

Commission Briefing Paper 3F-01

Highway and Transit Funding Information Supplemental to the 2006 C&P Report

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Date: February 23, 2007

Introduction

This paper is part of a series of briefing papers to be prepared for the National Surface Transportation Policy and Revenue Study Commission authorized in Section 1909 of SAFETEA LU. The papers are intended to synthesize the state-of-the-practice consensus on the issues that are relevant to the Commission's charge outlined in Section 1909, and will serve as background material in developing the analyses to be presented in the final report of the Commission.

This paper summarizes information available on existing highway and transit funding beyond that which is reported in the 2006 Conditions and Performance (C&P) report. The financial statistics report in the C&P report covers most relevant highway and transit revenue and expenditure activity. However, a number of interesting aspects of finance are not evident from the broad summary funding categories that are used. Topics covered in this paper include the current and projected balances of Highway Trust Fund (Highway and Mass Transit Accounts); the use of debt financing at the State and local government levels; non-traditional financing sources, such as TIFIA loans and state infrastructure banks; local option sales taxes for transit; and the challenges in quantifying indirect highway and transit revenue sources.

Other information on highway and transit finance, based on data presented in the 2006 C&P report, is covered in briefing papers 3A-01 (highways) and 3B-01 (transit).

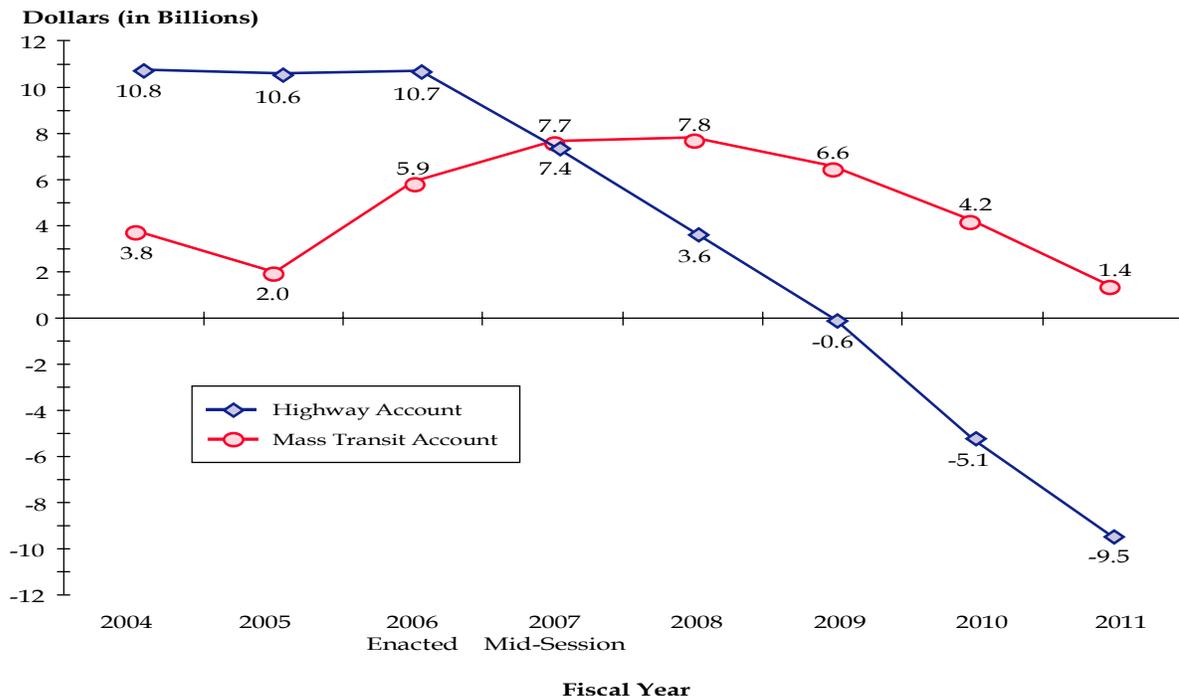
Key Findings

- The Highway Account of the Highway Trust Fund (HTF) is projected to reach a negative balance in 2009 and the Mass Transit Account begins to decline in 2008.
- The source of funds for debt service associated with state obligations issued during 2004 included highway user revenues (49 percent), GARVEE bonds (20 percent), motor-fuel and vehicle taxes (13 percent), tolls or toll plus other taxes (12 percent) and Other (7 percent).
- Although the share of expenditures dedicated to interest and bond retirement has remained steady over time, the debt-to-revenue ratio is above average in several State and local governments.
- Additional available data is necessary to isolate the share of specific funding sources including TIFIA, SIBS and local option sales taxes.
- Private sector investment capital (e.g., asset sales) are included in the C&P revenue category "investment income and other receipts," but these funds cannot currently be isolated.

Highway Trust Fund

Highway Statistics 2005 reported that the Highway Trust Fund (HTF) had a balance of \$12.5 billion at the end of FY 2005, a \$9.7 billion decline from 2002. Cash receipts and expenditures for the Highway Account of the HTF in 2005 were \$32.9 billion and \$33.1 billion, respectively, with an ending balance of \$10.6 billion (a \$5.5 billion decline from 2002). Cash receipts and expenditures for the Mass Transit Account were \$5.0 billion and \$6.9 billion, respectively, with an ending balance of \$2.0 billion (a \$4.1 billion decline from 2002).

Figure 1 Highway and Mass Transit Accounts of the Highway Trust Fund
Cash Balance



As a result of recent Federal revenue and expenditure trends, the Highway Account of the HTF is projected to reach a negative balance in 2009 and the Mass Transit Account to begin a declining trend in 2008 (see Figure 1)¹. HTF cash balances are expected to decline as annual outlays have exceeded receipts and are expected to continue to equal or exceed receipts. Between 2001 and 2004, outlays from the HTF exceeded receipts by two to four billion dollars each year. In fiscal years 2005 and 2006, HTF outlays equaled receipts and in each of fiscal years 2007 through 2009, estimated outlays are anticipated to exceed estimated receipts by more than three billion dollars each year. The funding levels set by SAFETEA-LU were set with the intention of “spending down” the balance in the Highway Account. A negative balance reflects the gap between estimated future spending and estimated future receipts while a sustained negative balance in the estimates reflects what will happen if future spending is continued at SAFETEA-LU levels. Note, however, that these estimates can vary from actual results by more

¹ Note that the projections in Figure 1 are based on the 2007 mid-session budget review, and not on the President’s FY 2008 budget proposal.

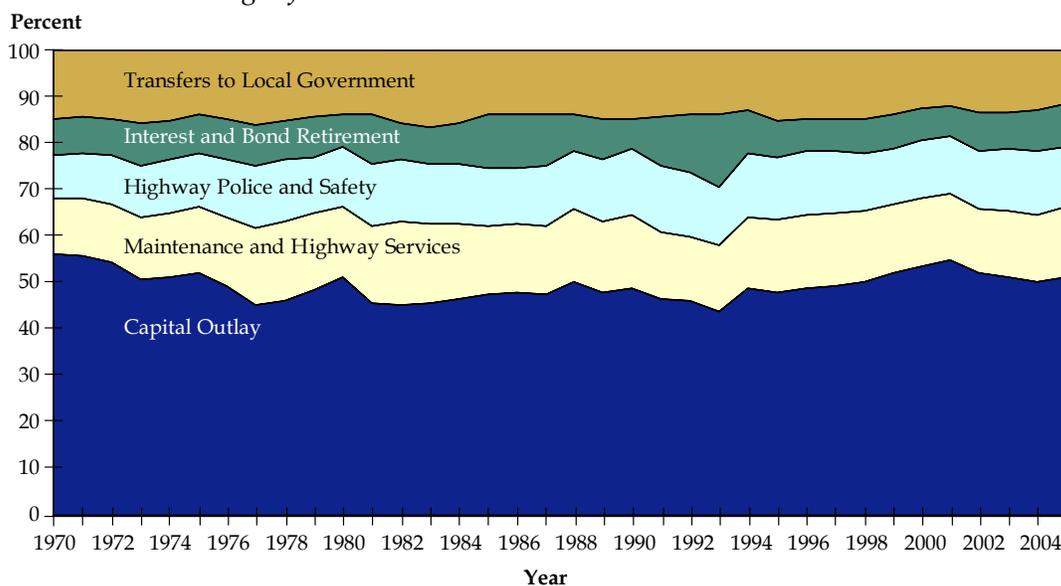
than one billion dollars, and the timing of any depletion of resources from the HTF will be affected by fluctuations in revenues and spending patterns.

Debt Financing

The 2006 C&P report indicates highway bond proceeds of \$15.8 billion and debt service expenditures of \$5.8 billion, but does not go into detail on types of bonds being issued or the overall level of indebtedness. Bonding can be a cost-effective way to finance large projects or capital programs if the interest-cost and other expenses associated with issuing the debt are less than the potential costs associated with completing construction on a pay-as-you-go basis.

Examining the source of funds for debt service associated with the State obligations issued during 2004, approximately 49 percent were backed by highway user revenues, 20 percent by GARVEE bonds, 13 percent by motor-fuel and vehicle taxes, 12 percent by tolls or toll plus fuel tax and 7 percent by “other” (e.g., oil company tax, personal income tax). While these sources of fund categories may overlap, the data give some insights into the financial arrangements associated with the newly issued obligations. Detailed fund source information is not readily available for transit bonds, but through Federal tracking, it is known that approximately three billion dollars of Grant Anticipation Notes (GANs) have been issued thus far.

Figure 2 Annual Disbursements by States for Highway Purposes
Percentage of Total



Policy makers have raised a concern that innovative finance strategies will lead to an over-reliance on debt financing and other long-term obligations. For example, GARVEE bonds discussed above could potentially limit future operating flexibility by tying up revenue in interest and bond retirement payments. A brief examination of FHWA’s *Highway Statistics* publication indicates the total amount of bonds outstanding for highways at all levels of government has increased significantly, growing from \$58 billion in 1993, for example, to more than \$120 billion in 2003, with over 60 percent of the additional bonding occurring in just six large States (California, Florida, Massachusetts, New Jersey, New York and Texas). Twenty-eight States had less than one percent growth in total outstanding highway debt over the period 1993 to 2005 and 10 of those States actually reduced their total outstanding obligations over that period. In

aggregate, the percentage of available resources applied to debt service has been very stable over the last 35 years, averaging approximately 10 percent of total disbursements (Figure 2).

However, looking at debt-to-revenue ratio by state and local governments portrays a different outlook. A low debt-to-revenue ratio suggests an agency has sufficient revenues to make payments on or retire outstanding debts. In 2004, the debt-to-revenue ratio median value across State agencies was 0.6, with seven States (Connecticut, Delaware, Florida, Hawaii, Kansas, Oklahoma, and Virginia) having ratios between 1.0 and 2.0 and two States (Massachusetts and New Jersey) having ratios above 2.0 (See Table 1). On the local level, the median debt-to-revenue ratio in 2004 was 0.3. Nine local governments had ratios between 1.0 and 2.0; Alaska had the highest local debt-to-revenue ratio at 2.9.

Table 1 Debt-to-Revenue Ratio, State Governments, 2004

	Debt	Revenue	Ratio
Alabama	\$181,800	\$1,460,330	0.1
Alaska	\$102,805	\$596,460	0.2
Arizona	\$1,614,945	\$2,564,249	0.6
Arkansas	\$575,000	\$1,072,610	0.5
California	\$1,314,850	\$8,914,456	0.1
Colorado	\$1,470,640	\$2,259,249	0.7
Connecticut	\$3,145,054	\$1,764,726	1.8
Delaware	\$1,154,066	\$666,803	1.7
Florida	\$7,951,409	\$5,995,828	1.3
Georgia	\$2,015,618	\$2,276,872	0.9
Hawaii	\$368,662	\$286,934	1.3
Illinois	\$2,720,083	\$4,143,963	0.7
Indiana	\$1,612,606	\$2,614,404	0.6
Kansas	\$2,162,705	\$1,796,097	1.2
Kentucky	\$975,728	\$1,651,837	0.6
Louisiana	\$366,463	\$1,453,826	0.3
Maine	\$405,875	\$741,658	0.5
Maryland	\$845,859	\$1,906,115	0.4
Massachusetts	\$6,845,559	\$3,239,069	2.1
Michigan	\$1,444,475	\$3,064,926	0.5
Minnesota	\$365,008	\$2,055,235	0.2
Mississippi	\$376,095	\$957,424	0.4
Missouri	\$861,000	\$2,148,679	0.4
Nevada	\$238,265	\$875,465	0.3
New Hampshire	\$368,115	\$450,029	0.8
New Jersey	\$11,171,441	\$4,115,364	2.7
New Mexico	\$1,610,770	\$1,943,143	0.8
New York	\$11,053,220	\$6,014,501	1.8
North Carolina	\$549,250	\$3,581,258	0.2
Ohio	\$1,989,939	\$3,773,536	0.5
Oklahoma	\$1,588,170	\$1,249,733	1.3
Oregon	\$247,590	\$1,198,718	0.2
Pennsylvania	\$3,280,793	\$5,065,285	0.6
Rhode Island	\$329,593	\$387,977	0.8
South Carolina	\$613,005	\$1,184,536	0.5
Texas	\$4,860,700	\$6,697,083	0.7
Utah	\$1,175,751	\$1,775,199	0.7
Virginia	\$3,286,049	\$3,035,586	1.1
Washington	\$2,117,136	\$2,612,263	0.8
West Virginia	\$612,688	\$1,039,179	0.6
Wisconsin	\$1,444,355	\$1,990,433	0.7
National Total	\$85,427,278	\$107,330,126	0.8

Zero outstanding debt in ID, IA, MT, NE, SD, TN, VT, WY
Source: 2004 Highway Statistics, SF-1 and SB-2

Transportation Infrastructure Finance and Innovation Act (TIFIA) and State Infrastructure Banks (SIBs)

Transportation Infrastructure Finance and Innovation Act (TIFIA) and State Infrastructure Bank (SIB) are referenced in the Innovative Finance chapter of the 2006 C&P, but their funding is not covered in great detail. TIFIA funds and funds used in the initial capitalization of SIBs are most likely show up as HTF receipts used for highway or transit services. To clarify the usage of TIFIA and SIBS, Highway Statistics began including two new tables in 2004 from data collected by FHWA's Office of Budget and Finance, as shown in Table 2

Table 2

SUMMARY OF FEDERAL CREDIT ASSISTANCE FOR HIGHWAY, TRANSIT AND INTERMODAL FACILITIES - 2004 1/							
September 2005						Table FA-23	
State	Project Name	Total Estimated Project Cost	Date of Credit Commitment	Amount of Credit Award	Credit Type	Primary Revenue Pledge	Improvement Type
CA	San Joaquin Hills Toll Road	\$1,456,000	1993	\$120,000	Line of Credit	Tolls	Highway
	Foothill / Eastern Toll Road	\$1,808,000	1995	\$120,000	Line of Credit	Tolls	Highway
	Alameda Corridor 3/	\$2,432,000	1997	\$400,000	Loan	Container Fees	Intermodal Facility
	SR-125 South Toll Road 2/	\$634,000	1999	\$140,000	Loan	Tolls	Highway
	San Francisco-Oakland Bay Bridge 2/	\$3,305,000	2002	\$450,000	Loan	Toll Surcharge	Bridge
DC	Washington Metro Capital Improvement Program 2/	\$2,324,000	1999	\$600,000	Guarantee	Local Revenues	Transit
FL	Miami Intermodal Center 2/	\$1,348,752	1999	\$432,752	Loans	Various	Intermodal Facility
LA	LA-1	\$247,000	2005	\$66,000	Loan	User Charges	Highway
NV	Reno Rail Corridor 2/	\$282,859	2000	\$73,070	Loans	Various	Intermodal Facility
NY	Farley Building - New Pennsylvania Station 2/	\$800,000	1999	\$160,000	Loan / Line	Various	Passenger Rail
	Station Island Ferries 2/	\$482,025	2000	\$159,068	Loan	Other	Transit
PR	Tren Urbano Transit Project 2/ 3/	\$1,676,000	1999	\$300,000	Loan	Tax Revenues	Transit
RI	Warwick Train Station 2/	\$215,946	2003	\$58,000	Loan	User Charges	Intermodal Facility
SC	Cooper River Bridge 2/ 4/	\$668,000	2001	\$215,000	Loan	Various	Bridge
TX	Central Texas Turnpike 2/	\$3,659,909	2001	\$916,760	Loan	Tolls	Highway
	183 A Toll Road 2/	\$331,000	2005	\$66,000	Loan	Tolls	Highway
Total		\$21,670,491		\$4,276,650			

1/ Table summarizes Federal credit assistance in the form of direct loans, loan guarantees or standby lines of credit for surface projects. transportation projects. This data is collected by FHWA's Office of Budget and Finance.

2/ These projects were awarded credit assistance under the Transportation Infrastructure Finance and Innovation Act (TIFIA) program

3/ The credit assistance provided for these projects has been repaid in full.

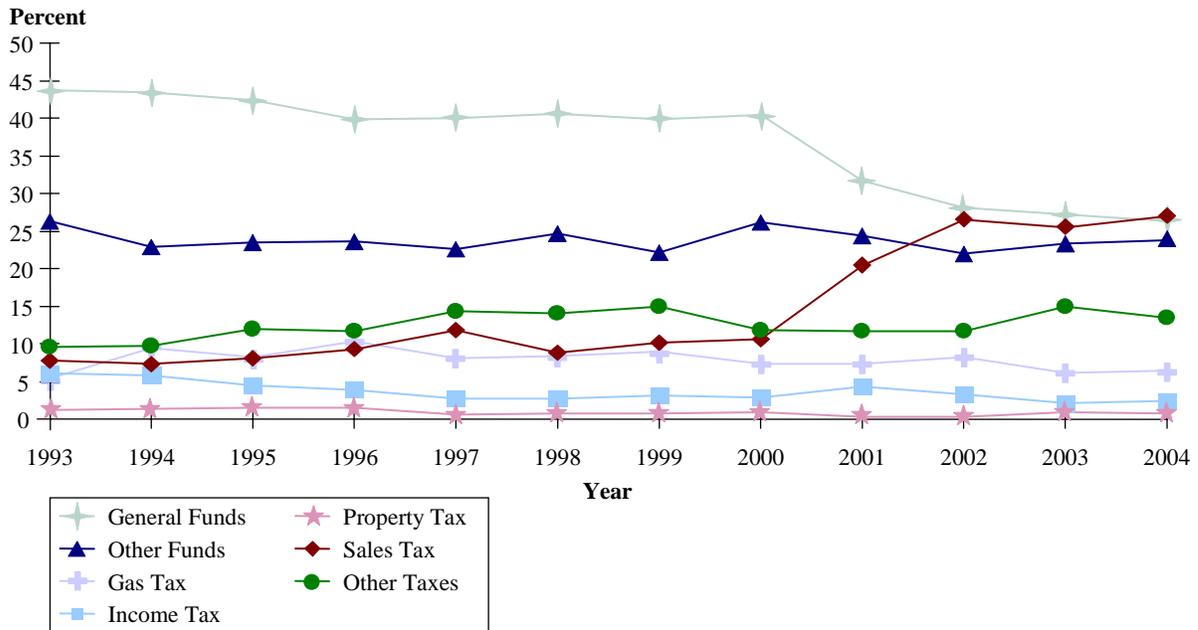
4/ This project was refinanced with non-Federal funding

Transit Local Option Sales Tax

The 2006 C&P report indicates the percent of transit expenditures funded by sales taxes jumped notably from 2000 to 2004. Local options taxes have been adopted in one form or another in at least 46 States. These taxes are one of the main transit revenue sources at the State and local level. Examining Figure 3, one might conclude that the notable increase in sales tax from 2000 to 2002 was a reinforcement of the increased role of sales tax to support transit across the United

States. However, this growth was mainly impacted by the shift from general revenues to dedicated state sales tax in one State, Massachusetts.

Figure 3 Transit Revenues
State (Share by Source) Fiscal Years 1993 to 2004



Source: FTA National Transit Database.

Other Receipts

The 2006 C&P report indicates investment income and other receipts of \$7.6 billion, covering a wide range of income sources including private contributions to State and local highway agencies. While donations of land and other contributions in kind should theoretically be included in these figures, they frequently are not, as such transactions do not enter into the State and local financial accounting systems upon which these statistics are generally based. Developer impact fees and other value capture are also likely to be underrepresented, particularly at the local level. Privately built and financed roads in new subdivisions or business parks are nearly impossible to capture.

Investments and other receipts would also include the sale of assets. Public transportation authorities have leveraged various property assets to generate incremental cash or in-kind goods and services for many years. Several highway agencies, for example, have granted access to their right-of-way to private telecommunications companies in exchange for donations of communications technology (principally capacity on fiber optic lines) or lease payments. Some transit authorities have had success entering into joint development arrangements with private developers that leverage air rights and publicly owned property around rail stations.

An emerging area of highway financing in the U.S. involves the long-term leasing of publicly-owned and operated toll facilities to private operator/investors, such as the recent transactions

involving the Chicago Skyway and the Indiana Toll Road. In many cases, the price paid for the lease may include a premium beyond the expected net transportation revenues from the facility, due in part to the opportunity for private sector firms to receive or sell depreciation credits against other Federal tax liabilities (an option that is not available to public sector authorities with no tax liabilities). The proceeds from the leases may be used by the public authority leasing the facility for transportation or non-transportation projects elsewhere within the jurisdiction. While the ultimate source of funds for these projects financed by lease proceeds would be toll revenues and indirect Federal expenditures from the general fund (via the depreciation credits), fully accounting for these revenue sources is likely to remain a significant challenge.

CONSOLIDATED COMMENTS FROM MEMBERS OF THE BLUE RIBBON PANEL OF TRANSPORTATION EXPERTS - PAPER 3F-01

One reviewer commented as follows:

Regarding Table 1, this is an intriguing list of debt-to-revenue ratios of state governments as of 2004, and the associated text on page 4: Table 1 shows New York with a 1.8 debt-to-revenue ratio, the third highest in the U.S., after New Jersey and Massachusetts, and one of eight states with ratios between 1.0 and 2.0. The accompanying text, however, refers to seven states in this category, and New York is not listed as one of them.