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The State Surface Transportation Funding Options

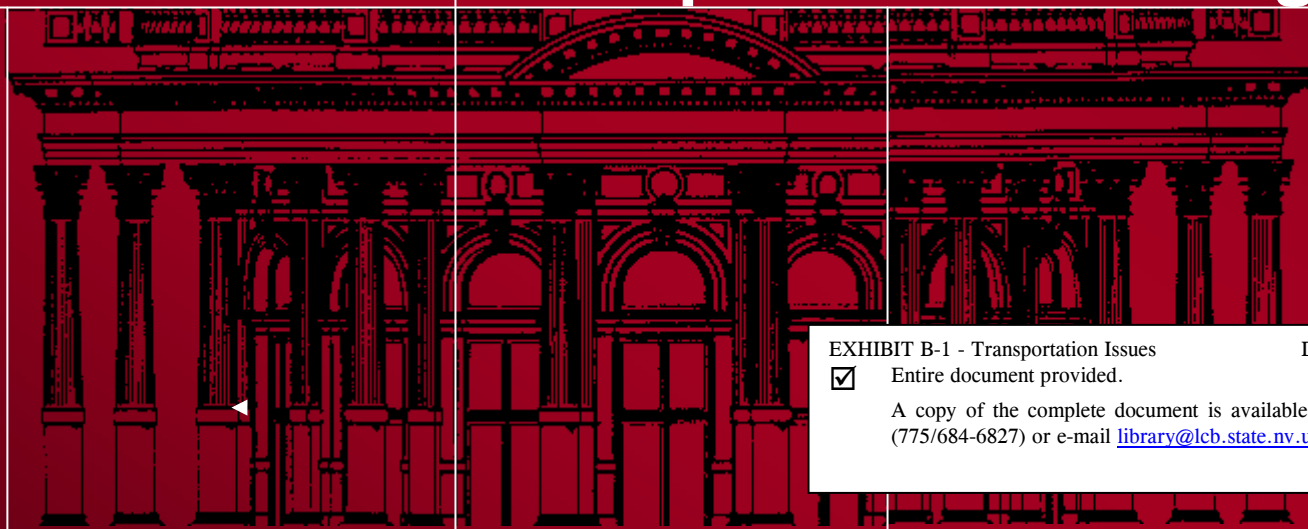


EXHIBIT B-1 - Transportation Issues

Document consists of 23 pages.

☒ Entire document provided.

A copy of the complete document is available through the Research Library (775/684-6827) or e-mail library@lcb.state.nv.us.

Meeting Date: 2/19/08

For Nevada's Legislative Commission Subcommittee
to Study Transportation Issues
By Jim Reed, Transportation Program Director, NCSL
February 19, 2008

State Transportation Funding Crisis Context

- Population growth and VMT growth is outstripping transportation revenue growth
- Result: burgeoning traffic congestion, becoming acute in some metro areas
- Rising construction costs, outpacing inflation
- Deteriorating infrastructure--MN bridge collapse
- Declining purchasing power of the motor fuels tax
- Reluctance to raise gas tax, esp. w/ high gas prices
- State and local governments assuming greater funding responsibility in relation to federal gov't, in response to constituent demands



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Transportation Funding Crisis

- **Every state is affected.**
- Numerous recent studies documenting enormous funding gaps.
- Unmet need of \$1 trillion by 2015. (US Chamber)
- Exacerbated by tighter state budgets.
- "For 20 years, we have been consuming transportation infrastructure without investing."
--Douglas Duncan, President, FedEx Freight



Average Annual State Sources of Transportation Revenue by Percent

- State motor fuels taxes—28%
- Federal funding—27%
- Motor vehicle/truck fees and taxes—16%
- Bonding, borrowing—12%
- Tolls—5%
- State general fund—4%
- Misc. and other—6%
- Local gov't contribution—2%

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***Financing Methods for Highways:
Nevada v. National Average***

| | |
|---|-------|
| National Average - use of state gas tax | 28.3% |
| Nevada - use of state gas tax | 49.1% |
| National Average - use of tolls | 5.0% |
| Nevada - use of tolls | 0% |
| National Average-use of bond proceeds | 12.4% |
| Nevada -use of bond proceeds | 6.9% |

(Averaged over a 6-year period, see NCSL Report, p. 59)



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***State Gas Taxes: Lost Purchasing
Power***

Average state motor fuels tax

| | |
|------------------|---|
| 1957 | 5.7 cpg (Start of Interstate construction) |
| 2006 | 39.6 cpg if adjusted for inflation |
| 2006 | 20.3 cpg actual |
| Shortfall | 19.3 cpg |

Source: Martin Wachs, Univ. of California





Traditional Revenue Options

- Raise Motor Fuels Taxes—A few states every year, vetoed in MN, NE 2007
- Index Motor Fuels Taxes—7 states total
- Apply Sales Tax to Gas Purchases—9 states
- Increase Vehicle Fees and Taxes
- Increase Borrowing—(Authority Needed)
- Increase General Fund Contribution to Transportation
- Increase Share of State Sales Tax Applied to Transportation Spending. UT 2007

Related Revenue Options

- Eliminate Existing Diversions of Transportation-Derived Funds to Other Needs

FHWA estimates 13% of state fuel tax revenue is diverted.



Emerging Transportation Funding Options

These approaches have been the subject of extensive study and recent implementation.

- Public-Private Partnerships
- Tolls
- Empowerment of Local Governments
- Vehicle Miles Traveled Fee



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Public-Private Partnerships (PPPs) Snapshot

- PPPs are state transportation infrastructure projects involving the private sector in some capacity.
- At least 13 different types of PPPs have been used.
- States have a long history of outsourcing service delivery relative to public roads.
- First PPP laws enacted in early 1990's.
- 22 states have statutes enabling PPPs.
- New interest in PPPs since 2004: A way to complete transportation projects that cannot be funded through traditional means.

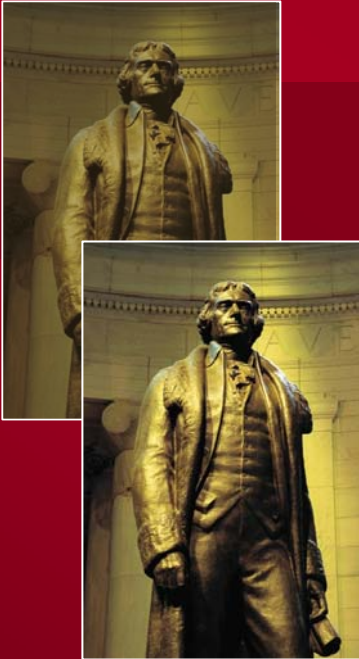


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PPPs

- Usually associated with tolling as a mechanism for the private sector to earn its return on investment.
- Asset leasing (monetization): Chicago Skyway, Indiana Toll Road, Texas projects, Colorado Northwest Parkway.
- To address growing concern about protecting the public interest, the most recent monetization proposals involve leasing to a public agency: PA, NJ, TX.
- 2007: 16 states considered PPP legislation; a greater number expected in 2008.





PPPs--Benefits

- Completes transportation projects that cannot be funded through traditional means.
- Expands the pool of available money for transportation projects.
- Creates cost savings to states--private sector takes on a portion of the financing risk.
- Reduced project completion time.
- Brings private sector practices and innovations into public projects.



PPPs--Potential Obstacles

- Lack of statutory authorization
- Lack of familiarity with the approach on the part of the transportation agencies and the public.
- Controversy over contract issues--non-compete clauses, length of lease, secrecy of negotiations, toll-setting, law enforcement.
- Conflicts with pay-as-you-go approach
- Issue of legal ability to mix public and private funds
- Procurement practices may need changing
- Need for dedicated funding or innovative financing--usually tolls and/or borrowing
- Concern on the part of key members of Congress
- Public misunderstanding and concern

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Tolling: Back to the Future

- First toll road: 1774 in Pennsylvania
- 8 states get 10 percent or more of highway revenue from tolls: DE, FL, ME, NH, NJ, NY, OK, and PA
- 31 states and Puerto Rico collect tolls on over 5,000 miles of tolls.
- Toll revenue growth--36.6 percent over 6 years, while gas tax revenue grew by only 15.7 percent.
- Many states planning new toll roads including: AL, AR, MS, MO, NC, OR, WA





Tolling Advantages

- Alternative funding source in an era of high need coupled with the decline of existing funding sources.
- Honors the "User Pays" principle.
- Tolls can be set to keep traffic free-flowing (congestion pricing, HOT lanes)
- Electronic toll collection reduces driver inconvenience and saves the tolling agency money.

Tolling Challenges

(GAO Report, June 2006)

- Securing public and political support
- Overcoming the perception of paying twice (double taxation)
- Tolls produce geographic, income and user inequities
- Coordinating new toll roads with existing transportation network
- Ensuring tolls actually cover project costs





Local Transportation Funding

State Authorization of

- Sales tax option: CA, VA
- Impact fees: CA
- Gas tax add-on: FL
- Special Transportation Districts/Authorities: TX

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Alternative Revenue Options

- **Naming Rights**
CT—granted DOT authority to develop criteria for granting naming rights
FL—trolley lines
MN—Metro station names
- **Development Agreements—12 states**
Allows local gov'ts to work with private interests to recoup infrastructure costs related to development
CA AB 1660
Example: Riverside County, CA
Fees to mitigate transportation impact of new growth
Single dwelling unit, \$10,044
Retail, \$12.94 per SF



Future Revenue Sources

- **Vehicle Miles Traveled (VMT) fee**
 - Oregon: Extensive study and pilot test completed.
 - Univ. of Iowa study: 15 states
 - Needs a multiple-year phase-in period.
 - Germany—"TollCollect" for trucks

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NCSL book

**Surface Transportation Funding:
Options for States (2006)**

- Context of problem
- Assessment of transportation needs
- Existing surface transportation funding
- Funding obstacles
- Funding options and alternatives
- Trends-PPPs, tolling, debt financing
- Describes a balanced approach





Conclusion: Additional Transportation Funding Needed

- Unmet needs--\$1 trillion cumulative deficit by 2015, U.S. Chamber study
- Poor infrastructure is a threat to economic prosperity and international competitiveness.
- Catch up on deferred maintenance, especially for bridges (new MO effort)
- Security
 - Fund security improvements for transportation infrastructure
 - Ensure adequate transportation facilities in times of emergency

Federal Transportation Reauthorization

- New vision
- Sources of new money
- Extensive deliberations
- Recommendations of National Surface Transportation Policy and Revenue Commission.
- *NCSL Reauthorization Working Group.*



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NCSL is closely tracking this issue!

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<http://www.ncsl.org/programs/transportation/transp2.htm>