

IV. FINANCIAL PROJECTION

One of the essential ingredients of any plan is a sound estimate of how much funding will be available over the planning period. Inherent to financial projections are assumptions about how existing federal and state revenue sources will grow, estimates of expenses that are “takedowns” deducted from available revenues, plus accounting for expected inflation that will erode the buying power of today’s funding.

REVENUE SOURCES

A conservative approach has been taken in estimating the availability of future transportation funding – no one has a crystal ball that will yield 100 percent accurate answers, but it is best to be conservative and plan accordingly. However, the assumptions included in the *Plan Review and Status Report* are consistent with those other states are making about future funding and how buying power might erode.

State Revenues. In State Fiscal Year (SFY) 2009, year 1 of the 30-Year Planning Horizon, the DOTD expects to collect more than \$640 million in state-generated revenues, 91 percent of which is housed in the Transportation Trust Fund. As illustrated in **Figure 4** principal state sources include:

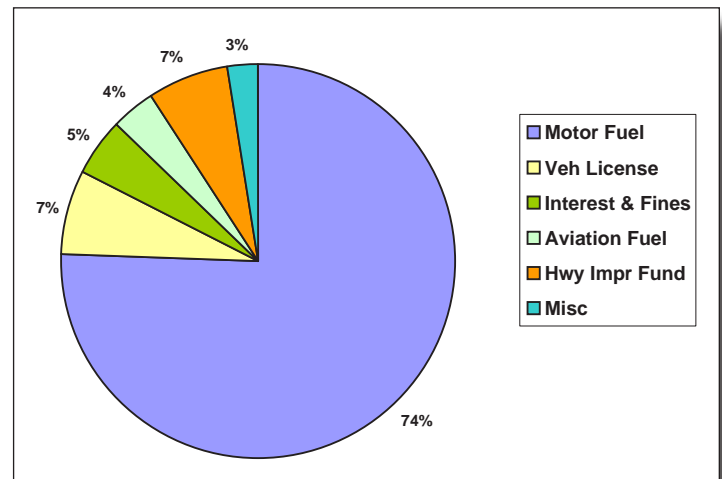
The revenue assumptions in the *Plan Review and Status Report* are consistent with those of other states.

- **Motor fuels tax** – the state’s 16-cent per gallon motor fuels tax will generate about \$500 million in SFY 2009 (an additional 4-cent per gallon tax is dedicated to TIMED);
- **Vehicle license tax** – generates \$44 million in SFY 2009;
- **Interest and fines** – nearly \$31 million in SFY 2009;
- **Aviation fuel tax** -- \$9.7 million generated – targeted for aviation program improvements and administration;
- **Highway Improvement Fund** – estimated to receive \$21 million, which is the registration fees on trucks – this amount is dedicated to improvements on highways not eligible for federal funds; and,

- **Miscellaneous and fund balances** – total of \$35 million.

The net available for construction is reduced by two items: the DOTD Operating Budget and the Parish Transportation Fund.

FIGURE 4: Louisiana Gross State Revenues, 30 Years



Federal Sources. Federal aid to transportation is made available to the states through federal authorization legislation; the current authorization bill, SAFETEA-LU, is a six-year transportation funding bill that extends through Federal Fiscal Year (FFY) 2009. In SAFETEA-LU, federal funding is divided into funding categories like Interstate Maintenance, Bridge, Safety, etc. Each category has its own mechanism of dividing (apportioning) funding among the states; sometimes the funding is divided based on population, other times on mileage, traffic levels, deficiencies, or other factors.

Louisiana’s motor fuels tax generates 75 percent of the state-sourced transportation revenues.

Thus, total federal aid to transportation is a collection of numerous categories that are available for “obligation” by

the states or, in some cases, local governments. Obligation means “to commit” – states commit federal funding apportioned to them, pay for the service/product when it is provided (in most cases, construction), and are reimbursed by the federal government. Few realize that the states must “front” the federal share, then get paid back.

Federal aid is a somewhat volatile and difficult to predict funding source. Over the past 30 years it has grown at about 5 to 6 percent annually, but that amount varies by state. Federal aid to transportation is financed by the federal Highway Trust Fund (HTF), which is supported primarily by the 18.4-cent federal gasoline tax and 24.4-cent diesel tax, and other miscellaneous fees. Forecasting federal funds for transportation in previous years has been fairly straightforward: it was assumed the federal program will continue and will grow at historic rates.

A new wrinkle has been introduced to forecasting federal funds – the balance in the HTF is nearly depleted since outlays have exceeded revenues in recent years. Thus, the continuity of the federal aid programs at their current or increased levels is at risk and no one knows for sure what will happen. For the purposes of the *Plan Review and Status Report*, it was assumed federal programs will continue and will grow at 3 percent annually. However, the report also examines a “disaster scenario” in which the federal program drops 37 percent in FFY 2010, then recovers and grows at the 3 percent annual rate. Should this scenario come to pass, every program category that depends on federal funding would experience sizeable across-the-board reductions.

The federal forecast divides federal aid into three categories:

- **Regular federal aid** – federal funding that is

A federal program “disaster” scenario would result in a 37 percent drop in federal funding beginning in FFY 2010.

- apportioned to Louisiana and represents the majority of federal aid – typical categories include Bridge Replacement, National Highway System, Surface Transportation Program, Interstate Maintenance, etc. Regular federal aid is typically constrained by an obligation ceiling; thus, states can only spend a portion of the federal aid apportioned to them. Regular federal aid estimated to be available in year 1 (SFY 2009) is \$500 million.
- **Non-construction federal aid** – federal apportionments in categories that are not used for state construction; i.e. CMAQ, enhancements, planning, pass-through to urbanized areas, indirect expenses. In SFY 2009, this amount is nearly \$122 million.
- **Earmarks** – federal aid designated for specific projects (some state, some local). Earmarks have been the subject of considerable discussion over

time, so their future is uncertain. For the purposes of the *Plan Review and Status Report*, earmarks were assumed to drop dramatically at the beginning of the new federal authorization bill, then grow at the same rate as other federal aid. Construction earmarks in SFY 2009 are estimated to be \$106 million, dropping to \$30 million in SFY 2011.

The real future of federal aid. It has been widely discussed that federal aid to transportation, specifically the per gallon fuel tax, has numbered days. Revenue generated from the per gallon tax grows slowly (if at all), due to increased auto fuel efficiency, growing numbers of hybrid-fueled cars, and other factors. It is likely that this revenue source (both federal and state) will need to be replaced with a source that grows; this is important in terms of keeping pace with inflation. Buying power of a funding source that increases at least as fast as the Consumer Price Index (CPI) will not erode as fast as the flat tax, thus agencies would have a stable, growing revenue stream.

For the *Plan Review and Status Report*, we recognize this possibility but have built nominal growth into the federal revenue stream with no assumption about the mechanism itself.

Inflation will erode the buying power of future transportation revenues by about 40 percent over the Plan’s 30-year time frame.

For non-transportation infrastructure, particularly hurricane protection, an increase in Louisiana’s share of offshore oil royalties is critical.

How they grow. Each funding source, federal and state, has been assumed to grow at rates appropriate for the source; these assumptions are based in part by historic growth and what we believe might happen in the future.

Implicit in the planning process is the assumption about inflation. Most transportation plans assume a future inflation rate in the 2 to 5 percent per year range, in line with the CPI. The states have experienced an extraordinary rate of construction cost increases since late 2003, some as much as 50 percent over a three-year period. We believe this rate cannot continue indefinitely, and normal leveling of construction costs must occur. Thus, for the *Plan Review and Status Report* costs are expected to increase at the rate of 2.5 percent annually through 2015, then increase 4 percent annually thereafter.

The net effect of this inflation assumption is that available revenues expressed in “current” or Year-of-Expenditure (YOE) dollars are reduced by about 40 percent when expressed in base year 2007 dollars – this represents lost buying power.

REVENUE SCENARIOS

Similar to the 2003 Plan, the *Plan Review and Status Report* is built around four future scenarios as shown in **Figure 5**, with allocations to programmatic categories identified for each, keeping the Plan fiscally constrained. Two future scenarios assume new state revenues will become available for transportation; because each scenario makes specific recommendations about the type and scale of investments, it should be very clearly noted that implementation of these scenarios cannot proceed unless additional revenues are available.

- **Scenario 1 (baseline)** – status quo, no new revenues, all current funding mechanisms stay in place. Nominal growth for each revenue type is assumed, but this is not enough to offset expected inflation. The 30-year amount estimated to be available under Scenario 1 is nearly \$23.1 billion YOE, which is \$13.8 billion in 2007 (base) dollars. Thus, the \$460 million (2007)

The Plan’s baseline revenue projection (Scenario 1) yields an average capital program that is 41 percent smaller than the SFY 2008 program.

average expected to be available over the Plan time horizon is 41 percent less than the \$776 million SFY 2008 capital budget in Louisiana. Very little funding is available for non-transportation infrastructure under this scenario.

- **Scenario 2 (baseline with buying power adjustments)** – same assumptions as Scenario 1, except that some additional revenues are built into the stream that compensate for lost buying power (in years 11 and 21). The source is not specified, but this assumption is based on history: the Louisiana Legislature and/or Congress typically take action periodically that restores lost buying power, stabilizing the revenue stream for transportation. The 30-year revenues available under Scenario 2 total \$28.4 billion (YOE), or \$16.3 billion in base dollars.

This averages to \$540 million (2007) available for capital improvements annually over the 30-year period, 21 percent more than Scenario 1. Funding for the non-transportation infrastructure is continued at its current level under this scenario, protected against inflation.

- **Scenario 3 (\$500 million increase)** – this scenario introduces an additional \$500 million in new revenues in year 1 from state sources and includes the same inflation adjustment in Scenario 2. The 30-year revenues available under Scenario 3 total \$48.2 billion (YOE), or \$28.2 billion (2007). This \$940 million (2007) annual amount available for capital improvements is 74 percent more than Scenario 2. Separate funding for non-transportation infrastructure is assumed in the amount of \$300 million.
- **Scenario 4 (\$650 million increase)** -- this scenario introduces an additional \$650 million in new revenues in year 1 from state sources and includes the same inflation adjustment in Scenarios 2 and 3. The 30-year revenues available under Scenario 4 total \$54.3 billion (YOE), or \$31.8 billion (2007). This \$1.1 billion (2007) annual amount available for capital improvements is 13 percent more than Scenario 3. Separate funding for non-transportation infrastructure is assumed in the amount of \$300 million.

It is up to state elected officials to determine the make-up of sources for this new revenue. Possible sources include additional user fees (state gasoline excise taxes, vehicle registrations), non-traditional transportation funding (general sales tax, sales tax on gasoline, personal property assessment), or sources such as tolls and traffic ticket surcharges.

FIGURE 5: Revenues by Scenario - Transportation

