Current Financing of Inland Waterways and Port Projects

The report, *F reight Capacity for the 21st Century* (November 2002), by the Transportation Research Board (TRB) of the National Academy of Sciences uncovers startling inequalities in how the federal government subsidizes different modes of transportation modes and makes recommendations that could increase the efficiency of freight transportation efficiency in the United States.

In comparing public subsidization of freight transportation for different modes of transport (highways, waterways, railroads, airports, and seaports), the National Academy found that railroad users pay nearly 100% of infrastructure, operation, and maintenance costs; highway users pay 80% of the costs of constructing and maintaining highways; while inland waterway users pay only 8% of the costs of constructing, operating and maintaining necessary infrastructure.

Inland Waterways:

The Internal Revenue Act of 1978 instituted a tax on barge diesel fuel of $0.04 a gallon. The Water Resources Development Act (WRDA) of 1986 created the Inland Waterways Trust Fund, which has financed 50% of the costs of constructing new inland navigation projects, such as lock expansions, and major rehabilitations of existing locks and dams. WRDA 1986 directed that all receipts from the barge fuel tax be used to fund the Trust Fund, and instituted a phased increase of the barge fuel tax to $0.20 by 1995. All other costs of inland navigation are borne by federal taxpayers out of the General Treasury – the remaining 50% of costs of constructing new projects and major rehabilitation, as well as 100% of the costs of maintaining existing infrastructure and maintenance dredging.

Ports:

WRDA of 1986 created the Harbor Maintenance Tax, a 0.04% ad valorem tax on the value of cargo imported or exported from any U.S. port. In 1998, the U.S. Supreme Court ruled the portion of this tax assessed on exports unconstitutional, and trade experts have begun to worry that the portion assessed on imports may violate World Trade Organization (WTO) rules. In 1998, the Clinton Administration proposed through a Harbor Services User Fee that likely would have satisfied the courts and WTO.

The receipts of which have been placed in a Harbor Maintenance Trust Fund that has funded 100% of the maintenance costs of dredging port channels up to 45 feet in depth and 50% of the maintenance costs of dredging port channels deeper than 45 feet. In addition, WRDA 1986 set up the following cost-share formulas for new construction of deep draft port channel projects:

Less than 20-feet deep harbor	**20% Non-federal share***	**80% Federal share**
20-feet to 45-feet deep harbor	**35% Non-federal share***	**65% Federal share**
Greater than 45-feet deep harbor	**60% Non-federal share***	**40% Federal share**

* The federal government will loan up to 10% of this amount to be repaid with interest over a 30-year period. Land easements, and rights-of-way that the non-federal sponsor is required to contribute may be used to offset some or all of this entire amount.

In addition to the Harbor Maintenance Tax, ports are responsible for 100% of their landside infrastructure, operations, and maintenance costs, such as constructing and maintaining warehouses and crane equipment.

Approach Recommended in NAS Report:

The NAS based its recommendations on four common sense principles:

- Economic efficiency ought to be the primary goal of government transportation policy; that is, those capital improvement and operating practices for public facilities should be selected that yield the greatest net economic benefit, considering all costs.

- Government involvement should be limited to circumstances in which market-dictated outcomes would be far from economically efficient.

- A government responsibility to provide facilities or leadership in developing a project does not necessarily justify government subsidy of the costs.

- Reliance on revenue from users, and from local matching funds in federal grant programs, will increase the likelihood that the most worthwhile improvements will be carried out and that facilities will be operated and maintained efficiently.

The NAS went on to recommend that Congress and the administration implement a series of significant reforms that would help maximize the benefit gained from limited federal funding of transportation projects, including the following four key reforms that would have a significant effect upon the Army Corps of Engineers civil works program:

- Require that user fees cover 100% of construction, operation, and maintenance costs for inland waterways and port projects.

- Establish as federal policy a priority for demand management approaches to solving congestion problems over capital-intensive structural projects.

- Eliminate inefficient transportation investments.

- Require independent review of major transportation project justification studies.

Demand management has become an issue recently on the Army Corps' Upper Mississippi River and Illinois Waterway navigation study. The NAS report criticizes the Corps for failing to consider much less costly methods of reducing barge congestion, such as user fees tied to peak demand times and scheduling, instead only looking at a billion dollar expansion project.