FINAL REPORT OF THE JOINT STUDY COMMITTEE ON CRITICAL TRANSPORTATION INFRASTRUCTURE FUNDING

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Co-Chairman
District 155

Representative Terry England
District 116

Representative Jon Burns
District 159

Representative Mark Hamilton
District 24

Representative Calvin Smyre
District 135

Mr. Edward Lindsey
Citizen Appointee of the Speaker of the House

Mr. Chris Clark
President and CEO, Georgia Chamber of Commerce

Mr. Ross King
Executive Director, Association County Commissioners of Georgia

Senator Steve Gooch
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Senator Jack Hill
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Senator Brandon Beach
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Senator Tyler Harper
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Ms. Hala Moddelmog
President and CEO, Metro Atlanta Chamber of Commerce

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Executive Director, Georgia Municipal Association

Report prepared jointly by:

House Budget and Research Office

Senate Research Office

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Table of Contents

1. Introduction

The Joint Study Committee on Critical Transportation Infrastructure Funding (the "Committee") was created by House Resolution 1573 during the 2014 Legislative Session of the Georgia General Assembly. The Committee was charged with undertaking a study of the conditions, needs, issues, and problems associated with Georgia's critical transportation infrastructure and the means of funding its construction, maintenance, and repair. House Resolution 1573 expressed an urgency on behalf of the General Assembly that new sources and methods of funding transportation projects are needed to allow the transportation systems in Georgia to keep up with the needs of Georgia's growing population and expanding industries and to address long-standing issues relating to road congestion, access to industry and economic development, and Georgia's reliance on federal funding of its transportation systems.

Representative Jay Roberts of the 155th and Senator Steve Gooch of the 51st were the co-chairmen of the Committee, which held eight public meetings at locations throughout the State of Georgia. Committee hearings were held as follows:

- August 5, 2014 at the State Capitol, Atlanta, Georgia;
- August 18, 2014 at the City Service Center in Columbus, Georgia;
- September 2, 2014 at Abraham Baldwin Agricultural College in Tifton, Georgia;
- September 3, 2014 at Mercer University in Macon, Georgia;
- September 30, 2014 at Georgia Regents University-Summerville Campus in Augusta, Georgia;
- October 1, 2014 at Savannah International Trade and Convention Center in Savannah, Georgia;
- November 19, 2014 at Fannin County High School – Performing Arts Center in Blue Ridge, Georgia; and
- November 20, 2014 at The Forum in Rome, Georgia.

In addition to the co-chairmen, the Committee was comprised of the following individuals:

- Representative Terry England of the 116th, Chairman, House Appropriations Committee;
- Senator Jack Hill of the 4th, Chairman, Senate Appropriations Committee;
- Representative Jon Burns of the 159th;
- Representative Mark Hamilton of the 24th;
- Representative Calvin Smyre of the 135th;
- Senator Brandon Beach of the 21st;
- Senator Tyler Harper of the 7th;
- Senator David Lucas of the 26th;
- Mr. Edward Lindsey, Citizen Appointee of the Speaker of the House;
- Mr. Steve Green, Citizen Appointee of the Lieutenant Governor;

- Mr. Chris Clark, President and CEO, Georgia Chamber of Commerce;
- Mr. Ross King, Executive Director, Association County Commissioners Georgia;
- Ms. Hala Moddelmog, President and CEO, Metro Atlanta Chamber; and
- Mr. Lamar Norton, Executive Director, Georgia Municipal Association.

2. Background

According to data presented to the Committee by the Georgia Department of Transportation (GDOT), Georgia is home to the world's busiest airport, the nation's tenth largest road system,[1] and the fourth busiest container port in the United States. In addition, Georgia is home to 14,666 bridge structures, 4,500 miles of mainline and shortline railroads, 128 transit providers, and 103 general aviation airports. These assets have given Georgia a considerable strategic advantage in creating jobs and attracting new businesses to the state.

[1] According to GDOT, Georgia's road system is currently comprised of 17,967 centerline miles of state routes and interstates, 85,738 centerline miles of county roads, and 17,754 centerline miles of city streets.

3. Statement of Need

Like many other states, Georgia is faced with a growing crisis with regard to funding the construction, repair, and maintenance of its transportation infrastructure. Georgia primarily funds its transportation needs with a combination of state motor fuel taxes and federal funds.

Georgia's motor fuel excise tax is levied at a rate of 7.5 cents per gallon of motor fuel.[2] In addition, the revenue generated by the first three percentage points of the four percent rate of the regular state sales tax that is levied on the sale of motor fuel is designated as the "second motor fuel tax" and is committed to GDOT.[3] The other one percent of the regular state sales tax levied on the sale of motor fuel is diverted to general fund revenue.

Transportation projects in Georgia are also funded from state general funds (for the intermodal program only), through revenues received through the sale of general obligation bonds and Grant Anticipation Revenue Vehicle, (GARVEE) bonds, and through partnerships with local governments in state-funded projects. The previously mentioned debt is repaid from state motor fuel funds, federal funds, and, where applicable, toll revenues. Georgia cities, counties and numerous Community Improvement Districts (CIDs) also maintain parts of the state's road and bridge network, and a wide variety of authorities operate airports, ports, toll facilities and transit systems.

[2] *See* O.C.G.A. § 48-9-3(a). "Motor fuel" is considered to be any source of energy that can be used for propulsion of motor vehicles on the public highways, including, but not limited to, gasoline, fuel oils, compressed petroleum gas, and special fuels. O.C.G.A. § 48-9-2 (9).

[3] *See* O.C.G.A. § 48-9-14.

4. Magnitude of the Problem

For FY2014, GDOT's state motor fuel budget was $1,002,773,264. In addition, GDOT also received roughly $1.2 billion annually in federal funds, which comprise roughly 54 percent of GDOT's annual budget.[4] By comparison, federal aid comprises only 27 percent of the state of Florida's current 5-year work program. Per the FY2015 budget, Georgia transportation funding breaks down as follows:

- Capital Construction Projects
  - State Matching Funds: $213,393,476 (24 percent of the program's budget)
  - Federal Funds: $675,252,699 (76 percent of the program's budget)

- Capital Maintenance Projects
  - State Matching Funds: 60,560,150 (32 percent of the program's budget)
  - Federal Funds: $128,218,385 (68 percent of the program's budget)

This funding model, particularly its reliance on motor fuel taxes levied at both the state and federal levels, creates numerous and serious challenges in meeting Georgia's transportation needs.

First, the federal Highway Trust Fund is not an annual grant program. Georgia does not receive its allocation from the fund at the beginning of the year. Rather, funds are authorized from the Highway Trust Fund, but the state receives no cash from the Federal Highway Administration (FHWA) from the Highway Trust Fund until the state invoices the FHWA for a reimbursement for work already performed. Any uncertainty as to the level or availability of funds from the Highway Trust Fund can thus result in project delays or conservative scheduling of projects.

Additionally, over the last decade, Congress has demonstrated an increased reluctance to deal with significant infrastructure funding issues in a responsible, forward looking manner. Recently, federal action on infrastructure authorization and funding issues has taken place in short spurts of three, six, or 12-18 month authorizations. This leaves state and local transportation agencies in dire need of stability and predictability.

Second, Georgia is required to comply with numerous federal requirements, including federal environmental and labor laws, when federal funds are used for capital construction projects. This creates numerous compliance challenges and often results in project delays and significant additional compliance and reporting costs.

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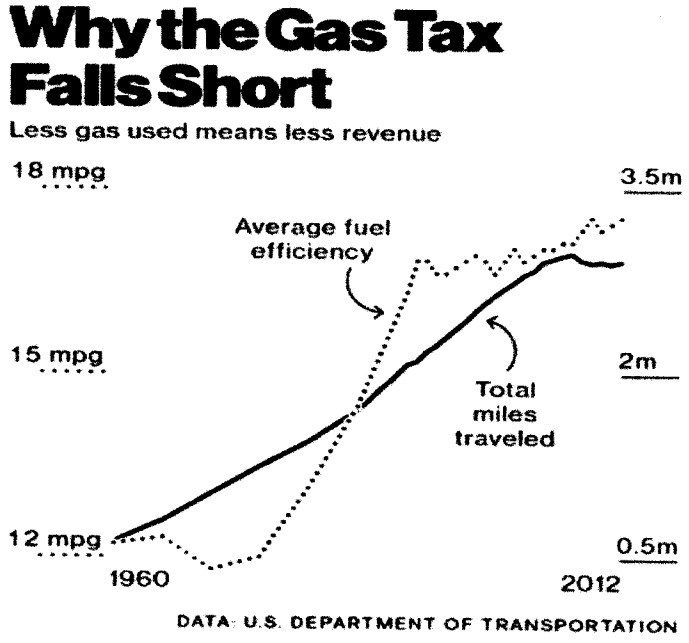
[4] According to GDOT, with respect to the federal taxes on gasoline and diesel, Georgia receives $1.14 for every $1.00 in federal gasoline and diesel tax paid in Georgia. GDOT cited this data to counter a common misperception that Georgia is considered a "donor" state with respect to the federal Highway Trust Fund.

Third, reliance on motor fuel taxes levied by both the state and federal governments has created a long-term funding challenge at the same time that legacy infrastructure is in need of repair and population growth in states like Georgia necessitates expansion of road networks and transit options.[5]

Numerous studies indicate that Americans are driving fewer miles each year in cars that are more fuel efficient (or, in the case of electric powered cars, in cars that do not require gasoline or diesel), the price of gas (until very recently) has climbed, consumers have demanded more fuel efficient cars, commuters have grown to demand more transit and ride-sharing options, and businesses have expanded the ability of workers to work remotely or from home. These trends have arisen over a period in which the federal government has not raised the gasoline and diesel taxes since 1993 and has not chosen to index such taxes to inflation.

Chart 1 (below) illustrates the recent divergence between the average vehicle fuel efficiency and the total miles traveled by American drivers since 2000. As the trends described above continue to unfold, they will place considerable pressure on a funding source—namely, excise taxes on motor fuel—that relies entirely on the number of gallons of fuel purchased by consumers.

Chart 1: Average Fuel Efficiency vs. Total Miles Traveled

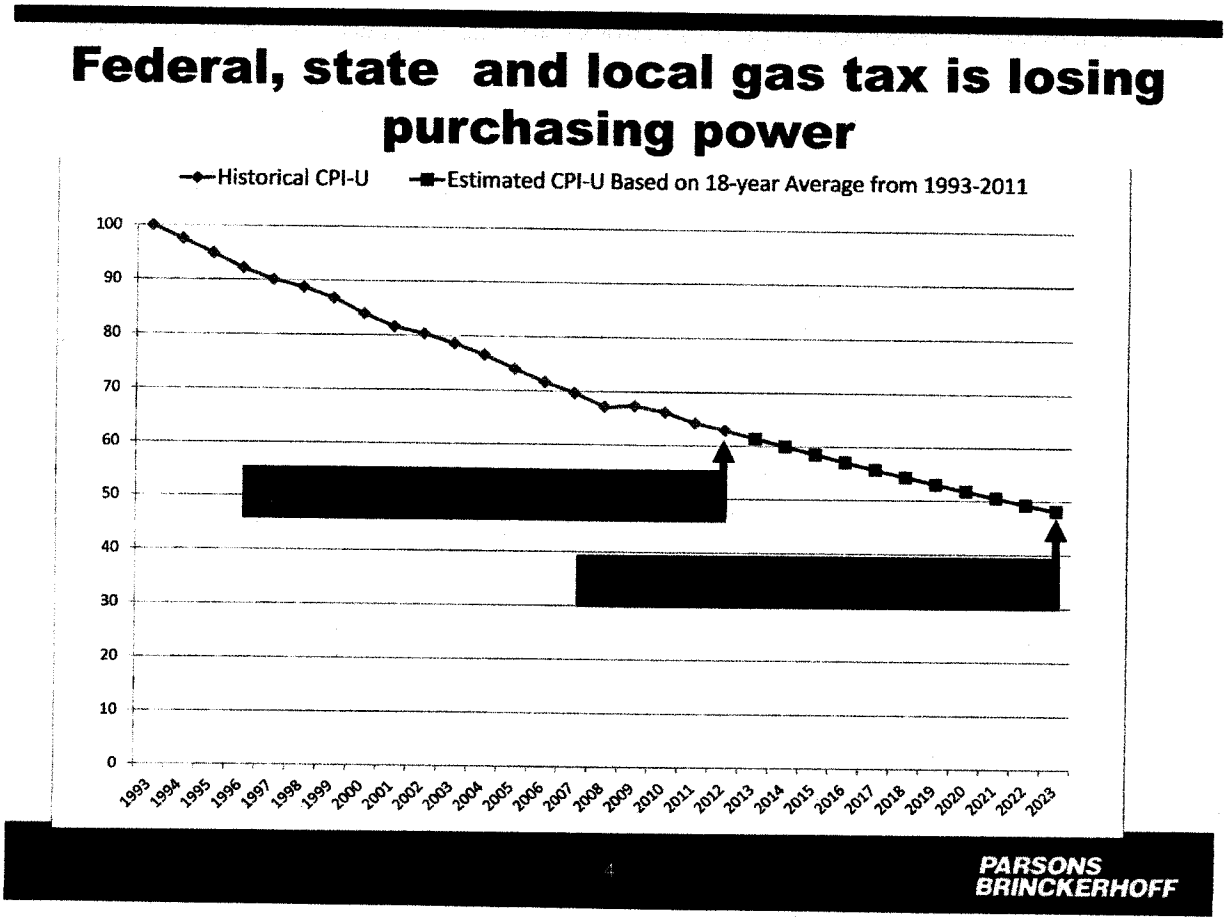


[5] Robert Poole of the Reason Foundation has indicated that in the past 15 years, federal highway spending has increased from $33 billion a year to $53 billion. The sharp increase in costs is driven in part by the deterioration of the federal highway system, which was mostly completed by the early 1980s.

In fact, this is already occurring, as reliance on fuel taxes as the primary means of funding transportation has already created challenges at the federal level.

As seen in Chart 2 below, which was presented to the Committee, state, local, and federal gas and diesel taxes have lost significant purchasing power since 1993, the last time Congress increased federal gas and diesel taxes. Specifically, the purchasing power of federal, state, and local motor fuel taxes has dropped by 37 percent from 1993 to 2012 and is projected to drop by 52 percent by 2023.[6]

Chart 2: Purchasing Power of Federal, State, and Local Motor Fuel Taxes has Dropped by 37 percent from 1993 to 2012

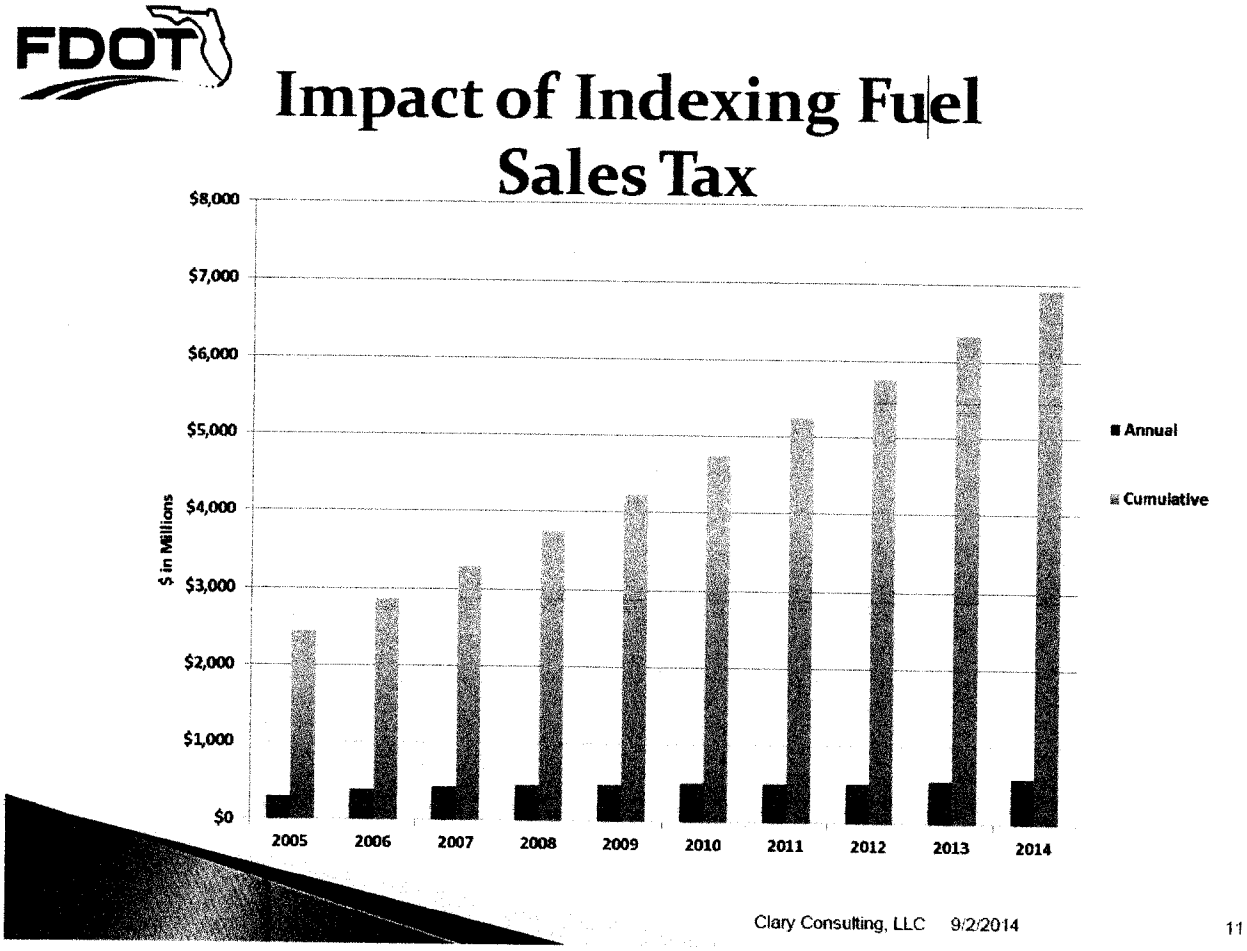


[6] The Committee heard testimony on this issue from Paula Hammond, Senior Vice President of Parsons Brinckerhoff.

Indexing motor fuel taxes is a powerful tool to ensure that revenues keep pace with the cost of the obligations they are intended to meet.

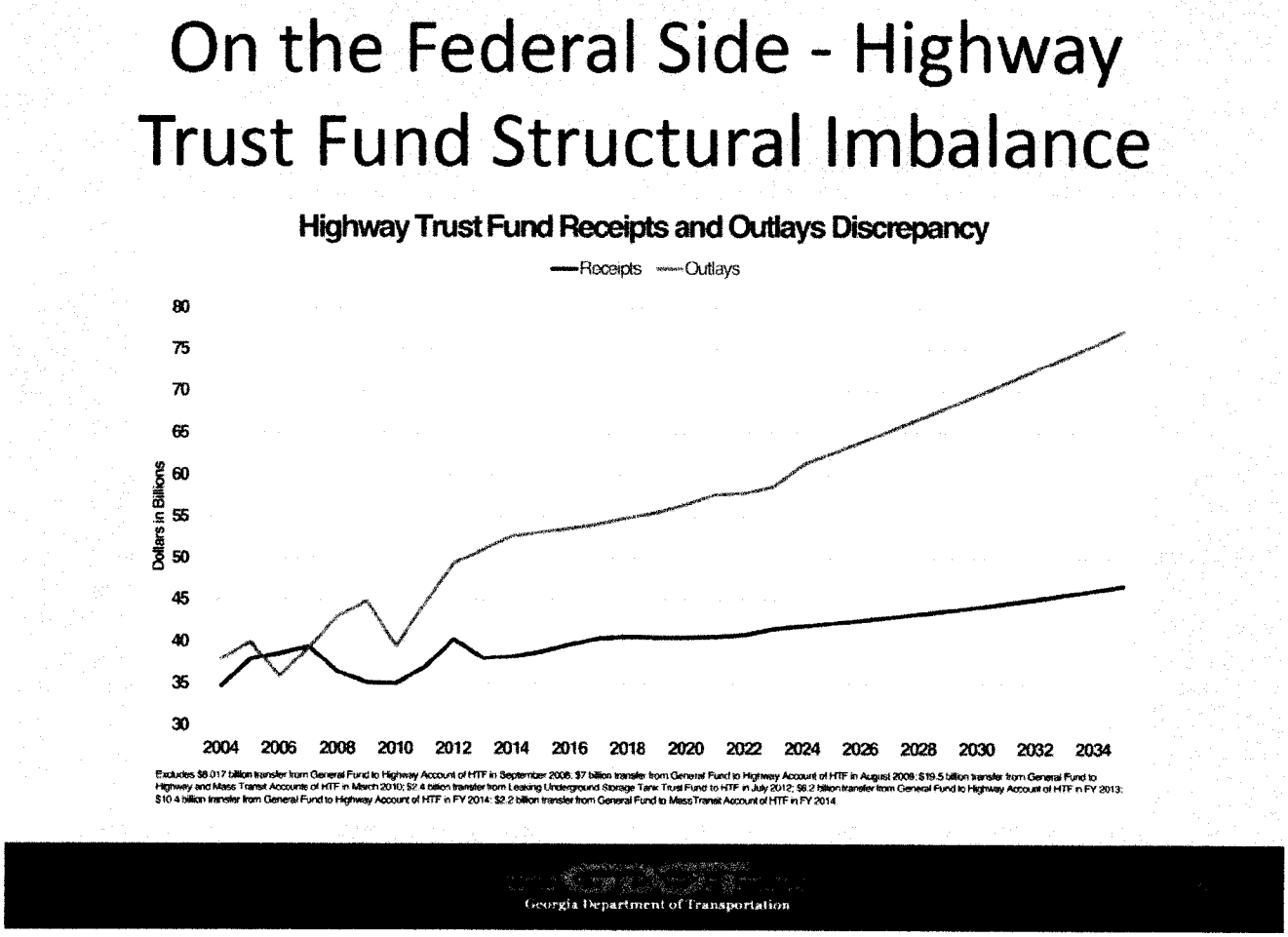
Chart 3 below powerfully illustrates how indexing helped the state of Florida meet their system maintenance and expansion obligations. As Chart 3 shows, over a decade, Florida saw an increase from roughly $2.5 billion to almost $7 billion in its annual fuel sales tax receipts, which was aided by indexing its fuel sales tax.

Chart 3: State of Florida Indexing of Motor Fuel Taxes



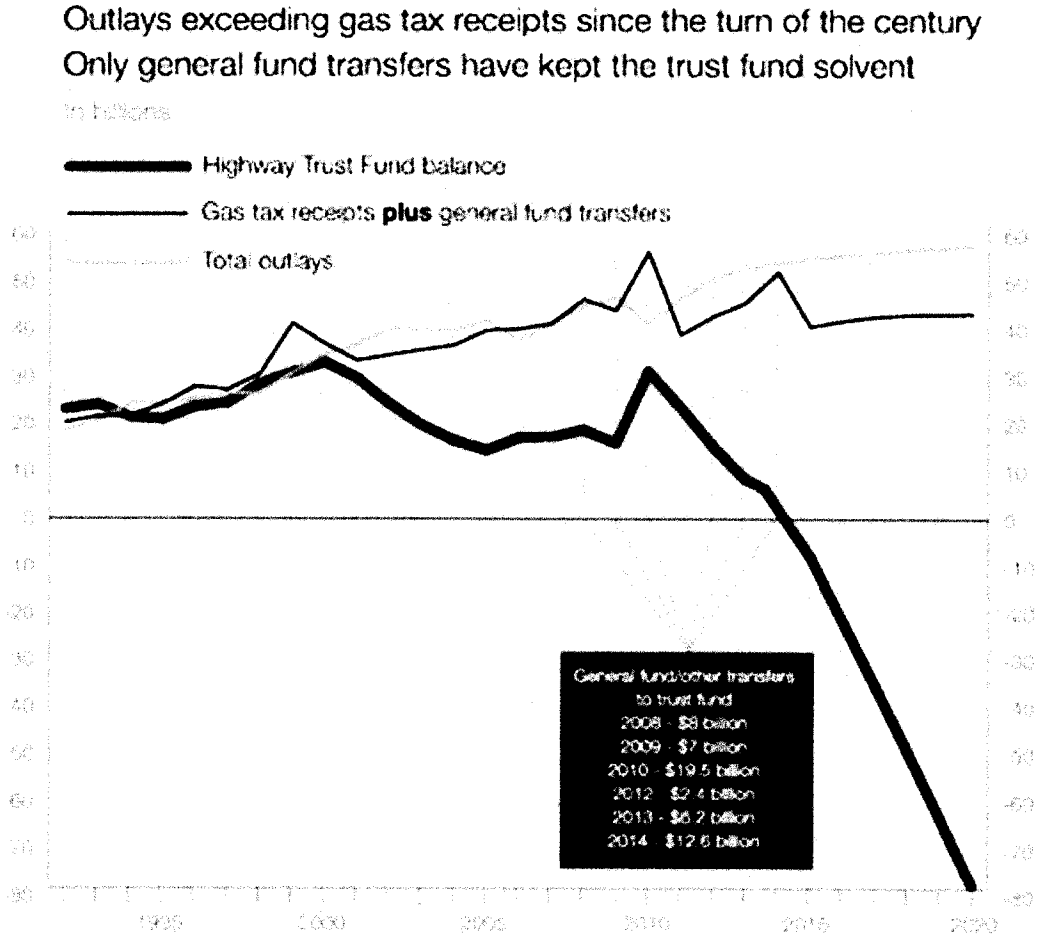
As seen in Chart 4 below, provided to the Committee by GDOT, beginning in 2007, outlays from the federal Highway Trust Fund began to exceed the amount of funds received from the federal taxes on gasoline and diesel. The U.S. Department of Transportation anticipates that, without increases to the federal gas and diesel taxes, including by indexing such taxes to some measure of inflation, the gap between Highway Trust Fund receipts and outlays will continue to grow.

Chart 4: Federal Highway Trust Fund Structural Imbalance



Since 2007, as part of its annual appropriations, Congress has filled gaps left by the gas and diesel tax shortfalls from general revenues.[7] See Chart 5 below. However, continuing gridlock at the federal level has recently required Congress and the President to resort to short-term spending measures that extend the solvency of the Highway Trust Fund for only a number of months at the time. Indeed, the current budget authorization passed by Congress only funds the Highway Trust Fund until May 2015.

Chart 5: $55.7 billion in Congressional Spending to Fill Shortfalls in Federal Transportation Spending



[7] Since September 2008, Congress has made transfers totaling roughly $55.7 billion from the general fund or other federal funds into the Highway Account and Mass Transit Account of the Highway Trust Fund to address shortfalls in receipts from the federal gas and diesel taxes.

5. Essential to Jobs in Georgia

Left unaddressed, these challenges will continue to mount in states like Georgia that are expected to experience both short-term and long-term population growth and expanding economic development opportunities in urban and rural areas. Georgia's highway system may also face a set of unique challenges, arising from the sustained population growth of the Atlanta metro region, long-term growth of regional manufacturing industries, and the expected growth of commercial freight traffic moving through the region following the deepening of the Port of Savannah.

More State-level Investment in Transportation is Needed

Investment in transportation infrastructure must be viewed in its larger economic context. Roads, bridges, transit systems and rail lines are critical means of connecting businesses with their customers and employees. However, congestion on major highways costs the state billions each year in lost productivity, including extended commutes and delayed shipments of goods. These problems are only expected to grow as the United States, and fast-growing states like Georgia particularly, continue to experience rapid population growth, increased use of freight and shipping lanes, and urban areas become more congested.[8]

In order to remain nationally and globally competitive, and to meet these challenges, Georgia must take immediate and significant steps to increase its investment in transportation infrastructure.

According to GDOT, among the states Georgia currently ranks 49th in terms of state spending per capita on roads, and its investment in road construction and maintenance is relatively small compared to some peer states with similarly sized populations or road systems. As the table below illustrates, according to data provided by GDOT, Georgia's 2012 investment in capital expenditures and routine maintenance significantly lagged states such as Illinois, Florida, California, Ohio, and Pennsylvania.[9] See Table 1 below.

[8] Parsons Brinckerhoff presented testimony to the Committee indicating that, according to the U.S. Census Bureau, the U.S. population will have an additional 100 million persons from its current level, and over the next 30 years, the Federal Highway Administration expects that there will be 60 percent more freight moving across the nation's roads and rail lines.

[9] These data indicate, for instance, that in 2012, Georgia spent roughly $13,982 per mile compared to $122,699 per mile in Florida. This spending deficit, as compared with other states, has permitted Georgia to resurface only about 2 percent of its roads annually in recent years, creating a 50-year resurfacing cycle. GDOT indicated to the Committee that normal maintenance schedules and standards suggest that roughly 6 to 7 percent of roads should be resurfaced annually, or each road every 14 to 16 years.

Table 1: Comparison of Peer States' Transportation Networks

State	Total Lane Miles	Center Lane Miles	2012 Population	Capital Expenditures (2012)	Routine Maintenance Expenditures (2012)
Illinois	42,122	15,992	12,882,135	$3.5 billion	$0.7 billion
Florida	43,195	12,079	19,552,860	$4.4 billion	$0.9 billion
Georgia	**48,415**	**17,912**	**9,992,167**	**$1.3 billion**	**$0.2 billion**
California	50,462	15,127	38,332,521	$4.0 billion	$2.0 billion
Ohio	49,381	19,236	11,570,808	$2.4 billion	$0.4 billion
Pennsylvania	88,383	39,791	12,773,801	$3.5 billion	$1.4 billion

Georgia's current investment in transportation infrastructure significantly constrains the state's ability to meet its expected needs over the coming twenty years. According to GDOT, the Statewide Strategic Transportation Plan for the years 2005-2035 (the "SSTP") calls for $160 billion in transportation infrastructure spending over that period. Currently, revenue projections for the period total only $86 billion, leaving a $74 billion dollar total state **"funding gap"** over the next twenty years.

The Committee received testimony validating this **"funding gap"** from infrastructure consultant HNTB. In association with Ernst and Young, (EY), HNTB was commissioned to assess and report on the magnitude of critical long-term transportation needs. Through key agency interviews and publicly available data, HNTB verified that in order to merely preserve the current transportation system, namely the maintenance of roads and bridges at acceptable levels, **the state has a funding gap of $1.0 billion to $1.5 billion annually.**

HNTB similarly estimates that addressing the state's critical transportation needs, including boosting regional mobility, increasing interstate highway capacity, expanding transit availability, improving intermodal options, and building new interchanges, would require an **additional investment each year of between $2.1 billion and $2.9 billion.**

Finally, HNTB estimates that the full universe of transportation needs in the state, including establishment of passenger rail systems, would require **additional funding of between $3.9 billion and $5.4 billion annually.**

Without significantly increasing transportation spending to the levels identified above, Georgia's existing transportation networks will deteriorate, the needs identified in the SSTP will go unmet, and Georgia's longstanding position as a leader in transportation infrastructure and economic growth will erode. Specifically, the SSTP indicates that, at current state spending levels, numerous transportation projects will go unfunded, including:

- Managed Lanes full network;
- Deficient bridge replacement;
- Road expansion;
- Full network of arterial roads;
- Rural transit operations;
- Urban transit (Metropolitan Atlanta Rapid Transit Authority, (MARTA), Georgia Regional Transportation Authority (GRTA), Cobb County Transit (CCT), Gwinnett Transit, Augusta Public Transit, Chatham Area Transit (CAT), Columbus METRA Transit System., Macon-Bibb County Transit (MAT), Atlanta Streetcar, Atlanta BeltLine, etc.);
- Railroad improvements;
- Governor's Road Improvement Program, (GRIP)/Intermodal connectivity;
- Maintenance and Operation at an acceptable level; and
- Metro Atlanta "large scale" road projects.

This investment gap between the state and its peer states places Georgia at a significant competitive disadvantage. Namely, without additional investment Georgia will lack the resources to address metropolitan congestion, increased freight movement and other problems as the state's population grows. Future success requires that Georgia maintain the safety of key roads and bridges, ensure trip reliability, foster job creation and continue attracting new businesses to the state.

Specifically, HNTB reported the following probable outcomes from not making immediate and significant new investments in transportation infrastructure:

- Erosion of efficient and reliable supply chains;
- Reduction, by 33 percent from today's total, of the number of Georgians who can reach employment in 45 minutes or less;
- Cuts to the core MARTA system by 30 to 50 percent;

- Doubling of the per capita cost of congestion in metro Atlanta;
- Growth of traffic on interstate highways by 60 percent and continued inadequate capacity for highway traffic; and
- Higher levels of congestion and deteriorating road reliability in medium-sized cities.

Return on Investment: While the spending levels identified by GDOT and HNTB represent significant new costs for the state to bear, they represent investments with tremendous upside potential for Georgia. HNTB's report asserts that new, large increases in transportation spending in Georgia would yield considerable economic benefits to the state. It estimates that every dollar invested in transportation yields between $4.00 and $7.80 in economic benefits to the state.

6. Findings of the Joint Study Committee

The Members of the Joint Study Committee on Critical Transportation Infrastructure Funding report back to the Speaker of the House and the Lieutenant Governor the following findings of the committee based on the presentations and discussions heard during the eight days of hearings throughout the state:

A <u>minimum</u> of $1.0 – 1.5 billion in new annual transportation infrastructure investment is needed to address the challenges outlined above and produce the following results:

- Enhance and expand Georgia's interstate capacity to accommodate increased freight flows resulting from the Savannah Harbor deepening project and other factors,
- Ensure safety and good repair of Georgia's bridges and roadways, throughout Georgia, both in rural and urban areas of the state,
- Mitigate congestion in the fastest-growing urban and business centers throughout Georgia,
- Elevate Hartsfield Jackson Atlanta International Airport to the fifth largest air cargo hub in the United States, and
- Provide Georgians, Georgia businesses and visitors to Georgia with multi-modal transportation options, ensuring positive, sustainable economic outcomes.

Funding Options to accomplish these goals include:

1. Establish a multi-year schedule through which the debt service for bonded indebtedness of the Georgia Department of Transportation (totaling approximately $3.6 billion) would be paid from the State's general fund. The fourth percent of the sales tax (which is commonly referred to as the "fourth penny") which is collected and goes to the General Fund has recently generated between $180 million and $185 million annually. $180 million to $185 million shall be moved over to the Georgia Department of Transportation, unless the General Assembly decides to go to an excise only tax on fuel.

2. Reform Georgia's motor fuel tax structure by converting the 4 percent sales tax on motor fuel to an excise tax. The recalculated excise tax should be set to an amount equivalent at least the four-year average of prices set by the Georgia Department of Revenue. The new excise tax rate would be estimated to be 22 - 25 cents per gallon. One result of this change will be that GDOT would receive the equivalent of the full four percent sales tax of motor fuel, rather than one percent being diverted to the state's general fund.

3. Index the motor fuel excise tax to preserve its purchasing power. The tax can be indexed to inflation, construction costs, or even the price of gasoline. Another option could be to increase the tax annually by a set amount. Suspensions of the

indexed increases could occur only when the Governor has declared a state of emergency, to be ratified by the General Assembly.

4. Converting the sales tax on motor fuel to an excise tax would adjust Georgia's participation in, and advantage of, the International Fuel Tax Agreement. By doing so Georgia would go to an excise only tax that would result in an additional $60 million to the state.

5. Recapitalize the Georgia Transportation Infrastructure Bank so that a revolving, self-sustaining, loan/grant fund is created specifically to incentivize governments, authorities, CIDs and other entities to provide matching funds for local construction of projects. A percentage of the Infrastructure Bank funds shall also be dedicated to go to lower tier counties of the State as similar to the OneGeorgia tier system. This also gives local governments the ability to have local control concerning their local transportation needs.

6. Implement a one-cent statewide sales tax which would generate approximately $1.4 billion dollars each year. The General Assembly will have discretion as to how it will appropriate such funds for transportation purposes.

7. Increase Georgia's motor fuel tax, which has not been increased since 1971. Taxes on motor fuel are widely accepted and acknowledged to be "user fees," and are therefore the most fair and direct way for users to pay for roads and bridges. If increased 10 cents per gallon, the motor fuel tax would increase

revenue to the Georgia Department of Transportation by approximately $600 million per year. Over time, this revenue source is likely to decline but might be used to fully fund the expanded infrastructure banks.

8. Establish an annual road usage charge/fee for alternative fuel vehicles (hybrids, low-emission and zero-emission vehicles) to be paid in conjunction with existing annual registration fees. This annual fee, estimated to be $200 for non-commercial vehicles and $300 for commercial vehicles, could be indexed to inflation and/or Corporate Average Fuel Economy, (CAFE) standards. The Committee noted that drivers of electric vehicles are eligible for a $5,000 state tax credit and are potentially eligible for other federal tax credits.

9. Look to long term solutions to wean the state and local governments from use of sales taxes on gasoline for non-transportation purposes, while also taking into account local governments' present long-term bond obligations and their need for tax revenue to meet their own local transportation needs.

10. Acknowledge the need for additional investment in transit systems around the state of Georgia. With 128 transit systems around Georgia, one of which is the eighth largest in the country, it is critical that the state of Georgia increase its commitment to the development of responsible, well-funded and coordinated public transportation in metropolitan areas. The 50/50 limitation on spending at MARTA should be examined to see if it should be permanently lifted through separate legislation. Funding is needed annually for investment in transit systems