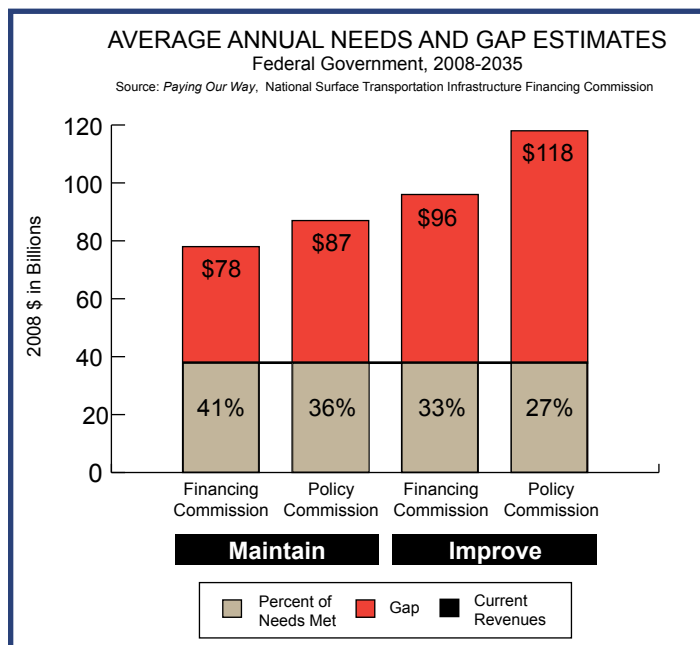


2009 TDA Fly-in
Background Paper #1
National & Wisconsin Transportation Needs

The debate over transportation investment needs is not whether there is a gap in funding but rather how big the gap is. National Surface Transportation Infrastructure Financing Commission

Transportation revenues at all levels of government are failing to keep up with the demand for transportation investment. In fact, current revenue streams will not even maintain existing programs. The U.S. Congress acknowledged the problem when as part of the last surface reauthorization it established two commissions to re-visit the way the federal government funds, finances and manages our national transportation infrastructure. The National Surface Transportation Policy and Revenue Study Commission’s (the Policy Commission) charge was broader in scope than the other commission, the National Surface Transportation Infrastructure Financing Commission (the Financing Commission). Both commissions evaluated the amount of revenue needed to improve and maintain the system and how the revenue should be raised, but the Policy Commission also addressed how the revenue should be invested and other issues.

Not surprisingly, the commissions found large annual funding gaps just to maintain the system and even larger gaps to improve the system. The fact that the two commissions agreed on the major funding mechanisms for the short and long term is somewhat surprising. In the short term, the commissions recommend relying on increases in the gas tax to stabilize the Highway Trust Fund (HTF) and address needs. However, a funding structure that relies primarily on taxes imposed on petroleum-derived fuel is not sustainable in the long term. Instead, the commissions recommend the U.S. transition to a user fee for each mile driven, commonly referred to as vehicle miles traveled or VMT. The commissions also recognize the role tolling and public private partnerships can play in enhancing core revenues and call for the creation of a new federal freight program, such as the American Road & Transportation Builders Association’s (ARTBA) “Critical Commerce Corridors” (3C) proposal.



The need for new federal transportation revenue is underscored by the precarious finances of the HTF. Even after receiving an infusion of \$8 billion from the general fund last September, an updated analysis from the Congressional Budget Office says that it is still better than a 50-50 proposition that the Highway Account of the HTF will need more money from the general fund before the end of this fiscal year.

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 state’s infrastructure. Mobility needs continue to outgrow the amount of available funding for transportation programs. At the same time, construction inflation has reduced the purchasing power of each transportation dollar 69% since 2002. Following the slowdown in the economy last year, Wisconsin has also been confronted with gas tax receipts that are not just stagnant but decreasing. In a recent interview Governor Doyle stated that the state’s transportation infrastructure needs are “enormously more expensive” than current revenue streams can cover.

In 2006 the Road to the Future Committee, a state joint legislative committee, formed to review the needs, methods, and financing of Wisconsin's transportation system identified an approximately \$700 million annual shortfall in highway construction, state highway maintenance, local road aids, and urban mass transit. This did not even include assistance for aviation, rail or ports. The last state budget increased various transportation fees. Unfortunately, an update last year of the Road to the Future Committee report by the Wisconsin Legislative Fiscal Bureau showed that even with the increases, the \$700 million shortfall had grown to approximately \$1 billion when adjusted for construction inflation. In addition, the last state budget did not include a long-term, sustainable funding source to address the current annual shortfall or future needs.

Governor Doyle released his 2009-2011 state budget in February. The Governor's budget request included \$272 million in new transportation revenue from a gross receipts tax, also known as the "oil company profits tax". However, most of this revenue will not show up as program increases but will cover declining gas tax revenues, lapses to the general fund and specific transfers to the general fund to cover primarily pupil transportation aids. Programs receiving increases in the Governor's proposed budget, therefore, are largely funded by the federal stimulus money. Programs not receiving stimulus funding are generally receiving a decrease over the biennium due to an across-the-board 1% reduction in state funding.

Highways: The Road to the Future Committee noted significant shortfalls – \$750 million a year in today's dollars – 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 2013 with projects totaling over \$2 billion. Many other capacity projects have not been considered for inclusion in the program due to a lack of resources. Wisconsin's Transportation Projects Commission (TPC) has not even held a hearing since 2002. In addition, reconstruction of the seven-county Southeast Wisconsin Freeway System is estimated to cost approximately \$15 billion when adjusted for construction inflation. The only portion that has been completed thus far is the Marquette Interchange which cost approximately \$800 million. A plan to fund the 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.

Local Roads: Local roads provide a critical link between the state trunk highway system and businesses. Local

American Recovery & Reinvestment Act of 2009

On February 17th, President Obama signed into law The American Recovery and Reinvestment Act of 2009. The \$790 billion Act includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including transportation. It is important to understand what the Act did and what it did not do.

What the Act did:

- Provided an important infusion of cash into our infrastructure programs, including:
 - \$27.5 billion for highways and bridges (\$529 million for Wisconsin)
 - \$6.9 billion for transit formula grants (\$81 million for Wisconsin)
 - \$1.5 billion for airport improvements
 - \$1.3 billion for Amtrak
 - \$8 billion for high-speed rail
- Jump-started the economy and put people to work
- Elevated the discussion of the nation's aging infrastructure and the link to the economy
- Gave the industry the opportunity to show the benefits of transportation investment

What the Act did not do:

- Solve the nation's infrastructure crisis
- Lessen the need for the timely reauthorization of surface transportation programs
- Provide ongoing revenue to protect the existing highway and transit programs and avert the loss of 400,000 jobs

For instance, a stimulus plan that includes nearly \$40 billion for highway and transit infrastructure, while important in addressing the short-term economic crisis, will pay for only about three months of the identified annual national funding gap to maintain and improve the system – a gap that repeats itself and compounds year after year.
National Surface Transportation Infrastructure Financing Commission

National & Wisconsin Transportation Needs continued

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 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.

Aviation: The Wisconsin Department of Transportation estimates a \$176 million backlog of Airport Improvement Projects through 2015 – approximately \$22 million a year. Because over 70% of the funding for airport improvements has and will continue to be federal, Wisconsin's return from the federal government is critical. The latest authorization bill, Vision 100 – Century of Aviation Reauthorization Act, provided \$60 billion for aviation programs over four years and expired September 30, 2007. Wisconsin received on average \$60 million per year under this legislation.

Deepwater Ports: Wisconsin has 20 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 more than 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 \$100 million in projects funded by a proposed \$10 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. Soaring gas prices are fueling increased demand for this service. During 2008 the Hiawatha carried more than 766,000 passengers, another calendar year record and a 24% increase over 2007. 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.

A growing economy requires a strong multimodal transportation system that connects people to jobs and permits the safe and efficient movement of goods and people across the state. Nearly half of Wisconsin's gross product is derived from three major industries - manufacturing, agriculture and tourism. These industries, along with the growing service sector, rely heavily on efficient transportation to succeed and grow.
Wisconsin Department of Transportation, Connections 2030

2009 TDA Fly-in
Background Paper #2
Federal Transportation Funding: A Time for Action

“We cannot sit back and wait for the next generation to address these ever-increasing needs. The crisis is now and we have a responsibility and obligation to create a safer, more secure, and ever more productive system. We need to create and sustain the pre-eminent surface transportation system in the world. Now.”

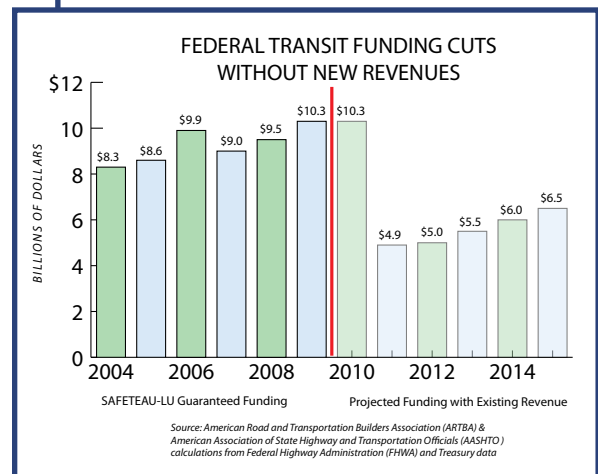
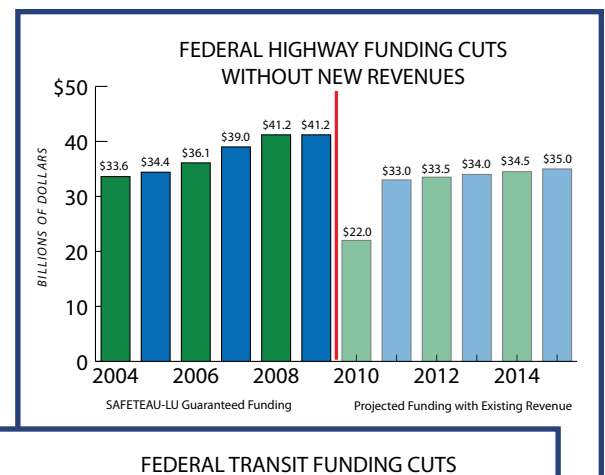
National Surface Transportation Policy and Revenue Study Commission

Federal Surface Transportation Authorization

There is consensus across party lines and geographical regions that the United States faces a transportation crisis. Our infrastructure is crumbling and transportation investment is not sufficient to maintain and improve U.S. competitiveness in a global economy. Gas tax collections, the largest source of Highway Trust Fund (HTF) revenue, will likely remain fairly flat and may decline given the new CAFE standards and breakthroughs in alternatively fueled vehicles. The HTF may need another infusion of general fund revenue to stay solvent before the end of the current authorization (SAFETEA-LU), which expires September 30, 2009. Our much talked about aging population is becoming a reality. And projections of a freight “tsunami” in the near future continue.

Congress established two commissions to study the issues facing the nation’s surface transportation system, The National Surface Transportation Policy and Revenue Study Commission (the Policy Commission) and the National Surface Transportation Infrastructure Financing Commission (the Financing Commission). The recommendations of the committees along with industry recommendations should be helpful to Congress in the upcoming authorization process. While the recommendations issued by the committees and various organizations may differ in some details, the themes are consistent.

- The surface transportation system is critically underfunded.
- The federal government cannot do it alone – all levels of government must increase investment in transportation infrastructure.
- The user fee and firewalled trust fund are core elements to our transportation funding system.
- The current funding structure that relies primarily on gas taxes is not sustainable in the long term.
- States need flexibility to fund their share of the investment, including the ability to toll publicly owned highways, congestion price and enter into public private partnerships.
- Reform is needed to streamline project delivery.
- The cost to the public of inaction is far greater than the cost of increased user fees.



The needs have been clearly identified. The studies have been exhaustive. There is general consensus on the conclusions. The only question that remains is whether Congress and the Administration will do what needs to be done.

There are basically two options for the pending surface transportation authorization:

1. Congress and the Administration can choose to take the politically expedient route. This option means that they shy away from any significant increases to user fees, but also acknowledge that they cannot allow transportation investment to plummet. Under this scenario, the federal government may spend additional money from the general fund. While avoiding draconian reductions to states' transportation budgets, this would prolong the ongoing structural funding gap and at the same time increase general fund deficits and further erode the user fee concept.
2. Congress and the Administration can develop a long-range vision for transportation and make the case directly to the American people as to the nation's documented transportation needs as well as the benefits of sustained transportation investment. This proactive approach will lay the groundwork for politically difficult but necessary changes to launch a new era of American productivity. Americans must understand that progress is not free. In the short term, the federal government needs to increase existing user fees as recommended by both congressional commissions and also begin to transition to new user fees in the future.

True leadership is never easy. The cost of failing to address our documented transportation needs, however, will be much greater if we take the easy way out. A bold vision for transportation and enacting the ongoing funding streams to accomplish that vision are acutely needed at this time in our nation's history.

Air Authorization

Vision 100 – Century of Aviation Reauthorization Act of 2003, which defines Federal Aviation Administration (FAA) policy and funding levels expired September 30, 2007. Aviation taxes, FAA funding and Airport Improvement Program (AIP) investment have been extended through September 30, 2009.

Wisconsin relies on federal funding for 60-70% of the state's aviation program and received on average \$60 million per year under Vision-100.

The 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 expired September 30, 2007.

Wisconsin has several Congressmen who will 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) also serves on T&I. 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. You cannot have 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.

Federal Transportation Funding continued

Aviation reauthorization was not resolved in the prior session of Congress due in a large part to a disagreement about how costs should be allocated between commercial and general aviation. The Bush Administration justified an overhaul of the aviation funding system based on declining uncommitted balances in the Aviation Trust Fund (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. An 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, the Administration argued that general aviation users are not paying their fair share. The Bush proposal would have repealed most of the taxes currently dedicated to aviation and replaced them with a series of fees levied directly on users of the air traffic control services.

The House ignored the Bush Administration’s proposal and passed a bill that maintained the existing tax structure with increases to aviation fuel taxes. The Senate never brought the bill to the floor – one of the obstacles being the Senate Finance Committee’s rejection of a \$25 per flight fee for jets, which was proposed by the Senate Commerce, Science and Transportation Committee, the underlying authorization committee.

House Introduces H.R. 915

In February, Democratic leaders introduced a new aviation authorization bill (H.R. 915), which is similar to the bill (H.R. 2881) passed by the House last year. H.R. 915 would authorize \$70.4 billion in appropriations over the four-year period including fiscal years 2009-2011. Total proposed funding includes:

- \$16.2 billion for the Airport Improvement Program (AIP);
- \$13.4 billion for FAA Facilities & Equipment (F&E);
- \$38.9 billion for FAA Operations; and
- \$1.35 billion for Research, Engineering, and Development (RE&D).

This bill doesn’t yet include a financing component but does authorize commercial airports to charge higher passenger facility charges (PFCs), \$7 as opposed to \$4.50.

The bill includes two labor provisions which are likely to be problematic for Republicans. One of the provisions retroactively revises collective bargaining provisions to institute binding arbitration in disputes between the FAA and the air traffic employees. The second item would place ground employees of Federal Express under the National Labor Relations Act, instead of the National Railway Labor Act (NRLA). This move would make it easier for employees to unionize and put the express carrier on the same footing as UPS. However, Federal Express has operated under NRLA since its inception and has fought to maintain its “express carrier” exemption.

House Republicans have been critical of Democratic leaders for putting forth an authorization proposal so similar to the one that was unable to gain Senate approval in the last session.

The Obama Administration has not released a reauthorization proposal. However, the President’s 2010 budget appears to continue some version of the Bush Administration’s plan to replace most aviation taxes with direct user fees.

Wisconsin has done well under the existing tax structure which provides stable and predictable funding for AIP. This is particularly important as AIP accounts for 75% of Wisconsin’s airport funding.

We’re here today because there’s a lot of work that needs to be done on our nation’s congested roads and highways, crumbling bridges and levees, and crowded trains and transit systems. Because we know that with investment, we can create transportation and communications systems ready for the demands of the 21st century -- and because we also know what happens when we fail to make those investments.

President Obama February 22, 2009