



2007 TDA Fly-in
Background Paper #1
National & Wisconsin Transportation Needs

According to a 2005 study done by the U.S. Chamber of Commerce's National Chamber Foundation, simply maintaining the current condition of the nation's highway and transit systems requires expenditures by all levels of government of \$235 billion per year. Adjusting for expected inflation, this annual figure will grow to \$304 billion by 2015 and \$472 billion by 2030. Current revenue streams will fall well short. The projected cumulative shortfall through 2015 is \$500 billion. This doesn't even begin to address system improvements that would benefit our nation's economic productivity.

The enactment of the Safe, Accountable, Flexible and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU) did little to address serious long-term transportation challenges. The average annual highway program growth under this authorization is about 1.8 percent when projected inflation is taken into account. This compares with 6 percent real annual growth under TEA-21. The transit program will experience about 3.6 percent real annual growth measured against the Consumer Price Index (CPI), which has been running significantly lower than construction inflation the last several years.

A recent hearing of the House Highways and Transit Subcommittee identified the following general, overlapping areas of concern for the surface transportation system over the next 50 years:

- 60% increase in population,
- Gross domestic product quadruples,
- Demand for freight and passenger transportation increases 250%,
- Percent of the population over 65 increases from 12% to 21% and
- Cost of congest grows from 1.5% of GDP to 14% of GDP.

Wisconsin shares the nation's transportation needs and funding challenges. A dramatic increase in volume – vehicle miles traveled, freight tonnage and airport passengers – has taken a toll on the infrastructure. Mobility needs continue to outgrow the amount of available funding for transportation programs. At the same time, high inflation, especially construction inflation, has reduced the purchasing power of each transportation dollar by 30% over the last three years due to the global demand for commodities.

Concern about the widening gap between transportation funding and needs has been growing, fueled by the repeal of gas tax indexing. Last year, the Road to the Future Committee – a state joint legislative committee – was formed to review the needs, methods, and financing of Wisconsin's transportation system. The committee identified an almost \$700 million annual shortfall in highway construction, state highway maintenance, local road aids, and urban mass transit, not to mention assistance for aviation, rail or ports. This estimate was based on existing WisDOT plans. WisDOT is currently working on revised multimodal plans, which will likely highlight additional funding shortfalls.

- **Highways:** The Road to the Future Committee noted significant shortfalls – almost \$550 million a year – in the funding necessary to meet Wisconsin's highway construction needs. The Major Highway Program, which is designed to manage congestion and capacity, is committed through at least 2016 with projects totaling over \$2 billion. Many other capacity projects have not even been considered for inclusion in the program due to a lack of resources. In addition, reconstruction of the seven-county Southeast Wisconsin Freeway System is estimated to cost approximately \$6-8 billion. A plan to fund that level of freeway reconstruction following the Marquette Interchange has yet to be put forward. Federal funds will be a vital component of any funding plan.

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- Local Roads: Local roads provide a critical link between the state trunk highway system and businesses. Local governments statewide are developing inventories of their road systems and documenting current needs. Recent estimates suggest program funding to maintain and improve local roads is short by approximately \$75 million annually. Safety on rural two-lane roads, which claim a disproportionate share of traffic deaths, continues to be a primary concern in Wisconsin.
- Transit: As urban areas expand, much of the job growth and development is occurring on the edges of these urban centers. Transit services must continue to expand in order to connect workers to jobs and ensure mobility for an aging population. Rural communities are also under served. Currently, 24 of Wisconsin's 72 counties have no service. Wisconsin must also upgrade an aging bus fleet. The average Wisconsin bus is 10 years old while the national average is closer to 8. A minimum increase of \$60 million annually will be necessary to meet the capital improvement needs of Wisconsin's transit systems, and the Road to the Future Committee report highlighted a \$38 million annual shortfall in operational assistance. In addition, funding for the federal New Starts program is critical to future commuter rail projects in Southeast Wisconsin and Dane County.
- Airports: The State Airport System Plan projected an \$18 million per year shortfall between system needs and expected revenues. Because 60-70 percent of the funding for airport improvements has and will continue to be federal, Wisconsin's return from the federal government is critical. The current authorization bill, Vision 100 – Century of Aviation Reauthorization Act, provides \$60 billion for aviation programs over four years and expires September 30, 2007. Wisconsin received on average \$60 million per year under this legislation.
- Deepwater Ports: Wisconsin has 15 commercial ports that serve as multimodal distribution centers linking waterborne vessels and their freight with our extensive network of highways and railroads. Each year these facilities handle 40 million tons of cargo worth approximately \$7 billion. Increased investment is vital in order to maintain and modernize these systems and to ensure affordable and efficient access to U.S. and global markets. The state's Harbor Assistance Program has a backlog of more than \$70 million in projects funded by an approximately \$6 million annual budget.
- Rail: Amtrak's Hiawatha service connecting Milwaukee and Chicago offers an affordable and reliable option for travelers and continues to offer the best on-time rating in the country. During 2006, the Hiawatha carried more than 588,000 passengers, a record high. Reductions in federal funding for Amtrak would mean cost increases or reductions in service for Wisconsin. In addition, significant dedicated federal funding is critical to any future high-speed rail development in Wisconsin.

Demand continues to increase on both state and local transportation systems. Adequate funding is essential for Wisconsin to address its mobility needs across all transportation modes. Reliable mobility is essential to grow Wisconsin's economy.



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Background Paper #2
Federal Transportation Funding Process

Federal transportation funding comes to the states through two legislative mechanisms – authorizations and appropriations.

Authorizing Legislation

Authorizing legislation establishes, continues or modifies federal transportation programs and sets program amounts and formulas. Authorizing legislation also establishes discretionary spending programs and provides funding guidance for those programs. Transportation authorizing legislation is crafted by authorizing committees in Congress. A number of House and Senate committees preside over the development of specific transportation issues in reauthorization. In 2005 President Bush signed into law the Safe, Accountable, Flexible and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU). This multi-year legislation authorizes programs and funding levels for highways and transit. The four-year federal aviation reauthorization, Vision 100 – Century of Aviation Reauthorization Act, was enacted in 2003 and will expire September 30, 2007.

Wisconsin has several Congressmen who will likely be involved in the next surface and air reauthorizations. Representative Tom Petri (WI-6) is a senior member of the House Transportation and Infrastructure Committee (T&I), where he is also Ranking Minority Member of the Aviation Subcommittee. Representative Steve Kagen (WI-8), Wisconsin's newly elected Congressman, was recently appointed to serve on T&I also. Any new revenue included in either reauthorization would have to go through the House Ways and Means Committee. Representative Paul Ryan (WI-1) and Ron Kind (WI-3) are members of that important committee.

Appropriations Legislation

Appropriations legislation is approved annually as part of the budget process. It provides a commitment of funds to ensure that an authorized program can be implemented in a given year. This is analogous to a credit card for which the authorizers decide the credit limit and the places where it will be accepted while the appropriators decide how much to spend. There cannot be an appropriation without an authorization. Senator Herb Kohl (D-WI) is a member of the Senate Appropriations Committee, and Representative Dave Obey (WI-7) is Chairman of the House Appropriations Committee.

Surface Transportation Reauthorization Overview

SAFETEA-LU provides total guaranteed funding over six years of \$286.5 billion – \$227.6 billion for highway programs and \$52.6 billion for state and local transit – but made few significant changes to the administration of the Highway Trust Fund (HTF). The HTF comprises two major accounts: the Highway Account (HA) and the Mass Transit Account (MTA). Nearly 80 percent of HTF revenues, derived primarily from the federal fuel tax, are directed to the HA, which funds highway and bridge infrastructure. Approximately 20 percent of HTF revenues are directed to the MTA, which funds transit programs. The MTA also receives revenue from the General Fund. In 2007, the Federal Highway Program and the Federal Transit Program receive \$39.1 billion and nearly \$9 billion, respectively.

Federal funds make up a significant portion of Wisconsin's highway and transit programs. Unfortunately, SAFETEA-LU did little to address the serious long-term transportation funding challenges, and the HTF is being threatened on two fronts – inadequate revenue streams and high construction inflation.

There is no doubt that current tax inflows are not keeping up with needs or the authorized levels of funding. Accordingly, the U.S. Government Accountability Office (GAO) recently added national transportation spending programs to its biannual list of "high risk" issues for Congress to watch. The GAO notes that the federal tax on gasoline has not increased since 1993 despite growth in transportation demand which is expected to increase another 25% through 2010. Inflation has also eroded the buying power of the existing tax. (Continued on back)

Congress needs to reassess three fundamental areas, according to the GAO: the appropriate role of the federal government in funding, selecting and evaluating transportation investments; alternative sources of revenue and the need for increased investment in infrastructure; and ensuring transportation investment is equitable and efficient.

The current reauthorization expires in 2009, and the next reauthorization will likely be significantly different than previous reauthorizations. Congress will need to address the transportation investments necessary to maintain and improve U.S. competitiveness in a global economy. This places freight movement at the forefront and necessitates a multimodal discussion – roads, rail, and water. This will also require a focusing of the federal highway program and performance based funding, the efficient movement of people, and, of course, new sources of revenue. The federal fuel tax, the largest source of HTF revenue, has not been increased to keep up with inflation or construction costs. In addition, in the long term, the fuel tax will lose effectiveness as measure of system usage as fuel efficiency increases and alternative fuels come to market. The work of the National Surface Transportation Policy and Revenue Study Commission and many other private organizations will address these issues and provide guidance to Congress.

Air Reauthorization Overview

In December 2003, President George W. Bush signed into law the Vision 100 – Century of Aviation Reauthorization Act. The four-year, \$60 billion Vision-100 retained budgetary protection ensuring revenues in the Aviation Trust Fund (ATF) are fully spent and guaranteed funding to improve airports at authorized levels. Wisconsin relies on federal funding for 60-70 percent of the state's aviation program and received on average \$60 million per year under this authorization.

The Federal Aviation Administration (FAA) recently released its 3-year reauthorization proposal. The highlights are as follows:

- The proposal would repeal most of the taxes currently dedicated to aviation and replace them with a series of fees levied directly on users of the air traffic control services
 - **Commercial Aviation users** currently subject to the 7.5% ticket tax would pay via user fees. The user fees are not set in the law and would be based on actual costs and change annually through a joint FAA-stakeholder board.
 - **General Aviation users** would pay FAA costs through a fuel tax. The tax rates are based on FAA's current cost allocation, and would change every two years in line with an updated cost allocation study. This new fuel tax rate would be 70 cents per gallon versus 19.3 cents per gallon for aviation gasoline and 21.8 cents per gallon for jet fuel currently.
- All domestic commercial and GA users would also pay a common fuel tax of 13.6 cents per gallon to fund the Airport Improvement Program (AIP), the Essential Air Service program and FAA's Research, Engineering and Development account. International commercial passenger flights would pay a \$6.39 passenger head tax to fund these services.
- General Fund contribution would account for approximately 19 percent of the FAA's budget, which is slightly lower than historical contributions.
- Maximum Passenger Facility Charges would be increased from \$4.50 to \$6.00, bringing an additional \$1.2 billion annually to commercial airports.
- \$5 billion in borrowing authority for FAA to support construction of new runways, airport terminal and air traffic control facilities and equipment. The debt would be repaid by raising user fees.

The Administration justifies this overhaul of the funding system for aviation based on declining uncommitted balances in the ATF, the cost to transform the air traffic system by using technology to expand capacity, and need for stable, equitable revenue. The largest source of revenue for the ATF is the 7.5% tax on airline tickets, which has contributed reduced yields due to lower fares in recent years. The FAA cost allocation study also found "commercial users pay over 95% of the Trust Fund's taxes but account for only about 73% of the cost of the air traffic system." Accordingly, they argue that general aviation users are not paying their fair share.

While FAA talks about future financial needs as one of the main reasons to switch to the user fee system, it is not clear that this proposal would actually make available more revenue in the next three years than the existing revenue stream. The Administration's reauthorization proposal is the first step in the reauthorization process. There will be hearings on the Administration's proposal and competing proposal offered in the House and Senate.