



**Transportation
Vision and
Strategy for
the 21st Century
Summit**

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A Vision for Surface Transportation Funding

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A Vision for Surface Transportation Funding

Executive Summary

Introduction

America has created a transportation system second to none in the world. During the past 50 years, we built the Interstate System and continue to provide investment for a National Highway System and major transit systems and to coordinate with the private sector to ensure we have the means to move freight and people across this nation.

This investment would not have been possible were it not for the visionary leadership of our elected officials in the 1940s and 1950s who had a compelling vision and garnered the public support to create mechanisms such as the Highway Trust Fund (HTF) for public investment and tax policies that fostered both public- and private-sector investments in surface transportation.

We are now at a crossroads. Funding needs have been consistently outstripping resources in spite of substantially increased investment. We have reached a point where the Highway Account of the Highway Trust Fund will be bankrupt in fiscal year 2009 and the Transit Account will follow within a few years if nothing is done.

It is not sufficient to simply say we need to increase investment. Like those visionary leaders in the middle of the 20th Century, we need to articulate a compelling vision of the value of investment and make that investment a reality.

Key Findings

Our team reached several conclusions. They include first asking the question:

What do we want America to have for transportation? This is the critical question we are attempting to answer.

We concluded that America wants a unified national transportation system that fosters international competitiveness and energy independence, is safe and secure, provides efficient domestic mobility, and enhances the environment.

Achieving that vision requires a secure and robust funding system that:

- **Assures that investment is sized to address the needs.** During the past half century, we have made substantial investments in the surface transportation system. However, by all measures, we fail to meet the documented needs. This has led us to a place where we are locked in world competition, but our lifeline—the nation’s transportation system—is deteriorating and we are not acting to stem that tide. That condition must change!
- **Assures that transportation-related funding streams are dedicated to transportation.** It took until 1998 with the passage of TEA-21 to create mechanisms that firewall dedicated funding and assure we spend the user fee

receipts. The Federal budget is now strained to the limit. We must communicate a compelling vision for transportation in order to continue to preserve dedicated funding streams.

- **Links users who pay for the system with the benefits.** To date, we have not done all that we can to make the linkage between those who pay the fees and the benefits that accrue to them. We need to work to raise public awareness of those benefits and how they affect us all. We also need to recognize that there are transportation components (e.g., transit) that produce public benefit and will require public subsidies to assure that those benefits are maintained.
- **Provides a strong return on investment.** There is no question that there is a strong return on investment in transportation—both public and private. We, however, need more and better data that is clear and understandable to those who make the investment.
- **Preserves and enhances the intergovernmental partnership, including a strong Federal role focused on the national interest.** The partnership in investment at all levels of government has served us well. We need to work to ensure it is robust and efficient as we move into the future.
- **Maintains General Fund support for key elements of the transportation system in recognition of the broad benefits of an effective transportation system.** General Fund support either directly for transit or indirectly in the form of tax policy must be maintained or enhanced.

Supporting Funding Concepts and Timelines

In support of the guiding principles outlined above, our team outlined a series of supporting funding concepts and associated timelines. These are organized around the immediate-term (by 2009), the short-term (2009–2015), and longer-term (beyond 2015 roughly), as outlined below.

Immediate-term actions required:

- **Preserve the solvency of the Highway Trust Fund.** This can be achieved by limiting exemptions, capturing HTF interest earnings, and with minor fuel tax increases. The equivalent of approximately a **three-cent increase** in the gas tax is needed to stem the collapse of the HTF in the immediate-term.

Short-term (next reauthorization) actions:

- **Increase HTF revenues to maintain and enhance urban and rural system performance and meet the needs of the users (at minimum by restoring and, through indexing, maintaining the purchasing power of HTF revenue and building additional funding capacity).** By 2015, the purchasing power of the current 18.4-cent gas tax will be 30 percent of what it was in 1993. The equivalent of a **10-cent increase** in the gas tax is required to raise enough funds

to meet funding levels to “maintain” (defined as the estimates in the U.S. DOT *Conditions and Performance Report*) the system.

- **Maintain historical balance and the strong Federal role commensurate with the national interest between Federal and state-local capital funding of 45 percent and 55 percent, respectively.** We have seen the states and localities step up investment levels consistent with Federal investment and we need to maintain that relationship if we hope to take the steps necessary to more fully address our transportation needs.
- **Provide new funding for strategic investments beyond the core program, such as:**
 - Funding for corridors of national and regional significance (e.g., Critical Corridors of Commerce) supported by new freight-related user fees in a firewalled, segregated fund.
 - New investments in metropolitan mobility, including for critical congestion relief and transit programs.
 - Support for inter-regional mobility, including intercity passenger rail from revenues *outside* the HTF.
 - Funding for transportation-related security improvements from *outside* the HTF.
- **Promote appropriate use of tolling and public-private partnerships to provide needed surface transportation investments.** Tolling and public-private partnerships are key niche elements of the overall investment picture and we need to promote both where they are appropriate and effective.
- **Continue to promote funding innovation at the state and local level.** This should include currently available mechanisms as well as new tools in the toolbox. The states have continued to innovate with respect to new funding approaches and such leadership should be fostered wherever possible.
- **Provide funding for research and development related to the exploration of alternatives to the fuel tax.** It is critical to begin preparing for the now long-anticipated decline in the effectiveness of the fuel tax as a revenue generator for transportation. While recent studies show that the decline associated with alternative fuels and fuel efficiency is still some time off, it is imperative to begin the work now in the form of research efforts to be prepared.

Long-Term Actions

- Continue to rely on a user-fee system that supports our overarching goals for the nation’s transportation system:
 - To promote international competitiveness and energy independence;
 - To build and maintain a transportation system that is safe and secure;

- To provide efficient domestic mobility and, in so doing, enhance the quality of life in our communities; and
- To enhance the environment through transportation programs and policies that support and reinforce national environmental goals.
- With that system, pursue alternatives to the fuel tax as a proxy for direct user charges as fuel efficiency and alternative propulsion systems begin to undermine the effectiveness of the current system.
- Provide Federal leadership in exploring alternatives, including funding for research and development.
- Devise a system to capture funding support from other beneficiaries of the transportation system, beyond the current General Fund contribution (e.g., via freight user charges).

Vision for America's Transportation System and Funding Principles to Achieve the Vision

Introduction

America has created a transportation system second to none in the world. During the past 50 years, we built the Interstate System and continue to provide investment for a National Highway System and major transit systems and to coordinate with the private sector to ensure we have the means to move freight and people across this nation.

This investment would not have been possible were it not for the visionary leadership of our elected officials in the 1940s and 1950s who had a compelling vision and garnered the public support to create mechanisms such as the Highway Trust Fund (HTF) for public investment and tax policies that fostered both public- and private-sector investments in surface transportation.

We are now at a crossroads. Funding needs have been consistently outstripping resources in spite of substantially increased investment. We have reached a point where the Highway Account of the Highway Trust Fund will be bankrupt in fiscal year 2009 and the Transit Account will follow within a few years if nothing is done.

It is not sufficient to simply say we need to increase investment. Like those visionary leaders in the middle of the 20th Century, we need to articulate a compelling vision of the value of investment and make that investment a reality.

A Vision for Transportation and Supporting Funding Principles

Our team reached several conclusions resulting from our deliberations. They include first asking the question:

What do we want America to have for transportation? This is the critical question we are attempting to answer.

We concluded that America wants a unified national transportation system that fosters international competitiveness and energy independence, is safe and secure, provides efficient domestic mobility, and enhances the environment.

Achieving that vision requires a secure and robust funding system that:

- **Assures that investment is sized to address the needs.** During the past half century, we have made substantial investments in the surface transportation system as illustrated by the Interstate System and the tremendous benefits it has brought to system users and our regional and national economies. However, by all measures, we fail to meet the documented needs and congestion is increasingly taking its toll on commuters and businesses that compete in the global economy. This has led us to a place where we are locked in world

competition but our lifeline—the nation’s transportation system—is deteriorating and we are not acting to stem that tide. That condition must change!

- **Assures that transportation-related funding streams are dedicated to transportation.** It took until 1998 with the passage of TEA-21 to create mechanisms that firewall dedicated funding and assure we spend the user fee receipts. We are at a crossroads in that the Federal budget is strained to the limit. We must communicate a compelling vision for transportation in order to continue to preserve dedicated funding streams.
- **Links users who pay for the system with the benefits.** To date, we have not done all that we can to make the linkage between those who pay the fees and the benefits that accrue to them. We need to work to raise public awareness of those benefits and how they affect all of us. We also need to recognize that there are some transportation components (e.g., transit) that produce major public benefits and will appropriately require public subsidies to assure that those benefits are maintained.
- **Provides a strong return on investment.** There is no question that there is a strong return on investment in transportation—both public and private. However, we need more and better data that is clear and understandable to those who make the investment.
- **Preserves and enhances the intergovernmental partnership, including a strong Federal role focused on the national interest.** The partnership in investment at all levels of government has served us well. We need to work to ensure it is robust and efficient as we move into the future. The Federal role in financing the nation’s infrastructure has been evident since its founding, including President Eisenhower’s creation of the Interstate Highway System funded from a Federal gas tax. For our surface transportation system to continue to provide a competitive edge in the 21st Century, substantial additional Federal and state investment is necessary.
- **Maintains General Fund support for key elements of the transportation system in recognition of the broad benefits of an effective transportation system.** General Fund support either directly for transit or indirectly in the form of tax policy must be maintained or enhanced. Given that the benefits of a fully-functioning and robust transportation system reach every citizen of the country, such general funding support is not only appropriate but vital to enhancing the link between beneficiaries and costs and reinforcing the connection.

Together, these guiding principles should be used to help shape the development and selection of enhanced and new funding approaches in the near- and longer-term.

Meeting the Immediate Funding Imperatives—Short-Term Funding Concepts

In support of the guiding principles developed by our team, we also arrived at a series of supporting funding concepts and associated timelines. This section summarizes the immediate- and short-term items that must be carried out to meet the most pressing funding needs.

Immediate-Term Actions

The following item represents the most critical action to be taken to preserve the basic underpinnings of our surface transportation funding system.

Preserve the solvency of the Highway Trust Fund.

Protection of the HTF can be achieved by limiting fuel tax exemptions, capturing HTF interest earnings, and with minor fuel tax increases. The equivalent of approximately a three-cent increase in the gas tax is needed to stem the collapse of the HTF in the immediate-term. Without such an action, we run the real risk of a dramatically diminished investment level at a time when more investment is desperately needed. These actions represent the necessary but not sufficient actions to protect the basic construct of our surface transportation funding system.

Short-Term Actions

Beyond the immediate action required to preserve the Trust Fund, near-term actions are critical to rebuild its buying power and begin to make a meaningful dent in the mounting surface transportation funding needs. These actions are targeted for the next reauthorization period, or roughly 2009–2015.

Increase HTF revenues to maintain and enhance urban and rural system performance and meet the needs of the users (at minimum by restoring and, through indexing, maintaining the purchasing power of HTF revenue and building additional funding capacity).

By 2015, the purchasing power of the current 18.4-cent gas tax will be 30 percent of what it was in 1993. And, this does not fully account for the discrepancy between general inflation and the escalation in construction costs. In recent history, construction costs have grown at a much greater pace than general inflation, with recent years witnessing double-digit and upwards of 35 percent escalation in some Katrina-affected states. The equivalent of a 10-cent increase in the gas tax is required to raise enough funds to “maintain” (defined as the estimates in the U.S. DOT *Conditions and Performance Report*) the system. Figure 1 on the following page illustrates the loss of purchasing power.

Maintain historical balance and the strong Federal role commensurate with the national interest between Federal and state-local capital funding of 45 percent and 55 percent, respectively.

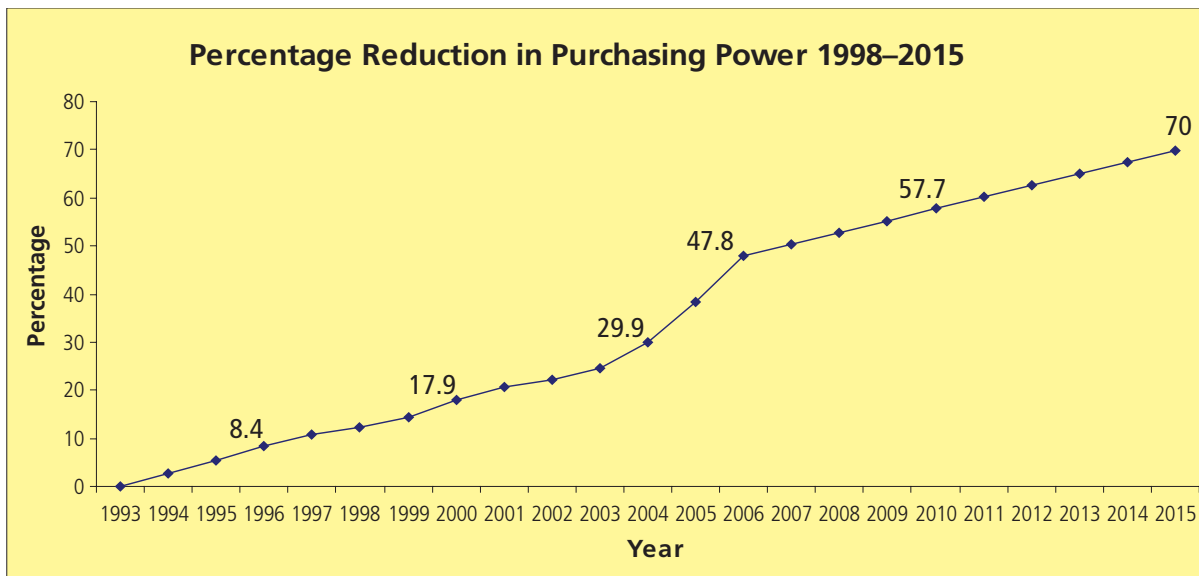


Figure 1. Percentage Reduction in Purchasing Power

We have seen the states and localities step up investment levels consistent with Federal investment and we need to maintain that relationship if we hope to take the steps necessary to address transportation needs.

Provide *new* funding for additional strategic investments beyond core program. Examples of required new funding include:

- Funding for corridors of national and regional significance (e.g., Critical Corridors of Commerce) supported by new freight-related user fees in a firewalled, segregated fund.
- New investment in metropolitan mobility, including critical congestion relief and transit programs.
- Support for inter-regional mobility, including intercity passenger rail from revenues *outside* the HTF.
- Funding for transportation-related security improvements from *outside* the HTF.

Building on our core funding programs, these targeted new investments can help to elevate our investment in surface transportation to a level that begins to go beyond the treading water level to real forward progress in addressing the nation’s most critical demands.

Promote appropriate use of tolling and public–private partnerships to provide needed surface transportation investments.

Tolling and public–private partnerships are key elements of the overall investment picture and we need to promote both where they are appropriate and effective. In executing long-term leases of *existing assets*, we need to limit fund use to reinvestment in our surface transportation assets. We also need to continue to ask the hard questions, such as:

- Is the goal of PPPs to enhance transportation investment or, for instance, for general budget relief?
- Are PPP transactions driven by sound economic factors? What is the role of tax policy and how vulnerable does that make projects to future tax law changes?
- What is a reasonable proportion of needs we can expect PPPs to meet?
- What is the contribution of PPPs to improved project delivery?
- Is there an inherent bias toward highways in our pursuit of PPPs and how will this affect our planning and decision-making processes?
- To the extent that PPPs are generally focused on new capacity, what will the impact, if any, be on our ability to finance and execute work to sustain the existing system?
- Have the equity-related issues related to tolling and PPPs been fully assessed?
- How much of the benefit of tolling have we chosen to attribute to private delivery where such benefits also can be achieved in some instances by the public sector, where we have the political fortitude to impose new or increased tolls to meet sound funding objectives?
- Are there inherent conflicts in the goals of maximizing funding and using market principles to manage demand and, if so, how do we balance these goals?
- What is the appropriate balance between state and Federal roles in introducing and supporting PPP initiatives?
- How are issues of transparency and accountability handled?
- Are some of the concepts (e.g., pilot streamlining programs) introduced to facilitate PPPs also appropriately mainstreamed to “traditional” project delivery approaches?

Continue to promote funding innovation at the state and local level.

State and local funding growth has buoyed our overall investment, making up in some small part for losses in the buying power of the Federal program. We must continue to foster the innovation that has made this increased funding possible. This should include the application of currently available mechanisms as well as the development of new tools in the toolbox. Funding mechanisms currently used to support surface transportation funding at some level include:

- Tax increment financing programs;
- Sales tax initiatives;
- Transit-oriented development and joint development; and
- Development impact fees.

These and other techniques must be fully utilized to build upon historical transportation funding levels at the state and local level. The menu is different in every state and the states' willingness to innovate to reach new funding levels is well-documented. Appropriate Federal actions should be taken to continue to foster and promote such critical leadership on the part of the states.

Provide funding for research and development related to the exploration of alternatives to the fuel tax.

Even in the short-term it is critical to begin preparing for the long-anticipated decline in the effectiveness of the fuel tax as a revenue generator. While recent studies show that the decline associated with alternative fuels and fuel efficiency is still some time off, it is imperative to begin the work now in the form of research efforts to prepare for that time in the future when the predicted decline comes to be.

**Preparing for the Next Generation of Transportation Funding—
Longer-Term Funding Concepts**

Beyond the short-term actions required and addressed in the previous section, our team identified a number of longer-term actions that would support our overall vision for transportation. We see these as occurring roughly in the period beyond 2015, or after the next reauthorization of the Federal surface transportation program. They will need to be more fully developed in the intervening years based on changes in fuel efficiency and alternative propulsion mechanisms, further development of environmental standards and related tax policy, vehicle technology advances, and progress in developing new concepts for alternative funding approaches.

Continue to rely on a user fee system that supports our overarching goals for the nation's transportation system.

As defined by our team, those goals are:

- To promote international competitiveness and energy independence;
- To build and maintain a transportation system that is safe and secure;
- To provide efficient domestic mobility and, in so doing, enhance the quality of life in our communities; and
- To enhance the environment through transportation programs and policies that support and reinforce national environmental goals.

Pursue alternatives to the fuel tax as a proxy for direct user charges as fuel efficiency and alternative propulsion systems begin to undermine the effectiveness of the current system.

While the exact timing continues to evolve, it is commonly agreed that at some point in the future the fuel tax-based funding system will face challenges without adjustments to the basic structure. Thus, it is critical to pursue alternatives for the future.



Provide Federal leadership in exploring alternatives, including funding for research and development.

As evidenced by the one-off pilot programs that have been carried out, such as the one in Oregon, Federal leadership, facilitation of the sharing of results, and funding are likely to be key ingredients to further progress in the pursuit and evaluation of potential alternative approaches.

Devise a system to capture funding support from other beneficiaries of the transportation system, beyond the current General Fund contribution (e.g., via freight user charges).

While direct user-based funding systems appropriately will continue to serve as the backbone of our transportation funding construct, new mechanisms must be pursued to reach the broader beneficiaries of the transportation system. This includes those who benefit directly from goods transport, without which the basic commerce system would grind to a halt, as well as those who benefit directly or indirectly from homeland security elements of the transportation system. It, therefore, is appropriate to devise funding approaches that reach this most diffuse set of beneficiaries through the General Fund or other appropriate broad-based mechanisms.

Timeline for Action and Conclusions

As identified by our team, the timeline for action in addressing the needs of our transportation funding system can be viewed in three broad phases. These are:

- **Immediate-Term**—Actions required immediately to preserve the basic solvency of the Highway Trust Fund which is projected to be bankrupt by 2009 without any action.
- **Short-Term**—Actions that are appropriate to consider in the context of the next reauthorization of the Federal surface transportation program and that will go beyond preserving the basic HTF solvency and begin to restore its purchasing power and build toward meeting the real transportation needs.
- **Long-Term**—Potential actions to be studied and developed now for ultimate implementation as the effectiveness of the fuel tax-based funding system is projected to show weakening as the central revenue generator for surface transportation investment.

At each phase, the ingredients will by necessity include the full range of funding and finance mechanisms. User-based funding mechanisms will continue to serve as the foundation and biggest contributor to transportation funding but other elements will play an increasingly important role. Filling out the funding pyramid, these include General Fund and tax assessment support at the state and local level, innovative finance techniques provided for at the Federal and state level and repaid with funds at the state and local (and sometimes private) level, special dedicated funds, and public–private partnership arrangements which will continue to be a relatively small but important contributor. We

cannot afford to turn our back on any element of this pyramid. Nor can we afford to put too much weight in any one area to the sacrifice of others. All (and others yet to be conceived) will be necessary to meet the identified funding needs of our transportation system and, in so doing, to achieve the overarching goals set out for that system by this group and others.

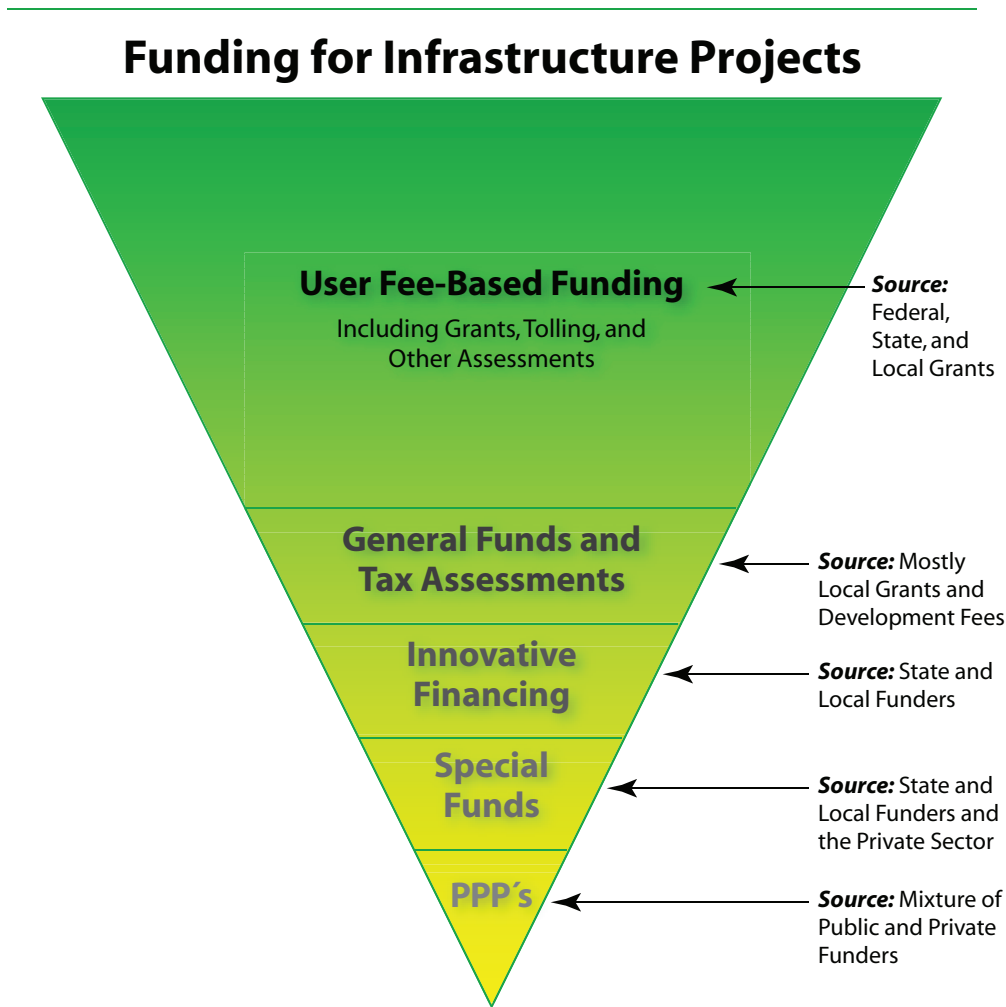


Figure 2. Funding for Infrastructure Projects

We have a very real opportunity to reshape a transportation funding program that addresses the longer-term issues such as global warming and energy independence, homeland security and spiraling national debt, and the challenges of traffic congestion, goods movement, economic competitiveness, shifting demographics, and quality of life concerns in communities across the country. Our ability to define a bold vision for the system that incorporates appropriate supporting funding principles will determine whether our next transportation bills will mark a sea change or more business as usual. And, we can ill-afford for the result to be business as usual.

Note: Sessions were held at AASHTO's Spring Meeting and additional input was provided to this topic. That information will be used in AASHTO's long-term report on financing options to be issued in late June.