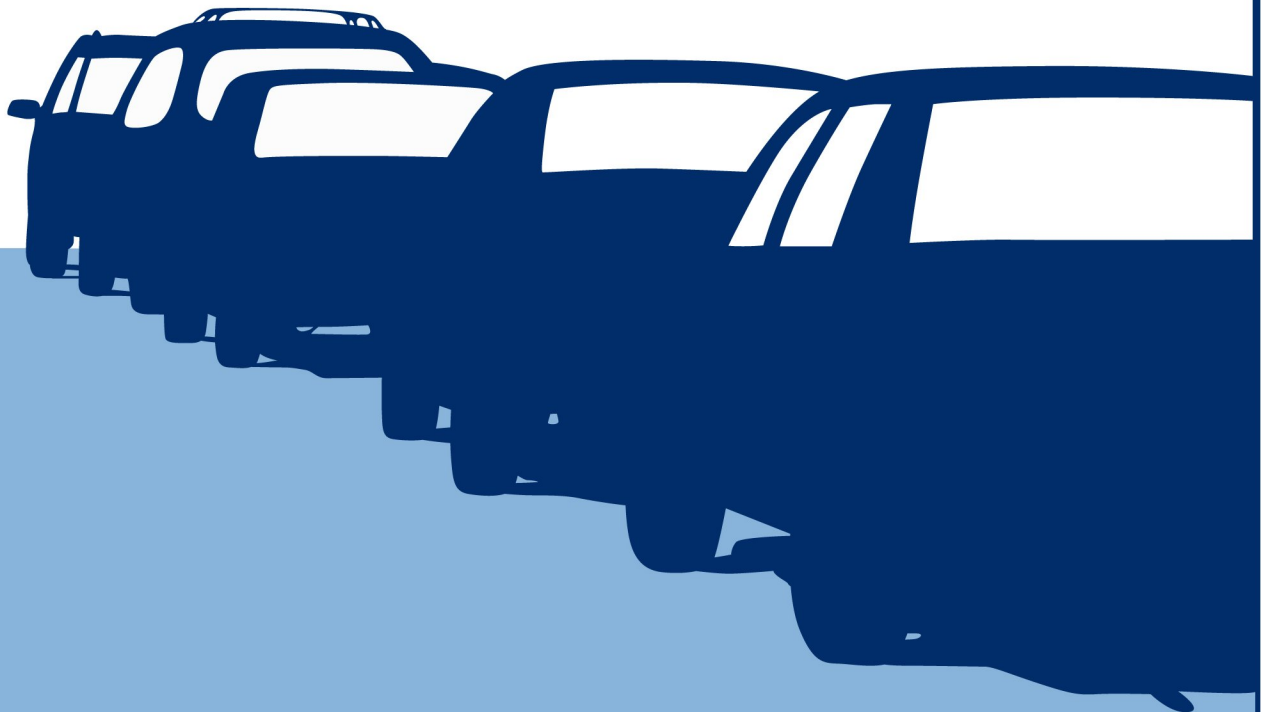


May 17, 2007

Ascension Chamber of Commerce
Baton Rouge Area Chamber
Breaux Bridge Area Chamber of Commerce
Chamber Southwest Louisiana
East St. Tammany Chamber of Commerce
Greater Abbeville-Vermillion Chamber of Commerce
Greater Iberia Chamber of Commerce
Greater Lafayette Chamber of Commerce
Greater Shreveport Chamber of Commerce
Lafayette Economic Development Authority
Monroe Chamber of Commerce
Natchitoches Area Chamber of Commerce
Opelousas-St. Landry Chamber of Commerce
St. Landry Parish Economic Industrial Development District
St. Tammany West Chamber of Commerce



**Solving Louisiana's
Transportation Crisis**
*A historic economic
development opportunity*



From agriculture to entertainment, energy to information technology, and manufacturing to financial services—business in Louisiana depends on effective transportation. Highways are a critically important component of our state’s complex, multimodal transportation network, handling billions of dollars worth of products each day. Mobility enables robust trade in goods and services, and successful commerce and economic growth depend on it.

Unfortunately, the lack of appropriate attention to Louisiana’s state highways over the years has resulted in a road network defined by visible deterioration and stifling congestion. The poor condition of state roads has created a critical challenge to state recovery and future growth, and has become a leading concern among citizens statewide. This issue brief examines how Louisiana’s roads have fallen into crisis, explains why current funding levels are insufficient to resolve current problems, and recommends possible solutions to position the state’s highway network as an economic engine.

Louisiana roads rank poorly in quality, safety, and congestion

Louisiana highway performance ranks among the lowest in the country in national independent reviews. In January 2007, The Road Improvement Program (TRIP) classified 47 percent of Louisiana roads in “poor” or “mediocre” condition for visible deterioration including rutting, potholes, and other pavement damage that would require complete reconstruction or resurfacing. In the same report, 17 percent of Louisiana’s bridges were deemed “functionally obsolete” for lacking modern design standards and safety features, making them inadequate for the volume of traffic they currently carry. Overall, the state received failing grades for both roadways (F) and bridges (D-).

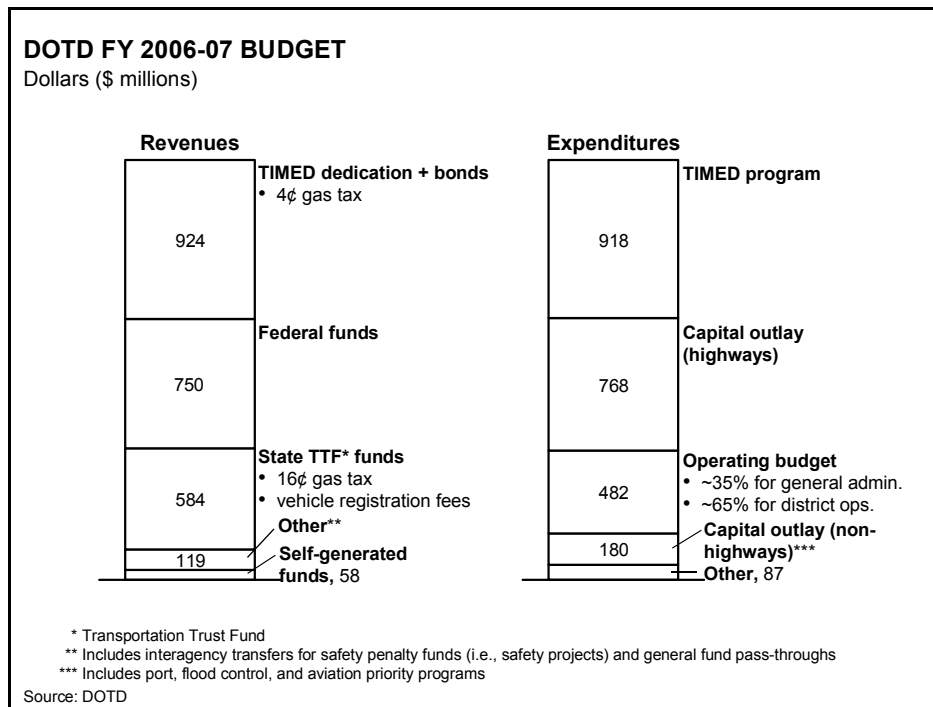
The consequences of poor roads are severe. Urban commuters in the United States are stuck in traffic an average of 62 hours per year, the equivalent of \$1,160 per traveler in lost productivity. Poorly maintained roads cost the average urban traveler \$383 each year in added maintenance, increased fuel consumption, and unnecessary vehicle depreciation. Furthermore, the severity of damage extends beyond physical property to threaten the lives of state highway travelers. According to TRIP, approximately one-third of fatal vehicle accidents can be attributed to roadway design and condition, making inadequate roadways a leading factor in a fatality rate on Louisiana highways that is 40 percent above the national average. Improving highway condition and design features can reduce the number and severity of crashes. The cost of Louisiana accidents is estimated at \$6 billion annually—a noteworthy indication of how much an aggressive highway safety program can save both businesses and individual citizens.

In the post-Katrina recovery economy, a significant increase in traffic congestion along major transportation corridors has caused great concern among business

leaders, government officials, and state residents. In 2005, over 28 percent of the state’s urban interstates were subject to congestion during peak hours. The problem has worsened in those areas experiencing post-Katrina population growth. For example, Baton Rouge area business leaders cited traffic congestion among the top two obstacles to their businesses’ growth in both 2006 and 2007. If road capacity issues are not addressed, urban congestion across the state is projected to more than double by the year 2030.

Louisiana highway funds flow through the Transportation Trust Fund and the TIMED program

Current funding for the Louisiana Department of Transportation and Development (DOTD) comes from the combined revenues of a 20-cent per gallon state gasoline tax, federal aid dollars, self-generated revenues, and other variable streams (e.g., interagency transfers). Four cents per gallon of the state gasoline tax is dedicated to Louisiana’s Transportation Infrastructure Model for Economic Development (TIMED) program, while the remaining sixteen cents per gallon flows into the Transportation Trust Fund (TTF). In fiscal year 2006-07, the DOTD budget totaled \$2.4 billion with 69 percent reserved for state highway capital investment through the TIMED program (\$918 million) and highway capital outlay (\$768 million) and the remaining funds supporting operations and other obligations.



The TIMED program, developed in 1989 to expand 536 miles of state highways to four lanes along 11 corridors, to widen/construct three major bridges, and to improve

the Port of New Orleans and the Louis Armstrong International Airport, remains an ambitious plan for state road capacity building. Scheduled TIMED projects such as U.S. 171 from Lake Charles to Shreveport, LA15 from Natchez (MS) to Monroe, and U.S. 165 from I-10 to the Arkansas state line are important investments in our state infrastructure. However, these investments are targeted at increasing connectivity across the state and are limited in their ability to address congestion issues in many of our state’s growing regional economies.

Projects included in the Louisiana TIMED program

TIMED project	Estimated cost (\$ millions)*	Completion date
Westbank Expressway from Ames Boulevard to Avenue D (New Orleans)	33	1993
New Orleans International Airport improvements	75	1995
Port of New Orleans improvements	100	1995
U.S. 90 from Morgan City to Houma	256	1999
Tchoupitoulas Street Corridor (New Orleans)	52	2004
West Napoleon Boulevard from Williams Boulevard to Cleary Avenue (New Orleans)	69	2006
LA 15 from Natchez (MS) to Monroe	85	2007
U.S. 61 from Thompson Creek to Mississippi state line	108	2009
U.S. 165 from I-10 through Alexandria, Monroe, and Bastrop and on U.S. 425 to Arkansas state line	952	2010
U.S. 171 from Lake Charles to Shreveport	595	2010
U.S. 167 from Alexandria through Ruston to Arkansas state line	705	2010
Earhart Boulevard (New Orleans)	20	2010
John James Audubon Mississippi River Bridge (St. Francisville)	406	2010
Florida Avenue Bridge (New Orleans)	358	2011
Huey P. Long Mississippi River Bridge (New Orleans)	705	2012
LA 3241 from I-12 to Bogalusa	148	2013
* As of June 30, 2006 Source: Louisiana TIMED Program 2005-2006 Annual Report		

The highway capital outlay program includes the maintenance of existing state highways, improvements to address safety issues, technology improvements, and capacity expansions. Maintenance projects consume a significant portion of the

available funding, leaving very limited resources for major capacity expansions. In fact, DOTD expects to have essentially no resources available for capacity expansions in two to three years unless current funding mechanisms are enhanced.

Current state transportation funding mechanisms are insufficient

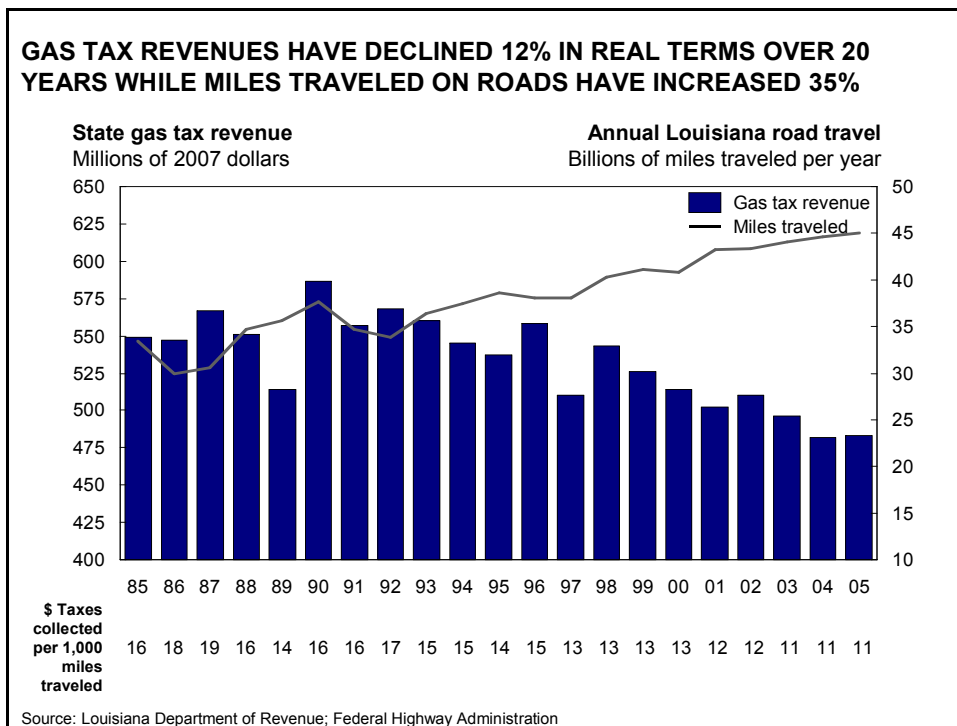
Louisiana state highway “needs”—improvements needed on existing roads that fall beneath the threshold of performance deemed acceptable by DOTD—have exceeded available resources for some time. This disparity between state resources and project costs has created a 2007 project backlog of nearly \$14 billion, which (unaddressed) grows at an average rate of five percent per year. This substantial backlog would be billions larger if it included major capacity expansion projects such as a loop around Baton Rouge, a north-south bypass in Lafayette, and the completion of I-49 north of Shreveport. The negative impacts of this enormous transportation backlog are not isolated to particular regions of the state; the issue is impacting communities and regions statewide.

The dramatic mismatch between transportation needs and resources has occurred because the state’s transportation funding mechanisms have not kept pace with inflation or the increased driving demand of our state’s businesses and citizens. Since 1984, our state has funded the majority of its highway expenditures through the sixteen cents per gallon state gasoline tax that supports the TTF. Because the tax is levied by volume, not by price, inflation has affected its purchasing power over time, cutting in half the per-gallon value of the 16-cent dedication in 1984 to a value of 8 cents today (in 2007 dollars).

Increased vehicle fuel efficiency has accelerated the weakening of the state gasoline tax’s purchasing power. From 1970 to 2000, the average miles traveled per gallon of gas has increased from 13.5 miles per gallon to 22 miles per gallon. Measures to increase fuel economy have certainly benefited consumers, businesses, and the environment, but they have also cut demand for gallons of fuel per vehicle mile traveled. In state transportation finance, this means less tax revenue for each vehicle mile traveled as fuel efficiency continues to improve.

Recent rapid project cost inflation has worsened the strain on state road financing. Rising prices of labor, equipment, steel, and other key inputs of road construction became problematic for transportation planners shortly after the 2005 hurricane season and have necessitated project delays and re-engineering even through 2007. On average, project costs initially estimated before hurricanes Katrina and Rita have been adjusted upward by 25 percent. For example, June 2006 re-estimates of TIMED project costs added \$700 million to the June 2005 cost estimates.

These factors have collectively produced a troubling situation for our state’s highway network: Louisiana’s inflation-adjusted state gasoline tax revenue has declined 12 percent over the last twenty years while road usage has increased 35 percent. Accordingly, inflation-adjusted state gas tax spending per 1,000 miles traveled over the same period has dropped from \$16 to \$11 per 1,000 miles traveled on Louisiana roads.



The transportation funding situation is projected to become even worse given a forecasted drop in federal funding. Nearly 30 percent of DOTD’s budget comes from federal funds, which originate in the Federal Highway Trust Fund (HTF). The HTF holds federal fuel taxes collected each year to distribute among states to support state transportation projects. Though the HTF’s balance for state highways was robust in 2000 (approximately \$23 billion), it has steadily fallen since then and is expected to reach zero by 2009. The exhaustion of the HTF balance will severely limit the federal government’s ability to supplement state highway spending, and DOTD officials expect Louisiana will lose approximately \$100 million per year from the HTF starting in 2010.

Louisiana has a unique opportunity to implement a transportation funding solution during this legislative session

The current structure of state financing for new and existing roads has proven inadequate for the ever-increasing list of state project needs. In order to move

forward, Louisiana must strengthen its revenues for roads by supplementing the current 20-cent state gas tax dedication.

This legislative session, state leaders have a unique opportunity to invest in the future of Louisiana's state highways. Up to \$1.3 billion "new" dollars (projected state revenues that exceed existing obligations) will be allocated across state programs on a recurring basis and decisions will be made concerning over \$2 billion more in one-time funding. This means a substantial financial commitment to transportation can be made without cuts to existing departments or programs.

Governor Blanco has publicly supported a one-time allocation of \$450 million to state roads. This commitment is significant, but it only provides for three percent of current system needs. A long-term solution would require the allocation of significant additional *recurring* state revenues for investment into the state's transportation system. This year's legislative session may represent the only opportunity for the state to make this investment of recurring funds since large year-over-year state revenue gains are not expected anytime over the next five years.

Over \$1 billion in new recurring revenues would be needed to work down the state's transportation backlog over the next twenty years and to begin addressing a number of the major projects not included in the backlog. A portion of these recurring funds—approximately \$100-200 million over time—could be generated through the strategic use of tolls for new road capacity. However, the majority of funding would need to be generated through state revenue sources. To this end, over \$600 million in recurring state revenues from sources such as automobile inspection fees, truck registration and licensing fees, traffic fine surcharges, sales taxes on motor vehicles, and excess mineral fund revenues could be redirected towards the improvement of the state's highway system. Similarly, non-infrastructure related obligations currently supported by state gasoline tax revenue (e.g., salaries, benefits, retirement) could be shifted over to the state's general fund to free resources for actual transportation projects.

In making these investments, Louisiana would be following the lead of a number of other states that have dedicated additional taxes, user fees, and other revenues in order to boost resources for roads. For example, Missouri, Minnesota, and Virginia have dedicated up to half of existing vehicle sales tax collections to bond additional money for roads.

The Transportation Mobility Fund and public-private partnerships—creative funding alternatives for addressing state transportation needs

Due to the lack of transportation funding generated through conventional sources, Louisiana initiated the Transportation Mobility Fund (TMF) in 2006 as an alternative funding method. The TMF provides state supplemental funding for new toll roads or new toll lanes on existing roads. Full project costs are often not met solely by bonding future toll revenues and local government collections, and the TMF provides the gap funding needed for important capacity building projects at the state and local levels. Although recurring funding has not yet been identified for the TMF, several sources are being considered in the 2007 legislative session.






Louisiana's public private partnership (PPP) law adds a critical dimension to the TMF funding solution. PPP law enables the state authority on toll projects, the Louisiana Transportation Authority, to receive unsolicited or solicited PPP proposals for toll roads. Within certain guidelines, a private-sector entity could receive TMF funding, toll revenues, and other revenues to support new capacity anywhere in the state.

Transportation mobility programs have proven quite successful elsewhere in the United States. The Texas Mobility Fund, which served as the model for the Louisiana TMF, is enabling billions of dollars of toll road capacity projects. The first project enabled by the Texas Mobility Fund was Austin's urban state highway 183A project, a \$233 million electronic toll expansion, completed in March 2007. The Trans-Texas Corridor Program—a \$150 billion multi-decade program to create the first Mexico to Oklahoma corridor through 4,000 miles of 1,200-foot wide integrated passenger and truck highway, rail, and utility corridors—will also use TMF financing and is currently moving forward.

A transportation funding solution that includes (1) the proposed \$450 million or more in one-time funds, (2) the allocation of at least \$400 million in additional *recurring* funds, and (3) the strategic use of tolls for major capacity expansion projects could address over 50 percent of the state's highway needs over the next 20 years. Although this solution would not fully address every desired transportation upgrade and expansion project across the state, it would provide a major improvement over the current situation and a means to address many of our state's most pressing safety and congestion concerns.

Given the sense of urgency for addressing transportation funding, more than 20 bills have been filed to direct new recurring resources towards Louisiana's transportation network. The passage of one or more of these bills would represent a critical component of a real solution for our state's transportation financing challenges.

Potential recurring revenue sources for state roads

Existing revenue source	Funding (\$ millions/year)	Related legislation	Public support (%)*
Truck and trailer taxes, registration fees, and/or licensing fees	10 to 40	HB: 60, 154, 662, 722 SB 258	 81
Mineral revenues**	0 to 150	HB: 71, 76, 383 SB: 146, 279	 72
Traffic violation surcharges	30 to 60	HB 401	 72
Sales tax on motor vehicles	350 to 450	HB: 165, 168, 648, 661, 691, 697, 722, 814 SB: 52, 258	 66
Removal of non-project related obligations from TTF	270 to 340	SB: 132, 260	 57
Fixed percentage of general fund revenue growth in any year	0 to 20	HB: 71, 81	n/a

* Based on a Southern Media & Opinion Research survey of 600 likely Louisiana voters from March 29-April 11, 2007
 ** Based on 50 percent of revenue collections after payment of statutory requirements (i.e., the Budget Stabilization Fund)
 Source: Louisiana Legislature; Legislative Fiscal Office

Moving towards a free-flowing Louisiana transportation network

A large commitment of new dollars to state roads and highways on a recurring basis would begin to eliminate one of Louisiana’s biggest economic development challenges and would also set the course for a brighter economic future for our state. Decisions made during this legislative session will likely impact billions of dollars in new spending and may result in restricted spending flexibility in future years. If lawmakers are unsuccessful in building a consensus supporting additional recurring funding for transportation this year, our state will soon face one of two unsatisfactory alternatives: substantial tax increases or no new road construction.

As we move forward with important decisions that affect our future, Louisiana must not lose sight of those basic investments that will help support the growth of our state’s economy. Because it will directly improve our state’s ability to recruit new businesses, improve the productivity and profitability of existing businesses, and enhance the quality of life for millions of Louisiana citizens, greater investment in transportation should be among our highest priorities.