Section 2.0: Understanding Transportation

Section 2.1: Federal-State Dynamic

In the United States, transportation is funded through a combination of federal and state revenues. Specifically, the federal Highway Trust Fund (HTF) is capitalized by a federal excise tax on motor fuel. The federal government does not construct or maintain transportation systems, but instead allocates revenue from the HTF to states. The federal government invests HTF revenue in states that demonstrate a financial commitment and an ability to deliver a transportation system that meets the many safety-oriented, science-based requirements for construction and maintenance of a transportation system in the United States. States make this demonstration by matching HTF revenue and funding state departments of transportation with sufficient engineering, operations, and maintenance expertise and capability to meet the wide-ranging federal requirements and performance indicators.

In the State of Louisiana, transportation is funded primarily through an excise tax on motor fuel that is dedicated to the Transportation Trust Fund (TTF) for exclusive use on transportation. The State utilizes TTF revenue as state match for HTF revenues and meets all other federal requirements by funding the operations of the Louisiana Department of Transportation and Development (DOTD), including its expert labor force and costs associated with operating and maintaining the State's vast multimodal transportation system.

The federal and state excise tax on motor fuel is a "user-fee" in its purest form. Consisting of a per-gallon tax rate on the consumption of fuel, the benefit of an excise tax is that it escapes the volatility of fuel prices on which revenues from a sales tax would be based. The downside to an excise tax on motor fuel is that increases in total revenue generated only occurs based on increases in overall fuel consumption. Inherently, this means that transportation revenues only increase when more people use the transportation system. As such, the nation's continued development and growing population causes modest increases in revenue for transportation over time, but the per-capita contribution is lessened by fuel economy enhancements and the effects of inflation on the fixed per-gallon rates.

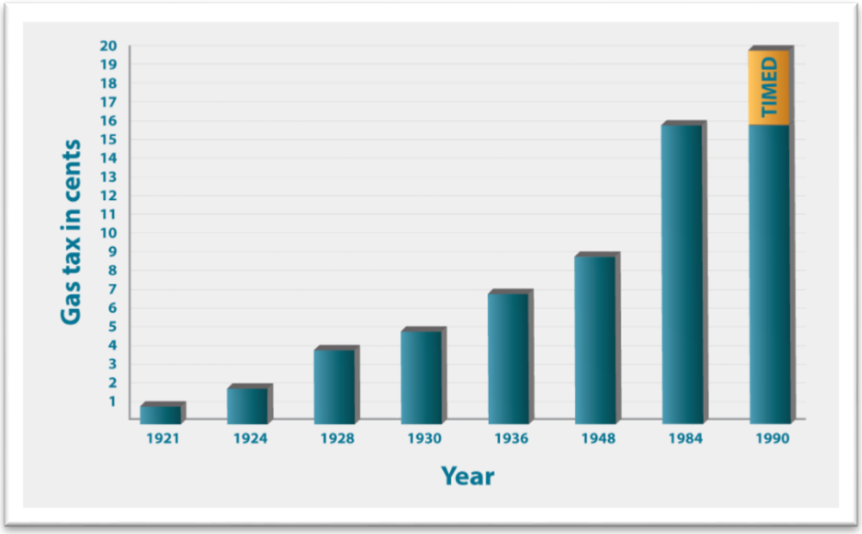
Section 2.2: The Federal Motor Fuel Tax

The primary source of revenue for the HTF, the federal motor fuel tax, has been increased on only four occasions since being established in 1956. The current rates of 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel fuel were established in 1993. Revenues from the HTF are allocated to states by formula, provided states can meet the aforementioned requirements, including that of state match.

Starting in 2007, the rate of growth in federal motor fuel tax revenues began to slow and was no longer sufficient to meet the commitments for the HTF. Congress has subsidized the HTF with federal general fund revenue for the last several years. While this approach has prevented a major disruption in construction lettings nationwide, it is not a sustainable financing mechanism for the HTF.

Pertaining to this issue, Executive Director of the American Association of State Highway and Transportation Officials (AASHTO) Bud Wright has stated that the HTF "serves as the backbone of our federal transportation program [and] has been experiencing severe cash shortfalls for the past decade. Identifying a long-term, sustainable revenue solution to fix the trust fund is the most pressing transportation challenge that we face at the national level today."

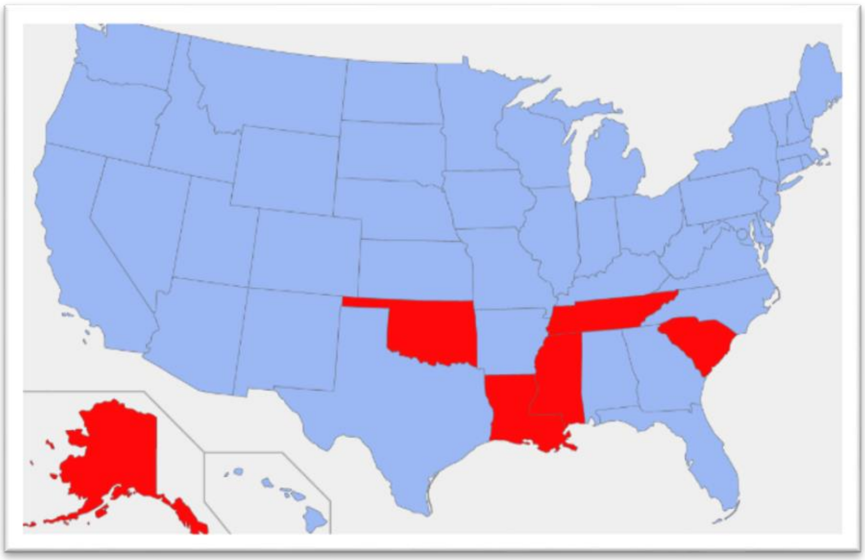
Graphic A: 27 Years without a Motor Fuel Tax Increase in Louisiana



While in no way a solution to the financial troubles of the HTF, there has been a trend on the federal level toward project-specific competitive grants financed by the federal general fund. To be competitive for these opportunities, states must have advanced projects to a shovel-ready status with state funds to match the federal award. This does not bode well for states like Louisiana that have very limited funds available for match. Additionally, discretionary dollars are typically aligned with national transportation policies.

Section 2.3: The State Motor Fuel Tax

Graphic B: 44 States have Increased Motor Fuel Taxes to Address Loss of Purchasing Power Since 1990 when Louisiana Last Acted

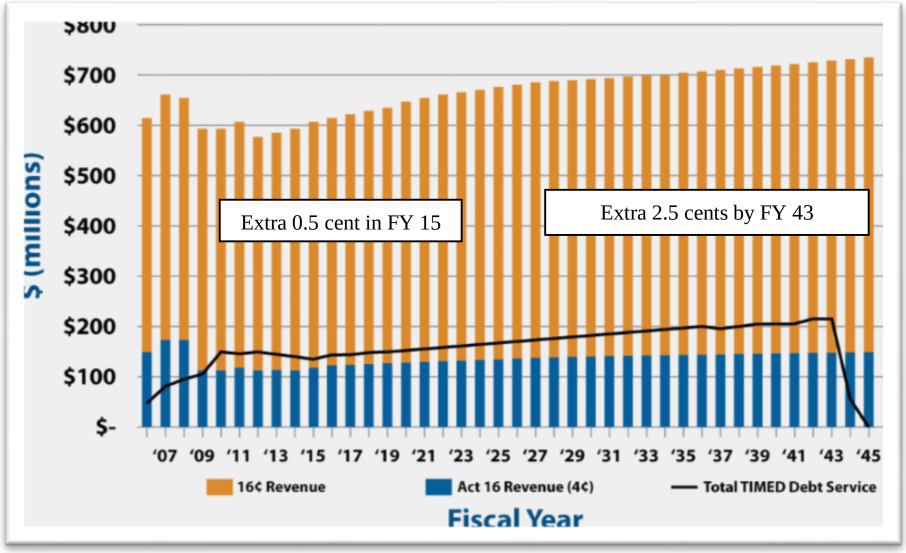


Established in 1921, Louisiana's motor fuel tax has been adjusted numerous times, with the latest increase being done in 1990 as depicted in Graphic A[2]. Most alarming in analyzing the history of the motor fuel tax is the growing gap in the time between adjustments. This has led to a tremendous backlog of needs to accrue at an accelerating rate, which will continue if not addressed. Without more timely adjustments, the rate and actual deterioration of the State's transportation system will only increase. As depicted in Graphic B, 44 states have acted more recently than Louisiana to mitigate the effects of inflation and fuel economy on their motor fuel

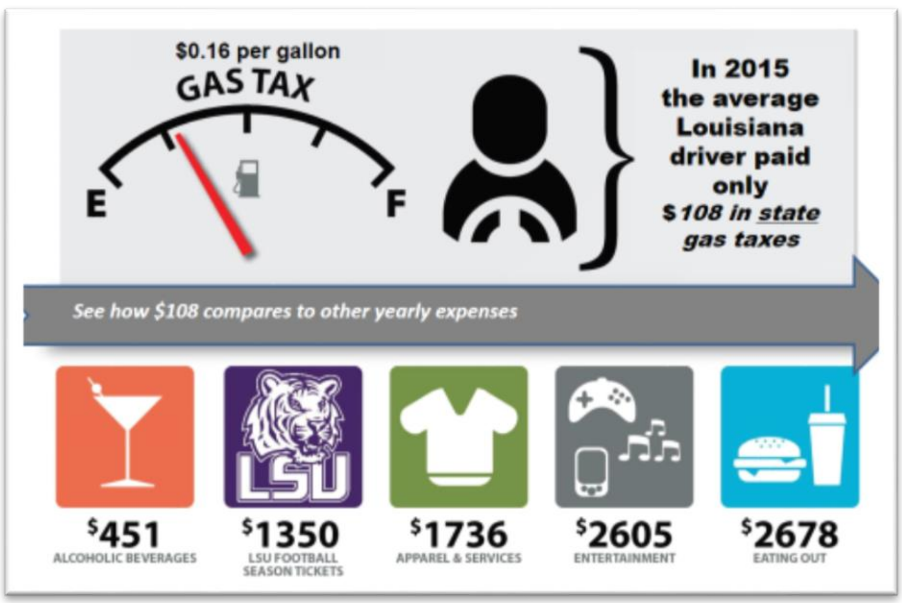
[2] On average, increases to the state motor fuel tax have occurred every 9.85 years. These periodic increases occurred when the revenue went to the state general fund without any certain dedication to transportation. Counterintuitively, no increases have occurred since the revenue was dedicated to transportation in 1990.

taxes. For Louisiana to have a safe, reliable transportation system that limits congestion and facilitates economic growth, it cannot stay among the six states that have failed to act since 1990.

Graphic C: TIMED Debt Costs
More than the 4 Cents Dedicated, Increases Over Time



Graphic D: Louisiana Drivers Only Pay $108 Per Year



The motor fuel tax rate is divided into two categories: a 16 cent tax that was established in 1984 and an additional 4 cent tax that was added in 1990 dedicated solely for the completion of 16 projects in the Transportation Infrastructure Model for Economic Development (TIMED) program. The four cents were bonded out to finance the 16 TIMED projects, though the revenue generated was insufficient to cover the cost of all 16 projects. As a result, two projects remain unfunded and the four cents are dedicated to debt payments through 2045 as depicted in Graphic C. With the four cents dedicated to debt service on TIMED projects, the effective motor fuel tax rate in Louisiana is the 16 cents established in 1984, which means that each year the average Louisiana driver only contributes $108 as depicted by Graphic D. In order to meet the TIMED debt requirements, Louisiana must take funds from the 16 cents that should be used to match federal funds and deliver new transportation projects to address the debt[3]. That amount is nearing one cent of the 16 cents today, but will grow each year until 2045, as illustrated in Graphic C.

Also in 1990, the 16 and 4 cents were constitutionally dedicated by a vote of the people to the TTF (Transportation Trust Fund) to ensure use on transportation. To expand on the allowable uses of the TTF, the Louisiana Constitution places strict limitations on its use, dedicating such funds solely and exclusively for costs associated with construction and maintenance of roads and bridges on the

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[3] With the 4 TIMED cents committed to debt, the effective tax rate in Louisiana is 16 cents which equates to $108 per year. 1 of the 16 cents is also going to TIMED debt, and that amount will grow over time until 2044.

following: the state and federal highway systems[4]; the Statewide Flood-Control Program; ports; airports; transit; state police for traffic control purposes; the Parish Transportation Fund; and debt services associated with construction bonds. More specifically, the Louisiana Constitution requires that appropriations from the TTF for ports, the Parish Transportation Fund, the Statewide Flood-Control Program, and state police for traffic control purposes not exceed 20 percent of TTF revenues annually, though no less than one cent of the motor fuel tax is to be appropriated to the Parish Trust Fund.

[4] At the request of the Louisiana Legislature, Attorney General Opinion No. 89-679 was issued on March 7, 1990, stating that "…salaries and related benefits of the employees of DOTD whose work is directly related to highway programs or other programs may be funded out of the Transportation Trust Fund, and the necessary administrative costs associated therewith."