

# Financing Intermodal Transportation

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# Overview

- There is an intermodal connection crisis in our urban centers
- There is a national transportation financing crisis
- Our public transportation system is fractured into modes
- The public sector must develop a new paradigm for financing transportation
- Freight Transportation is particularly vulnerable to the financing crisis



# There Is A Transportation Finance Crisis!

## National Transportation Financing Issues:

- \$2 trillion shortfall in highway and transit funding in the next 25 years
- Fewer gas tax revenues as fuel economy and alternative fuels increase
- Increased freight demands and congestion on an aging and not well maintained transportation infrastructure
- Donor/donee returns

# National Background

## National Transportation Financing Issues:

- Fractured transportation system
- Increased inefficiencies and higher transport costs resulting from urban intermodal connection gaps
- Other demands on the federal budget



# Current National Financing Approach

- Modal user fees
- Primarily finance your own mode
- Provide debt instruments
- Increase the types of fees

**Table 1: Revenue Sources by Mode**

<b>Surface Transportation</b> (Taxes and fees)	<b>Aviation</b> (Taxes and fees)	<b>Rail</b> (Taxes and fees)	<b>Other Revenue Sources</b>
<ul style="list-style-type: none"> <li>• Motor fuel taxes (federal and state)</li> <li>• Motor vehicle registration fees</li> <li>• License fees</li> <li>• Property taxes</li> <li>• Vehicle sales taxes</li> <li>• Weight distance</li> <li>• Federal heavy vehicle user fee</li> <li>• State transaction fees</li> <li>• Truck tires and tubes taxes</li> <li>• Tire and tire disposal fees</li> <li>• Vehicle import fees</li> <li>• Pavement damage fees</li> <li>• Traffic impact fees</li> <li>• Emission fees</li> <li>• Parking fees</li> <li>• Value added taxes on autos and trucks;</li> <li>• <i>Ad valorem</i> fees</li> <li>• Dedicated "local option transportation taxes"<sup>[1]</sup></li> <li>• Sales taxes</li> <li>• Property taxes</li> <li>• Value capture taxes on the transportation investments</li> <li>• Emission fees</li> <li>• Benefit based fees</li> </ul>	<ul style="list-style-type: none"> <li>• Passenger facility charges (PFC)</li> <li>• Cargo Waybill tax</li> <li>• Jet fuel and avgas taxes</li> <li>• Passenger Ticket tax</li> <li>• Passenger Flight Segmentation tax</li> <li>• Passenger Security surcharge</li> <li>• International Departure tax</li> <li>• International Arrival tax</li> <li>• INS user fee</li> <li>• Custom user fee</li> <li>• APHIS Passenger fee</li> <li>• Frequent Flyer tax</li> <li>• APHIS Aircraft fee</li> <li>• LUST Fuel tax</li> <li>• Airport Carrier Security fee</li> </ul>	<ul style="list-style-type: none"> <li>• RR Diesel Fuel taxes (put into the general fund)</li> </ul>	<ul style="list-style-type: none"> <li>• Hot lanes</li> <li>• Fare boxes</li> <li>• General Fund appropriations at both the state and local levels</li> <li>• Tolls</li> <li>• Airport parking</li> <li>• Airport rent/lease of gates and retailers</li> <li>• Charter bus earnings</li> <li>• Congestion/Value Pricing</li> <li>• Rural public transportation (fees/contributions from federal funds for social services, e.g. Medicare.)</li> <li>• Advertisement</li> <li>• Concessions</li> <li>• Sale/lease back transactions</li> <li>• Rentals and/or leases</li> <li>• Regional sales taxes</li> <li>• Food and beverages</li> <li>• Value captures agreements</li> <li>• Stock issues</li> <li>• Bond Proceeds</li> </ul>

<sup>[1]</sup> An excellent summary of local transportation taxes throughout the country is found in T. Goldman, S. Corbett and M. Wachs, *Local Option Transportation Taxes in the United States (Part One: Issues and Trends)*, Institute of Transportation Studies, University of California Berkeley, March 2001.

Tax/Fee	1972	1992	2003	R/T
Passenger Ticket Tax	8.0%	10.0%	7.5%	nmf
Passenger Flight Segment Tax	-	-	\$3.00	\$12.00
Passenger Security Surcharge	-	-	\$2.50	\$10.00
Passenger Facility Charge	-	\$3.00	\$4.50	\$18.00
International Departure Tax	\$3.00	\$6.00	\$13.40	nmf
International Arrival Tax	-	-	\$13.40	nmf
INS User Fee	-	\$5.00	\$7.00	nmf
Customs User Fee	-	\$5.00	\$5.00	nmf
APHIS Passenger Fee	-	\$2.00	\$3.10	nmf
Cargo Waybill Tax	5.0%	6.25%	6.25%	nmf
Frequent Flyer Tax	-	-	7.5%	nmf
APHIS Aircraft Fee	-	\$76.75	\$65.25	nmf
Jet Fuel Tax	-	-	4.3¢/gal	nmf
LUST Fuel Tax	-	0.1¢/gal	0.1¢/gal	nmf
Air Carrier Security Fee	-	-	TBD	nmf

# What Are We Going to Do?

We have choices:

- keep the modal approach and develop a public funding source for freight; or
- change the current approach and create a national transportation system with a modal neutral funding source.

# First Choice: Modal Funding Sources

- Value Added Tax on Freight, or
- Cargo Surcharge, or
- Container Surcharge



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# VAT Pros and Cons

## Pros:

- Fair, everyone shares in the value of goods transported
- Improve efficiencies as the barriers to intermodalism and connectivity are reduced by the new transportation investments.
- Efficiencies could produce savings greater than the VAT.
- New revenue that applies to all freight carriers.
- VAT is on domestic and imports and should not impact trade treaties.
- Giving goods movement their own funding source frees up funds from the highway trust fund that is going to goods movement purposes.

# VAT Pros and Cons

## Cons:

- The collection of the VAT could be expensive and difficult. It adds to the cost of doing business in the United States, even though the tax is small.
- A VAT on imports only could impact trade treaties.
- Unjust since the wealthy consume more than others and the tax is spread out
- Giving goods movement their own funding source continues the financial fracturing of transportation.



# Cargo Surcharge Pros & Cons

- **Pros:** The surcharge would be fair to the carriers, since it would apply to containers/trailers/boxes/railcars/packages originating from all places and modes, and does not penalize any particular mode. It is fair in that goods movement often requires more investments in connectivity that are often very capital intensive.
- **Cons:** The collection of the surcharge could be difficult and expensive. It would unfairly target foreign goods and raise the price of these goods. A trade challenge is possible. It would disproportionately tax raw materials and grain and other agricultural products at a higher rate than value added cargo.



# Container Fees Pros and Cons

A variation of the cargo surcharge is a container fee. Here the fees are not charged on tonnage but on containers. The price of the surcharge could vary depending on size, or whether it is full or empty. The container charge would be on all imported and exported containers. The fee could be collected at customs for water, air, rail and truck; making it much easier than the cargo surcharge to collect. It could also result in heavier containers as shippers try to minimize charges.



# Radical Approach: Modal Neutral Transportation Financing

# Primary Transportation Financing Formula

$$\text{User Fees} = \text{User Benefits}$$

# Proposed Transportation Formula

Every Benefits = Everyone Pays

If all benefit means that all should pay  
then the only equitable way is the “  
Federal Income Tax.”

# Federal Income Tax

- Transportation share would be based on transportation's contribution to the nation's GDP
- Funds would be deposited in a national Transportation Trust Fund
- Transportation Trust Fund would have similar protection as the Highway Trust Fund would.

# Federal Income Tax

- All other federal transportation taxes for all the modes will be eliminated
- All modes are supported by the Trust Fund
- The federal income tax would apply to individuals' and corporations' gross income

# Income Tax Pros and Cons

## Pros

- Saves tens of billions in collection and administrative costs compared to the existing system. Savings that could go directly into the transportation system. (The single tax would eliminate all the other federal taxes.)
- Can redefine the federal role as strategic with a national and regional focus, policy developer, researcher, and performance driver for a transportation system.
- Removes the friction between modes, by removing the funding competition between the modes in Congress.
- Diminishes the donor/donee argument that is based on the mistaken notion that the benefits of the nation's transportation system are solely derived from the states giving more than they get.
- Allows for intermodal investments.
- Removes the distinction between operating and capital dollars.

# Income Tax Pros and Cons


## Pros (Continued)

- Ties funding to the economic performance of the country and market forces.
- Preserves the states, local governments, airports, transit providers and ports ability to fund transportation as long as the investments meet the new performance goals and policies.
- Focuses on the system- the seamless and safe movement from point to point.
- Fair, those with higher incomes are achieving greater benefits and should pay more. Everyone would be paying for transportation, not just fliers and drivers, because everyone uses it, whether they use bike lanes and paths, highways, or trains.
- Structured so it could be part of more sizeable national infrastructure investment strategy, i.e. rebuilding the electric grid.
- Parenthetically, raising the income tax to respond to increasing needs or unanticipated changes in priority, such as transportation security after 9-11, would probably be easier than raising the gas tax, which has only been raised four times since 1932 and did not get raised to meet the new security needs.

# Income Tax Pros and Cons

## Cons

- There is no political support for any new taxes, particularly the income tax.
- Would it really end the modal fights or simply shift them to the state/local levels?
- There would still be donor/donee fights between states like Connecticut that pay more in federal income taxes than they receive back in federal funds and states like Mississippi that are the antithesis.
- Creating a Transportation Trust Fund out of the income tax would be politically difficult due to budget policies and rules, and the competition between the social service side and transportation- "kids versus roads."
- Shouldn't the amount paid by each reflect, to some extent, the level of benefits received? For example, the transportation benefits in New York City are more extensive than in rural America; and the same income level doesn't purchase the same benefits.
- This is not a user fee it is a general tax, like the "sales tax" that is financing considerable parts of our local transportation investments throughout the country. User fees are explicit to the beneficiary.
- Won't states raise their gas taxes to replace the forsaken federal level? Thereby increasing the cost of transportation.
- The Senate is unlikely to give up their modal committees and power.
- This approach could end up subsidizing imports.



Create a National  
"Transportation Trust Fund"

# Transportation Trust Fund:

- Has the same contract authority as the current trust funds
- Is protected from being raided
- Is funding as a percentage of transportation contribution to the economic vitality of our country
- Is multi-modal



Do we want a transportation system or modes of transportation?



Do we add to the growing taxes and fees in Table 1 or do we seek a simpler solution to finance all the modes?

The background is a smooth blue gradient, transitioning from a lighter blue at the top to a darker blue at the bottom. A bright sun flare is visible on the left side, creating a white and yellow glow that fades into the blue. The overall effect is serene and expansive.

The Choice is Ours!

# MTI: Putting the Pieces of Transportation Together



# Thank You

