



## **2006 Debate Minnesota Federal Transportation Background Issues**

On June 29, 2006, America celebrated the 50th anniversary of the U.S. Interstate Highway system. President Dwight D. Eisenhower signed the Federal-Aid Highway Act fifty years ago with the vision of a vast, interconnected system of freeways improving mobility, commerce, and safety across the country. Since that time, the way we move people and goods has been transformed with huge increases in economic growth as well as dramatically lower accident fatality rates.

The U.S. transportation industry includes 3.9 million miles of American roads and highways; 5,400 airports; 200,000 miles of U.S. freight and passenger railroad track; and 5,800 miles of urban mass transit with more than 2,300 stations and 360 ports. The Federal Highway Administration (FHA) indicates that each \$1 billion of highway investment generates approximately 47,000 direct and indirect jobs. Each year, the nation's transportation infrastructure provides more than 4 trillion miles of personal travel—an average of 15,000 miles of travel for each person—and moves more than \$6 trillion worth of freight.

### **Federal Highway Funding**

The federal Highway Trust Fund (HTF) was created by the Highway Revenue Act of 1956 to ensure a dependable source of financing for the National System of Interstate and Defense Highways. Federal motor fuels taxes and motor vehicle fees were directed to the HTF. The crediting of these taxes has periodically been extended, most recently through the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

Tax revenues directed to the HTF are derived from excise taxes on highway motor fuels and truck-related taxes on truck tires, sales of trucks and trailers, and heavy vehicle use. The HTF is comprised of two accounts: the Highway Account and the Mass Transit Account. There is also a separate Leaking Underground Storage Tank Trust Fund. Of the 18.4-cent federal gas tax, the Leaking Underground Storage Tank Trust Fund receives 0.1 cent per gallon; the Mass Transit Account receives 2.86 cents per gallon; and the Highway Account receives the remainder of the taxes and fees collected. States provide reports to the FHA on the gallonage of motor fuels recorded and taxes in each state, and the FHA analyzes the state-generated data and develops the final distribution for each state based on that data.

The transportation programs, like most federal programs, receive funding through an appropriated budget authority, which means two steps—an authorization act and an appropriations act—are needed before obligations can be incurred. Under this process a project or program is required to be approved as part of an authorization act before funds can be appropriated. SAFETEA-LU is a six-year enactment. Subsequent annual transportation appropriations bills also are needed to provide the authority to obligate authorized funds, as well as the cash needed for reimbursement.

For transit programs and projects, there also is a general fund appropriation along with an appropriation from the Mass Transit Account of the HTF. Farebox recovery accounts for about 40 percent of system operating costs on average.

More than 9 billion trips representing 46 billion passenger miles of transit service were provided in 2001. During the 1990s, transit returned \$23 billion per year in affordable mobility for households that preferred not to drive, could not afford a car, or could not drive due to age or disability. Collectively, all levels of government provided \$21 billion for transit operations and capital improvements in 2000, with the federal government contributing \$5.3 billion and state and local governments contributing \$15.7 billion.

New Starts and Extensions funds provide the federal share of new fixed-guideway projects—either new systems or extensions to existing systems. New Start projects have included busways and bus rapid transit, heavy-rail systems, light-rail systems, automated guideway transit systems, vintage trolleys, ferries, and commuter railroads.

New Start funds are allocated in annual appropriations law by earmarks. Projects eligible for funding in annual appropriations law are earmarked in the SAFETEA-LU authorization. Construction funding (not including planning, analysis, and other pre-construction funding) for New Start projects is generally provided only after the federal government reviews a project and enters into a contingent funding commitment known as a Full Funding Grant Agreement (FFGA).

In Minnesota, the Hiawatha Light Rail Transit line received federal funding for approximately one-half of the project cost through the New Starts program. The Northstar Commuter Rail Line is expected to receive a similar level of federal funding.

### **Funding Situation and Options**

America's transportation system, once a marvel of the modern world, is facing increased demands that stretch its capacity. A decaying surface transportation system costs our economy \$63 billion annually in lost time and fuel. Congestion adds significant pollution to our air, and substandard roads claim thousands of lives every year.

According to the U.S. Chamber of Commerce study, "Future Highway and Public Transportation Finance Study," current revenues from federal, state, and local sources are falling far short of what is needed just to maintain, let alone improve, the existing infrastructure. To maintain our current transportation system, all levels of government must invest \$235 billion in 2006; \$304 billion in 2015; and \$472 billion in 2030. The cumulative shortfall in funding through 2015 is estimated at \$500 billion. Maintain means that pavement and bridge conditions and traffic levels remain the same, on average. Below this level, conditions will deteriorate and congestion will increase.

The study also reports that the major reason for the shortfall in federal revenues is that federal motor fuels tax rates are not indexed to inflation and have lost one-third of their purchasing power since the last adjustment in 1993.

The Bush Administration recently released updated federal revenue and expenditure estimates that, among other things, show an increase in HTF Highway Account revenues of \$1.7 billion through FY 2009. Earlier this year, the Administration estimated that the \$10.2 billion Highway Account balance would drop to negative \$2.3 billion by the expiration of SAFETEA-LU in 2009. U.S. Department of Transportation officials at the time cautioned that these estimates are very fluid. Today's budget report still forecasts a negative Highway Account balance, but the shortfall is now expected to be \$600 million.

However, that same report states that HTF Transit Account revenues are projected to decline by \$200 million over the same period. It is likely that the increase in Highway Account revenues is largely attributable to projections of increased commercial truck taxes. Motor fuels tax revenues are deposited in both the Highway and Transit Accounts, but only the Highway Account receives truck tax receipts.

The U.S. Chamber of Commerce has recommended a number of short-term, mid-term, and long-term strategies to address transportation funding shortfalls.

**Short-term:**

- Index the federal motor fuels tax to inflation
- Close exemptions to the HTF so that revenues dedicated to transportation are spent on transportation
- Recredit interest to the HTF
- Dedicate 10 percent of U.S. Customs import revenues to transportation
- Give states and local governments more options by authorizing expanded use of tolling and encourage states to index their motor fuels taxes to account for inflation
- Stimulate greater use of innovative finance tools

**Mid-term:**

- Broaden the base of user payments by collecting a vehicle fee from hybrid and other alternative fuel vehicles
- Ensure that subsidies for hybrid vehicle purchases come from the general fund, not the HTF

**Long-term:**

- Implement a mileage-based revenue system
- Adopt two vehicle miles of travel (VMT) fees: a state VMT fee and a local option VMT fee to help ease metropolitan area congestion
- Index VMT fees to inflation
- Vary the VMT fee by weight; fuel type and consumption; environmental impact; road system; and other factors to account for different levels of use and impact

*This information is compiled from numerous sources, including documents from the Federal Highway Administration, American Road and Transportation Builders, American Public Transportation Association, and the U.S. Chamber of Commerce.*



**2006 Debate Minnesota  
Potential Transportation Questions  
for Congressional Candidates**

1. Are you aware of transportation problems in your district? If so, what are they? Are there particular highway or transit projects which concern you that you want to work to resolve? What are the concerns—safety, business-oriented, mobility?
2. Do you agree that building and maintaining our transportation infrastructure is a core government function? Where does the issue of improving transportation infrastructure rank in your list of priority issues?
3. Would you support indexing the federal motor fuels tax to inflation? Would you support an increase in the federal motor fuels tax, and if so, how much?
4. Would you support incentives for the development of new mileage-based revenue systems? This would be any kind of system that charges people based on the number of miles driven as opposed to charging per gallon for fuel used. There has been quite a bit of discussion about the need to move from a motor fuels tax (with hybrids and other alternative fuels increasing in use) to a mileage tax that would charge people a certain rate per mile driven.
5. Do you support the expanded use of toll roads?