

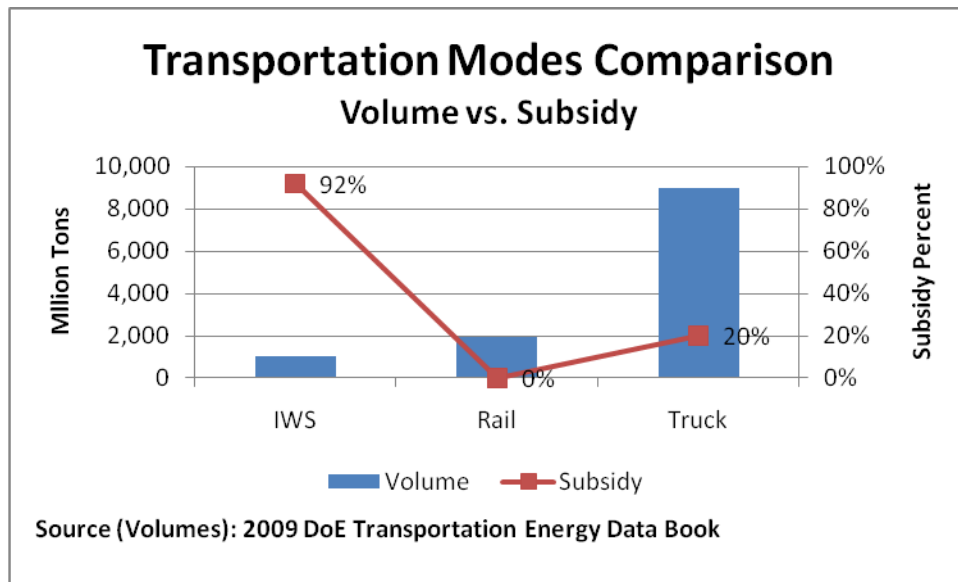
FACT SHEET: Historic Subsidy of Inland Waterways Navigation System

Proposed Changes to the Inland Waterways Trust Fund (IWTF):

Barge Industry contributions are inadequate to properly fund the Inland Waterways Trust Fund's projects backlog, yet the industry wants to restore IWTF solvency and increase inland waterways navigation investment primarily by increasing the burden on all other taxpayers.

- The barge industry touts itself as the cheapest form of commodity transportation. Unfortunately, the equation used to derive that designation excludes over 90 percent of the costs to support the inland waterways system.

According to the National Academy of Sciences,¹ **U.S. taxpayers pay 92 percent of the inland waterway system (IWS) costs** of constructing, operating and maintaining barge navigation infrastructure. This is compared to virtually no taxpayer support for rail system users and only 20 percent for highway system users.



- The general public does receive some benefits from the current dams on the rivers, though it can be argued that the costs, both financial and to the environment, have far exceeded these benefits. The barge industry paid nothing for the original lock and dam system and do not contribute to repairing and restoring degraded riverine ecosystems, which the inland waterways navigation system is largely responsible for causing. The taxpayers have been totally responsible for these costs, and as mentioned above all of the O&M costs and 50 percent of the construction and rehabilitation costs.
- When all costs are accounted for, the inland waterways system is by far the most expensive shipping system in the country.

What the 1986 Inland Waterways Trust Fund Legislation Requires:

- Funding of the IWTF comes from a diesel fuel tax per gallon paid by commercial transportation on inland waterways. The tax increased incrementally from 1986 at \$0.10 to 1995 at \$0.20. The tax from this legislation has not increased since 1995.²
- The legislation requires 50 percent of the cost of construction³ of new inland waterways navigation facilities to be funded from the IWTF.

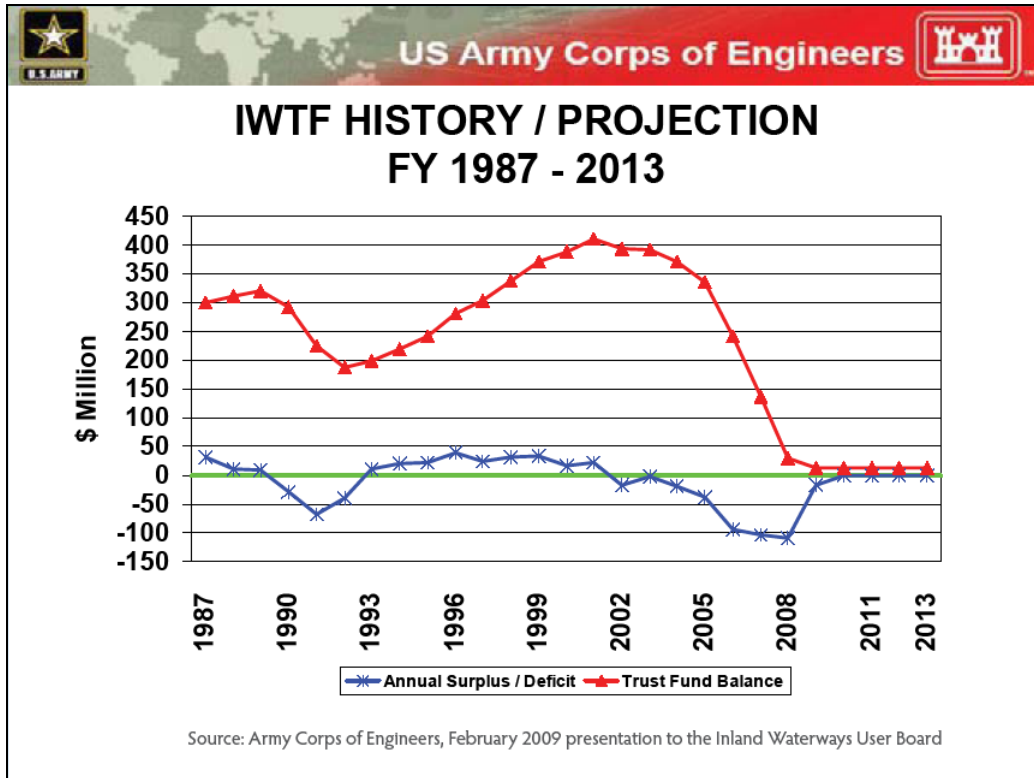
¹ Freight Capacity for the 21st Century (November 2002), by the Transportation Research Board (TRB) of the National Academy of Sciences

² From 1978 to the enactment of the Inland Waterways Tax, Section 104 of the Water Resources Development Act of 1986 the fuel tax was \$0.04.

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- The rehabilitation of existing inland waterways navigation structures, regardless of the projects size, is considered new construction and covered at a 50 percent cost share from the IWTF.
- The cost of operation and maintenance of any project for navigation on the inland waterways is 100 percent funded by taxpayers.

Historic and Projected IWTF Revenue and Funding Status



Proposed Administration Remedies for Inadequate IWTF Revenue and More Appropriate Cost Sharing:

Lockage Fees:

- Both the Bush and Obama Administrations have proposed the substitution of lockage fees for the current fuel tax to provide revenue for the IWTF.
- "The amount of the user fee would be tied to the level of spending for inland waterways construction, replacement, expansion and rehabilitation work."⁴
- The barge industry opposes this proposal stating that "Replacing the excise tax on fuel that equitably distributes taxes on all commercial waterways users with a lock usage tax would impose disproportionate tax burdens on vessels transiting certain segments of the inland waterways, while other vessels using the system would pay little or nothing. This flawed approach would increase the cost of shipping essential commodities such as grain and petroleum"⁵

Funding Operation and Maintenance (O&M) Costs:

³ "construction" shall include planning, designing, engineering, surveying, the acquisition of all lands, easements, and rights-of-way necessary for the project, including lands for disposal of dredged material, and relocations necessary for the project.

⁴ American Waterways Operators, February 8, 2008, AWO Letters, Quote from Corps' press release on the FY 2009 budget

⁵ American Waterways Operators, May 12, 2009, Barge and Towing Industry Opposes Proposal to Impose Unfair Inland Waterways Lockage Tax

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- In 2003 the Bush Administration proposed using the IWTF to pay 50 percent of the ongoing inland waterways system O&M costs.
 - This change would have begun to adjust the inordinate subsidy the inland waterways navigation industry receives to a more reasonable level.
 - The barge industry opposed this proposal claiming⁶:
 - The proposal would inevitably lead to a tax increase.
 - The proposal would have a dramatic and adverse impact on the agricultural, energy, and transportation sectors at a time when the economy is struggling to recover.
 - The proposal breaks faith with waterways users (by altering the cost share requirements of the IWTF in the 1986 WRDA Legislation).
 - The proposal is unfair because the transportation users would be the only beneficiaries paying for the operation and maintenance of the waterways.
 - Concurrent with their denouncing the O&M cost share proposal, the barge industry exhorted Congress to increase spending in O&M by at least \$100 million, at the cost of the taxpayers.
 - The February 2003 IW Users Board annual report stated:

“To fund the operations and maintenance that the Administration’s budget proposes be taken out of the Trust Fund would require an increase of 168% in the Inland Waterway User Tax from 20 cents to 53.5 cents.”

Although the User Board has vehemently opposed any increase in their user tax, they have no qualms about placing the burden on U.S. taxpayers to increase their subsidy.

IWTF Users Board Proposed Changes⁷:

The Waterways Council portrays the changes proposed by the Users Board as a consensus plan, “Industry and the U.S. Army Corps of Engineers have worked together over the past year to develop a comprehensive, consensus package of recommendations to improve the reliability of this critical system.”

- The proposal includes the following changes:
 1. Preserve the existing 50% industry - 50% federal cost-sharing formula for new lock construction and major lock rehabilitation projects costing \$100 million or more.
 2. Adjust the current model to provide 100% federal funding for dam construction and major rehabilitation and smaller lock rehabilitation projects, recognizing the value derived by other beneficiaries from dams and the pools created by dams.
 3. Include a cost share cap on new lock construction projects to incentivize keeping projects on budget and prevent the **industry** from bearing the burden of paying for unreasonable cost overruns.
 4. The fuel tax would increase between \$0.06 and \$0.09 from the current \$0.20 tax.

There was one major stakeholder missing from the industry and Corps meetings when this plan was developed – the taxpayer.

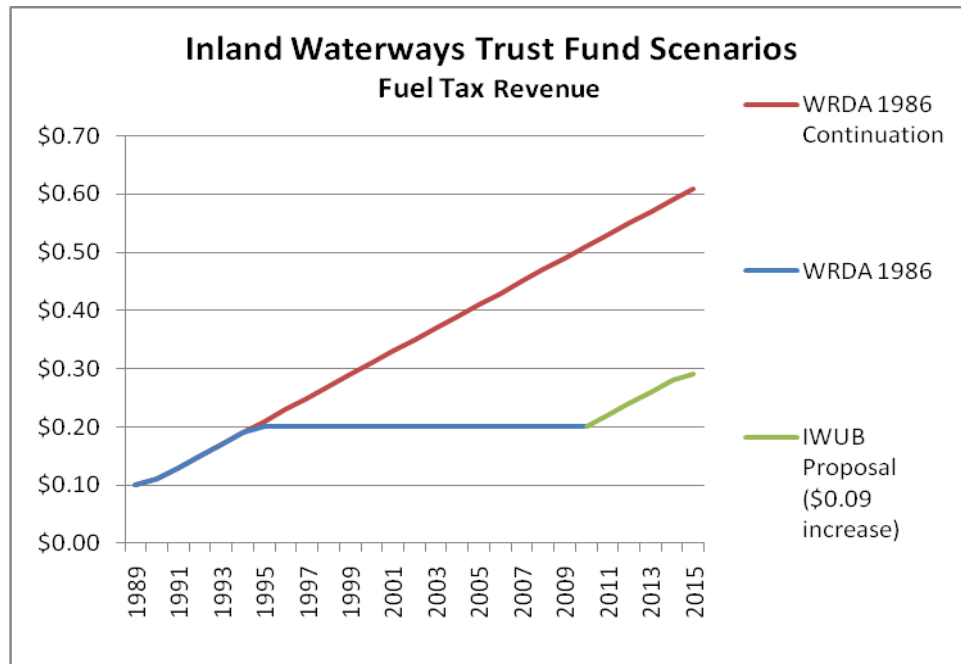
⁶ Various Barge Industry Organizations beginning with the American Waterways Operators, February 26, 2003, The Administration's Raid on the Inland Waterways Trust Fund to Fund Operations and Maintenance Will Severely Harm U.S. Agricultural, Energy, and Transportation Sectors

⁷ U.S. Army Corps of Engineers, 2009, Inland Marine Transportation System Capital Investment Strategy presentation by Jeanine Hoey, December 15, 2009, slide 14

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These proposed changes serve one basic purpose: decreasing the cost share percentage of the barge industry. The result is a dramatic increase in the taxpayer's subsidy of the inland waterways system.

- Over the last 20 years no major rehabilitation of the Upper Mississippi River locks and dams have approached \$100 million⁸. Under the User Board proposed changes the taxpayers would have fully funded all of these rehabilitation projects.
- The alarming proposed change for a cost-share cap (number 3 above) has the potential of increasing the taxpayers' share immensely. Over the last two decades Corps inland waterways projects, especially on the Ohio River, have seen staggering cost-overruns ranging from 82% to 206%. Essentially the cap enables the barge industry to limit its exposure to at or near a project's initial cost estimate.
 - The chart below shows by year; the current IWTF fuel tax limit at \$0.20, the IWUB proposal to raise the fuel tax to up to \$0.29, and if the annual increase rate of \$0.02 per year for the fuel tax had continued what the tax would be today and in the future. Had the annual increases in the fuel tax continued after 1995 the IWTF would be collecting three times the current revenue received from the barge industry. This added revenue would have allowed construction to proceed in a more effective and economical manner and also provided funding for adding an industry cost share of O&M Costs.



To review the entire “Big Price – Little Benefit” report and find out why the proposed locks on the Upper Mississippi River are not economically viable, go to: www.iwla.org/bigprice

The Nicollet Island Coalition is a group of conservation, environmental and taxpayer advocate organizations formed in 1994 to address restoration issues on the Upper Mississippi River and provide coordinated advocacy work on Upper Mississippi River issues.

⁸ U.S. Army Corps of Engineers, February 24, 2010, NECC Meeting discussions