Advisory Committee on Supply Chain Competitiveness

Report and Recommendations of the

Subcommittee on Supply Chain Infrastructure Financing

Introduction

The Administration's 2010 National Export Initiative, which aims to double U.S. exports by 2014, necessitates supply chain improvements nationwide, as well as policy planning at the federal level. However, there is broadly voiced concern that investment in supply chain infrastructure is lagging, reducing the productivity of U.S. businesses and the competitiveness of U.S. supply chains.

Freight bottlenecks and other congestion cost businesses, consumers, and the public at large approximately $200 billion per year, according to a report by the Building America's Future Educational Fund. The U.S. Chamber of Commerce places the annual cost of congestion as high as $1 trillion annually—roughly 7 percent of U.S. economic output.[1]

The Advisory Committee on Supply Chain Competitiveness is charged with advising the Secretary of Commerce on the development and administration of programs and policies to improve the competitiveness of U.S. supply chains, including programs and policies to improve investment in supply chain infrastructure.

The Advisory Committee's Subcommittee on Infrastructure Financing has been tasked with:

- Identifying supply chain infrastructure investment goals and needs;
- Identifying existing and proposed revenue collection and distribution methods; and,
- Recommending strategies to improve investment in supply-chain infrastructure.

Supply Chain Infrastructure Investment Needs and Goals

Supply chains operate over networks of highways and warehouses, rail lines and terminals, ports and waterways, and airports and air corridors. With total U.S. freight traffic anticipated to increase by over 50 percent by 2040, significant expansion, modernization, and system integration will be required.

Therefore, to maintain a competitive economy, it should be the <u>goal of our national freight transportation investment program</u> to strategically apply funding and financing mechanisms to support the physical infrastructure required across all modes for the safe, efficient and cost-effective movement of goods and do so in close collaboration with business and state and local governments.

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[1] [1] Center for American Progress, "Getting America's Freight Back on the Move" August 14, 2012

At any given time, estimates of the investment needed to maintain and improve our freight network infrastructure, as well as those that serve passenger movement, vastly exceed the available revenues. Due to a lack of comprehensive analysis, there is no single source for the total capital expenditure needed to adequately develop and improve our nation's freight infrastructure for current and future needs, but there is good evidence that this figure easily exceeds one hundred billion dollars. In view of this overwhelming financial burden, it is generally accepted, and the position of this Subcommittee, that the federal portion should not be less than $2 billion annually.

In our view, there are four guiding criteria for achieving our national goals for investment in supply-chain infrastructure:

- **Adequacy**. Does the funding/financing approach provide sufficient revenues (or yield) at a stable rate and over a long-enough period to meet reasonable needs?
- **Efficiency**. Is the funding/financing approach cost-effective to administer and enforce? Does it encourage investment in an economically efficient manner?
- **Equity**. Does the funding/financing mechanism fairly address industries, modes, regions and users?
- **Roles and Responsibilities**. Does the funding/financing approach appropriately balance federal interests against private sector, state and local roles and responsibilities?

Overarching Principles Are:

- **Transparency.** Is the funding/financing approach sufficiently transparent to infrastructure users so they are able to make fully informed decisions about the efficiency, costs and benefits of the approach?
- **Effectiveness.** Is there sufficient and appropriate value from the investment?

Existing and Proposed Revenue Collection and Distribution Methods

A broad review of existing federal revenue collection and distribution methods was undertaken and a variety of innovative models for new revenue were analyzed. We do not consider these recommendations to be exhaustive, but we believe they represent the most reasonable list of possibilities known at this time.

As is the case with other large transportation needs, such as the federal-aid highway program and transit program, much discussion and study continues on revenue-raising approaches to fund investment. As new ideas surface and political realities change, it may be that innovative revenue models can be harnessed to pay for national freight infrastructure. We leave open the possibility that such solutions may be preferable to those presented here.

Recommendations for Supply Chain Infrastructure Investment Strategies

Using the perspective of the four criteria and the overarching principles above and the overall federal funding goal of at least $2B per year, we selected the revenue collection and distribution mechanisms we considered as coming closest to our objective. Based both on political constraints and the need for further research on proposed but not yet realizable methods, we have divided our recommendations from this list into near-term and longer-term investment strategies.

Freight Transportation Financing Mechanisms – Near-Term Recommendations

Freight System Elements	Recommended Revenue Collection Mechanisms	Recommended Revenue Distribution Mechanisms
Highway	• Motor Fuel Tax – Restore the purchasing power of the gas and diesel tax by increasing the rate and indexing it to inflation.	• Highway Trust Fund (HTF) – Continue current programs.
Rail		• Railroad Rehabilitation and Improvement Financing (RRIF) – Reform and maintain program. • Reauthorize the short line rail tax credit.
Port		• Harbor Maintenance Trust Fund (HMTF) – Ensure 100% of the HMTF is used for its original purposes with expanded qualifying activities.
Waterway	• Inland Waterways Tax – Increase fuel tax paid into the Inland Waterways Tax Fund by the barge industry by 6 to 9 cents per gallon.	

National Freight System	• General Fund Revenues – Increase general fund allocations to freight related programs.	• Regional Freight Program – Establish a competitive, TIGER-style program for small- and medium-size, regional freight projects. • National Freight Program – Establish a competitive, PNRS-style program for large freight projects.

Freight Transportation Financing Mechanisms – Longer-Term Recommendations

Freight System Elements	Recommended Revenue Collection Mechanisms	Recommended Revenue Distribution Mechanisms
Highway	• Vehicle Mileage Tax (VMT) – Supplement or replace motor fuel taxes with a road user tax based on how many miles motorists travel on public roads.	
Rail		
Port		
Waterway		

National Freight System	• Federal Freight Trust Fund (FTF) – Create a Federal Freight Fund supported by user fees.	• National Freight Program – Establish a national freight program that: - Supports multi-state, state and metropolitan multi-modal freight planning; - Maintains competitive grant programs; e.g. regional TIGER and national PNRS; and, - Establishes formula allocations for on-going freight network improvements and maintenance.