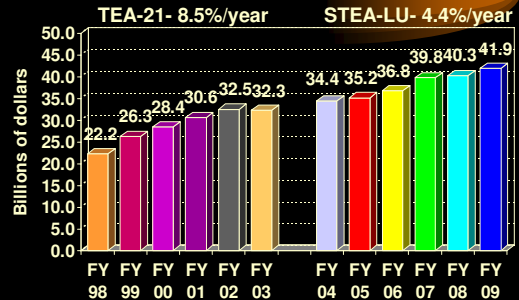


IBTTA Transportation Finance Summit Financing the Federal Highway Program – Issues and Concerns

By William R. Buechner
Vice President, Economics and
Research, ARTBA
December 5, 2006



Guaranteed Funding for Highways Grows 4.4% Annually under SAFETEA-LU



Financing for Federal Highway Program - -The Highway Trust Fund

- Established in 1956
- Revenue source – Excise taxes on highway users:
 - Excise taxes on motor fuels
 - Excise taxes on large trucks and tires
- Finances two major federal transportation programs:
 - Federal-aid highway program – Highway Acct.
 - Mass transit program – Mass Transit Acct.

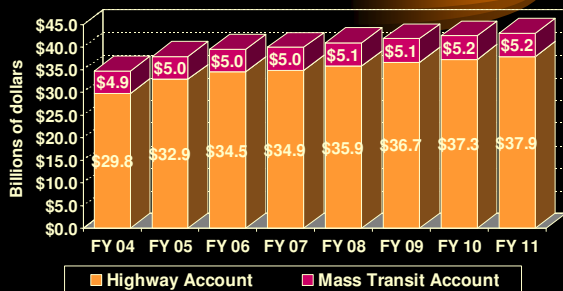


Revenue Sources for the Highway Trust Fund

Excise	Amount	Highway Account	Transit Account
Gasoline & gasohol	18.3 cpg	15.44 cpg	2.86 cpg
Diesel	24.3 cpg	21.44 cpg	2.86 cpg
Lg. trucks	12% price	All	
Truck use	\$100-\$550 by weight	All	
Truck tires	15-50 cplb	All	



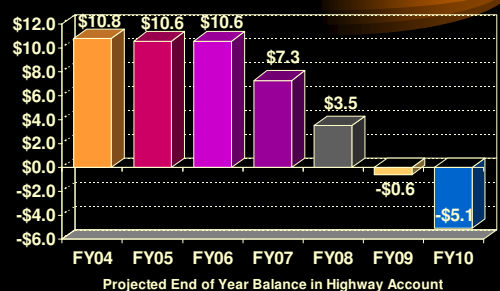
Treasury August 2006 Forecast of Highway Trust Fund Revenues



Source: Updated from FY 2007 Midsession Review



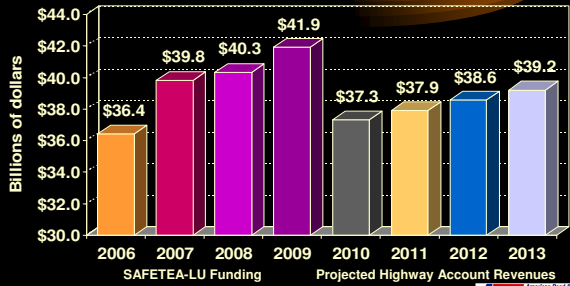
Treasury Estimates that SAFETEA-LU Will Spend Down Highway Account Balance



Source: Updated from FY 2007 Midsession Review



Federal Highway Funding Will Have to be Cut Without New Revenues



Source: SAFETEA-LU and FY 2007 Midsession Review

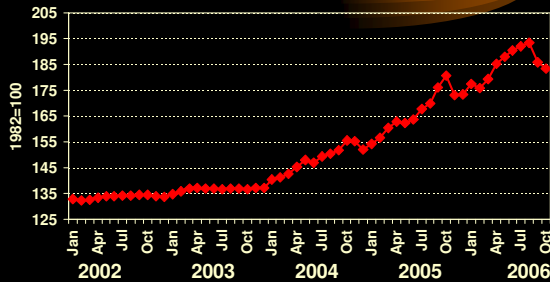


Another Dark Cloud – Rising Material Prices

- After a decade of stable prices, cost of highway construction materials rising 35 percent in past three years
- Comprise half of construction costs
- Eroding real gains in construction activity
- Forcing state and local DOTs to postpone or cancel planned projects



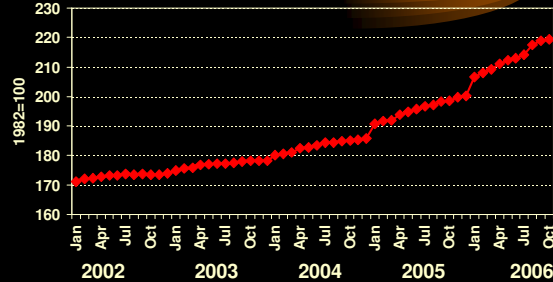
Highway Materials Rose 8.5% in 2004, 12.5% in 2005, projected 10-11% in 2006



Source: Bureau of Labor Statistics



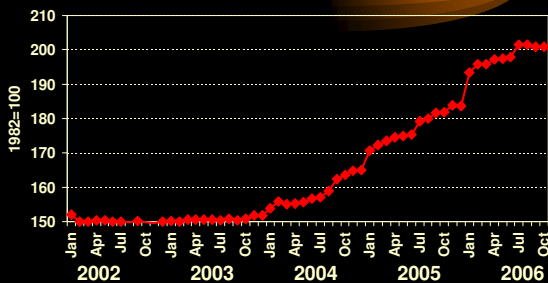
PPI for Crushed Stone Rose 3.5% in 2004, 6.8% in 2005, projected 9% in 2006



Source: Bureau of Labor Statistics



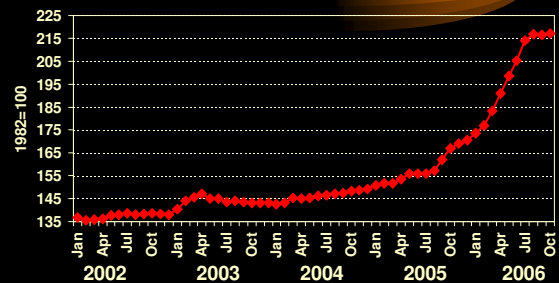
PPI for Ready-Mix Concrete Rose 5.2% in 2004, 12% in 2005, proj. 12% in 2006



Source: Bureau of Labor Statistics



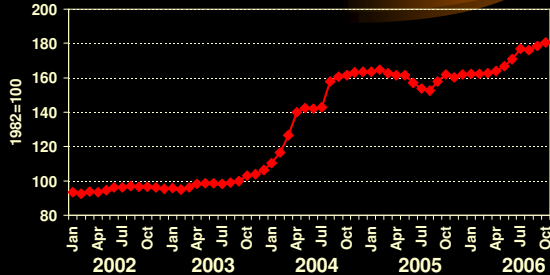
Asphalt Paving Mixtures Rose 1.6% in 2004, 8.3% in 2005; proj. 28% in 2006



Source: Bureau of Labor Statistics



Cost of Steel - Level in 2005 - Could Rise 7-8% in 2006...



Source: Bureau of Labor Statistics



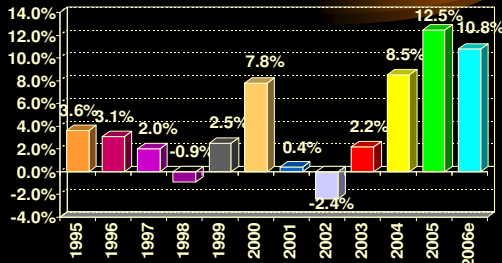
... And Diesel Fuel Shows Persistent Upward Trend, 2006 Increase of 10-15%



Source: Bureau of Labor Statistics



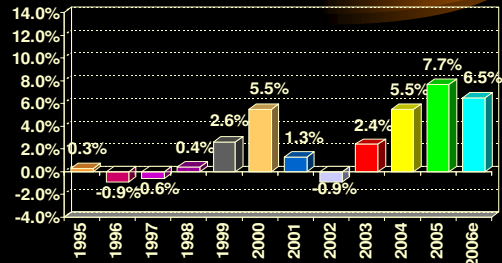
Summary: Highway Material Costs Up 30 Percent in 2004 - 2006



Source: Bureau of Labor Statistics, PPI for Highway and Street Construction



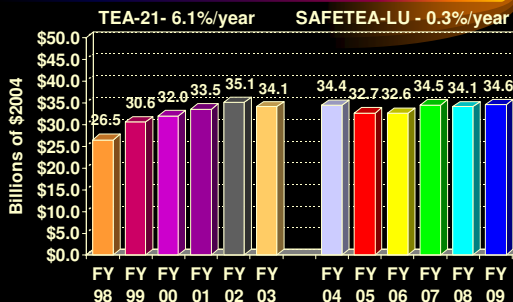
Total Construction Costs, inc. Labor and Overhead, Up 20 Percent in 3 Years



Source: Bureau of Labor Statistics, PPI for Highway and Street Construction



Rising Construction Costs Absorbing All SAFETEA-LU Funding Growth



Source: ARBA analysis of SAFETEA-LU BLS data

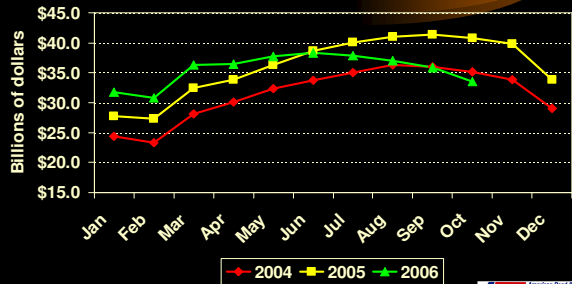


Outlook and Options

- Outlook for construction costs – the worst is over, at least for a while
 - Construction on single-family homes rapidly going south – reducing demand for materials
 - PPI for highways and streets fell in September and October
 - Average cost of highway construction in 2007 should be same as in 2006



Value of Construction on Single-Family Homes is Plunging



Source: Census Bureau, Value of Construction Put in Place

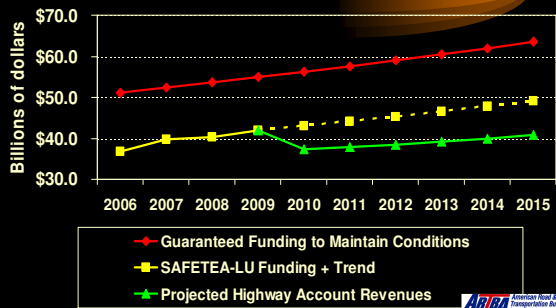


Revenue Needs After SAFETEA-LU

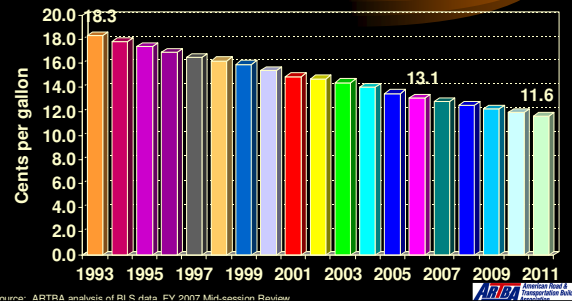
- Increase of 3 cents per gallon in 2010 just to maintain SAFETEA-LU trends after FY 2009
- Increase of 12-13 cents per gallon just to maintain current highway conditions
- Increase of 6+ cents per gallon to restore 1993 purchasing power of federal gasoline tax



Projected HA Revenues \$20 Billion Below Annual Needs



Federal Gasoline Tax Has Lost Almost 1/3 of Its Purchasing Power Since 1993



Source: ARBA analysis of BLS data, EV 2007 Mid-Cession Review



Innovative Funding – Promises and Problems

- Federal-aid highway program is user-fee financed
- But Members of Congress (and State Legislators) are reluctant to increase motor fuel taxes or vehicle fees
- Thus looking for “innovative” ways to finance expanded highway construction



Leasing of Existing Toll Roads

- Chicago Skyway, Indiana Toll Road
- New Jersey exploring Turnpike, Garden State lease, other states interested
- Concerns
 - Will proceeds be used just for highways?
 - What happens after funds are exhausted?
 - Will higher tolls force trucks onto local roads – causing higher maint. costs, more fatalities?



New Toll Roads, Public or Private

- Construct new capacity using tolls
- Texas, Florida, others leaders
- Concerns
 - Appropriate only for limited-access roads on high-volume corridors
 - Not for general access roads
 - Most highway spending & needs = maintenance, improvements on general roads



Private Financing

- Private financing requires a financial return
- Requires some way of generating revenues directly related to the particular road:
 - Tolls
 - Tax property owners, businesses
 - Dedicated general tax
 - All tax somebody



Implication for SAFETEA-LU Reauthorization

- Private financing seductive to politicians – offers promise of building highways without tax increase
- But no panacea – solves limited problem, limited-access road in high volume corridor
- Rest of system needs substantial investment
- Will still need a gas tax increase

