CMAP

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# FEDERAL FREIGHT USER FEE COULD PROVIDE MUCH-NEEDED DEDICATED FUNDING FOR GOODS MOVEMENT INFRASTRUCTURE

*This analysis is one of a series examining transportation funding in northeastern Illinois and explaining the revenue recommendations included in ON TO 2050. This analysis explores a federal cost of freight service fee. Other parts of the series examine existing revenue sources for the regional transportation system, and explain recommendations including increasing the state motor fuel tax and eventually replacing it with a road usage charge, expanding the sales tax base, expanding parking pricing, and using tolling and value capture to fund transportation improvements.*

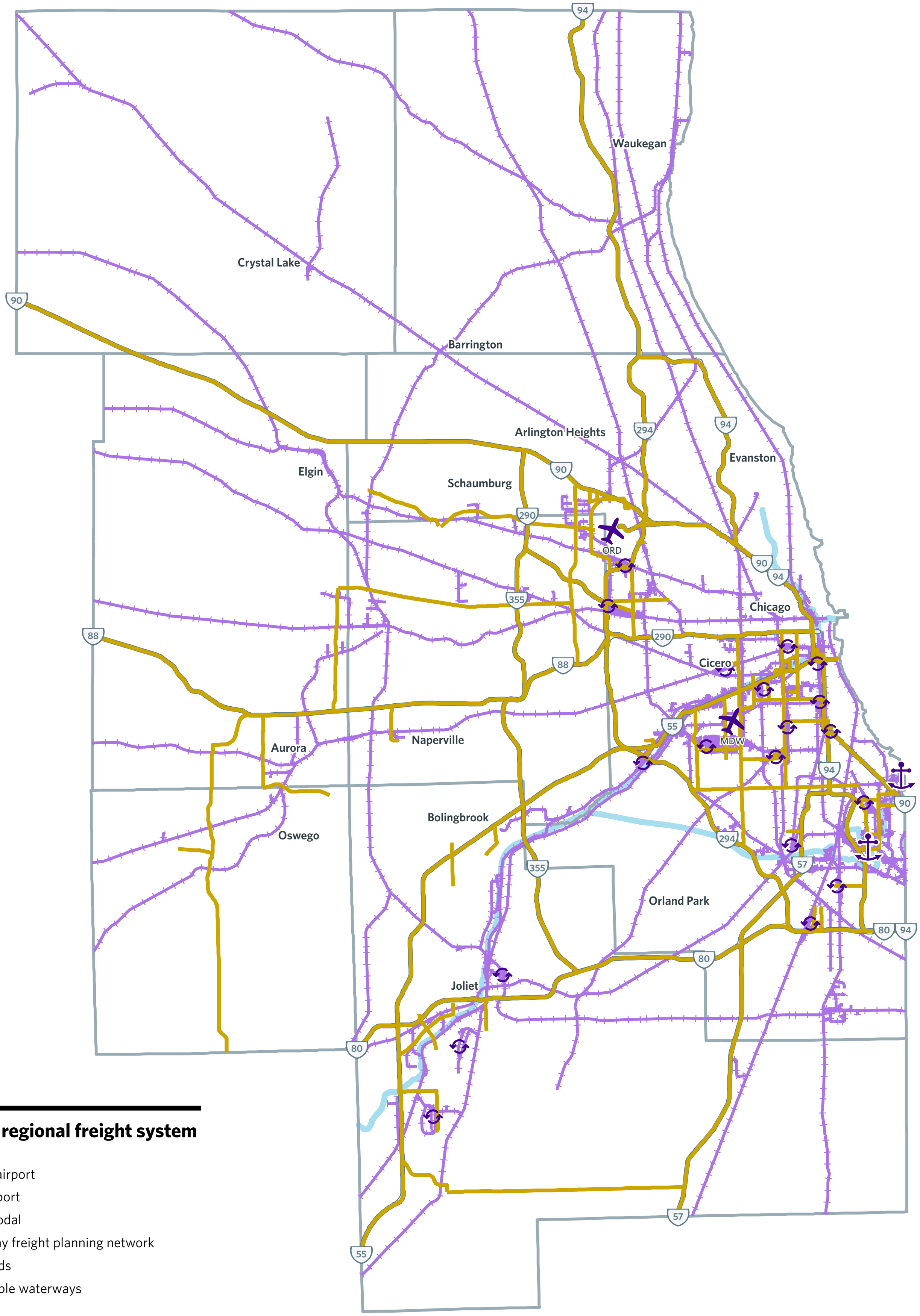
Metropolitan Chicago is North America's premier freight hub, with large concentrations of truck, rail, air, and water shipments providing connections to all parts of the country. This robust freight network ensures that residents and businesses in the region and across the nation get the goods they need in a timely manner. Yet this network is expensive to operate and maintain, and it faces congestion and operational challenges that require significant investment. New federal freight programs established in the Fixing America's Surface Transportation (FAST) Act have begun to address this need for investment, but this funding is insufficient to tackle the magnitude of needs and is not derived from a revenue source dedicated to freight improvement.

Acknowledging that this revenue gap is only projected to increase over the coming decades, ON TO 2050 recommends implementing a federal cost of freight service (COFS) fee. A COFS fee would assess a small percentage on the cost of shipping freight — essentially a sales tax on the price shippers pay to carriers for transporting goods — with revenues dedicated to a multimodal freight improvement program. This approach has a user fee nexus to the freight system, and could be mode-neutral (that is, collected proportionately from shippers using truck, rail, or water to move goods).

A similar approach is currently used for air freight shipments. A COFS fee has been considered by a number of commissions, is supported by national freight interest groups, and was endorsed by the Eno Center for Transportation's 2016 Delivering the Goods report. Given northeastern Illinois' importance to national freight movement, a COFS fee could provide substantial revenue to improve the region's goods movement infrastructure. This analysis discusses the need for the federal government to implement such a fee and how it might function.

**Freight infrastructure improvements in the Chicago region have nationwide benefits and require federal action**

As documented in ON TO 2050, the Chicago region is North America's freight hub, a key link between eastern and western railroads, moving tens of thousands of trucks daily, serving as home to the 6th busiest cargo airport in the country, and providing water access to both the Great Lakes and Mississippi River maritime systems. But the system faces deficiencies, with numerous truck bottlenecks, improvements needed on the freight rail system, and port facilities in need of repair.




**Chicago regional freight system**

- Major airport
- Major port
- Intermodal
- Highway freight planning network
- Railroads
- Navigable waterways

Source: Chicago Metropolitan Agency for Planning, 2017.

Goods movement in the United States is highly concentrated and interconnected, and relies on specific freight infrastructure assets to deliver broad-based economic growth. Given the interstate nature of most goods movement, the federal government has a unique responsibility to support more efficient freight movement and maximize freight's potential economic impacts. Where investments in one region of the country provide broad benefits to other regions and the nation as a whole, federal involvement is warranted.

**The federal government should expand its role in goods movement to address unmet needs**

Passage of the FAST Act acknowledged the federal government's key role in funding goods movement infrastructure by establishing two new largely freight-focused programs. The formula-based National Highway Freight Program (NHFP) and the discretionary Infrastructure for Rebuilding America (INFRA) grant program have funded important freight projects in the region. However, these programs are funded via the federal Highway Trust Fund, which over the last decade has required transfers from other funds to maintain authorized spending levels and again faces insolvency after expiration of the FAST Act in 2020. Long-term certainty for freight funding would be enhanced with a dedicated funding source that has a user fee nexus to the freight system.

Implementation of a COFS fee could also provide funds to expand the freight programs. Applications to both the federal INFRA program and the Illinois Competitive Freight Program (which used the federal NHFP funds) far outstripped available funding. Important goods movement projects in northeastern Illinois remain unfunded, including numerous CREATE Program projects, grade crossing improvements, industrial area and intermodal facility accessibility projects, and projects to address truck bottlenecks. The flexibility and multimodal nature of these programs should also be enhanced. Both the INFRA and NHFP programs currently limit the amount of funds that can be spent on non-highway projects. Expanding program size and eligibility by implementing a COFS fee would help ensure that all parts of the freight system can be improved. Because the fee could be collected from multiple modes, concerns about the ability to use funds on non-highway projects would likely be lessened.

While a multimodal COFS fee including truck, rail, and water shipments would be new, a similar fee is currently in place for air cargo. Section 4271 of the Internal Revenue Code imposes a 6.25 percent tax on the amount paid for domestic air cargo service. Revenue is used to support the nation's aviation infrastructure.

Policy experts have considered COFS fees, waybill taxes, or similar revenue options for a number of years. The 2009 National Surface Transportation Infrastructure Financing Commission considered the waybill tax — essentially a version of the COFS fee — as a potential revenue source, assuming a 0.01 percent rate. Waybills are documents issued by carriers (such as trucking companies or railroads) that include information about shipments, including the cost. The American Association of State and Highway Transportation Officials' 2014 transportation revenue matrix similarly included versions of a freight waybill tax of 0.5 percent applied to gross freight revenues. And as previously noted, Eno's 2016 report recommends a rate of 0.3 percent applied to all modes, exempting international portions and aviation portions of trips. Previous research from the American Road and Transportation Builders Association (see page 123 here) also supports this type of fee.

Congress has also considered the idea. In 2014, 2015, and 2017, bills were introduced in the U.S. House of Representatives to establish new freight funding programs based on a waybill tax. For example, the 2017 proposal for the National Multimodal and Sustainable Freight Infrastructure Act (H.R. 3001) would raise $8 billion for freight infrastructure projects via a 1 percent tax on trucking and rail shipments to be paid by the shipper.

### Implementing a COFS fee would require new rules and practices

A national cost of freight service fee would charge a percentage fee on the cost of all shipments, regardless of mode. While similar to a waybill tax, a COFS fee is intended to also capture freight shipments that do not produce an official waybill receipt, such as those made by a private fleet operator (e.g., a large retailer that owns and operates its own fleet of trucks). For shipments made by a company's own fleet, the fee would be levied on the fair market value of the transportation as determined by the Internal Revenue Service (IRS) or other administrative body. The fee could be charged at an even rate across transportation modes so that no mode is disproportionately affected.

This revenue source is new — neither the federal nor state governments currently collect such a fee — and would require new rules and practices to accurately and efficiently collect the fee. The high number of taxpayers and associated filing, auditing, and enforcement requirements could make administration complex. Properly accounting for shipments made by private fleets could also increase complexity and cost. Under one administrative scenario, private companies would be required to report waybill-like costs to the IRS on a regular basis. But reporting timelines, cost calculations, and other issues would need to be addressed in both legislation and regulation. Administration of the fee for exports and imports would additionally have to consider issues at border crossings, existing foreign trade regulations, fee evasion enforcement, and related issues. Keeping both the cost and administrative burden on shippers low would be an important aspect of implementing the fee and could help garner industry support.

### A COFS fee can generate adequate, sustainable revenue

Estimates vary of what the COFS fee rate should be to achieve target revenues, though relatively low rates could achieve substantial revenue. Eno's Delivering the Goods report estimates that a fee of 0.3 percent of shipment costs would raise $2 billion annually nationwide — an amount approximately equal to the annual funding provided in the FAST Act's two freight programs.

If revenues were allocated based on existing freight assets or needs, northeastern Illinois would receive a relatively high portion of funds. The Congressional proposals noted above would distribute funds through a formula that takes into account a state's freight tonnage, value of freight moved, Interstate system miles, rail track-miles, ports, and cargo airports. As discussed in a 2015 CMAP memo, under such a formula Illinois would receive 4.67 percent of the program — the third most among all states — which is a full percentage point higher than Illinois' current 3.63 percent share of federal highway formula funds.

Unlike many other freight revenue sources that policy experts have considered, a COFS fee demonstrates strong sustainability. Over the long run — unless shipping rates reduce drastically — revenue would increase as freight traffic grows along with the economy. Larger dynamics, such as shorter supply chains for factories and retailers as well as the growth of ecommerce, are also increasing the amount of freight traffic.

Drawing on the example of the freight programs in the FAST Act, it is possible that revenues raised from a COFS fee could be split between a formula program and a competitive program, both directed toward various freight modes. CMAP's federal agenda supports performance-based approaches to federal programs, as well as an engaged role for metropolitan planning organizations in planning and project selection. Given the prominence of the region in national and statewide freight movements, a selection process that emphasizes performance-based investment should benefit goods movement in northeastern Illinois and nationwide.

### Moving forward

ON TO 2050 recognizes the vital importance of the region's freight network to economic prosperity and overall quality of life for northeastern Illinois. The plan calls on the region to maintain its status as North America's freight hub and fully fund the region's transportation system — through a number of enhanced or new revenue sources including a COFS fee. The plan also supports user fees, which raise transportation revenues from those that most strongly use and benefit from the transportation system. As expiration of the FAST Act in 2020 approaches, CMAP will continue to support identification of sustainable revenues for multimodal freight improvements such as a COFS fee.

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