Statewide Transportation Needs Assessment Revenue Report
National Freight Program

Preamble

A port infrastructure, container, or other statewide freight fee is not recommended; however, a national freight program, with or without new federal revenue sources (beyond current sources such as the federal Highway Trust and General Fund), is recommended. It is important to note that most of California's ports' capital system expansion costs are paid for with port funds (general revenue, capital bond proceeds, and other financial instruments available to ports). Hence, a federal freight program is recommended to assist in the funding of critical regionally and nationally significant public transportation projects outside port leased areas.

In addition to the port funds which will continue to be expended, it is critical that all State Proposition 1B Trade Corridor Improvement Funds (TCIF), including monies from the State Highway Account and TCIF bond proceeds, be expended for the TCIF program only, as outlined in the authorizing legislation for the State FY 07-08 Budget (i.e., any TCIF project savings should be reprogrammed in the trade corridor region where it is generated).

Revenue Generator

U.S. Department of Transportation (U.S. DOT) National Freight Program (with or without a new federal revenue mechanism, beyond current Highway Trust and U.S. General Funds).

Application

Public Freight Transportation System (roadways/highways/port rail).

Introduction

A national freight program, funded by the federal Highway Trust Fund and/or General Fund, is identified as a possible new funding source for freight transportation projects (outside of harbor district leased areas) in the Southern California Association of Governments' (SCAG) 2012 Regional Transportation Plan. As such, a statewide and/or regional fee is not recommended. Moreover, a State and/or regional fee would unfairly result in the diversion of intermodal containers to other U.S., Mexican, and Canadian ports, which would eliminate jobs and reduce State and local fees and income. The recent SCAG commissioned study, *Port and Modal Elasticity Study, Phase II* (Leachman & Associates LLC, September 14, 2010), describes the elasticity of intermodal rail container movements to increased costs and/or fees. Furthermore, the California ports' revenue would be reduced, thus impairing their ability to fund critical port infrastructure. It should also be noted that a formula-based, freight program was included in the original U.S. Senate passed bill for transportation reauthorization.

If a new federal fee mechanism is to be explored to fund a federal freight program, the most appropriate type is a facility user fee, such as a vehicle-miles-travelled (VMT) fee. The next best fee is simply fuel taxes, as a proxy for VMT, and should be indexed to inflation to generate increased revenue

over time consistent with inflation. Most, if not all, goods movement stakeholders do not recommend or support a national container or cargo value fee, in which the latter would simply be a surrogate for increased U.S. Customs Duties. Neither of these fee mechanisms represents a true transportation system user/use fee.

The Transportation Research Board (TRB) recently prepared a report evaluating fee mechanisms (National Cooperative Freight Research Program-Report 15, Dedicated Revenue Mechanisms for Freight Transportation Investment), and recommended the following three options: 1) fuel fee increases and/or with indexing; 2) existing heavy duty vehicle fees; and/or 3) a vehicle-miles-travelled fee (VMT). Reasons for opposition to a national container fee are as follows (also see *National Cooperative Freight Research Program-Report 15*):

- Containers moving across wharves and on trains at international land borders unfairly and incorrectly represents nexus for landside transportation impacts (and associated improvement projects) throughout the U.S., and thus unfairly burdens shippers with responsibility of paying for highway projects throughout the U.S.

- Container movements to/from ports and the first point of rest/last point of departure are typically within 20-30 miles or so, and have little nexus on many other regional facilities, and thus should not be responsible for transportation projects throughout the nation.

- One sector (e.g. shippers) should not bear the burden for the entire county.

- It would be very difficult, and probably impractical to accurately and precisely attribute the amount of international import and export cargo, including transloaded cargo, using virtually all roads and highways throughout the entire U.S., which theoretically should be the basis for any user fee.

- At any roadway and highway location throughout the U.S., international cargo, including transloaded cargo, is most likely much less than pure domestic cargo.

- There are many more types of heavy-duty trucks not moving cargo, and a container fee would severely understate the complete nexus.

Yield Potential

To be determined; insufficient research and analysis available at this time.

Use/Restrictions

Projects conceived to be eligible as part of a national freight program would include public-owned roadways and highways, including port area roadways and port-owned rail infrastructure outside of

leased areas. Railroad-highway grade separation projects should also be eligible. The types of eligible projects would ultimately be dependent upon the type of fee mechanism; e.g.; if a national sales tax were imposed to fund such a program (which has been contemplated), perhaps privately owned rail infrastructure might be eligible depending upon the specifics of the sales tax collected. Infrastructure inside port leased areas would not be eligible, as these projects are paid for by private industry funds via port tariffs, fees, and lease agreements. Moreover, current State law prohibits the use of State Highway Account funds on private infrastructure.

Any VMT fee has to be applied to all vehicles as freight cannot, and should not pay for the entire impact on the transportation system, including on-going operations and maintenance costs. Moreover, freight projects funded with truck VMT would also benefit all other vehicle types. It would be impractical and unfair to have different funding mechanisms for projects that are used by trucks and autos. For private industry acceptance of a new fee such as a VMT, the fee and program would need to be nexus based; i.e., actually derived using estimated (or actual) and projected VMT, and the corresponding system preservation and expansion needs over time.

Additionally, the fee rate should be structured to accurately account for the differential in impact of the various vehicle types on transportation system capacity and pavement wear. Ideally, such a program should have a finite number of new projects nationwide, and have a sunset once all of the projects are completed. However, this may not be acceptable to elected officials and the general public, or practical to implement. Fees should be collected nationwide, pooled, and distributed back to the projects.

An alternative would be to make these same computations as the basis for a starting rate, collect it nationwide independent of the specific projects similar to the gas tax, and then program/apportion/distribute/earmark in a similar manner as the Highway Trust Fund. Fees collected by the federal government would need to be applied universally across the country, and cannot be time or geographic area specific. When attempting to structure a fee program it is important to note that the trucking companies/drivers that would pay the VMT fee are not part of the decision-making process for shipper logistics (ergo, which port is used), and thus should not be subject to differential fees around the country. The mere differential in VMT, not the fee rate itself, will generate the necessary differential in funding. Other levels of government could elect to impose other project-specific (tolls) or geographic specific fees (county sales tax) to supplement federal fees.

Projects or types of projects do not need to be defined in order to select the best fee program/mechanism. A reasonable and fairly accurate nexus approach that entails identifying all sources of impact (whether traffic or rail) on transportation project locations, with pro-rata shares established is important. Moreover, the nexus approach is somewhat, and should be, independent of the fee collection mechanism. For example, for a typical roadway project, it's quite easy to establish the traffic volume or VMT sources, and truck shares from empirical data. The difficulty arises in continuous collection of this data for collection of fees, which is why a VMT fee is the most fair and pure type of fee. It also places the burden of the user to seek reimbursement of such expense (or not) via their

rates/contracts, and thus such fee collection does not interfere with business practices and market forces. Alternatively the fee could be assessed against the beneficial cargo owner (BCO)/consignee, but that's not compatible with certain types of fees (e.g., for VMT, tracing the ultimate consignee is quite burdensome because of the various entities involved in the transactions and the bills of lading).

Sustainability & Implementation

As very little analysis has been done, and little or no discussion has taken place at the federal level with Congress or the Administration, it's considered premature at this time to present any rough estimates of the cost of implementing a VMT system. In the *TRB National Cooperative Freight Research Program-Report 15*, an implementation timeframe was estimated for only heavy duty vehicles (5-8 years), and thus is somewhat misleading as the VMT needs to be applied to all vehicles. The TRB report does contain a discussion on system revenue potential, costs, and implementation issues.

Conclusion/Recommendation

As a federal freight program (whether funded with new revenue sources or not) was part of the U.S. Senate passed bill for transportation reauthorization (MAP-21), and SCAG has contained such a program in the 2012 RTP, advocacy for such a program should continue. Many stakeholder groups across the county support a federal freight program, including the Freight Stakeholders Coalitions that includes: American Association of State Highway and Transportation Officials (ASHTO), Association of American Railroads (AAR), Waterfront Coalition, American Association of Port Authorities (AAPA), and the Coalition for America's Gateways and Trade Corridors (CAGTC; in which California's ports and SCAG are member agencies). It is recommended that the State, working with many other agencies and constituents, begin an exploratory dialogue on a VMT fee, for all vehicle types.

Reference Materials

- SCAG 2012 Regional Transportation Plan (Adopted April 2012)
- SCAG Port and Modal Elasticity Study, Phase II (Leachman & Associates LLC, September 14, 2010)
- National Cooperative Freight Research Program-Report 15, Dedicated Revenue Mechanisms for Freight Transportation Investment (Transportation Research Board, 2012); http://onlinepubs.trb.org/onlinepubs/ncfrp/ncfrp_rpt_015.pdf

Statewide Transportation System Needs Assessment Revenue Report Worksheet

	- Include Projected $M -																						
Proposed Revenue Sources	Highways	Local Roads	Public Transit	Inter-City Rail	Freight Rail	Seaports	Airports	Land Ports	Intermodal Facilities	Bike/Ped	System Preservation Annual Yield Projected ($M)	System Expansion Annual Yield Projected ($M)	System Management Annual Yield Projected ($M)	(Total Yield) Potential Net Annual Funds Generated ($M)	Assumptions	Authority or Responsibility for Implementation? (Federal, State, Regional)	Existing or New Funding Mechanism	Requirements for Implementation? (High, Moderate, Low)	Period for Implementation (Short Term - less than 2 Yrs; Long Term 2 Yrs +)	Sustainability (Long-Term Viability) Long Term or Moderate or Short Term	Application	Description of Policy, Legislative or Other Action Required	Publications Supporting Proposal	Notes
national freight program/fund mechansim (see text for details)	x				x	x		x	x			undetermined		undetermined		Federal	new	High	Long-term	undetermined		Fed Trans Authorizating bill		see text

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