A taxing dilemma

Recent news stories have illuminated the problems of state governments that are caught between the rock of reducing tax burdens and the hard place of providing essential, public services.

In Florida, Gov. Charlie Crist has vowed to make taxes “drop like a rock.” Because Florida does not have a state income tax, this means lowering property taxes. Local governments fear such cuts will impose draconian results. The alternative of raising the sales tax to offset the revenue loss was judged politically untenable.

Across the transportation industry, public and private enterprises struggle to maintain infrastructure in an economically rational fashion. Fuel taxes, the major source of highway funding, have remained constant for the past 14 years.

The resulting problems are twofold: Construction costs have continued to rise, and increased fuel efficiency has meant less fuel used for more system use — and fewer tax dollars available for support.

The situation is expected to worsen in 2009, when revenue for the Federal Highway Trust Fund begins to fall short of planned federal spending. States already are searching for alternatives to support highway construction and maintenance. Toll road conversion and other taxes (consumption-based sales taxes, for example) are under consideration. Industry interests recognize that a trust fund shortage could cause environmental and safety problems and stifling traffic congestion.

Fortunately, transportation leaders have not remained silent as they seek to find realistic solutions. John Horsley, executive director of the American Association of State Highway and Transportation Officials, has called for raising federal fuel taxes by 10 cents a gallon to counteract increasing congestion and construction costs. Horsley envisions an increase that is phased in over eight years, and he recognizes that money is fungible — especially on the state level, where funding can come from sales and property taxes and other fees.

Other leaders have suggested that freight and passenger transportation requirements cannot be bundled together any longer. Bill Graves, president of the American Trucking Associations, said the trucking industry is willing to pay more into the trust fund if the money actually benefits motor carriers.

Graves has called for a national freight system that is “segregated from the existing federal surface transportation program.” This means a firewall within the trust fund that achieved its own budgetary firewall in the Transportation Equity Act for the 21st Century. Graves envisions a truck-only network running parallel to the current highway system in high-use areas, to be developed over 20-plus years.

Right now, funds should be focused on providing relief at significant bottlenecks that have “significant impact on trucking mobility and on the U.S. economy,” he said.

Graves’ position (supporting increased user taxes) was offered as an alternative to another popular funding mechanism: increasing tolls. Many states view tolls as preferable to increased taxes. Tolls also offer a reliable source of funding that can be used to borrow money.

Tolls offer a unique opportunity to modify behavior. New York City (lured by the possibility of $500 million in federal funds) is proposing the introduction of congestion pricing in specific areas during predetermined times. Such a system, introduced in London in 2003, has been credited with reducing traffic.

While funding discussions naturally focus on highways, they occur across the transportation industry. International trade is attracting enormous interest. While the introduction of PierPass at Los Angeles-Long Beach has reallocated volumes to off-peak periods, the industry is wary of a container tax. Although Gov. Arnold Schwarzenegger vetoed a similar measure last year, California state Rep. Alan Lowenthal is seeking reauthorization of a $30-per-TEU tax to raise nearly $500 million annually to pay for infrastructure and environmental and security projects. Washington state is weighing a similar fee.

Unlike the ATA’s expressed willingness to accept higher fees for better infrastructure, shippers and railroads have objected to such an approach. They suggest highway and bridge tolls instead — and penalties on truckers with high-emission tractors.

Our nation faces a gap between necessary infrastructure and what we can afford. The cost of insufficient infrastructure will be high. The question remains how we will pay now to avoid paying even more later.

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