



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*.



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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.



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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.



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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.



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Highway Trust Fund

- 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?



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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.



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FY 2009

- Projected deficit of \$3.2 Billion to fund the highway program at the level authorized by S-LU.
- One Proposal: Borrow from Mass Transit Account.
- 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???



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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.



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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.



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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



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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)



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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.



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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.



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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.



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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



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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.



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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."



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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."



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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.



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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.



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Administration Areas of Disagreement

- Increases Federal restrictions on pricing and private investment.
 - Inconsistent w/ 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.



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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



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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.



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Web Links

- <http://financecommission.dot.gov>
- www.transportationfortomorrow.org



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