





Metro

February 16, 2007

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE 
CHIEF EXECUTIVE OFFICER

FROM: MATTHEW RAYMOND 
CHIEF COMMUNICATIONS OFFICER

SUBJECT: NATIONAL SURFACE TRANSPORTATION POLICY AND
REVENUE STUDY COMMISSION

ISSUE

The National Surface Transportation Policy and Revenue Study Commission will hold a field hearing in Los Angeles County on February 21 and 22, 2007.

BACKGROUND

The National Transportation Policy and Revenue Study Commission was created under Section 1909 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU). The commission was created by Congress to generate a report on how to enhance the nation's transportation system to meet the needs of the United States for the 21st century. Specifically, the commission is charged with addressing prospective short and long-term alternatives to replacing or supplementing the fuel tax as the principal revenue source to support the federal Highway Trust Fund (HTF). The trust fund is expected to face significant revenue shortfalls by 2009 and will, if not made solvent, begin to compromise the mobility of all Americans.

The November Board Box included a reference to the development of a policy document by Metro staff that would examine a number of potential financial proposals to address the expected financial shortfall in the HTF in the years to come. For your review, please find attached a document (Attachments A & B) that examines the impact that four financial proposals would have on the amount of funding Metro receives annually from the HTF. This examination does not constitute an endorsement of any of these potential financial reforms.

NEXT STEPS

Metro Government Relations has worked with the staff of the National Surface Transportation Policy and Revenue Study Commission and the co-hosts of the upcoming Los Angeles field hearing to ensure that it fully addresses the wide range of federal transportation concerns held by Metro.

Prepared by:

Raffi H. Hamparian
Government Relations Manager, Federal Affairs

Ashad Hamideh
Transportation Planner II

National Surface Transportation Policy and Revenue Study Commission
POLICY DOCUMENT
Examination of Possible Financial Reforms to Secure
Solvency of the Federal Highway Trust Fund

PREFACE

The National Surface Transportation Policy and Revenue Study Commission created under Section 1909 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) has been charged by Congress with the task of conducting a comprehensive study of the current condition and future needs of the surface transportation system. This study will include an assessment of short-term revenue sources for the Highway Trust Fund (HTF) as well as long-term alternatives to replace or supplement its principal revenue source, the fuel tax. The importance of this study is underscored by revenue projections showing that the Highway Account (HA) and the Mass Transit Account (MTA) of the HTF may have negative balances by fiscal years 2009 and 2010, respectively.

Although there are many uncertainties concerning the short-term and long-term alternative revenue sources being proposed, there is a need for Metro to assess their impact on its projected revenue, as well as on its programming and policy priorities. This policy document examines a number of proposals that may be adopted by the Commission to safeguard the solvency of the federal HTF, but it does not constitute an endorsement of any of them.

REVENUE ALTERNATIVES

A number of revenue proposals have been presented to the Commission for their consideration during the hearings that it has conducted across the country. These proposals have different political and public acceptability issues that will eventually impact when, how, and if they are going to be implemented if recommended by the Commission. In this regard, one distinction between these proposals is whether they are short-term or long-term revenue sources or alternatives.

Short-term HTF revenue sources include increasing federal and/or state gasoline and diesel taxes, indexing federal and/or state gasoline and diesel taxes for inflation, curbing HTF exemptions, recapturing HTF interest, increasing the taxes on the sale of trucks and tires, and dedicating U.S. Customs import duties. These alternatives are considered as being short-term revenue actions because they could be implemented as early as in fiscal year 2008 and would provide adequate revenue sources by the end of the short-term period, assumed to be the last year in the next Congressional act dealing with SAFETEA-LU reauthorization (i.e., fiscal year 2015). This time-frame limitation does not imply that these revenue sources would become inadequate after fiscal year 2015, but is necessary for complying with the request by Congress to develop a broad transition strategy to move from the current tax base to new long-term funding mechanisms.

Among the long-term HTF funding mechanisms being considered for the period beyond fiscal year 2015 are tolling, vehicle miles of travel (VMT) fees, and ultimately

congestion pricing. The nationwide implementation of one or more of these alternatives is expected to be preceded by federally supported pilot programs/ projects encouraging state and/or local applications. During this period, it is expected that the federal, as well as state and local governments, would phase-out their conventional transportation revenue sources, particularly the fuel tax, to increase the political and public acceptability for implementing long-term transportation funding alternatives.

REVENUE ANALYSIS ASSUMPTIONS

This analysis focuses on the revenue impacts for Metro from the implementation of two short-term HTF revenue sources: increasing the federal gasoline and diesel taxes by increments (i.e., 5 cents, 10 cents, and 15 cents) and indexing the federal gasoline and diesel tax for inflation. As a result, four different scenarios were considered. These revenue alternatives are more likely to be implemented for the short-term period between fiscal years 2008 and 2015, but estimates are also included for the long-term period ending in fiscal year 2030.

With fuel price being one of the most important variables in projecting future vehicle fuel consumption, gasoline and diesel demand projections were adjusted by applying corresponding price elasticity values suggested in recent research and which reflect that motor vehicle fuel consumption is highly price inelastic. The revenue from each one of these four scenarios was compared to the revenue from a scenario that assumes no change to current federal gasoline and diesel excise taxes (18.4 and 24.4 cents per gallon, respectively). In this regard, it was also assumed that the current state gasoline and diesel excise taxes (18 cents per gallon for either type) would not change or be indexed for inflation. It was also assumed that the current sales tax would prevail.

Although indexing federal excise fuel taxes or requiring annual increments would result in additional revenue for Metro from the larger sales tax base for its permanent 1 percent local option sales tax, this additional revenue is not part of the estimates discussed below for each one of the four scenarios. It was also assumed that the current distribution of federal fuel excise revenue to other than the HA of the HTF would not change or be adjusted to inflation: 2.86 cents per gallon of gasoline and diesel federal excise taxes would continue to be deposited in the MTA and 0.1 cents per gallon of gasoline and diesel federal excise taxes would continue to be deposited in the Leaking Underground Storage Tank Fund. This assumption does not have an impact on the overall funding, but on the fuel tax excise revenue going either to the HA or the MTA of the HTF. As a reference for the discussion of the four scenarios, in fiscal year 2005 Metro contributed approximately \$129 million to the MTA. It also contributed approximately \$730 million to the HA, but it only received an estimated \$670 million in return, with the difference distributed to other states in compliance with SAFETEA-LU's Equity Bonus program. In this regard, the revenue comparisons included in each one of the four scenarios discussed below focus on Metro's estimated revenue from the HA from its contributions to the HTF. For this purpose, it was also assumed that Los Angeles County would be reimbursed 92 percent of the total federal excise fuel tax receipts it contributes to the HA of the HTF. This is consistent with what California would receive starting with fiscal year 2008 based on SAFETEA-LU's Equity Bonus program. However, because of the two-year lag between reporting federal excise fuel tax revenue to the HTF and actual reimbursement, it will not be until fiscal year 2010 that Metro would in practice observe any increase in revenue. Although "donor states" such as California may

demand higher rates of return than 92 percent in future legislation, the analysis is conservative by not making that assumption.

REVENUE ANALYSIS SCENARIOS

With consideration of the assumptions that were discussed in the previous section, the following is a discussion of the results obtained for each scenario as detailed in Attachment B.

Base Scenario: This scenario assumes that current federal excise gasoline and diesel taxes rates of 18.4 and 24.4 cents per gallon, respectively, would prevail in both the short-term and long-term periods considered in the analysis. Because federal fuel taxes would not be increased or indexed for inflation, it is estimated that the revenue returned to Los Angeles County from its contributions to the HA of the HTF from the federal excise taxes on gasoline and diesel to be consumed in this region would decrease. In 2005 inflated dollars, Metro's revenue is estimated to decrease from \$656 million in fiscal year 2008 to \$583 million in fiscal year 2015 and to \$405 million in fiscal year 2030. Similarly, it is estimated that Metro's contributions to the MTA of the HTF (in 2005 inflated dollars) would decrease from \$126 million in fiscal year 2008 to \$112 million in fiscal year 2015 and to \$78 million in fiscal year 2030.

Scenario 1: This scenario assumes that the federal excise fuel taxes, both gasoline and diesel, would be indexed for inflation based on projections of the U.S. Consumer Price Index (CPI). It also assumes that federal excise fuel taxes would be indexed for inflation retroactively to 1993 when it was last adjusted. Accordingly, federal gasoline taxes would increase to 26.4 cents starting with fiscal year 2008, an increase of 8 cents from the current rate. The gasoline tax rate would reach 32.1 cents in fiscal year 2015 and 53.9 cents in 2030, respectively. Similarly, federal diesel taxes would increase to 35.0 cents starting with fiscal year 2008, an increase of 10.6 cents from the current rate. The federal diesel tax rate would reach 42.6 cents in fiscal year 2015 and 71.4 cents in 2030, respectively.

Impact: As a result of indexing, the revenue returned to Los Angeles County from its contributions to the HA of the HTF from the federal excise taxes on gasoline and diesel to be consumed in this region would increase by 50 percent in fiscal year 2008 and by 85 percent in fiscal year 2015 compared to keeping current fuel tax rates. Metro's revenue would increase by over 200 percent by fiscal year 2030. In 2005 inflated dollars, these increases would result for Metro in a total of \$982 million in fiscal year 2008, \$1,079 million in fiscal year by 2015, and \$1,287 million by fiscal year 2030. Similarly, it is estimated that Metro's contributions to the MTA of the HTF (in 2005 inflated dollars) would be in the magnitude of \$124 million in fiscal year 2008, \$110 million in fiscal year 2015, and \$75 million in fiscal year 2030. Under this scenario, Metro would receive during the short-term period between fiscal years 2008 and 2015 an additional \$3,263 million (in 2005 inflated dollars) from the HA of the HTF compared to maintaining current federal fuel excise taxes. If this scenario is to prevail during the long-term period between fiscal years 2016 and 2030, it is estimated that Metro would receive an additional \$10,665 million (in 2005 inflated dollars) from the HA of the HTF compared to maintaining current federal fuel excise taxes.

Scenario 2: This scenario assumes an increment of 5 cents per gallon on the federal excise tax rates of gasoline and diesel. Accordingly, federal gasoline taxes would increase to 23.4 cents and federal diesel taxes would increase to 29.4 cents starting with fiscal year 2008 and remaining constant afterwards. As a result of this increase, the annual revenue returned to Los Angeles County from its contributions to the HA of the HTF from the federal excise taxes on gasoline and diesel to be consumed in this region would increase by 30 percent in fiscal year 2008 and in each year beyond compared to keeping current fuel tax rates. In 2005 inflated dollars, these increases would result in a total of \$853 million in fiscal year 2008, \$759 million in fiscal year 2015, and \$527 million in fiscal year 2030. Similarly, it is estimated that Metro's contributions to the MTA of the HTF (in 2005 inflated dollars) would be in the magnitude of \$125 million in fiscal year 2008, \$111 million in fiscal year 2015, and \$77 million in fiscal year 2030.

Impact: Under this scenario, Metro would receive during the short-term period between fiscal years 2008 and 2015 an additional \$1,492 million (in 2005 inflated dollars) from the HA of the HTF compared to maintaining current federal fuel excise taxes. If this scenario is to prevail during the long-term period between fiscal years 2016 and 2030, it is estimated that Metro would receive an additional \$2,169 million (in 2005 inflated dollars) from the HA of the HTF compared to maintaining current federal fuel excise taxes.

Scenario 3: This scenario assumes an increment of 10 cents per gallon on the federal excise tax rates of gasoline and diesel. Accordingly, federal gasoline taxes would increase to 28.4 cents and federal diesel taxes would increase to 34.4 cents starting with fiscal year 2008 and remaining constant afterwards. As a result of this increase, the annual revenue returned to Los Angeles County from its contributions to the HA of the HTF from the federal excise taxes on gasoline and diesel to be consumed in this region would increase by 60 percent in fiscal year 2008 and in each year beyond compared to keeping current fuel tax rates.

Impact: In 2005 inflated dollars, these increases would result in a total of \$1,047 million in fiscal year 2008, \$932 million in fiscal year 2015, and \$648 million in fiscal year 2030. Similarly, it is estimated that Metro's contributions to the MTA of the HTF (in 2005 inflated dollars) would be in the magnitude of \$124 million in fiscal year 2008, \$110 million in fiscal year 2015, and \$77 million in fiscal year 2030. Under this scenario, Metro would receive during the short-term period between fiscal years 2008 and 2015 an additional \$2,970 million (in 2005 inflated dollars) from the HA of the HTF compared to maintaining current federal fuel excise taxes. If this scenario is to prevail during the long-term period between fiscal years 2016 and 2030, it is estimated that Metro would receive an additional \$4,322 million (in 2005 inflated dollars) from the HA of the HTF compared to maintaining current federal fuel excise taxes.

Scenario 4: This scenario assumes an increment of 15 cents per gallon on the federal excise tax rates of gasoline and diesel. Accordingly, federal gasoline taxes would increase to 33.4 cents and federal diesel taxes would increase to 39.4 cents starting with fiscal year 2008 and remaining constant afterwards. As a result of this increase, the annual revenue returned to Los Angeles County from its contributions to the HA of the HTF from the federal excise taxes on gasoline and diesel to be consumed in this region would increase by 90 percent in fiscal year 2008 and in each year beyond compared to keeping current fuel tax rates. In 2005 inflated dollars, these increases

would result in a total of \$1,240 million in fiscal year 2008, \$1,104 million in fiscal year 2015, and \$769 million in fiscal year 2030. Similarly, it is estimated that Metro's contributions to the MTA of the HTF (in 2005 inflated dollars) would be in the magnitude of \$123 million in fiscal year 2008, \$110 million in fiscal year 2015, and \$77 million in fiscal year 2030.

Impact: Under this scenario, Metro would receive during the short-term period between fiscal years 2008 and 2015 an additional \$4,436 million (in 2005 inflated dollars) from the HA of the HTF compared to maintaining current federal fuel excise taxes. If this scenario is to prevail during the long-term period between fiscal years 2016 and 2030, it is estimated that Metro would receive an additional \$6,460 million (in 2005 inflated dollars) from the HA of the HTF compared to maintaining current federal fuel excise taxes.

CONCLUSIONS

Increasing the federal gasoline and diesel excise taxes by 15 cents from their corresponding current rates of 18.4 and 24.4 cents per gallon would provide Metro in the short-term period between fiscal years 2008 and 2015 with the largest revenue augmentation (\$4.4 billion). During the same period, indexing federal fuel taxes for inflation would result in revenue for Metro estimated at about \$3.2 billion in 2005 inflated dollars. The revenue difference between these two scenarios is 36%. An increase in the federal gasoline and diesel excise tax of 10 cents would provide Metro an additional \$2.9 billion from fiscal years 2008 and 2015. The smallest revenue gain for Metro would, according to the findings of the policy document, be secured from a 5 cent increase in the gas tax (\$1.4 billion between fiscal years 2008 and 2015).

With respect to the long-term impact of these proposed gas tax increases, the largest increase for Metro from the period between fiscal years 2016 to 2030 would be registered by indexing federal fuel taxes for inflation (\$10.6 billion). Increases in the federal fuel taxes by 15, 10 and 5 cents would augment Metro's revenues by \$6.4 billion, \$4.3 billion and \$2.1 billion respectively from the period of 2016 through 2030. Overall, indexing the federal fuel taxes for inflation would result in the largest revenue augmentation for Metro during the period between fiscal years 2008 and 2030 and estimated at about \$14 billion (in 2005 inflated dollars) compared to the revenue from the base scenario in which current federal fuel excise taxes are assumed to prevail.

Fuel Consumption Revenue Estimates for Los Angeles County Returned from Federal Gasoline and Diesel Tax Receipts Deposited in the Highway Account of the Highway Trust Fund

Fiscal Year	Gasoline Indexing Scenario Tax Rate (FY \$ cents)	Gasoline Base Scenario Tax Rate (FY \$ cents)	Diesel Indexing Scenario Tax Rate (FY \$ cents)	Diesel Base Scenario Tax rate (FY \$ cents)	Revenue Base Scenario FY06 Tax Rates (2005\$ mil)	Scenario 1 Indexing Revenue Difference (2005\$ mil)	Scenario 2 5 cents Revenue Difference (2005\$ mil)	Scenario 3 10 cents Revenue Difference (2005\$ mil)	Scenario 4 15 cents Revenue Difference (2005\$ mil)	Scenario 1 Revenue Increase from Current Tax Rates	Scenario 2 Revenue Increase from Current Tax Rates	Scenario 3 Revenue Increase from Current Tax Rates	Scenario 4 Revenue Increase from Current Tax Rates
2008	26.4	18.4	35.0	24.4	656	326	196	391	584	50%	30%	60%	89%
2009	27.1	18.4	35.9	24.4	648	348	194	386	577	54%	30%	60%	89%
2010	27.7	18.4	36.8	24.4	639	370	191	381	569	58%	30%	60%	89%
2011	28.5	18.4	37.8	24.4	629	394	189	376	561	63%	30%	60%	89%
2012	29.3	18.4	38.9	24.4	619	418	186	369	552	68%	30%	60%	89%
2013	30.2	18.4	40.0	24.4	608	443	182	363	542	73%	30%	60%	89%
2014	31.1	18.4	41.3	24.4	596	469	179	356	531	79%	30%	60%	89%
2015	32.1	18.4	42.6	24.4	583	495	175	349	521	85%	30%	60%	89%
Short-Term Subtotal					4,978	3,263	1,492	2,971	4,437	66%	30%	60%	89%
2016	33.2	18.4	44.0	24.4	571	522	171	341	510	92%	30%	60%	89%
2017	34.4	18.4	45.6	24.4	557	550	167	333	498	99%	30%	60%	89%
2018	35.6	18.4	47.2	24.4	543	578	163	325	486	106%	30%	60%	89%
2019	36.9	18.4	48.9	24.4	530	606	159	317	474	114%	30%	60%	89%
2020	38.3	18.4	50.7	24.4	517	633	155	310	463	123%	30%	60%	90%
2021	39.7	18.4	52.6	24.4	503	660	151	302	451	131%	30%	60%	90%
2022	41.1	18.4	54.6	24.4	490	688	148	294	439	140%	30%	60%	90%
2023	42.7	18.4	56.6	24.4	477	715	144	286	428	150%	30%	60%	90%
2024	44.3	18.4	58.7	24.4	464	741	140	279	417	160%	30%	60%	90%
2025	46.0	18.4	61.0	24.4	452	768	136	271	406	170%	30%	60%	90%
2026	47.8	18.4	63.4	24.4	439	795	132	264	394	181%	30%	60%	90%
2027	49.7	18.4	65.9	24.4	426	821	129	256	383	193%	30%	60%	90%
2028	51.0	18.4	67.7	24.4	419	842	126	252	377	201%	30%	60%	90%
2029	52.4	18.4	69.5	24.4	412	862	124	248	371	209%	30%	60%	90%
2030	53.9	18.4	71.4	24.4	405	883	122	243	364	218%	30%	60%	90%
Long-Term Subtotal					7,204	10,665	2,169	4,322	6,460	152%	30%	60%	90%
Total					12,182	13,928	3,661	7,292	10,897	122%	30%	60%	89%