2008 TDA Fly-in
Background Paper #1

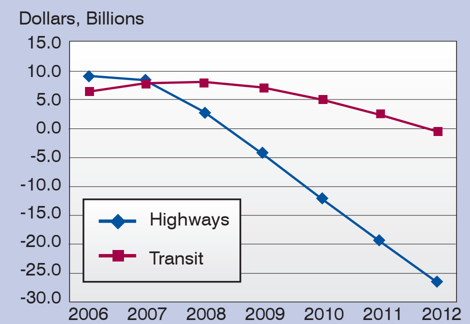
National & Wisconsin Transportation Needs

"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." National Surface Transportation Policy and Revenue Study Commission

Congress created the National Surface Transportation Policy and Revenue Study Commission as part of SAFETEA-LU to conduct a comprehensive study of the current condition and future needs of the surface transportation system and to identify short and long-term revenue alternatives. In December of 2007, the twelve member commission released its report, *Transportation for Tomorrow*, to Congress. The Commission found that the U.S. needs to invest at least $225 billion annually from all sources – federal, state, and local – for the next 50 years to upgrade the nation's transportation system to a state of good repair. Currently, the U.S. is spending less than 40% of this amount.

Excerpt from *Transportation for Tomorrow*

Projections of Highway and Transit Account Balances Through 2012

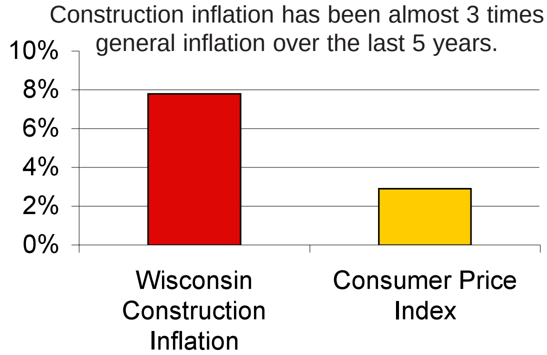


This exhibit shows projected balances in the Highway and Transit Accounts of the Highway Trust Fund through 2012 assuming no change in revenues or program levels.

Source: U.S. Department of the Treasury projections.

The Commission also recognized that the most pressing issue is the solvency of the Highway Trust Fund (HTF). The Commission recommends fiscal year (FY) 2008 legislation to keep the Highway Account (HA) of the HTF solvent and keep highway investment at SAFETEA-LU guaranteed levels. Several options were proposed to address the immediate shortfall including: increasing existing taxes, dedicating a portion of revenue generated from transportation-related taxes, such as the customs fees, to transportation, and reimbursement from the general fund for emergency transportation funding.

Average Annual Inflation 2003-2007



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.

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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 and restored the integrity of the segregated transportation fund thus temporarily stabilizing Wisconsin transportation funding. Unfortunately, a recent update of the Road to the Future Committee report by the Wisconsin Legislative Fiscal Bureau showed that even with the increases, the $700 million has 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 $1 billion annual shortfall or the on-going high rate of construction inflation.

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 2016 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 $8-10 billion when adjusted for construction inflation. The only portion that has been completed thus far is the Marquette Interchange which cost $890 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 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 $75-77 million in projects funded by an approximately $7 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 2007 the Hiawatha carried more than 617,000 passengers, another record high. Ridership for January of 2008 was 13% higher than January of 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.

The Commission report clearly outlines the following consequences of "failing to take bold action" to address the current transportation network funding crisis:

- The nation's transportation system will continue to deteriorate
- Automobile casualties will increase
- Congestion will continue to affect every mode of surface transportation for ever-lengthening periods each day
- Underinvestment in all modes will continue
- America's economic leadership in the world will be jeopardized
- Excessive delays in making investments will waste public and private funds
- Transportation policies will remain in conflict with other national policy goals
- Transportation funding will continue to be politicized

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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 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.

Transportation for Tomorrow

“What is the federal government’s role in surface transportation now that the Interstate Highway System is essentially complete?” This question answered almost twenty years ago by ISTEA is once again at the center of a transportation reauthorization debate.

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. Soaring gas prices have driven construction inflation far above general inflation. The Highway Trust Fund (HTF) is headed toward insolvency and gas tax collections, the largest source of HTF

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revenue, will likely remain fairly flat given the new CAFE standards and breakthroughs in alternative fuels. Our much talked about aging population is becoming a reality. And projections of a freight "tsunami" in the near future continue.

While ISTEA began the shift towards intermodalism, the 2009 federal reauthorization (whatever name it ultimately is assigned) appears ripe to embody another true paradigm shift in transportation financing and policy.

For these reasons and others, Congress, as part of SAFETEA-LU, charged two commissions to study our transportation needs, policies and financing mechanisms. One of these commissions – The Federal Surface Transportation Policy and Revenue Study Commission released its final report *Transportation for Tomorrow* in January of this year. In a very bold move, the Commission recommends scrapping the current system and starting over.

The Commission concludes that the U.S. has at least $135 billion annually in unfunded transportation needs. For the next approximately 15 years, the Commission believes the most reliable way to pay for the system needs identified is to significantly raise the federal gas tax. Accordingly, the Commission recommends that the federal fuel tax be increased five to eight cents per year over the next five years, after which it should be indexed to inflation. States would be encouraged to enact even larger increases.

Recognizing the size of the funding gap, the Commission also recommends new federal ticket taxes to help pay for transit and passenger rail, a federal freight fee to help finance freight-related improvements, and new flexibility regarding tolling and congestion pricing. The Commission also encourages public-private partnerships with certain stated conditions.

Over the long term, the Commission acknowledges that increased fuel efficiency and alternative fuels will erode the gas tax's equity and effectiveness. The Commission recommends the gas tax should be replaced by a new system such as a vehicle-miles traveled fee by 2025.

Other Commission recommendations include:

- Develop a comprehensive, performance based approach and a national strategic plan to guide investment with funding to be distributed based on needs not formulas or earmarks
- Reform program and project development process to speed project delivery
- Concentrate federal surface transportation investment to 10 program areas
- Create an independent and permanent National Surface Transportation Commission (NASTRAC) – similar to the Base Closure and Realignment Commission and the Postal Regulatory Commission – that would recommend appropriate authorization and revenue levels to the Congress based on the national strategic plan
- Restructure the Highway Trust Fund to be compatible with the new program structure and rename it the Surface Transportation Trust Fund

<u>The Dissenting View</u>

Among the twelve commissioners, nine voted in favor of this report, and three (including Secretary Peters) dissented. The dissenting opinion centered largely upon retaining such a prominent role (40%) for the federal government and relying so heavily in the short term on the gas tax.

The minority, which not surprisingly echoes the Bush Administration, recommends leaving the federal gas tax at the current rate and refocusing federal efforts on: a) maintaining the Interstate; b) alleviating freight bottlenecks; and c) providing states with analysis, incentives and flexibility as they adopt market-based reforms. While the federal program would focus on achieving federal objectives, states would have to find a way to fund all other projects and programs.

National Surface Transportation Infrastructure Financing Commission

The other commission created by SAFETEA-LU has issued its interim report and is expected to release its final report in the near future. This report is expected to lean more heavily toward congestion pricing and PPP's as a primary funding mechanism.

Hybrid Approach

The American Road & Transportation Builders Association (ARTBA) advocates a more hybrid approach called the Critical Commerce Corridors. This plan proposes to advance freight movement through a separate federally-funded and financially-protected multimodal investment program. The existing highway and transit programs and the related trust fund would remain.

The one thing that all these proposals have in common is that the status quo is not an option. New distribution methods which include the elimination of earmarks and formulas have the potential to reinvigorate consumer confidence in the process while at the same time potentially impacting states like Wisconsin negatively.

Simply viewing this reauthorization process through the traditional "donor/donee state" prism is no longer sufficient. We must interact with the new world that is emerging in transportation finance in a way that will embrace positive changes for transportation while ensuring it is beneficial to Wisconsin in the process.

Air Reauthorization Overview

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 June 30, 2008.

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.

Administration Proposal

Last year the Bush Administration released its three-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 – including domestic, international, passenger, cargo, charter, air taxi, and fractional operators – would pay their share of air traffic costs 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 (GA) users would pay their 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 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 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 continue to pay for public good functions such as safety regulation, military use of air traffic services, and flight service stations. The contribution would account for approximately 19 percent of the FAA's budget, which is slightly lower than historical contributions.
- Maximum Passenger Facility Charges (PFC) would be increased from $4.50 to $6.00, bringing an additional $1.2 billion annually to commercial airports.
- $5 billion in bonding authority for FAA to support construction of new runways, airport terminals and air traffic control equipment. The debt would be paid by raising user fees.

The Administration justifies this overhaul of the aviation funding system 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.

This proposal has set off a year-long debate between the general and commercial aviation communities regarding who should pay what and the definition of "fair share".

<u>House Bill H.R. 2881</u>

On September 20, 2007, the House passed (not by a veto-proof margin) a $68 billion four-year reauthorization bill (H.R. 2881). This bill maintains the existing financing structure including the ticket tax while increasing aviation fuel taxes and authorizing commercial airports to charge higher passenger facility charges (PFCs). The federal fuel taxes on general aviation would increase – jet fuel from 21.8 to 35.9 cents per gallon and aviation gasoline 19.3 to 24.1 cents per gallon. The bill would also allow an increase in the maximum PFC from $4.5 to $7.

The bill includes two labor amendments which are potential stumbling blocks. One of the amendments retroactively revises collective bargaining provisions to institute binding arbitration in disputes between the FAA and the air traffic employees. This retroactive provision has drawn a veto threat from the Administration. The second amendment would place ground employees of Federal Express under the National Labor Relation 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.

<u>FAA Reauthorization Stuck in the Senate</u>

While all Senate committees have completed markups of their portion of the Senate's $64 billion four-year Federal Aviation Administration (FAA) authorization, significant issues have kept the bill off the Senate floor.

The primary obstacles to bringing the bill to the floor are as follows:

- The revenue plan approved by the Senate Finance Committee differs from the revenue structure proposed by the Senate Commerce, Science and Transportation Committee, the underlying reauthorization committee. Finance rejected the $25 per flight fee for jets (offset by a 4.3 cent per gallon reduction in fuel tax paid by the airlines) as recommended by the Commerce Committee and instead approved a plan relying mainly on tax increases – including increasing the general aviation jet fuel to 36 cents per gallon, changing the taxation of fractionally-owned aircraft use and increasing the international departure and arrival tax from $15.10 to $16.50.

- The Senate Appropriations Committee is opposed to a provision in the Finance plan that would create mandatory budget authority for air traffic control modernization, bypassing the appropriations process.

Impact on Wisconsin

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.