

*Prospects for funding and
reauthorization of TEA-21
and its economic impacts*

*North Carolina
Transportation
Conference*

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Economics

- Transportation is critical to the health of our national economy and our quality of life.
- We have clearly moved from a national and regional economy to an international economy
- We must have an integrated transportation system that can meet our needs.
- Federal-aid to transportation has led to the development of today's transportation network.
- Likewise transit has benefited from federal funding that has filled the need for funding in many of our cities and rural areas.

The specifics on economics

- Transportation represents almost 12 percent of GDP
- Every \$1 billion of highway funding supports 47,500 jobs in America
- Mega trends include high fuel prices soaring freight traffic and population and travel growth

The Global Overview on Oil

Demand is strong

- Production is less than expected
- Cost of finding is up
- Demand has surged in China, elsewhere

Supply is uncertain

- Major oil fields peaked
- Not as great as assumed
- Growth has to soar to meet demand
- Exploration ability is in question

Early Warning:

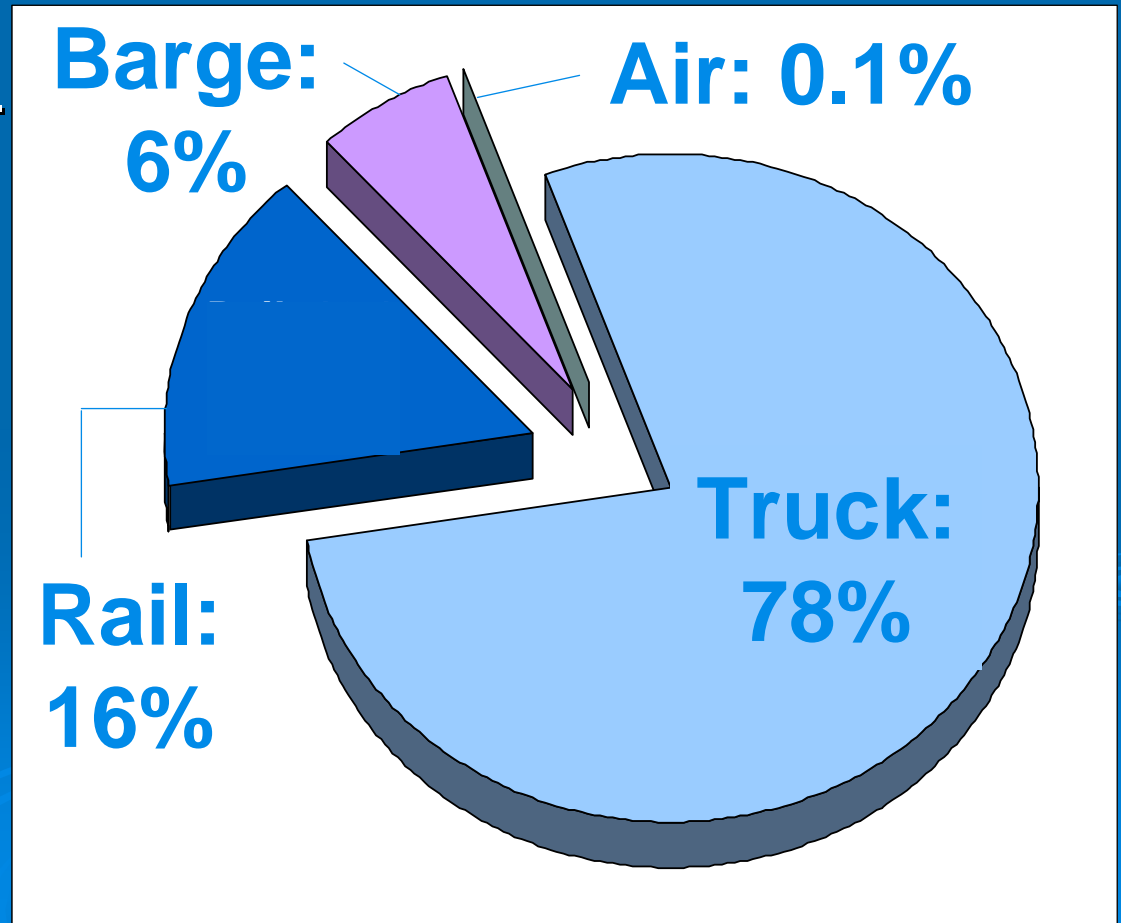
- \$2 per gallon now looks like a bargain
- Travel, economy, highway revenue impacts

State DOTs need in-depth information on factors shaping oil prices

Soaring Freight Traffic

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- 20 year forecast - Freight to double
- 14 billion tons moved in 2000



The context

- This is the context in which we move forward
- The economic crystal ball is at best cloudy
- Reauthorization of the Federal-aid Highway program is critical to stability

Where we stand today

- Congress passed sixth extension
- The House completed action
- The Senate Committees are marking up
- The issue most in play is money
- Who gets it and how much
- Policy issues not addressed

The Key Issues

- The Highway Trust Fund spending more than income
- Program failed the Byrd Solvency Test
- Congress added revenue recently via ethanol
- Additional revenue needed
- Congress has failed to pass a long-term bill

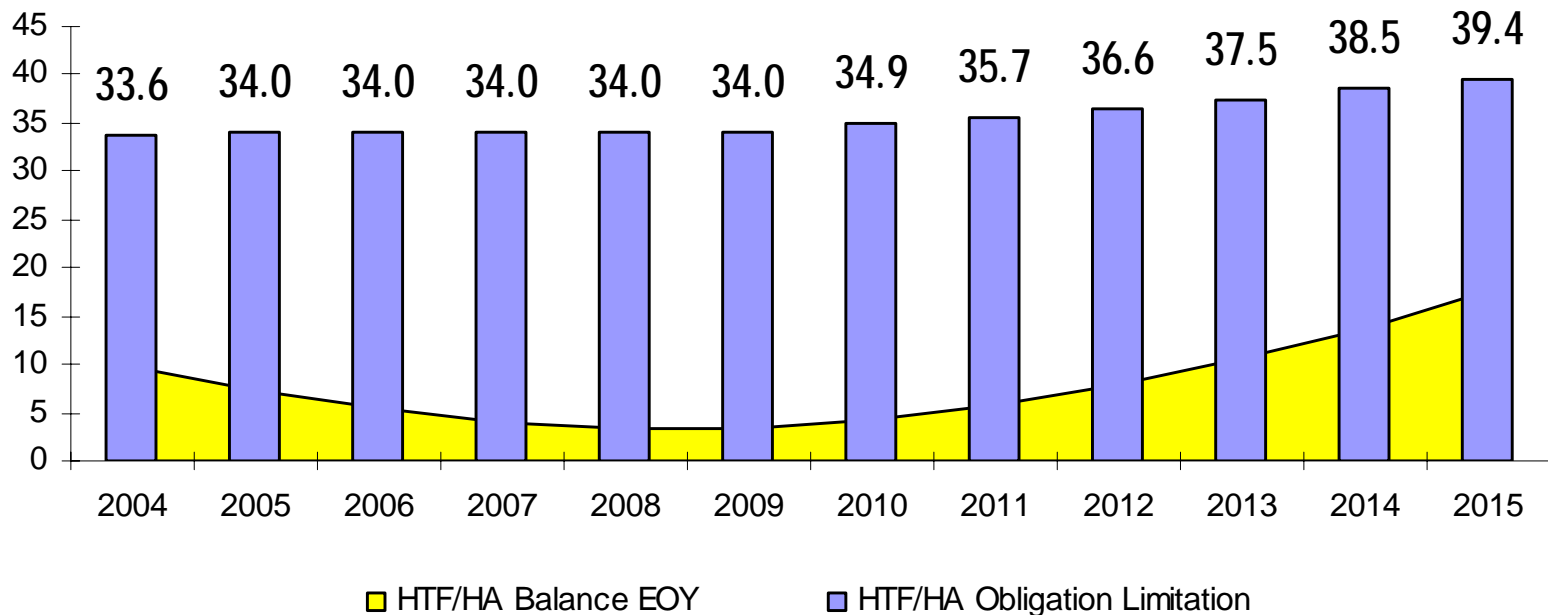
Status of Reauthorization

- The bill went over to this year and Congress has started the process all over again.
- Deficit conditions are a problem this year.
- To get to the numbers the Conference committee is considering requires some GF transfers.

Basic Financial Assumptions

- \$11 billion in the Highway Account at the end of 2004.
- Congress has recognized that the needs are critical by setting aside the RABA reduction in FY 2003 thus staving off a \$9 billion reduction in highways.
- Innovative financing has played a niche role.
- Needs will continue to outstrip available resources.
- Donor and Donee States issue will continue.
- Budget in deficit and make no mistake this is a serious issue for us.
- Increasing user fees likely to be extremely difficult if not impossible.

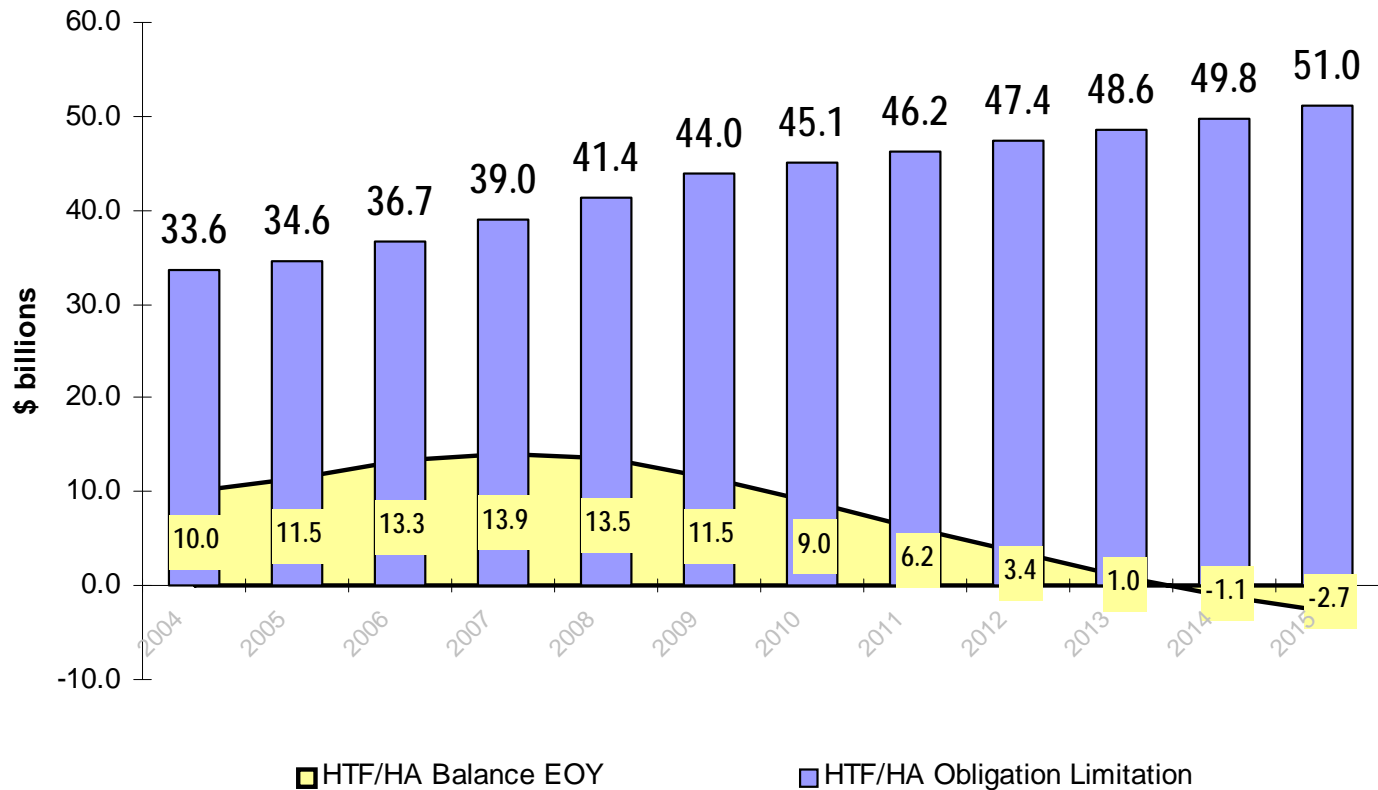
Administration SAFETEA - Highways *estimated post-midsession review 2004*



Assumptions

- 2004-09 totals approximately \$204 for FAHP. 2010-15 adjusted by inflation.
- Trust fund balance assumes safety and other HTF/HA expenditures in addition to FAHP obligation limitation.
- Revenues: 2.5 ethanol, fuel tax evasion (Administration proposed revenues)

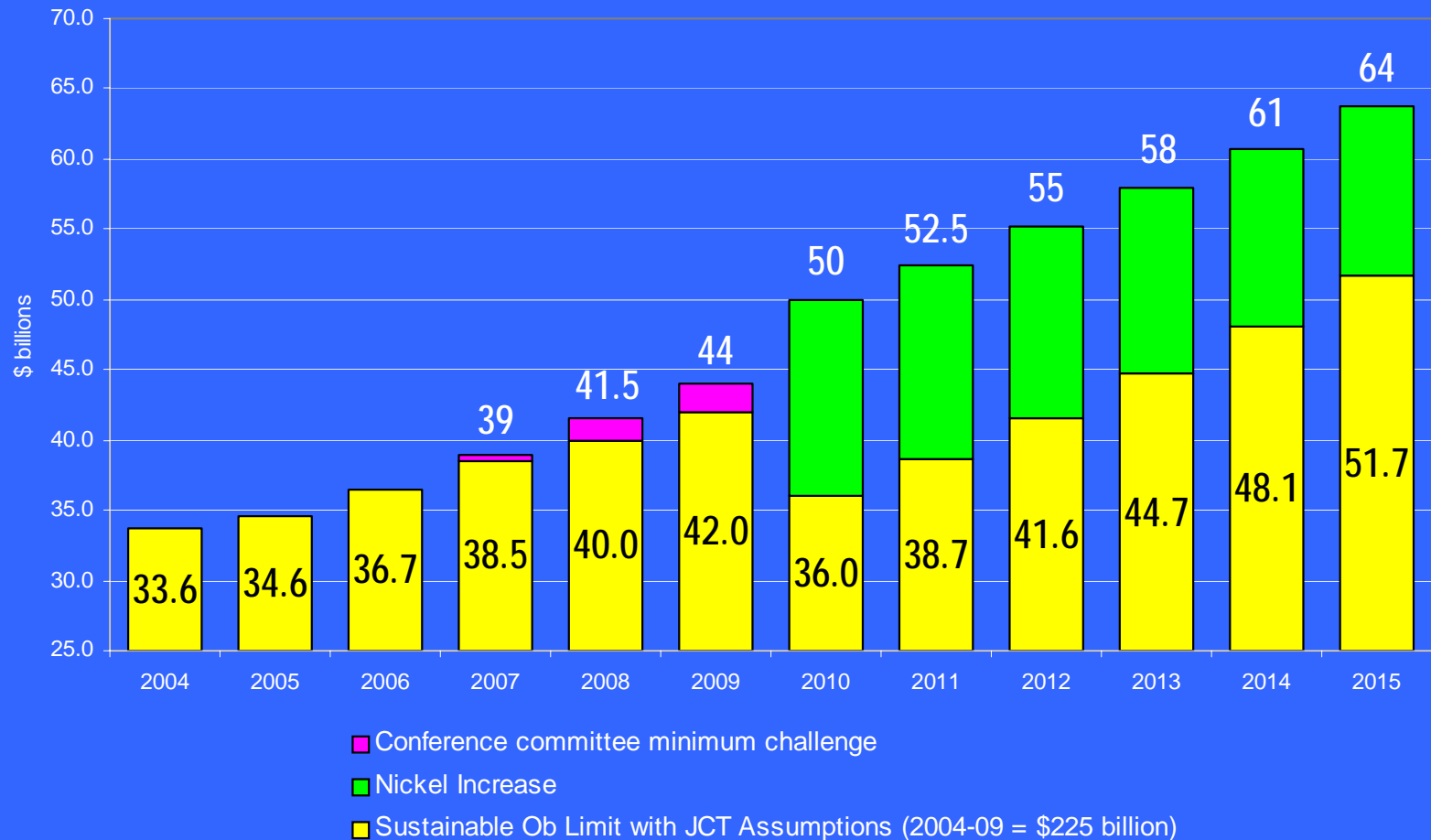
Conference Discussion Highway Obligation Limitation & Trust Fund Balance



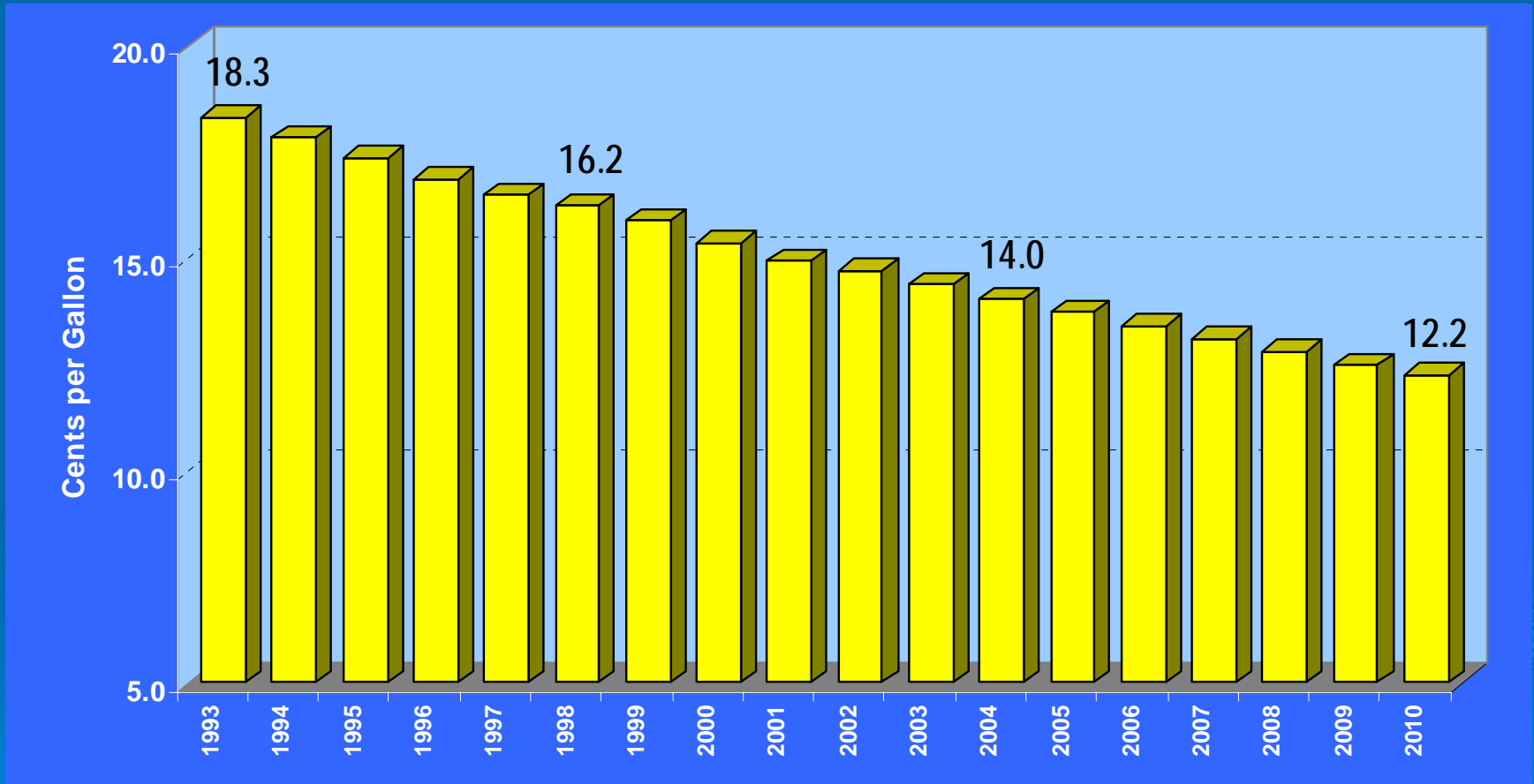
Assumptions

- 2004-09 totals \$229. 2010-15 inflated by 2.5% per year.
- Trust fund balance assumes safety and other HTF/HA expenditures in addition to FAHP obligation limitation.
- Revenues: all Senate included revenues (2.5, 5.2, fuel tax evasion, interest, gas guzzler)

Highway Trust Fund 2010-2015 With and Without 5-Cent Gas Tax Increase



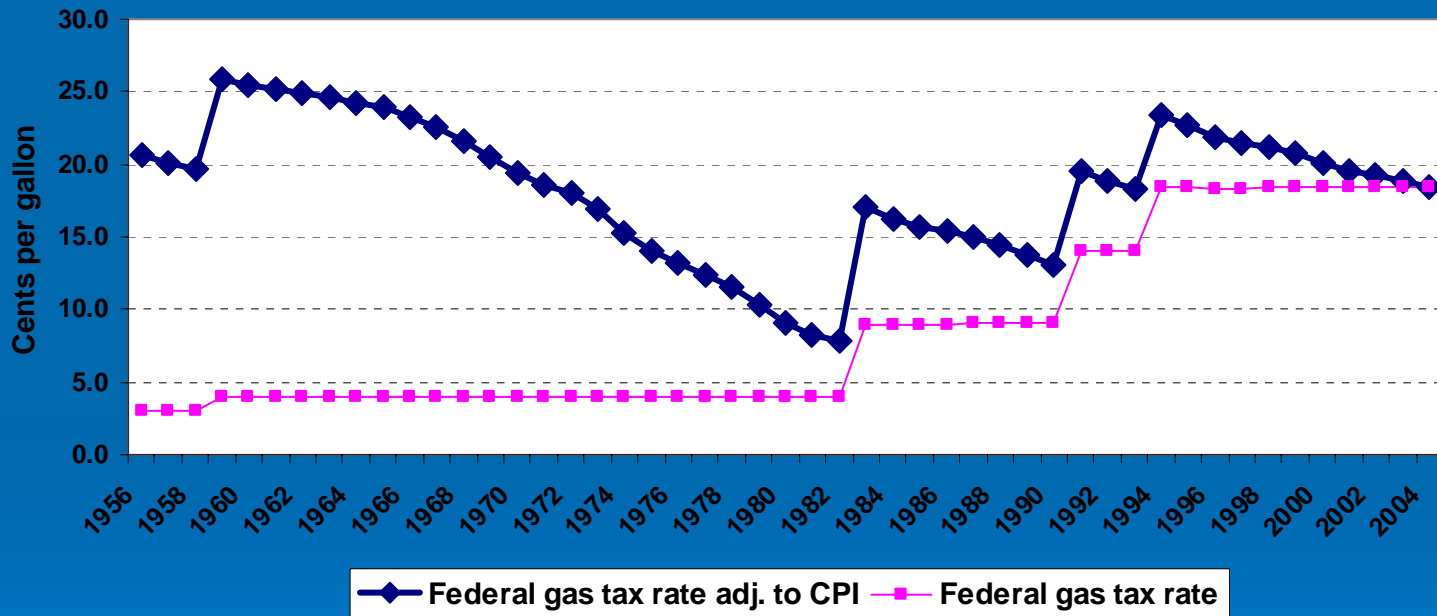
Gas Tax Purchasing Power Erosion



Courtesy of William R. Buechner
Vice President, Economics and Research
American Road & Transportation Builders Association

Gas Tax History

Federal Gasoline Tax Rate in Real 2004 Dollars



Menu Of Funding Options

- Draw Down Trust Fund Reserves
- Increase Gas Tax
- Capture Interest on Highway Trust Fund Reserves
- Selling tax credit bonds or other financial instruments
- Indexing federal fuel taxes
- Increasing General Fund support for transit
- Leverage a New Source of Revenue Through a Transportation Finance Corporation
- Provide for Private Activity Bonds
- New ideas

Future Funding Potential

- There are a number of options
 - The fuel tax will remain the base for the foreseeable future.
 - New technology will provide for new methods of collection.
 - Tolls will fill large niches for funding.
 - Innovative financing one key to the future.

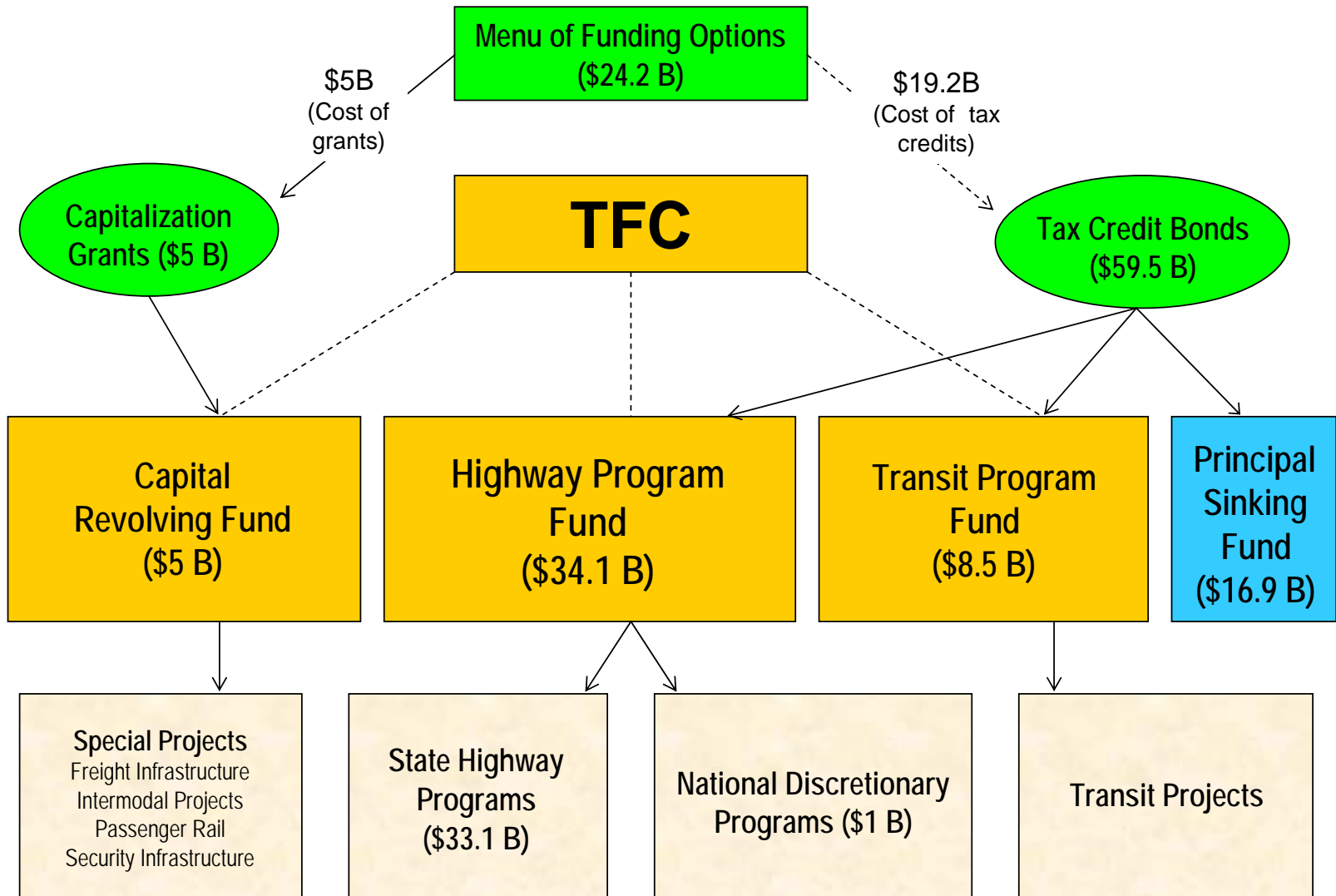
Future Funding Potential

- Key long-term issue for the future is how to fill the gap in Trust Fund income
 - Growth rate of gas tax is slowing
 - Over time, gas tax will decline as a revenue source
- Other proposals are in the offing
 - Commission to study future of revenue sources to the Highway Trust Fund
 - State-by-state experiments underway
 - We need to recognize the need for change and embrace it

Future Funding Potential

- Leveraged funding
 - Toll revenues
 - GARVEE bonds
 - Public/Private partnerships
 - Developer fees
 - Tax credit bonds

Transportation Finance Corporation



The future`

- The short-term will rely on current methods
- The political will is not there currently for substantial additional funding
- There is a critical need for a commission
- New technology will make possible new revenue collections
- State and locals will play an ever increasing role in revenue growth

North Carolina DOT

➤ Questions

