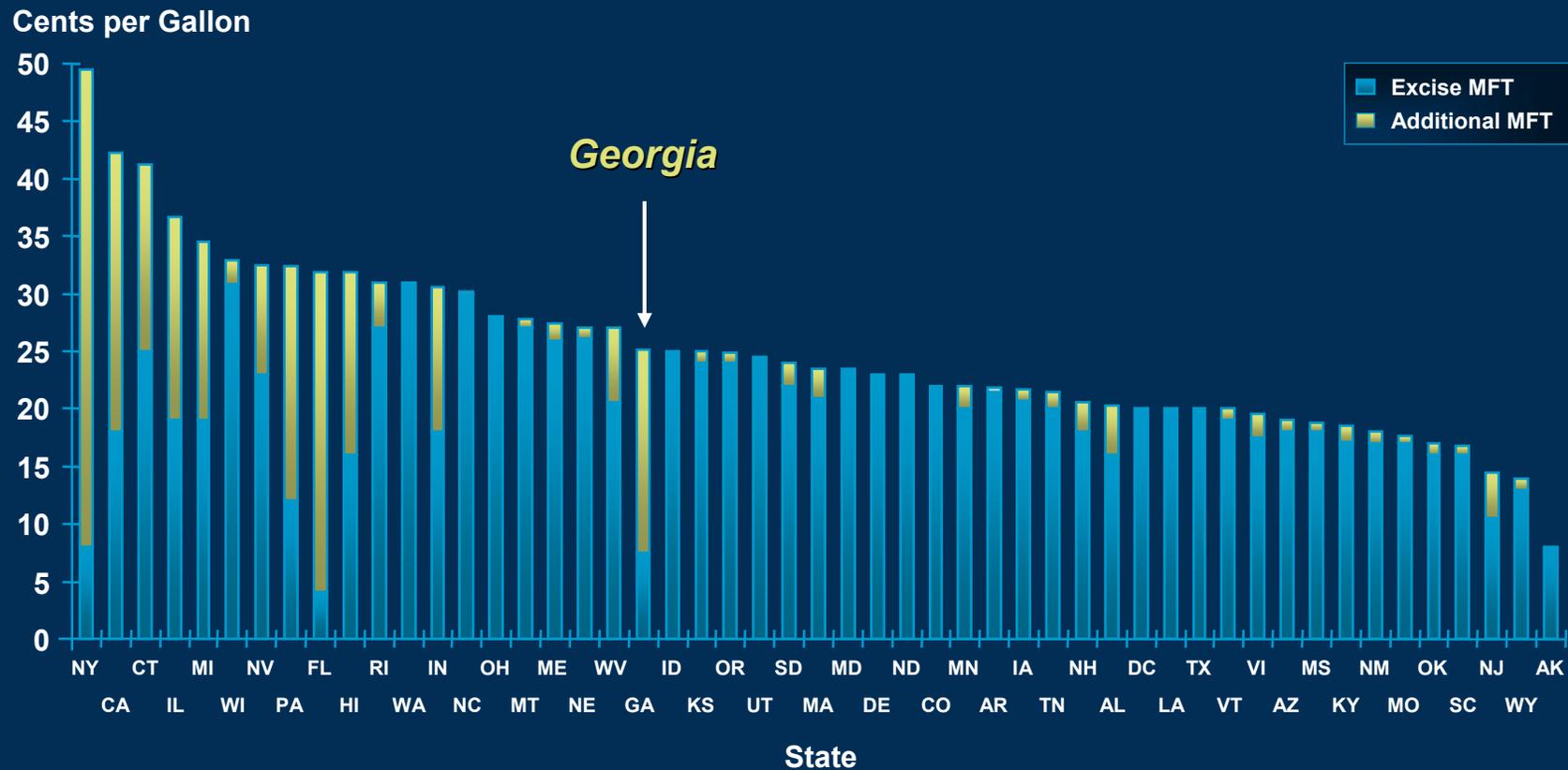
- **Action needed to close national funding gap and prevent the HTF from going into deficit (Chamber study findings)**
 - **Indexing (increasing) motor fuel taxes would have the most substantial short-term impact on gap closing**
 - **Other measures have important but smaller short-term impacts**
 - **HTF Interest/exemptions**
 - **Tolling, innovative financing, private participation**
 - **Freight oriented investment tools**

Candidate Revenue Sources

Specific Tool	Scope		Potential Yield	Locations Used
	Program	Project		
Fuel Taxes				
Motor fuel excise (per gallon) tax	X		H	All states, Federal
Indexing of the motor fuel tax	X		H	FL, KY, ME, NE, NY, NC, PA, WV
Sales tax on motor fuel	X		H	CA, GA, HI, IL, IN, MI, NY
Other petroleum related taxes	X		H	NY, PA
Registration and Vehicle Fees				
Registration or related fees	X		H	All states
Excise tax on vehicle sales	X		H	KS, NC, NE, MN, MO, OK, SD
Tolling and Pricing, and Other User Fees				
Tolling new or existing roads and bridges		X	M	About 1/2 of States (e.g.TX, FL, VA)
HOT lanes, express toll lanes, truck toll lanes		X	M	CA, CO, GA, MN, TX
VMT fees	X		H	OR testing, 15 state pooled fund study
Transit fees (fares, park-and-ride fees, other)	X		H	All transit agencies
Local Option and Beneficiary charges				
Beneficiary charges/value capture (special assessment impact fees, and tax increment financing)		X	L	Multiple (e.g.CA, FL)
Permitting local option taxes for highway and transit improvements	X	X	M	46 states have legislation
General Revenue Sources	X		H	Most states and localities

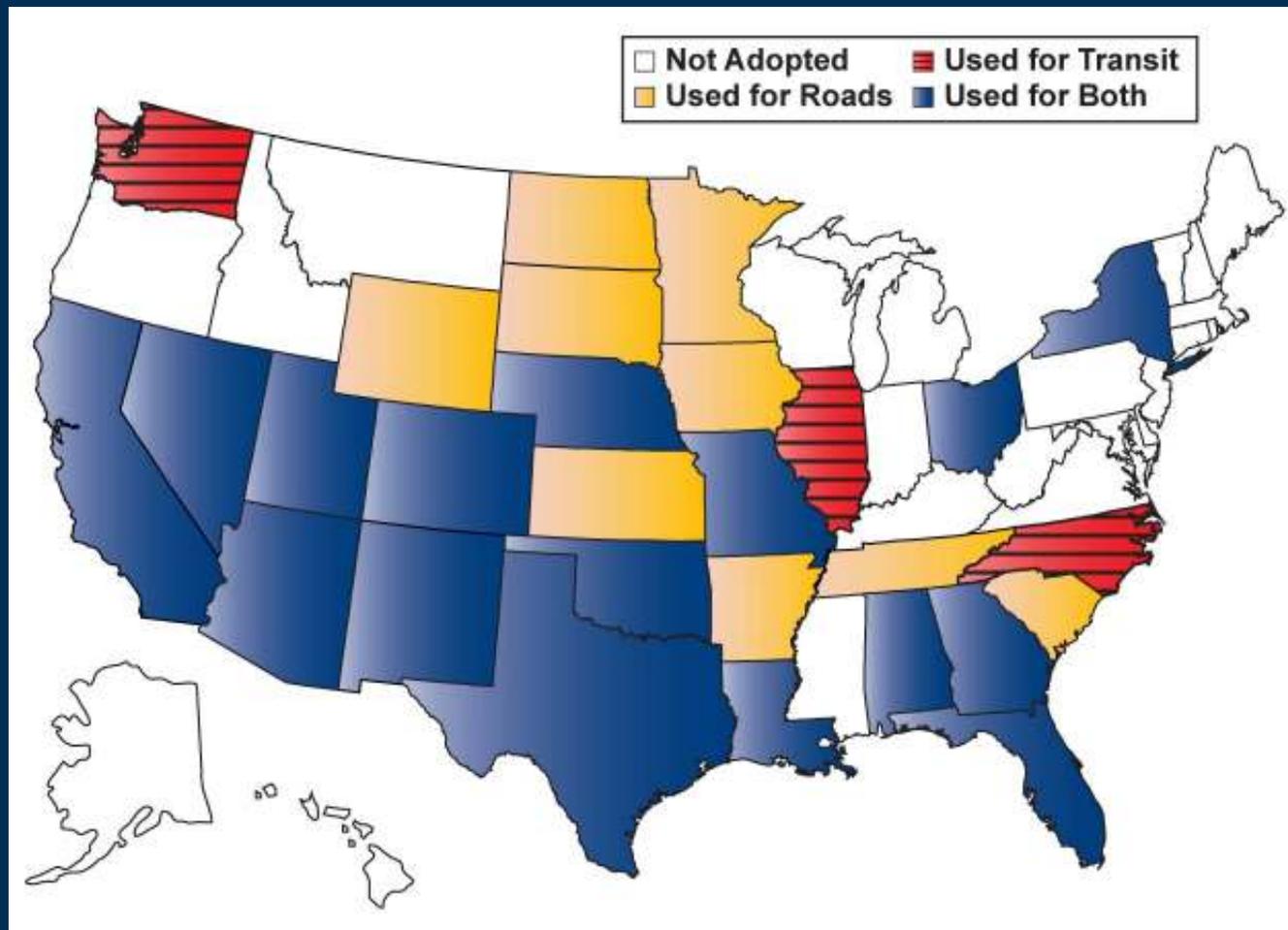
Source: NCHRP Finance Study.

State Gasoline Tax Rates including Sales and Petroleum Taxes Plus Local Option Gas Tax As of April 2006



Source: American Petroleum Institute.

States that Authorize Local Option Sales Taxes for Transportation

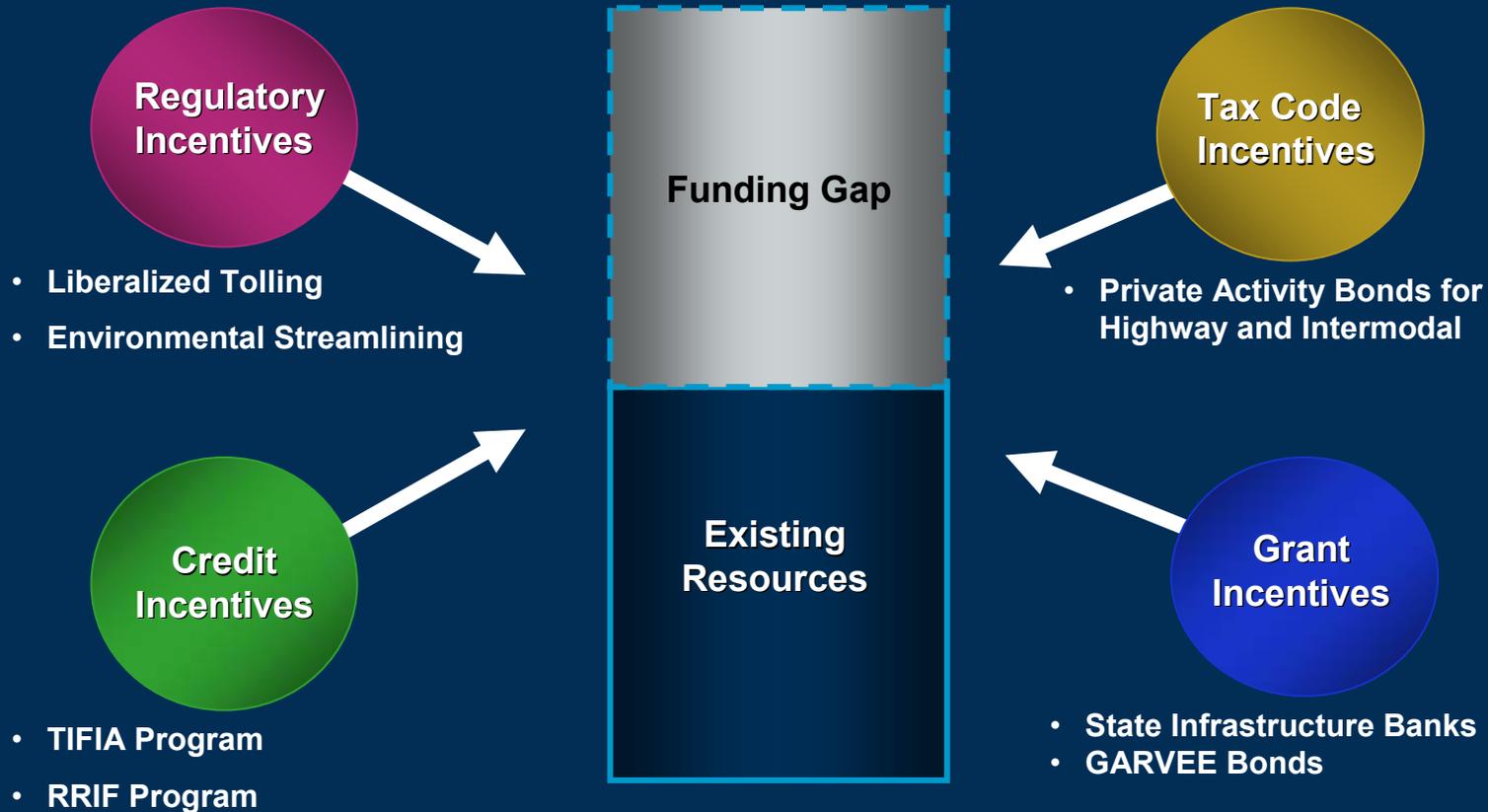


Source: Institute of Transportation Studies, University of California at Berkeley, "Local Option Transportation Taxes in the United States," March 2001.

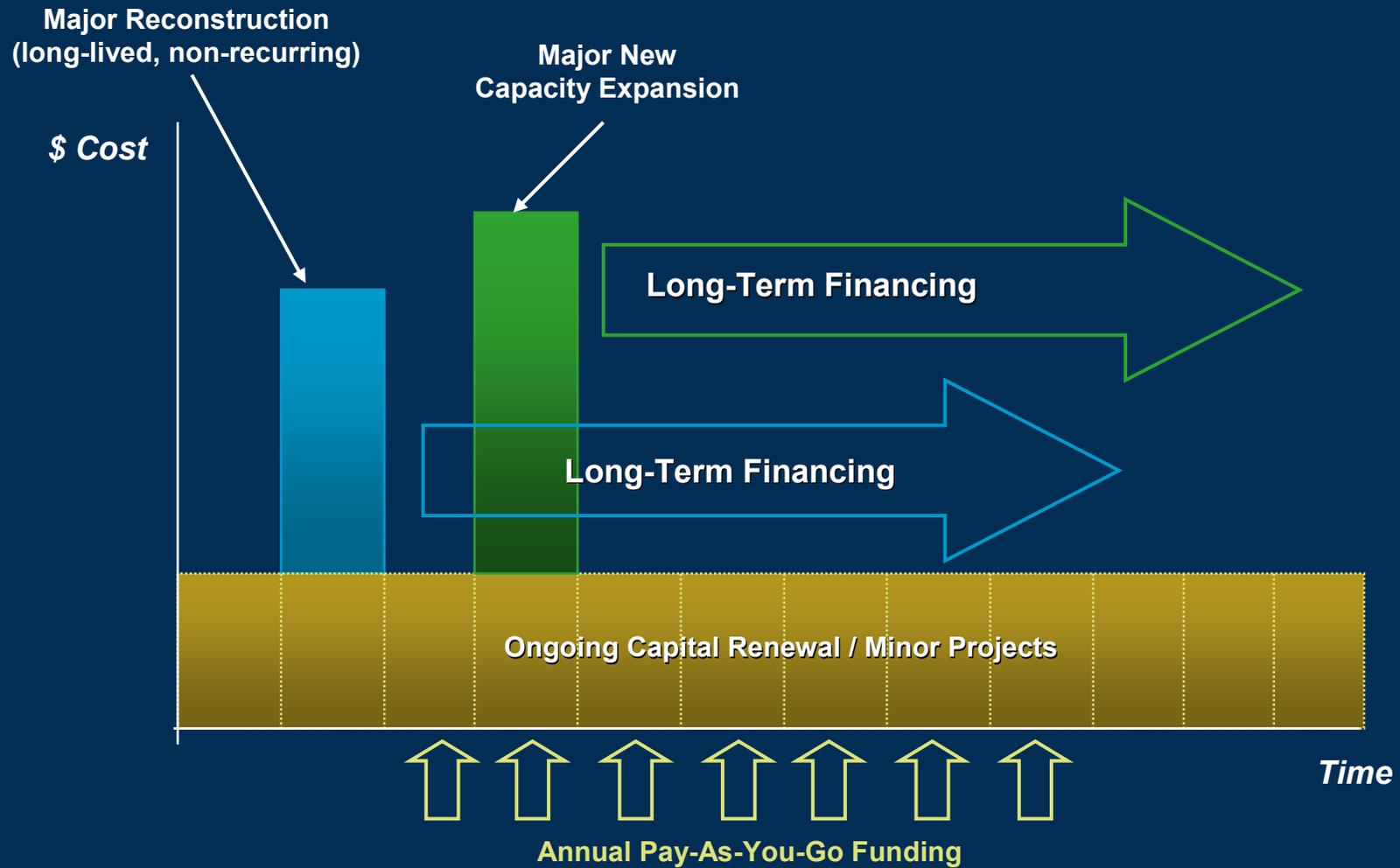
Tolls as Revenue Option

- Toll revenue has averaged 5% of highway revenues at all levels of government; (8 to 9 % of state revenue sources)
- Tolls used in about half the states, increasing interest
- Toll revenue could grow modestly in share over next 10 years if many major new projects in pipeline utilize tolling
- 5 express toll lane projects implemented; more under development
- SAFETEA-LU allows greater flexibility for tolling and pricing on Interstate, existing or new lanes and facilities; U.S. DOT's National Strategy to Reduce Congestion provides further incentive

SAFETEA-LU Legislation Offers New and Expanded Financing Incentives

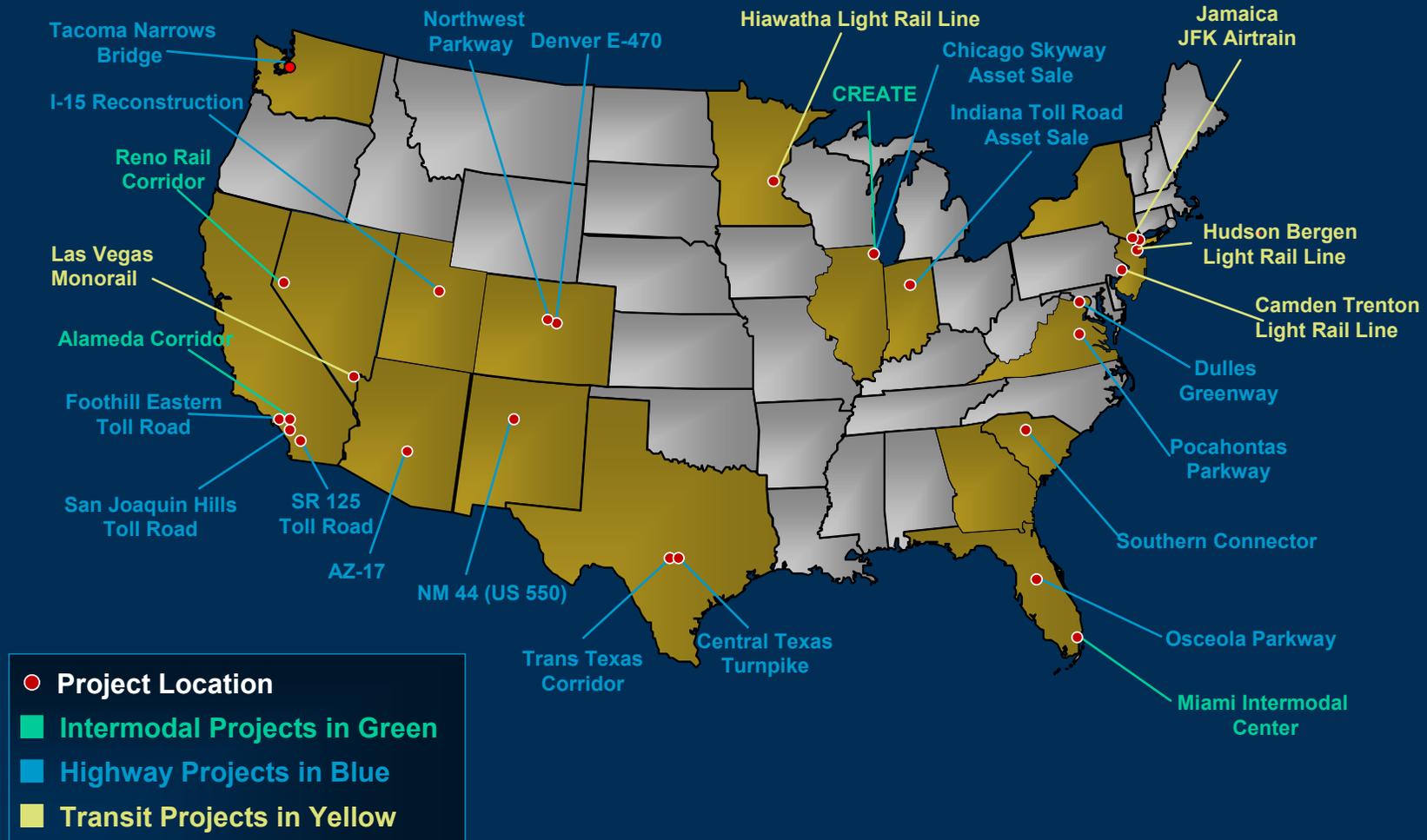


Debt Financing versus Pay-as-You-Go?



Recent Public Private Partnerships

States Using PPPs to Help Address Transportation Capital Needs



Chamber Finding #4

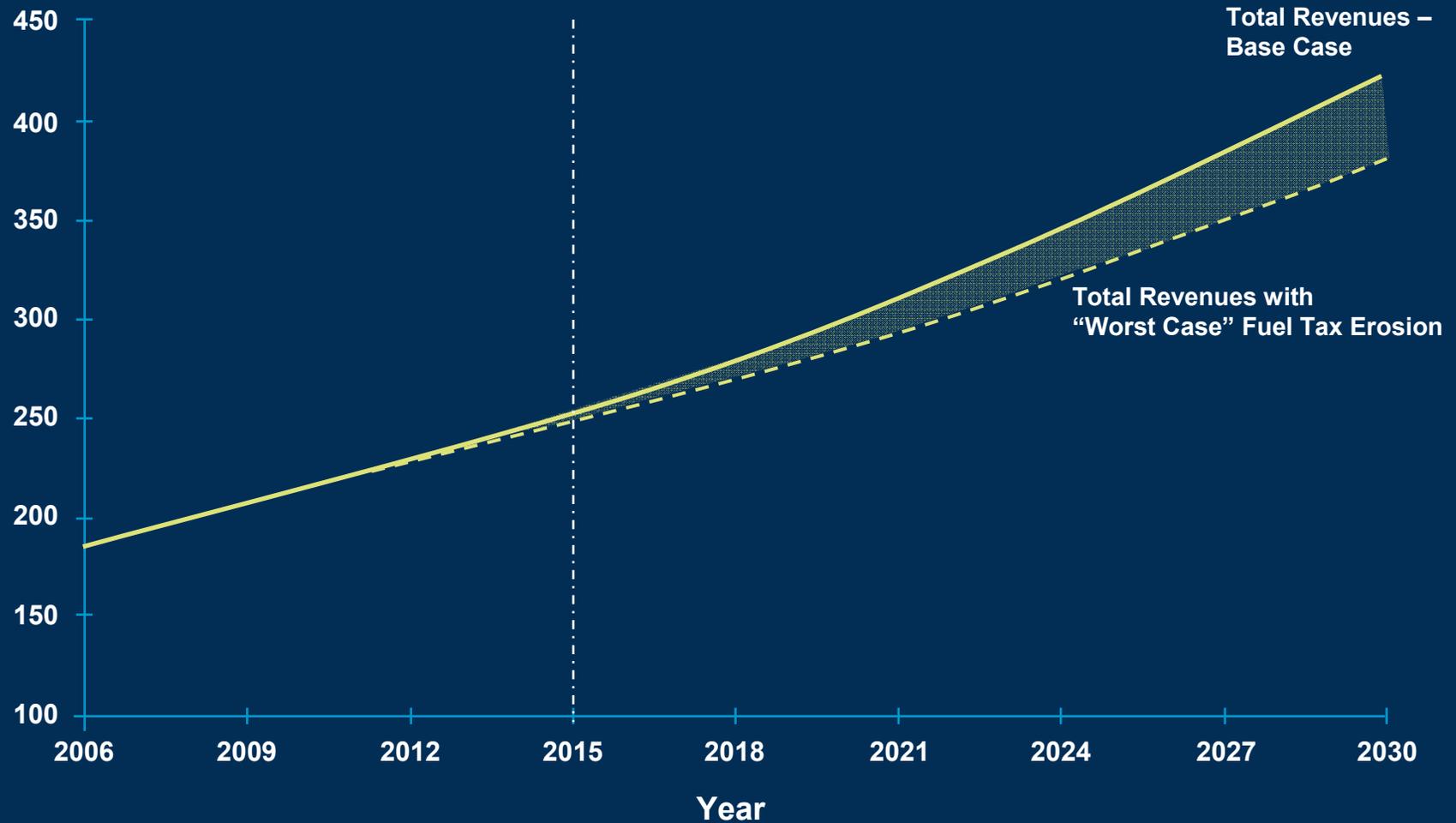
Motor Fuel Tax Revenues Vulnerable Long-Term

Beyond 2015, likely to see some erosion of fuel tax revenues as alternative fuels and nonpetroleum-powered vehicles capture a larger share of the market



Fuel Tax Uncertainty 2006-2030

Year-of-Expenditure Dollars (in Billions)



TRB Policy Study- 2006

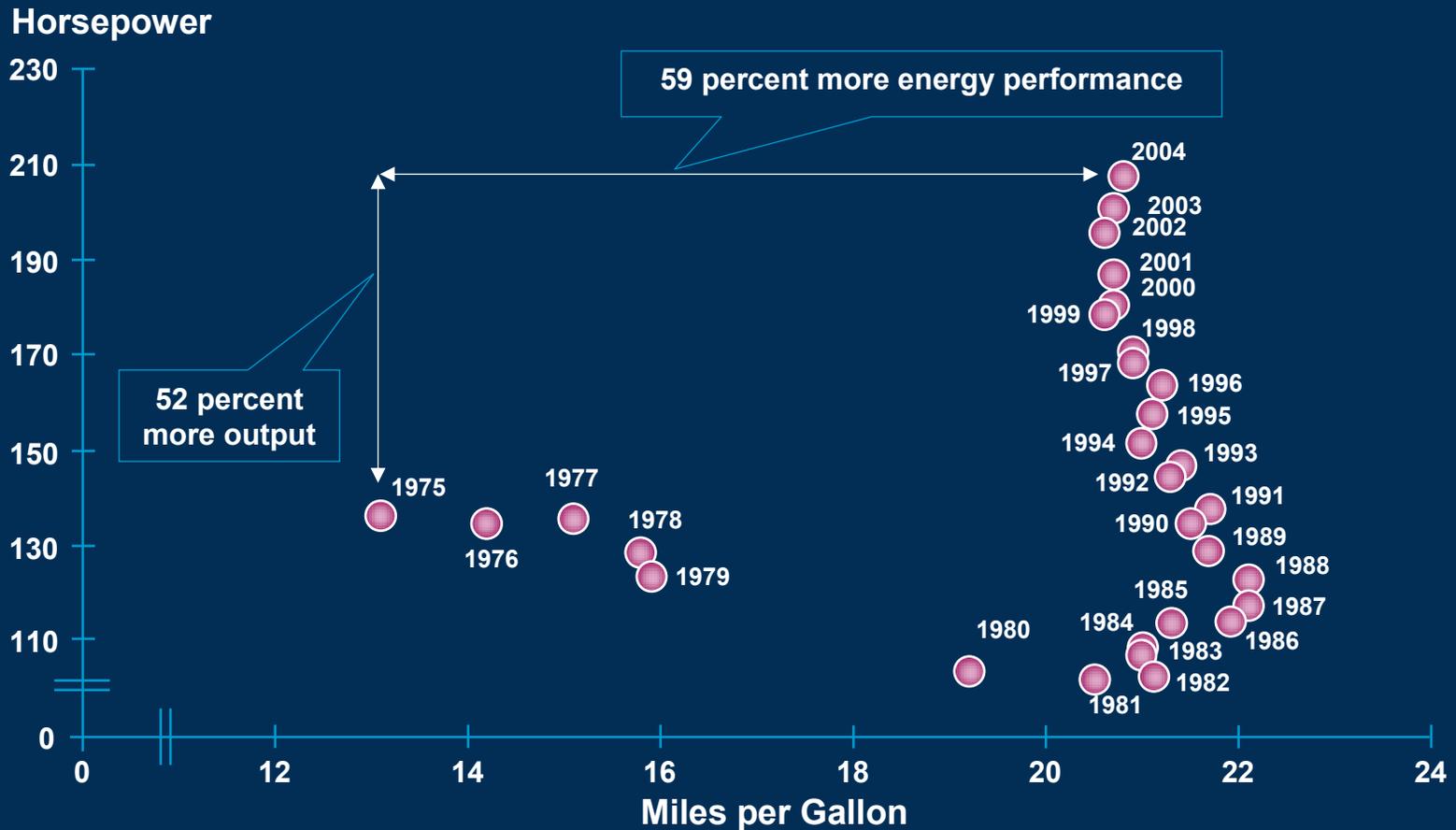
The Fuel Tax and Alternatives for Transportation Funding

- **Finding**

- **Fuel consumption per mile could decline 20% by 2025**
- **Present finance system can remain viable for at least another 15 years (although unlikely to provide enough revenue to reduce congestion)**

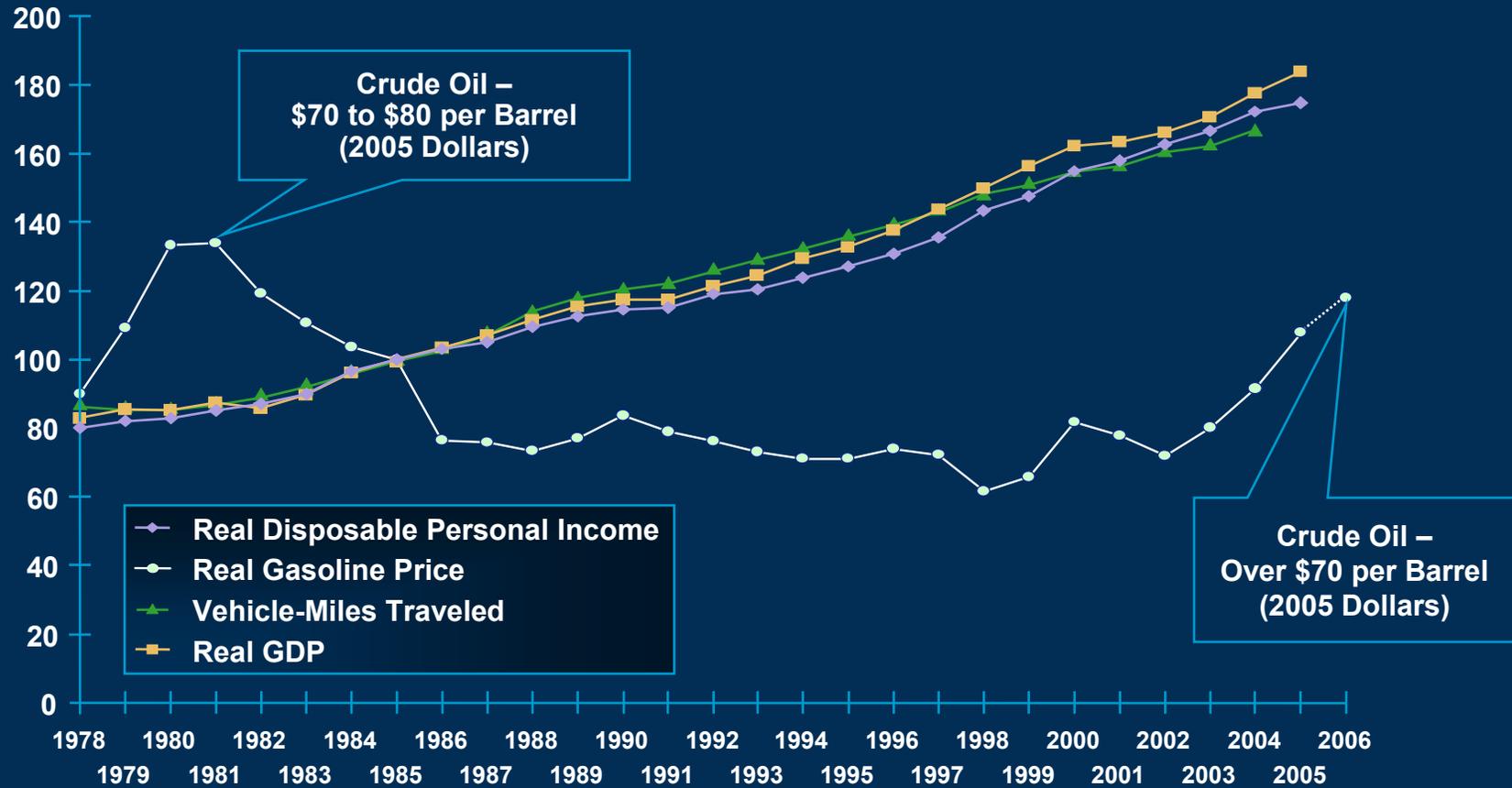
Fuel Economy for New Light-Duty Vehicles

1975-2004 Model Years Sales-Weighted Horsepower and MPG



Sources: Environmental Protection Agency; Energy Information Administration.

Annual Indices of Real Disposable Income, GDP, VMT, and Real Average Retail Gasoline Price 1978-2005, 1985 = 100



Source: Energy Information Administration

Chamber Finding #5

Long-Term Solutions Needed

- **States and local governments should implement a two-tier, mileage-based transportation revenue system (Chamber study finding)**
 - **Tier 1 – state-based VMT (vehicle-miles-of-travel) fee; charged for all miles driven**
 - **Tier 2 – a local-option VMT fee; charged for miles driven on congested roadways, to price and manage congestion**
- **States should lead implementation; VMT systems are already under study and development at state level**
- **Federal government should provide strong support for development and testing of the new systems and the architecture and standards for such systems**

TRB Policy Study

The Fuel Tax and Alternatives for Transportation Funding

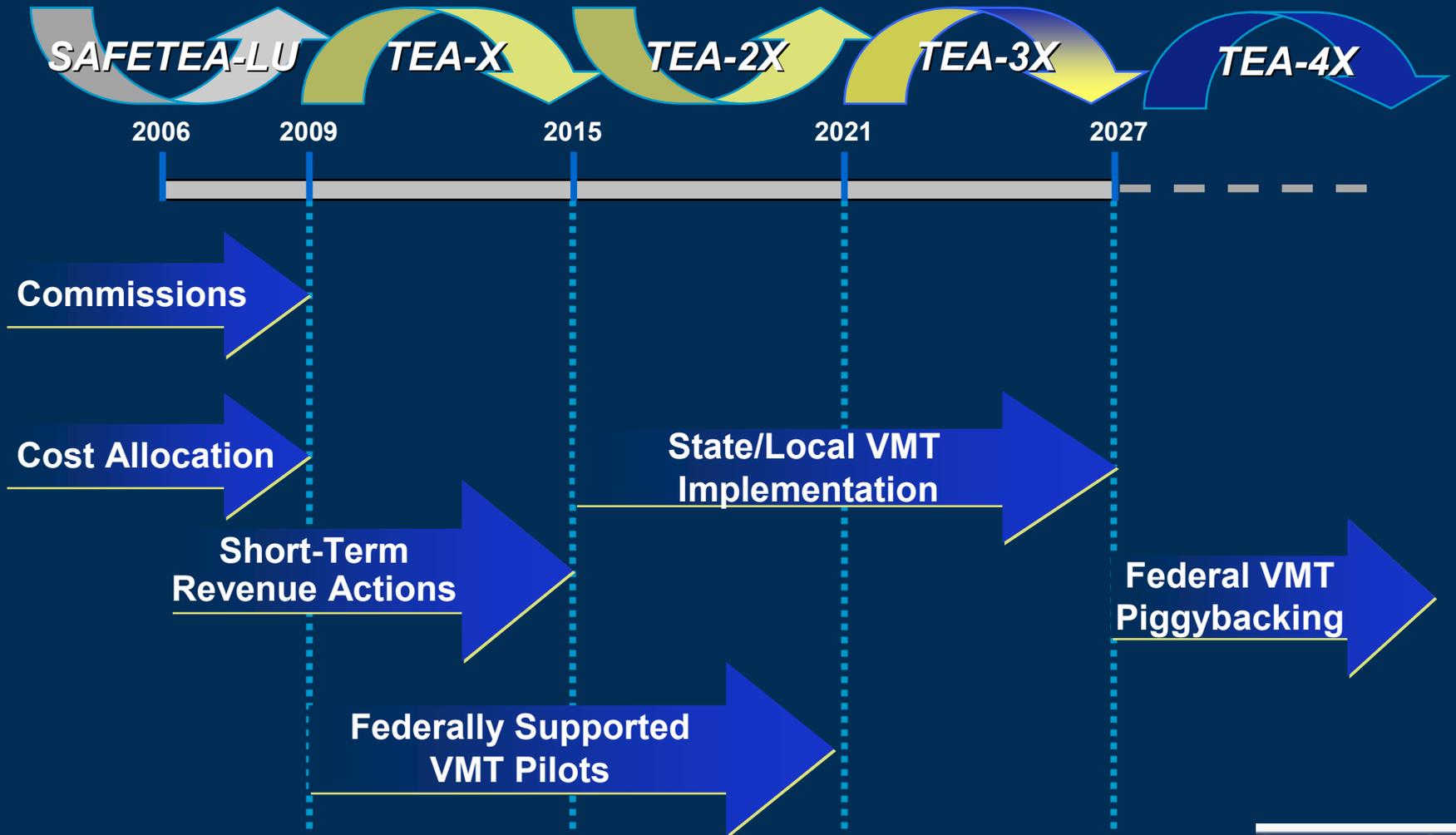
- **Finding**

- **Transition to more direct user charges would improve efficiency and, possibly, public support for highway program.**
 - **Near-term – more tolling**
 - **Long-term – road use metering and mileage charging**

Potential Benefits of a Mileage-Based Revenue System

- All users pay **fair share**
- Revenues more likely to **keep pace** with population and economic growth
- Alternative fuels and engines do not erode revenues
- Separates fuel use from highway user fees and **removes conflict** with energy and air quality policies
- Builds on **emerging electronic tolling and pricing** applications in U.S. and Europe

Timeframe for Transition (Chamber study)



Summary of Findings from Current Revenue Studies

- **Current transportation revenues insufficient to maintain or improve the nation's surface transportation systems**
- **HTF likely to be in deficit before end of SAFETEA-LU and unfunded liabilities accelerate in following years**
- **Short-term funding solutions could significantly narrow the investment gap at all levels of government**
 - Tax based (fuel, vehicle, sales, etc.)
 - Tolling and pricing
 - Leveraging tools and PPPs to advance major projects
- **Fuel tax based finance system vulnerable long-term**
- **A direct user charge VMT fee favored for longer-term state and local application**

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