

Commission Briefing Paper 8E-01

Estimates of Potential Proceeds from Alternative Federal, State, and Local Revenue Options

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INTRODUCTION

There is considerable interest in potential revenue sources for highway and transit improvements. Balances in the Highway Account of the Federal Highway Trust Fund (HTF) are projected to be exhausted in 2009 and State and local transportation agencies do not have the revenues to meet increasing transportation investment requirements.

Table 1 shows revenues collected by all levels of government for highway purposes in 2005. Federal, State, and local governments collected \$155 billion in 2005 for highways. Motor fuel and vehicle taxes represented over half of total revenues, followed by general fund appropriations and bond proceeds.

Table 2 shows the same information for transit programs. Over \$40 billion was collected by all levels of government for transit purposes in 2005. The largest source of revenues was from fares and other system revenues, followed by general funds, other public funds, and motor fuel and vehicle taxes.

Table 3 shows forecasts of Federal HTF revenues by source in 2007. Total revenues are projected to be \$39.7 billion, up 8% from 2005 levels. The gasoline tax is the largest of the HTF revenues accounting for almost two-thirds of total revenues. The diesel tax accounts for over 20 percent of revenues and other truck-related taxes the remainder.

Table 4 shows projections of HTF revenues

Table 1. Revenues for highway purposes in 2005 (in millions of dollars)								
Source	Federal		State		Local		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Motor-Fuel and Vehicle Taxes	\$31,179	20	\$49,176	32	\$2,234	1	\$82,589	53
Tolls	-		\$6,356	4	\$1,398	1	\$7,754	5
Property Taxes	-		-		\$7,811	5	\$7,811	5
General Funds	\$1,488	1	\$3,384	2	\$17,233	11	\$22,105	14
Other Taxes and Fees	\$388	0	\$4,291	3	\$4,620	3	\$9,299	6
Investment Income and Other Receipts	\$15	0	\$2,897	2	\$5,199	3	\$8,111	5
Bond Issue Proceeds	-		\$11,622	8	\$5,400	3	\$17,022	11
Grand Total Receipts	\$33,070	21	\$77,725	50	\$43,895	28	\$154,690	100

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Table 2. Revenues for transit purposes in 2005 (in millions of dollars)

Source	Federal		State		Local		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Fuel Taxes	5,484	13.5	459	1.1	183	0.5	6,141	15.1
Fares and Other System Revenues				0.0	11,528	28.4	\$11,528	28.4
Income Taxes			292	0.7	91	0.2	\$383	0.9
Sales Taxes			2,401	5.9	4,571	11.3	\$6,979	17.2
Property Taxes			0	0.0	565	1.4	\$565	1.4
Other Dedicated Taxes			994	2.4	1,030	2.5	\$2,027	5.0
Other Public Funds			1,832	4.5	4,889	12.0	\$6,725	16.6
General Funds	1,371	3.4	2,219	5.5	2,688	6.6	6,278	15.5
Total	\$6,855	16.9	\$8,197	20.2	\$25,546	62.9	\$40,626	100.0

Table 3. Forecast of Excise Tax Receipts to Highway Trust Fund, 2007 (millions)

Gasoline	\$25,955
Diesel and Other Fuels	\$9,784
Retail Tax on Trucks	\$3,464
Highway-Type Tires	\$579
Heavy Vehicle Use Tax	\$1,508
Gross HA and TA Revenues	\$41,290
Less Transfers and Refunds	\$1,563
Highway Trust Fund Total	\$39,707

Table 4. Projections of Revenues From Existing Federal Sources		
	2010	2015
Gasoline/gasohol tax	\$26.9 billion	\$28.0 billion
Highway Account	\$22.7 billion	\$23.6 billion
Transit Account	\$4.2 billion	\$4.4 billion
Diesel Tax	\$10.0 billion	\$10.8 billion
Highway Account	\$8.9 billion	\$9.5 billion
Transit Account	\$1.2 billion	\$1.3 billion
Federal Vehicle Taxes	\$7.2 billion	\$10.1 billion
Highway Trust Fund Total	\$44.1 billion	\$48.9 billion
General Fund (transit)	\$1.9 billion	\$2.2 billion
Grand Total	\$46 billion	\$51.1 billion

Several studies have been conducted recently examining alternative ways to increase highway and transit revenues. The most recent report, "Revenue Sources to Fund Transportation Needs," was prepared by AASHTO in April, 2007. The following tables are based largely on estimates of revenues that might be derived from a variety of revenue options at the Federal, State, and local levels.

Table 5. Forecasts of Proceeds From Potential Federal Highway Revenue Options		
	2010	2015
Increase Fuel Tax by 1¢/gal	\$1.9 billion	\$2.0 billion
Index Fuel Tax in 2010	\$0.9 billion	\$6.2 billion
Index Fuel Tax Retroactively to 1993	\$19 billion	\$28 billion
1% Sales Tax on Fuel	\$3.5-\$5.5 billion	\$3.9-\$6.0 billion
4% FET on all vehicles ¹ Emissions weighted Fuel economy weighted	\$19.5 billion	\$20.8 billion
Remove HTF Exemptions/ Pay from General Fund	\$1.2 billion	\$1.3 billion
Recapture HTF interest	\$0.5 billion	\$0.5 billion
Gas Guzzler Tax to HTF	\$0.2 billion ²	\$0.2 billion
5% of Customs Duties	\$1.6 billion	\$2.0 billion
Value Added Tax	???	???
Energy/GHG Tax	???	???
VMT fees 1 ¢/mile on Fed-Aid hwys 1 ¢/mile of all hwys Emissions weighted Fuel economy weighted Weight distance tax	\$25.7 billion \$30.2 billion	\$28.3 billion \$33.4 billion

Table 6. Annual Revenues From Different Federal Fuel Tax Rate Increases³			
Rate	\$ millions	Rate	\$ million
1 cent	1,900	10 cents	19,000
2 cents	3,800	25 cents	47,500
3 cents	5,700	50 cents	95,000
4 cents	7,600	75 cents	142,500
5 cents	9,500	1 dollar	190,000

¹ There was a FET on the sales price of autos from 1917 until 1971 with the exception of a brief period between 1928 and 1932. Rates have ranged from 3% to 10% of manufacturers sales price. When repealed in 1971 the rate was 7%. A 4% tax on a \$30,000 car is \$1,200.

² \$187 million in 2006 per telephone conversation between Carolyn Edwards and IRS contact. Projected to remain flat over 10 year period with some annual fluctuations.

³ No price elasticity is applied to these estimates. In other words, proceeds do not take into account reductions in fuel consumption that might occur if the fuel tax rate were increased. Such increases could come through reductions in highway travel or purchase of more fuel efficient vehicles. At low tax rate increases such reductions could be expected to be negligible, but larger increases they could be significant.

**Table 7. Federal Revenue Options Outside
the Highway Trust Fund**

	Average Annual Revenues, 2010-2015
Investment tax credit for railroads	\$1.2 billion
5 % of Customs duties	\$2.0 billion
\$30 per container fee	\$2.0 billion
Federal tax credit bonds	\$8.3 billion

Table 8. Estimates of Proceeds from State and Local Revenue Options		
	2010	2017
State Options		
Index state motor and fuel taxes	\$1.4 billion	\$6.5 billion
Increase state motor fuel taxes to catch up with inflation losses since 2000	\$6.6 billion	\$8.6 billion
3 % motor fuel sales taxes	\$8.9 billion	\$11.6 billion
Raise motor vehicle registration fees to keep up with inflation	\$1.8 billion	\$6.4 billion
3 % of vehicle sales tax for transportation	\$6.2 billion	\$8.4 billion
½ % of state sales tax dedicated to transportation	\$9.0 billion	\$12 billion
Increase tolling/pricing revenues (above current 5 % per year growth rate)	\$0.2 billion	\$2.4 billion
Local Options		
Increased use of dedicated local option taxes, impact fees, etc.		
Highways	\$3.5 billion	\$11.6 billion
Transit	\$1.8 billion	\$6.0 billion