Transportation

Summary

Everyone benefits from a transportation system that works efficiently and effectively.

The U.S. government has played a continuous role in the transportation sector throughout its history. To better coordinate the government's transportation activities, in 1966, President Johnson created the U.S. Department of Transportation (DOT). Today DOT houses various government transportation programs, such as the Federal Aviation Administration, the Federal Highway Trust Fund and the U.S. Maritime Administration. Altogether DOT includes 13 sub-agencies covering a range of transportation modes, such as: aviation, highways, maritime, motor carriers, pipeline safety, and public transit and railroads.

DOT's mission is to "serve the United States by ensuring a fast, safe, efficient, accessible and convenient transportation system that meets our vital national interests and enhances the quality of life of the American people, today and into the future." Expanding on this mission, DOT's strategic goals (PDF) are to: *"improve safety; protect the environment; support national security, preparedness and response; reduce congestion for all Americans; and increase global transportation connectivity in support of the Nation's Economy."*

In addition to the DOT's programs, the federal government carries out some transportation-related activities through the Department of Homeland Security, which includes the U.S. Coast Guard and other programs for transportation security. The Export-Import Bank of the United States, which helps finance the exports of American goods and services, is also active in the transportation sector. In fiscal 2008, it guaranteed nearly $5.7 billion in long-term, transportation-related loans in 17 countries, mostly for commercial aircraft.

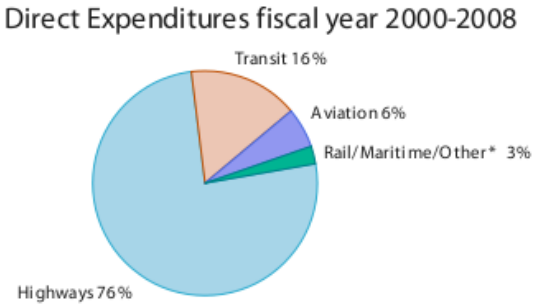
Government Funding of Transportation Services

Subsidyscope examines four different categories of government subsidies, which are based on how the federal government delivers subsidies to recipients.

1. Direct expenditures include direct transfers of money (e.g. cash grants) or goods and services (e.g., donation of government surplus). This does not include contracts for goods and services which are covered in a separate category below.
2. Tax expenditures provide tax relief to certain parties by allowing special tax exemptions, deductions,

credits or exclusions of income.

3. Risk transfers convey financial risk to the federal government through insurance contracts, loans, loan guarantees and similar instruments.
4. Government contracts may also be used to encourage or change market behavior by paying for goods or services at prices above fair market value. For instance, the federal procurement system includes preferences for everything from alternative fuel vehicles to minority-owned businesses.



**Appropriations figures were substituted for missing rail data. Does not include Maritime spending from 2000-2004.*

It is important to note two things about these categories. First, they are not exhaustive. The federal government uses other tools to provide subsidies, notably regulations, tariffs and negative subsidies (such as excise taxes), but Subsidyscope currently focuses on the four categories described above. Second, not all government spending is subsidy spending, and not all spending on subsidy programs counts as a subsidy. The actual subsidy a recipient receives is the net benefit they receive from the program. The cost of administering a subsidy program, for instance, does not directly benefit a recipient.

In general, federal spending on the transportation sector is dominated by direct expenditures. In FY08, the federal government spent $42.7 billion on grants and other direct expenditures (excluding contracts) for transportation related activities. Some of the larger direct expenditure programs include the Airport Improvement Program and the Essential Air Service program, highway funding, the Maritime Security Program, Amtrak and public transit. Total spending on these six programs reaches roughly $41 billion per year.

There are only a handful of transportation related tax expenditures. Adding up the Department of Treasury's estimates — which are presented by the Office of Management and Budget in the President's Budget — results in a total of approximately $3.7 billion in revenue foregone due to transportation related tax expenditures in fiscal year 2008, as listed below:

Table 1: Transportation related tax expenditures (fiscal year 2008)

Exclusion of reimbursed employee parking expenses	$2,920 million
Exclusion for employer-provided transit passes	$480 million
Tax credit for certain expenditures for maintaining railroad tracks	$180 million
Exclusion of interest on bonds for financing of highway projects and rail truck transfer facilities	$80 million
Deferral of tax on shipping companies	$20 million
Total	***$3,680 million***

Source: The President's Budget for Fiscal Year 2010, Analytical Perspectives; The Congressional Joint Committee on Taxation also produces tax expenditure estimates using slightly different assumptions; their estimates for the transportation tax

expenditures are very similar.

Tax expenditure data presented are estimates of revenue forgone. They represent the lost revenue attributable to the use of the provision, which is not necessarily the same as what would be raised if the tax expenditure was repealed. Summing tax expenditures does not account for the potential interactions among different types of taxes; however, it provides a reasonably good estimate of the total cost to the Treasury of the tax expenditures that are specifically targeted to the transportation sector. The repeal of any single tax expenditure can trigger behavioral effects that in turn affect other tax expenditure amounts or even the total amount of tax revenue flowing into the Treasury. For example, if the tax expenditure favoring employee parking is repealed, more taxpayers may take the tax expenditure for employee transit passes, thus increasing the estimate for that tax expenditure.

The President's Budget for fiscal year 2010 estimates that transportation related loans and loan guarantees were about $1 billion in 2008 — with a subsidy of $154 million. For 2009, the projections are higher, at $3.7 billion in loans and loan guarantees, of which $266 million is a subsidy. For more on the use of risk transfers as a policy tool, and why these numbers are a lower bound, click here.

Last updated September 28, 2009.

Aviation

The federal government carries out most of its air transportation activities through the Federal Aviation Administration (FAA), which is housed in the Department of Transportation (DOT). The FAA's mission is to "promote aviation safety and reduce congestion by building, maintaining, and operating the Nation's air traffic control system; overseeing commercial and general aviation safety through regulation and inspection; and providing assistance to improve the capacity and safety of our airports." It also funds aviation-related research and development.

Related Updates

- Nearly $10 Billion in Guarantees Aided Sales of Boeing Planes in FY 2007-2008
- Database Shows Billions Went to Airport Projects Deemed Low Priority
- Subsidyscope Reveals Spending on Transportation Subsidies

Most of the money spent by the federal government on aviation comes from the Airport and Airway Trust Fund. The fund is supported by excise taxes on passenger tickets, freight and fuel. It provides all of the money for the FAA's airport improvement, facilities and equipment, and research and development activities — a total of about $6.4 billion for fiscal year 2009, not including $1.3 billion in supplemental appropriations under the American Recovery and Reinvestment Act. Programs financed by the trust fund include construction grants to airports, subsidies to airlines serving small communities and modernization of the air traffic control system. The fund also supports between one-half and two-thirds of the FAA's operations budget, which is about $9 billion for fiscal year 2009. The rest of the agency's funding comes from general revenue.

The Airport Improvement Program (AIP) and the Essential Air Service (EAS) program are among the major aviation programs included in Subsidyscope. The AIP redirects tax revenues from the places where they are generated to other locations; the EAS involves direct payments to airlines that operate in little-served communities.

The AIP draws all of its revenue from the Airport and Airway Trust Fund. It handed out $3.5 billion to airports in fiscal 2008 for construction, rehabilitation, noise studies and other initiatives. The EAS program is supported partly by the trust fund and partly by overflight fees imposed on carriers that use U.S. airspace but neither take off from, nor land, in this country. It provided $108 million in subsidy payments to airlines serving small communities in calendar year 2008, and is expected to dispense as much as $150 million this year.

Last updated September 28, 2009.

Transportation

Highways

Highway spending in the United States is administered primarily through the Federal Highway Administration (FHWA), a division of the Department of Transportation (DOT). The FHWA administers two main programs. The Federal-Aid Highway Program maintains both the National Highway System and about one million additional miles of other roads. The Federal Lands Highway Program maintains roads on federal lands, such as national parks and forests. The FHWA also conducts safety research and funds projects to alleviate congestion on highways. Two smaller agencies within the DOT conduct their own highway safety programs: the National Highway Traffic Safety Administration, which is charged with enforcing safety and fuel-economy standards for motor vehicles, and the National Motor Carrier Safety Administration, which regulates commercial vehicles, such as trucks.

Related Updates

- More Highway Data Released
- Analysis Finds Shifting Trends in Highway Funding
- Subsidyscope Reveals Spending on Transportation Subsidies

Funding for the FHWA comes from the Federal Highway Trust Fund. The fund is financed through excise taxes on gasoline, diesel fuel, truck tires and other items. These taxes include the 18.4-cent-per-gallon federal tax on gasoline, as well as taxes on diesel fuel, truck tires and other items. The FHWA directs almost all of the money to government recipients, primarily state departments of transportation, which must match a portion of the funds. The actual construction and upkeep of the roads is performed by state and local governments.

In fiscal year 2009, the FHWA's budget was $69.1 billion. This figure is much higher than in previous years, because it includes $27.5 billion from the American Recovery and Reinvestment Act of 2009. A small fraction of the FHWA's budget comes from the general fund for miscellaneous projects, such as the Appalachian Development Highway Program.

Not all Highway Trust Fund money is spent on highways. Roughly 80 percent of the money goes to highway projects; most of the rest goes to mass transit projects. The portion that goes to highways is intended primarily for the construction and upkeep of roads to facilitate interstate commerce and travel. Funds may also be allocated for projects such as bridge repair, safety improvements, bicycle and pedestrian facilities, carpools and recreational trails.

Federal subsidies to highways are difficult to quantify because the money is distributed to state governments, which administer the programs and are not required to publicly disclose details of their spending. Some subsidies arise as departments of transportation look for new ways to finance

highway projects. States, for example, have begun to lease public roads to private companies. Those companies spend large sums for long-term leases of public roads — $3.8 billion was spent for a 75-year lease of a toll road in Indiana — and can then raise revenue by charging tolls. These companies are commonly granted tax benefits such as partial tax-free financing and accelerated depreciation.

Last updated September 28, 2009.

Transportation

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Maritime

The federal government supports the U.S. maritime industry through the Maritime Administration (MARAD), which is part of the Department of Transportation (DOT). MARAD's mission is to advance marine transportation — primarily ships and barges — and put forth a "viable U.S. merchant marine that is vital to commerce, emergency response, and national security." Among other things, MARAD maintains the Maritime Security Fleet and the Ready Reserve Force. Both programs make ships available to the military during national security emergencies.

Related Updates

- Maritime Administration Loan Guarantees
- Subsidyscope Reveals Spending on Transportation Subsidies

MARAD's entire budget comes from the general fund. The Maritime Security Program accounts for more than half of the budget, sending direct payments to owners of the 60 ships and barges that participate in the program. For fiscal year 2009, $174 million of the $333 million budget went to the Maritime Security Fleet, with each participating ship receiving a flat payment of $2.9 million. The second largest chunk of the budget, $61 million, went toward operations of the U.S. Merchant Marine Academy (USMMA). In 2009, MARAD received $100 million in supplemental funds from the American Recovery and Reinvestment Act to be used for small shipyard assistance.

MARAD provides a large proportion of its budget as subsidies to the maritime industry. All told, $256 million — or 77 percent — of its fiscal year 2009 budget was dedicated to the growth of the industry. Aside from the Maritime Security Program and the USMMA, subsidies are given to state maritime academies and participants in the Maritime Guaranteed Loan program, aiding in the construction and rehabilitation of ships. Subsidies are also available through small shipyard assistance grants and two tax-deferral programs.

The maritime industry also receives implied subsidies from laws established to limit foreign competition and incentivize producers of American goods to use U.S.-flag ships. One example of this is the Jones Act, which mandates that all shipping from one American port to another be done by a U.S.-flag ship. Another example is the Military Cargo Preference Act, which requires that at least 50 percent of civilian agency goods shipped internationally be carried by U.S.-flag vessels. The Cargo Preference Act requires that all military cargo be carried on a U.S.-flag ship.

Last updated September 28, 2009.

Transportation

Rail

The rail industry in the United States has two distinct components: freight and passenger. The freight rail industry is a private enterprise and mostly uses private funds to operate, although there are federal loan and grant programs available for rail rehabilitation, improvement and relocation.

Related Updates

- Analysis Shows Amtrak Lost $32 Per Passenger in 2008
- Subsidyscope Reveals Spending on Transportation Subsidies

Passengers are served by the National Railroad Passenger Corporation, better known as Amtrak, a private, for-profit company. Annually, Amtrak receives funding from Congress in two ways. One is an operating subsidy that funds the operations of the rail service, and the other is a capital grant that funds infrastructure projects. In recent years, Amtrak's appropriations have exceeded $1 billion annually; it received $ 1.4 billion in 2009, not including the $1.3 billion it received through the American Recovery and Reinvestment Act.

The Federal Railroad Administration, an agency within the Department of Transportation, oversees and supports the entire industry in a number of ways. It enforces safety regulations, conducts research and development, manages railroad assistance programs and funds the rehabilitation of the Northeast Corridor passenger line.

Subsidies to the rail industry include Railroad Rehabilitation & Improvement Financing for smaller railroad companies; Transportation Innovation & Finance to improve rail crossings; the Railroad Rehabilitation and Repair program for rail lines damaged in natural disasters; and the Rail Line Relocation and Improvement Capital Grant Program for capital improvement projects. Amtrak has been receiving an operating subsidy since 1971, as it has never been fully self-sustaining. All of these rail funding programs can be found on Subsidyscope.

Last updated September 28, 2009.

Transportation

Transit

Created by the Urban Mass Transportation Act of 1964, the Federal Transit Administration (FTA) oversees thousands of grants to state and local providers of transit programs. FTA financial assistance is used to develop new transit systems as well as improve, maintain and operate existing systems. Grantees must manage their projects in accordance with federal requirements, enforced by the FTA.

Related Updates

- Subsidyscope Reveals Spending on Transportation Subsidies

Buses, heavy rail, and commuter rail services consume the largest portion of operating expenses. Other modes of transportation funded by the FTA include light rail, monorail, passenger ferries, trolleys, inclined railways and people movers. Operating costs can vary greatly depending on the type of service provided (see graph below)

At its inception, the aim of the FTA was to provide an alternative to federal spending on highways. The largest funded programs between the years 2000 to 2009 were formula grants for construction in urban areas ($34.9 billion); capital investment grants for equipment and improvement of facilities, ($26 billion); and formula grants for administration and operating expenses in non-urban areas ($2.8 billion).

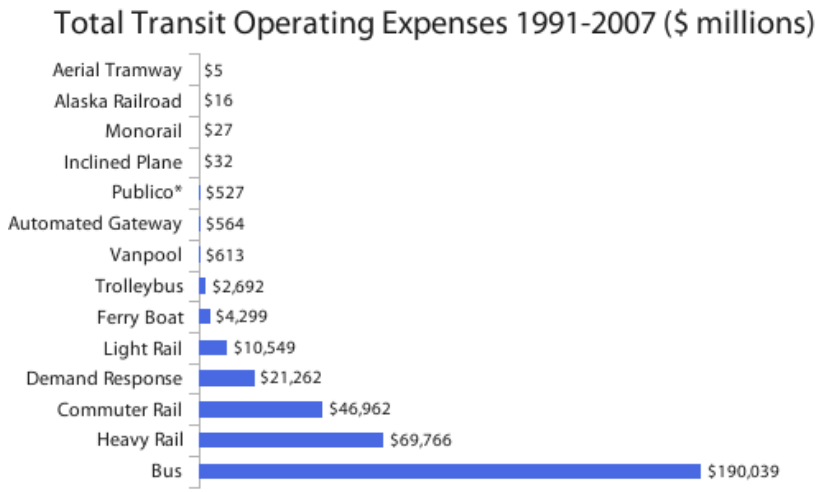
Nearly all FTA programs are funded through the Mass Transit Account within the Highway Trust Fund. The fund is supported by fuel taxes and other excise taxes on motorists. The Mass Transit Account currently receives about 19 percent of the total fund or about $10.3 billion. Only one FTA program — for public transportation research — is supported by the general fund.

In 2009, an additional $7.65 billion was allocated to the FTA under the American Recovery and Reinvestment Act, bringing total transit funding for 2009 to approximately $18 billion. Most of the recovery money will fund capital assistance grants.

The FTA also provides direct loans, loan guarantees, lines of credit, and credit enhancement support such as bond insurance for transit through the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the State Infrastructure Bank program. TIFIA is aimed at attracting private and non-federal investment in transportation projects by offering loans and loan guarantees. The program is designed to complement federal grants with financing for infrastructure. Since 1998, more than $500 million in direct loans were issued to two transit programs and one intermodal project with a strong transit component under the TIFIA program. A $600 million loan guarantee was issued to the Washington Metropolitan Area Transit Authority Capital Improvement Program in 1999 – making it the

single largest recipient of a TIFIA loan guarantee thus far.

Exempt Facility Bonds also give private investors, who fund transportation and other public infrastructure projects, a tax break on interest they might earn on such bonds. The tax-exempt bond allows private investors to receive significant tax benefits.



Source: National Transit Database (1991-2007).

** A transit mode in Puerto Rico of privately-owned passenger vans or small buses that are unsubsidized but regulated by local governments*

The American Recovery and Reinvestment Act also created the Build America Bond program for 2009-2010, under which the federal government covers 35 percent of the interest that a public entity must pay to private investors on taxable bonds for infrastructure projects. This is a direct subsidy from the U.S. Treasury to state and local governments that issue such bonds for capital projects.

Last updated September 28, 2009.

Direct Expenditures

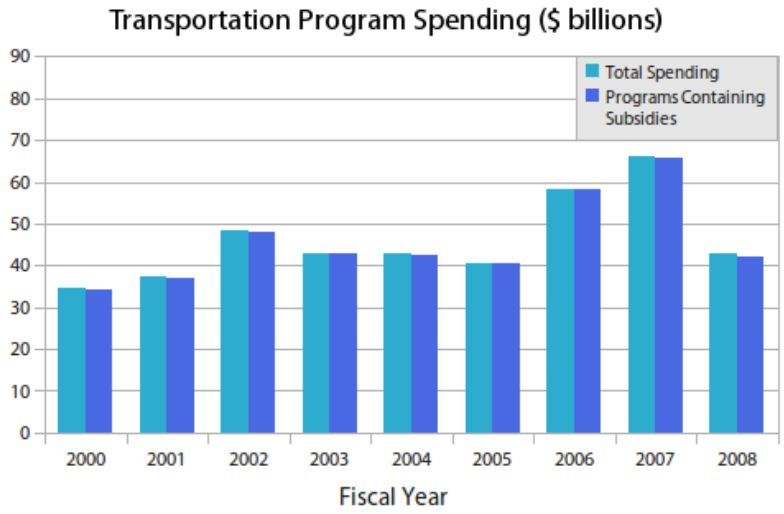
The federal government uses direct expenditures to implement many programs. Direct expenditures typically include direct transfers of money (e.g., cash grants) or goods and services (e.g., donation of government surplus). It does not include contracts for goods and services, which are covered in a separate category. Many federal agencies, such as the Department of Transportation and the Department of Health and Human Services, carry out most of their non-regulatory programs through direct expenditures.

While the federal government increasingly relies on tools such as loans, loan guarantees and contracts to get its work done, direct expenditures continue to be a significant portion of government spending. Indeed, they remain the most visible and recognizable type of government activity.

Collecting data on direct expenditure programs is easy. However, measuring the subsidies delivered through direct expenditure programs can be quite hard. Not all government programs contain a subsidy. Subsidyscope made its own assessment of transportation programs listed in the Catalog of Federal Domestic Assistance and determined most, but not all, program spending went to programs that contain a subsidy (see graph below). Further, not all the money spent on programs containing a subsidy is a subsidy. Finally, measuring a subsidy requires economic data, such as market prices for public goods, that may or may not be available.

In this section...

- Direct expenditures, such as grants and the donation of goods or services, are the most visible and recognizable type of government activity. They are a large portion of government spending and typically include direct transfers of money, such as grants, or transfers of goods and services (excluding contracts).
- Collecting data on direct expenditure programs is easier than measuring the subsidies that they provide.
- Subsidyscope presents a database of federal direct expenditures using data from USAspending.gov.



Source: USAspending.gov FAADS database

Subsidyscope presents data on subsidies provided through direct expenditures where estimates are available. Regardless of whether the specific subsidy is known, Subsidyscope compiles data on direct expenditure programs that contain subsidies.

For direct expenditures, Subsidyscope extracts spending and other data from USAspending.gov (which supplanted the Federal Assistance Award Data System, or FAADS). Subsidyscope uses the Catalog of Federal Domestic Assistance (CFDA) number to identify those programs of interest in the USAspending.gov database. Click here for a list of transportation programs in the CFDA and descriptive detail about each program. To search our database of spending through CFDA programs, click here.

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Direct Expenditures Program Directory (CFDA)

The Catalog of Federal Domestic Assistance (CFDA) organizes most federal assistance spending — that is, non-procurement spending — into a set of distinct programs, each with detailed information about its aims, history and eligibility requirements. The authoritative source of CFDA information can be found at https://www.cfda.gov. Subsidyscope also maintains a copy of much of this information.

More specifically, Subsidyscope uses the CFDA to determine which direct spending programs fall within each sector. Each record in the dataset is assigned to a CFDA program; each CFDA program has an account code; and each account code falls under a budget function, which often corresponds closely to one of the sectors we have chosen to examine. In this way individual transactions can be assigned to one or more sectors via the transaction's CFDA program.

Users should be aware that CFDA data quality cannot be guaranteed. Agencies and program staff are responsible for self-reporting the information contained in the catalog. It is not obvious what quality controls are in place, nor is it clear what circumstances oblige a program to register with the CFDA. For this reason the catalog should not be considered comprehensive or correct, although it does include the vast majority of domestic assistance programs.

Subsidyscope assigned "tags" to each program in the transportation sector to classify its purpose and/or mechanism of delivery, which may be used to search the data below. For more on tags and their use for selection of programs containing subsidies, click here. The programs may also be searched by mode of transportation.

Program Listing

Filter By: Tag —*or*— Mode

- 12.105. Protection Of Essential Highways, Highway Bridge Approaches, And Public Works
- 12.107. Navigation Projects
- 12.108. Snagging And Clearing For Flood Control
- 12.109. Protection, Clearing And Straightening Channels
- 15.033. Road Maintenance_Indian Roads
- 20.100. Aviation Education
- 20.106. Airport Improvement Program
- 20.108. Aviation Research Grants

20.109. Air Transportation Centers Of Excellence

20.200. Highway Research And Development Program

20.205. Highway Planning And Construction

20.215. Highway Training And Education

20.218. National Motor Carrier Safety

20.219. Recreational Trails Program

20.223. Transportation Infrastructure Finance And Innovation Act (TIFIA) Program

20.231. Performance And Registration Information Systems Management

20.232. Commercial Driver's License Program Improvement Grant

20.233. Border Enforcement Grants

20.234. Safety Data Improvement Program

20.235. Commercial Motor Vehicle Operator Training Grants

20.236. Thermal Imaging Inspection System Demonstration Project

20.237. Commercial Vehicle Information Systems And Networks

20.238. Commercial Drivers License Information System (CDLIS) Modernization Grant

20.240. Fuel Tax Evasion-Intergovernmental Enforcement Effort

20.301. Railroad Safety

20.303. Grants-In-Aid For Railroad Safety - State Participation

20.312. High Speed Ground Transportation - Next Generation High Speed Rail Program

20.313. Railroad Research And Development

20.314. Railroad Development

20.315. National Railroad Passenger Corporation Grants

20.316. Railroad Rehabilitation And Improvement Financing Program

20.317. Capital Assistance To States - Intercity Passenger Rail Service

20.318. Maglev Project Selection Program - SAFETEA-LU

20.319. High-Speed Rail Corridors And Intercity Passenger Rail Service – Capital Assistance Grants

20.500. Federal Transit_Capital Investment Grants

20.505. Metropolitan Transportation Planning

20.507. Federal Transit_Formula Grants

20.509. Formula Grants For Other Than Urbanized Areas

20.513. Capital Assistance Program For Elderly Persons And Persons With Disabilities

20.514. Public Transportation Research

20.515. State Planning And Research

20.516. Job Access_Reverse Commute

20.518. Capital And Training Assistance Program For Over-The-Road Bus Accessibility

20.519. Clean Fuels

20.521. New Freedom Program

20.522. Alternatives Analysis

20.600. State And Community Highway Safety

20.601. Alcohol Impaired Driving Countermeasures Incentive Grants I

20.602. Occupant Protection Incentive Grants

20.605. Safety Incentives To Prevent Operation Of Motor Vehicles By Intoxicated Persons

20.607. Alcohol Open Container Requirements

20.608. Minimum Penalties For Repeat Offenders For Driving While Intoxicated

20.609. Safety Belt Performance Grants

20.610. State Traffic Safety Information System Improvement Grants

20.611. Incentive Grant Program To Prohibit Racial Profiling

20.612. Incentive Grant Program To Increase Motorcyclist Safety

20.613. Child Safety And Child Booster Seats Incentive Grants

20.614. National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants

20.615. E-911 Grant Program

20.700. Pipeline Safety Program Base Grants

20.701. University Transportation Centers Program

20.703. Interagency Hazardous Materials Public Sector Training And Planning Grants

20.704. RITA Hydrogen

20.720. State Damage Prevention Program Grants

20.721. PHMSA Pipeline Safety Program One Call Grant

20.760. University Transportation Centers

20.761. Biobased Transportation Research

20.762. Research Grants

20.763. Research And Innovative Technology (RIT) Hydrogen Alternative Fuel Life Cycle

20.764. Hydrogen Storage Research And Development

20.802. Federal Ship Financing Guarantees

20.803. Maritime War Risk Insurance

20.806. State Maritime Schools

20.807. U.S. Merchant Marine Academy

20.808. Capital Construction Fund

20.810. Supplementary Training

20.812. Construction Reserve Fund

20.813. Maritime Security Fleet Program

20.814. Assistance To Small Shipyards

20.900. Transportation_Consumer Affairs

20.901. Payments For Essential Air Services

20.904. Bonding Assistance Program

20.905. Disadvantaged Business Enterprises_Short Term Lending Program

20.910. Assistance To Small And Disadvantaged Businesses

20.930. Payments For Small Community Air Service Development

20.931. Transportation Planning, Research And Education

23.003. Appalachian Development Highway System

33.001. Shipping_Dispute Resolution And Investigation Of Complaints

97.011. Boating Safety

97.012. Boating Safety Financial Assistance

97.013. State Access To The Oil Spill Liability Trust Fund

97.014. Bridge Alteration

97.056. Port Security Grant Program

97.057. Intercity Bus Security Grants

97.058. Operation Safe Commerce (OSC) Cooperative Agreement Program

97.059. Truck Security Program

97.060. Port Security Research And Development Grant

97.069. Aviation Research Grants

97.072. National Explosives Detection Canine Team Program

97.075. Rail And Transit Security Grant Program

97.090. Law Enforcement Officer Reimbursement Agreement Program

97.100. Airport Checked Baggage Screening Program

97.118. Advanced Surveillance Program (ASP)

Database Shows Billions Went to Airport Projects Deemed Low Priority

Nearly $2 billion for more than 3,100 airport construction and rehabilitation projects has been obligated by the Federal Aviation Administration (FAA) during the past five years even though the projects received low priority ratings, a Subsidyscope review of FAA data has found.

Search AIP Grants

A searchable database released today on Subsidyscope includes National Priority Ratings (NPRs) for every project awarded a grant under the FAA's Airport Improvement Program (AIP) from fiscal year 2005 through most of fiscal year 2009. Users may search by airport name, code or state, and sort findings by NPR (ranging from 0 to 100, with higher numbers being the highest-priority projects), congressional district or whether funding came through the American Recovery and Reinvestment Act of 2009.

Derived in part from a Freedom of Information Act request, the database includes information on enplanements—the number of paying passengers who board scheduled airlines or charter planes—to give users a sense of the level of commercial activity at a particular airport. To provide a more complete picture, it also includes data on operations—takeoffs and landings of air carrier, air taxi, general aviation and military aircraft—when such numbers are available.

The AIP, a $3.5 billion program in FY 2008, funds work that enhances safety, protects the environment or otherwise improves the nation's aviation system. AIP grants support runway construction, taxiway rehabilitation and many other types of projects. By design, the program results in cross-subsidies. For instance, many projects at non-commercial airports are partially financed using tax revenue from commercial passenger tickets.

FAA data show:

- Within the past five years, the FAA funded 3,139 projects (out of a total of 18,771) with NPRs below 41, cited by the agency as the threshold for discretionary AIP grants (no threshold is set for formula-driven entitlement grants, although the FAA says it considers how an airport uses entitlement money in deciding whether to award discretionary funds). Of the nearly $2 billion obligated for these low-priority projects, 30 percent came in the form of discretionary funding, 65 percent in entitlement funding and 5 percent in stimulus funding. According to the FAA, a priority rating is "one of several tools" it uses to assess projects. However, it adds, "[t]he NPR is the first evaluation factor and serves to categorize airport development in accordance with agency goals and objectives." The AIP projects that scored below 41 represent nearly 17 percent of all approved projects during the five-year period.
- Eleven airports received total AIP allotments exceeding $100,000 per paying passenger from fiscal year 2005 through fiscal year 2008. General aviation airports, "reliever" airports near large commercial airports, and small commercial airports have received about one quarter of all AIP

funding—about $4.5 billion of almost $18 billion—over the past five years.

- In terms of absolute dollars awarded, Los Angeles International Airport fared best during the five-year period, receiving $280 million through the AIP. It was followed by Chicago's O'Hare International Airport ($262 million), Seattle-Tacoma International Airport ($235 million) and Hartsfield-Jackson Atlanta International Airport ($209 million).
- Of more than $1 billion in AIP grants awarded under the American Recovery and Reinvestment Act from mid-March through mid-September 2009, Alaska received $82 million, more than any other state. California followed with $71 million. Among the stimulus-related projects in Alaska were a new $14.7 million airport for the community of Ouzinkie (population 225 as of the 2000 census); a new $14 million airport for Akiachak (population 585), and the $10 million rehabilitation of a runway in Allakaket (population 97).

AIP Background and Controversy

Created by Congress in 1982, the AIP was meant to aid the "planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems (NPIAS)," a biennial list of more than 3,400 existing and proposed airports that are "significant to national air transportation," according to the FAA. For large and medium airports, AIP grants cover 75 percent of the cost of eligible projects (80 percent for noise-abatement projects). For smaller airports, 95 percent of eligible costs are covered.

Critics of the AIP assert that too much funding goes to non-commercial airports, which have few enplanements. The program gets its money from the Airport and Airway Trust Fund, which is supported by taxes on passenger tickets and aviation fuel, mostly generated by airlines using large or medium-sized commercial airports. Others, however, say that enplanements aren't the only measure of an airport's value.

Cecil Field in Jacksonville, Fla., for example, which received $270,063 in AIP funds for each enplanement from fiscal year 2005 through fiscal year 2008, has four runways used by general aviation, corporate, cargo and National Guard aircraft. Closed by the military in 1999, it has used its AIP money to convert to a civilian facility.

Airports Receiving Top Dollars Per Enplanement, FY2005-2008

Airport	City	State	Service Level*	$/Enplanement Ratio
Fall River Mills	Fall River Mills	CA	GA	$271,825
Cecil Field	Jacksonville	FL	GA	$270,063
Marana Regional	Tucson	AZ	R	$235,306
Owatonna Degner Regional	Owatonna	MN	GA	$230,934
Austin Municipal	Austin	MN	GA	$222,549
Double Eagle II	Albuquerque	NM	R	$208,790
Peachtree City-Falcon Field	Atlanta	GA	GA	$187,161
San Bernardino International	San Bernardino	CA	R	$168,726
Riverside Municipal	Riverside	CA	R	$153,703
Beauregard Regional	DeRidder	LA	GA	$136,648
George M Bryan	Starkville	MS	GA	$102,268
Driggs-Reed Memorial	Driggs	ID	GA	$99,324

Stuttgart Municipal	Stuttgart	AR	GA	$97,644
Castle	Merced	CA	GA	$97,316
Nampa Municipal	Nampa	ID	GA	$96,190
Perry Stokes	Trinidad	CO	GA	$92,953
Ardmore Municipal	Ardmore	OK	GA	$89,737
Craig Field	Selma	AL	GA	$89,373
Tucumcari Municipal	Tucumcari	NM	GA	$81,338
Lancaster County-Mc Whirter Field	Lancaster	SC	GA	$73,828

Source: Subsidyscope analysis of FAA data.
**GA = General Aviation; R = Reliever*

FAA data for fiscal year 2005, the most recent year available, show that U.S. passenger airlines accounted for 64 percent of the tax revenue that went into the Airport and Airway Trust Fund, compared with 3 percent for general aviation. Large and medium hubs, on the other hand, received only 33 percent of AIP funding in fiscal year 2007. Small commercial and general aviation airports received 64 percent. In a statement to Subsidyscope, the FAA said that general aviation "accounts for more than 90 percent of the roughly 240,000 civil aircraft registered in the United States. The general aviation airports included in the FAA's National Plan of Integrated Airport Systems provide the closest source of air transportation for about 19 percent of the population and are particularly important to rural areas."

The disproportionate allocation of AIP money to general aviation airports is tempered somewhat by the FAA's approval of passenger facility charges—not to be confused with ticket taxes—of either $3 or $4.50 at 378 airports with commercial service. By and large, proceeds from such charges go back into the airport from which they originated. Larger airports also are able to issue bonds to finance improvements—generally not an option for their smaller counterparts.

Nonetheless, the FAA says, "[a]viation demand at the airport must justify [AIP] projects," and the Congressional Research Service noted in a May 2009 report that "[c]ritics often view the breadth of AIP spending, decreasing local share requirements, and ever widening project eligibilities as allowing for spending that is increasingly inefficient, unfocused, and of questionable federal purpose."

Competition for AIP grants is fierce, with many more applications than there are awards. Money is dispensed both through an entitlement fund, which uses formulas to identify high-priority projects such as safety-related runway expansions, and a discretionary fund, which is less restrictive but contains certain set-asides for noise-abatement projects and military airports. A relatively small portion of AIP funding comes in the form of earmarks. In 2009, 79 projects totaling $81.8 million were earmarked.[1]

In August 2009, the Department of Transportation's inspector general expressed concern about the way the FAA awarded some AIP grants under the American Recovery and Reinvestment Act. "Specifically," the IG wrote, "the economic merit of some FAA-approved projects may be subject to question and some projects may involve recipients with histories of grant management problems." The IG noted that the FAA had chosen more than 50 projects with NPRs below the agency's self-imposed minimum of 62 for stimulus grants. The FAA's responses to the IG's report are here and here.

1. *U.S. House of Representatives. Committee on Appropriations. Omnibus Appropriations Act, 2009. H.R. 1105/P.L. 111-8. Pgs 2035-2039.*

Posted October 7, 2009.

Analysis Shows Amtrak Lost $32 Per Passenger in 2008

October 27, 2009 -- Forty-one of Amtrak's 44 routes lost money in 2008 with losses ranging from nearly $5 to $462 per passenger depending upon the line, according to analysis by Pew's Subsidyscope.

The line with the highest per passenger subsidy—the Sunset Limited, which runs from New Orleans to Los Angeles—carried almost 72,000 passengers last year. The California Zephyr, which runs from Chicago to San Francisco, had the second-highest per passenger subsidy of $193 and carried nearly 353,000 passengers in 2008. Pew's analysis indicates that the average loss per passenger on all 44 of Amtrak's lines was $32, about four times what the loss would be using Amtrak's figures: only $8 per passenger. (Amtrak uses a different method for calculating route performance).

The Northeast Corridor has the highest passenger volume of any Amtrak route, carrying nearly 10.9 million people in 2008. The corridor's high-speed Acela Express made a profit of about $41 per passenger. But the more heavily utilized Northeast Regional, with more than twice as many riders as the Acela, lost almost $5 per passenger.

Subsidyscope calculated profits and losses per passenger to ascertain which routes cost Amtrak the most to operate. Our analysis is based on a 2005 Government Accountability Office (GAO) critique of Amtrak's accounting methods, which says the railroad should consider depreciation when calculating profitability. Other capital intensive industries, such as commercial airlines, include depreciation and overhead when looking at route performance. Subsidyscope's methodology is explained here.

In October 2008, Congress passed legislation reauthorizing Amtrak for an average of $1.5 billion a year for five years. The Passenger Rail Investment and Improvement Act requires that the railroad provide metrics for measuring all long-distance routes and find ways to improve the financial performance of those routes. Amtrak officials say they are considering options to make the Sunset Limited less costly.

Amtrak Route Performance for Fiscal Year 2008

Select Route: select a route

Source: All data from Amtrak's Monthly Performance Report for September 2008; route map from Mapmash.in and Amtrak.

Amtrak lost $1.1 billion last year, but says that only $236 million of this should be attributed to its core business lines, such as the Northeast Corridor. The remainder, it asserts, should be associated with ancillary businesses, depreciation and other direct costs, such as fuel and power, locomotive maintenance and call centers. Amtrak's ancillary businesses include contracted operator services to commuter trains around the country, such as the MARC in Maryland and Caltrain in California, many of which are buttressed through state and local funding sources. The ancillary businesses are actually a source of profit for Amtrak, bringing in $93.7 million in 2008.

Click here to see Amtrak's *Monthly Performance Report for September 2008*.

Subsidyscope took Amtrak's operating results as they appear in Amtrak management reports, which include depreciation and other overhead costs. The results were distributed evenly across all routes using 2008 ridership numbers; we divided Amtrak's overall operating loss by total ridership, arriving at $24.29 per passenger in additional losses. This figure is on top of Amtrak's reported profit or loss per route. See this page for details and our complete data set.

Subsidyscope also analyzed route performance based on passenger miles traveled. Using this approach—as opposed to a per passenger calculation—and including the same overhead and depreciation costs, we found that Amtrak routes lose an average of 11 cents per passenger mile more than the railroad reports. When examined this way, four, rather than three, Amtrak lines appear to make money. The Northeast Regional shows a loss of nearly $5 when examined on a per passenger basis but a profit of 2 cents on a per passenger mile basis. Still, the line showed a substantially lower profit than the 13-cent-per-mile contribution Amtrak reported. The methodology and complete results for both calculations are presented here.

The differences between the two calculations performed by Subsidyscope show that route performance can be measured in different ways. Amtrak argues that it is not fair to include depreciation in assessing a route's financial performance. Due to a series of sale-leaseback transactions involving the company's equipment in the 1990s, depreciation values have been distorted, the railroad says. An Amtrak official told Subsidyscope that ridership is the only factor that should be considered when calculating the profitability of any line.

The GAO, however, found that not including depreciation caused an understatement of reported expenses for core and ancillary business lines by 19 percent and 15 percent, respectively. The GAO

said information about depreciation is critical to any financial assessment because Amtrak relies heavily on its rail cars and other capital.

In August 2009, the Congressional Budget Office considered the option of reducing Amtrak's federal subsidy by about $200 million a year for five years. Amtrak officials and passenger rail advocates say this is impractical, noting that no passenger rail service in the world is profitable and arguing that Amtrak would cease to exist without the federal money.

Last updated October 27, 2009.

Amtrak Route Performance Table

Subsidyscope used publicly available information to perform its analysis of Amtrak profits and losses by route. The analysis, prompted by a Government Accountability Office report, goes two steps beyond Amtrak's own assessment of its performance. First, Subsidyscope calculated each route's per passenger costs by dividing the overall profit or loss for that route by the number of riders it had. This, in our view, gives a more complete picture of the resources each route requires. Amtrak doesn't do this calculation; as a result, some routes appear to be less of a drain on the railroad's resources.

To carry out the next step in our analysis, we looked at Amtrak's total net losses for the year, which includes items like depreciation, ancillary businesses and overhead costs. Amtrak omits these items in its own analysis of route performance. Subsidyscope took the additional $697 million in net losses that Amtrak does not include to calculate route performance and divided it by the total number of riders—nearly 29 million in 2008—resulting in an additional loss of $24.29 per passenger. We then applied $24.29 in losses to the average per passenger loss or profit for each line. (The actual calculation can be found below.) The GAO has said that omissions, such as depreciation, "substantially [understate] operating expenses in reports that managers use to assess performance."

Click here to read Analysis Shows Amtrak Lost $32 Per Passenger in 2008.

Table 1: Amtrak Route Performance for Fiscal Year 2008

Route	Total Revenue	Profit/Loss	Ridership	Profit Loss per Psgr Mile**1	Profit Loss per Psgr Mile**2	Profit Loss per Psgr**3	Profit Loss per Psgr**4
NORTHEAST CORRIDOR TRAINS							
Acela	$486,300,000	$220,200,000	3,398,759	$0.35	$0.24	$64.79	$40.50
Northeast Regional	$518,400,000	$146,500,000	7,489,426	$0.13	$0.02	$19.56	$-4.73
NEC Unknown (Crew Labor)	$0	$-1,300,000	—	—	—	—	—
NEC Special Trains	$4,600,000	$3,600,000	9,667	—	—	$372.40	$348.11
Subtotal	**$1,009,400,000**	**$369,000,000**	**10,897,852**	**$0.21**	**$0.09**	**$33.86**	**$9.57**
STATE SUPPORTED AND SHORT DISTANCE TRAINS							
Ethan Allen Express	$3,700,000	$-300,000	46,881	$-0.03	-$0.15	$-6.40	$-30.69
Vermonter	$6,900,000	$-2,000,000	72,655	$-0.09	-$0.20	$-27.53	$-51.82

Albany-Niagara Falls-Toronto	$22,800,000	$-6,700,000	354,492	$-0.06	-$0.17	$-18.90	$-43.19
The Downeaster	$11,100,000	$-1,100,000	474,492	$-0.03	-$0.14	$-2.32	$-26.61
New Haven - Springfield	$10,200,000	$-11,800,000	349,928	$-0.38	-$0.49	$-33.72	$-58.01
Keystone Service	$33,100,000	$-4,600,000	1,183,821	$-0.04	-$0.16	$-3.89	$-28.18
Empire Service	$42,200,000	$-19,100,000	994,293	$-0.16	-$0.27	$-19.21	$-43.50
Chicago-St.Louis	$32,200,000	$3,800,000	476,427	$0.04	-$0.07	$7.98	$-16.32
Hiawatha	$23,500,000	$-1,400,000	749,659	$-0.02	-$0.14	$-1.87	$-26.16
Wolverine	$18,400,000	$-14,700,000	472,393	$-0.15	-$0.26	$-31.12	$-55.41
Illini/saluki	$13,300,000	$0	271,082	$0.00	-$0.11	$0.00	$-24.29
Illinois Zephyr	$10,900,000	$-3,100,000	202,814	$-0.09	-$0.20	$-15.28	$-39.58
Heartland Flyer	$5,700,000	$-200,000	80,892	$-0.02	-$0.13	$-2.47	$-26.77
Pacific Surfliner	$77,100,000	$-14,700,000	2,898,859	$-0.06	-$0.17	$-5.07	$-29.36
Cascades	$41,300,000	$-5,900,000	760,323	$-0.05	-$0.16	$-7.76	$-32.05
Capitol corridor	$43,700,000	$-14,200,000	1,693,580	$-0.13	-$0.24	$-8.38	$-32.68
San Joaquins	$62,800,000	$-8,700,000	949,611	$-0.06	-$0.18	$-9.16	$-33.45
Adirondack	$11,000,000	$-100,000	112,047	<$-0.01	-$0.12	$-0.89	$-25.19
Blue Water	$9,000,000	$-2,400,000	136,538	$-0.09	-$0.20	$-17.58	$-41.87
Washington-Newport News	$28,100,000	$2,700,000	459,236	$0.03	-$0.09	$5.88	$-18.41
Hoosier State	$800,000	$-3,000,000	31,774	$-0.59	-$0.71	$-94.42	$-118.71
Kansas City-St.Louis	$7,200,000	$-4,000,000	151,690	$-0.14	-$0.25	$-26.37	$-50.66
Pennsylvanian	$8,500,000	$-5,200,000	200,999	$-0.11	-$0.22	$-25.87	$-50.16
Pere Marquette	$5,500,000	$-1,000,000	111,716	$-0.06	-$0.17	$-8.95	$-33.24
Carolinian	$20,300,000	$400,000	295,427	$0.01	-$0.11	$1.35	$-22.94
Piedmont	$2,600,000	$-900,000	65,941	$-0.11	-$0.22	$-13.65	$-37.94
Central Unknown (Crew Labor)	$0	$-900,000	—	—	—	—	—
Crew Labor	$0	$-800,000	—	—	—	—	—
Non NEC Special Trains	$5,200,000	$2,100,000	50,626	$0.13	$0.02	$41.48	$17.19
Subtotal	**$556,900,000**	**$-117,500,000**	**13,648,196**	**$-0.07**	**-$0.18**	**$-8.61**	**$-32.90**

LONG DISTANCE TRAINS

Silver Star	$31,400,000	$-44,400,000	367,139	$-0.23	-$0.34	$-120.94	$-145.23
Cardinal	$7,700,000	$-15,100,000	109,195	$-0.34	-$0.45	$-138.28	$-162.58
Silver Meteor	$33,800,000	$-37,800,000	319,773	$-0.19	-$0.31	$-118.21	$-142.50
Empire Builder	$64,000,000	$-40,500,000	554,266	$-0.10	-$0.21	$-73.07	$-97.36
Capitol Limited	$19,500,000	$-23,700,000	216,350	$-0.22	-$0.34	$-109.54	$-133.84

California Zephyr	$44,000,000	$-59,400,000	352,563	$-0.22	-$0.33	$-168.48	$-192.77
Southwest Chief	$44,900,000	$-45,900,000	331,143	$-0.15	-$0.26	$-138.61	$-162.90
City of New Orleans	$16,400,000	$-16,900,000	197,394	$-0.18	-$0.29	$-85.62	$-109.91
Texas Eagle	$21,800,000	$-29,400,000	251,518	$-0.19	-$0.30	$-116.89	$-141.18
Sunset Limited	$9,300,000	$-31,400,000	71,719	$-0.48	-$0.59	$-437.82	$-462.11
Coast Starlight	$32,000,000	$-39,500,000	353,657	$-0.21	-$0.33	$-111.69	$-135.98
Lake Shore Limited	$26,400,000	$-37,500,000	345,632	$-0.25	-$0.36	$-108.50	$-132.79
Palmetto	$14,500,000	$-11,800,000	173,949	$-0.15	-$0.27	$-67.84	$-92.13
Crescent	$30,200,000	$-38,000,000	291,222	$-0.26	-$0.37	$-130.48	$-154.78
Auto Train	$58,500,000	$-10,500,000	234,839	$-0.05	-$0.16	$-44.71	$-69.00
Subtotal	**$454,500,000**	**$-481,800,000**	**4,170,359**	**$-0.19**	**-$0.30**	**$-115.53**	**$-139.82**
Total All Trains	***$2,020,800,000***	***$-230,300,000***	***28,716,407***	***$-0.04***	***-$0.15***	***$-8.02***	***$-32.31***

Source: All data from Amtrak's Monthly Performance Report for September 2008 (figures rounded to nearest cent).

***excluding costs such as depreciation*

[1] *Monthly Performance Report for September 2008, Amtrak, pages C-1 and C-2.*

1. *Subsidyscope calculation. Including depreciation and other unallocated costs adds an additional loss of $0.11 per passenger mile. Subsidyscope applies this cost to the per passenger mile profit/loss for each route. See methodology above for details. Steps involved in this calculation are presented in Table 2 below.*
2. *Subsidyscope calculation, based on aggregate numbers provided by Amtrak. Amtrak does not present per passenger costs on a route-by-route basis.*
3. *Subsidyscope calculation. Including depreciation and other unallocated costs adds an additional loss of $24.29 per passenger. Subsidyscope applies this cost to the per passenger profit/loss for each route. See methodology above for details. Steps involved in this calculation presented in Table 2 below.*

Table 2: Subsidyscope's Calculation of Additional Profits and Losses Generated by Amtrak's Operating Costs and Depreciation

STEP 1: AMTRAK'S OPERATING RESULTS (EXCLUDING NATIONAL TRAIN SYSTEM)

Infrastructure Management	$-70,000,000
Ancillary Businesses	$93,700,000
Unallocated System	+ $-243,700,000
Operating Results (Excluding National Train System)	**$-220,000,000**

STEP 2: ADD ADDITIONAL ITEMS

Total from Step 1	$-220,000,000
Depreciation	$-504,900,000
Federal and State Capital Payments	+ $27,300,000
Operating Results incl. Depreciation & Federal/State Capital Payments	**$-697,600,000**

STEP 3A: DIVIDE BY TOTAL PASSENGER MILES

Total from Step 2	$-697,600,000
Total Passenger Miles[1]	÷ 6,224,324,324
Operating Results per Passenger Mile	**$-0.11**

STEP 3B: DIVIDE BY TOTAL RIDERSHIP

Total from Step 2	$-697,600,000
Total Ridership	÷ 28,716,407
Operating Results per Passenger	**$-24.29**

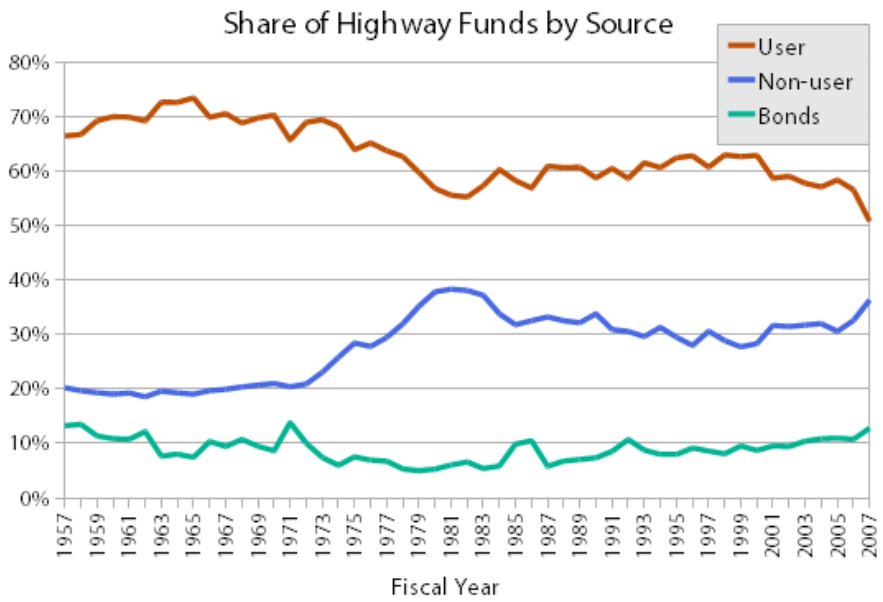
Source: All data from Amtrak's Monthly Performance Report for September 2008.

1. *Total passenger miles calculated by dividing Profit/Loss for Total All Trains by Profit/Loss per Passenger Mile: $230,300,000 total loss ÷ $0.037 loss per passenger mile = 6,224,324,324 passenger miles.*

Analysis Finds Shifting Trends in Highway Funding: User Fees Make Up Decreasing Share

The way America's roads are funded is changing. Revenues that predominantly come from users of roads ("user fees"), including fuel taxes, vehicle registration fees and tolls, pay for a decreasing share of road costs. Taxes and fees not directly related to highway use ("non-user fees") and bonds are making up the difference.

Using Federal Highway Administration statistics, Subsidyscope has calculated that in 2007, 51 percent of the nation's $193 billion set aside for highway construction and maintenance was generated through user fees—down from 10 years earlier when user fees made up 61 percent of total spending on roads. The rest came from other sources, including revenue generated by income, sales and property taxes, as well as bond issues.



Source: Highway Statistics, forms HF-10 and HF-210, Federal Highway Administration.

Going back further, the trend is more pronounced. Forty years ago, user fees amounted to 71 percent of revenues spent on roads. Today, user fee revenue as a share of total highway-related funds is at an all-time low since the Interstate Highway System was created in 1957. A complete data set of highway revenue by source is available for download. In 2007, non-user revenues contributed $70 billion to the highway system. By comparison, this contribution totaled $26 billion in 1967 (in 2007 dollars).

Not all user fees collected are made available for highway purposes. Of the 18.4 cent per gallon federal tax on gasoline, 2.86 cents are allocated specifically for mass transit projects. Another 0.1 cent per gallon is used to pay for environmental cleanup resulting from leaking fuel storage tanks. From 1990 to 1997, the federal government also set aside a portion of taxes on gasoline, diesel and other fuels to reduce budget deficits.

However, even if those funds were fully devoted to highways, total user fee revenue accounted for only 65 percent of all funds set aside for highways in 2007, according to Subsidyscope calculations. This is down from 84 percent in 1997 and 77 percent in 1967. Subsidyscope provides a complete data set of user fee revenues and allocations for download.

Various factors account for the shift in funding away from users fees. Fuel taxes lose their buying power unless adjusted to keep pace with rising highway construction and maintenance costs. The amount of federal fuel tax allocated to highway purposes has not increased since 1997 and states have had trouble increasing fuel taxes to keep up with inflation. Further, changes in driving patterns and fuel consumption can lead to unexpected dips and peaks in user revenues. For instance, increases in fuel prices at the pump can cause vehicle owners to cut back on driving, reducing revenues. Similarly, changes in vehicle efficiency can reduce revenues available from fuel taxes while vehicle usage remains constant.

Another major funding source for roads is borrowing through bond measures, which made up almost 13 percent of highway funds available in 2007. This number has fluctuated over the years. Moreover, the use of bonds to fund roads varies widely from state to state. Subsidyscope considers bonds separately from user fees and other revenue because it is not clear which sources of revenues will be used to repay the bonds.

In addition to a decline in user fee revenue, federal dollars have gradually declined as a share of total highway funding. As a result, state and local governments have taken on a higher share of road costs and are increasingly reliant on alternative sources of revenue.

All data are from Highway Statistics, forms HF-10 and HF-210, Federal Highway Administration. All figures adjusted for inflation using the Engineering News Record Construction Cost Index.

Updated November 25, 2009.

Tax Expenditures in the Transportation Sector

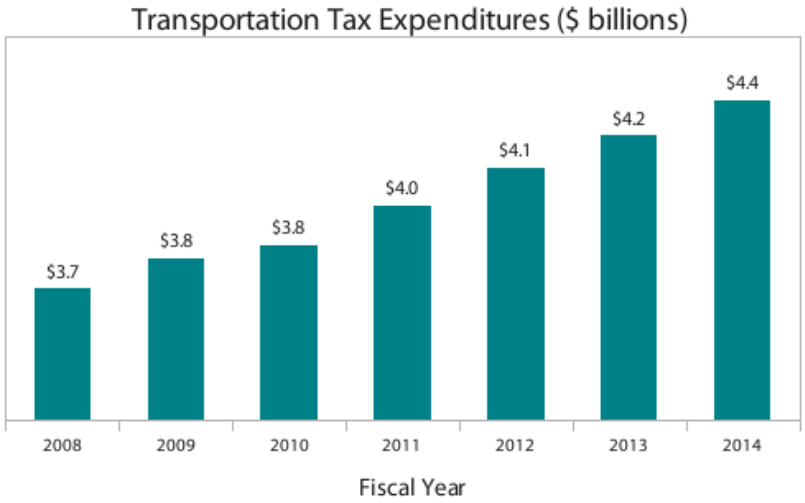
Tax expenditures are government revenue losses resulting from provisions in the tax code that allow a taxpayer or business to reduce his or her tax burden by taking certain deductions, exemptions, or credits. Tax expenditures have the same effect on the federal budget as government spending. They can have effects on recipients similar to grants or other types of subsidies. For instance, if the government wants to encourage people to buy solar panels for their homes, it can either send checks to those who promise to buy the panels or offer tax breaks once the panels have been purchased.

In this section...

- When the government allows certain taxpayers to take deductions, exemptions or credits, a tax expenditure -- or government spending through the tax code -- results.
- Tax expenditures have the same effect on the federal budget as government spending, but have a number of features that warrant more attention.
- Unlike direct expenditures, most of the revenue loss through tax expenditures constitutes a subsidy.

Tax expenditures can affect more than just the targeted activity. When certain people or organizations are selected to receive targeted tax breaks through tax subsidies, the size of the tax base is reduced and tax rates then have to be increased for everyone in order to bring in an equivalent amount of revenue to the pre-tax expenditure level. Further, if a tax subsidy is not expressly intended to make a tax more efficient, then it will most likely produce an economic inefficiency. For example, when a tax subsidy is given to businesses to invest in a specific commodity, private investment is shifted from some other commodity into the tax-preferred area of investment without regard to the return on investment. This creates an economic inefficiency. Tax subsidies can also end up rewarding taxpayers for behavior they would have engaged in regardless of the tax benefit.

Because the federal income tax is a progressive tax and those with higher incomes pay a higher proportion in taxes, the value of a tax subsidy grows as income rises, reducing progressivity. This has led some to call tax expenditures "upside down subsidies," since they tend to generally benefit those with higher incomes more than those with lower incomes in a progressive income tax system.



Source: Analytical Perspectives, President's Fiscal Year 2010 Budget.

Not only do tax subsidies benefit a small group of interests — often those with higher incomes — they usually do not go through open, transparent political processes. Particularly true in the case of tax subsidies, expenditures through the revenue code are often large, hidden, and not subject to the same public debate as direct spending. Further, they do not get evaluated like much direct government spending does. Politicians often employ tax expenditures because they can use the tax code to confer benefits to constituents while campaigning on a platform of lowering taxes, which sounds quite a bit different than explaining that they use the tax code to benefit certain people and not others.

There are experts who disagree on what baseline should be used to measure tax expenditures. Some assume that the current tax system is, or should be, a broad-based income tax. Others argue it is, or should be, a consumption tax. The baseline one uses can greatly change what gets counted. For instance, using an income tax baseline, the exemption for investment income from Individual Retirement Accounts would be considered a tax expenditure. Using the consumption tax baseline, this provision would not be counted as a tax expenditure since income from investments is not subject to a consumption tax.

Subsidyscope does not take a position on which tax structure is appropriate but presents tax expenditures estimates based on the income tax baseline because the Department of the Treasury and the Joint Committee on Taxation (JCT) use this baseline in making their estimates.

However, there are still differences between the estimates produced by the JCT and the Treasury even though the same income tax baseline is used. As the JCT explains in a recent document entitled "A Reconsideration of Tax Expenditure Analysis," the Treasury's analysis has changed over time. It has shifted from the use of a "normal" to a "reference" baseline, as the tax starting point from which to measure income tax expenditures. A "normal" baseline is considered more theoretical in nature, and based on the economic notion of a comprehensive income tax that applies to all income, which we have never had in practice as some types of income are excluded from taxation. Alternatively, a "reference" baseline more closely matches the actual tax code that we have, and considers some of the deviations from a normal income tax as part of the baseline rather than counting them as tax expenditures.[1]

Illustrating the dynamic nature of this debate, the JCT proposed in 2008 to move away from the use of a "normal" income tax baseline toward the use of a "reference" baseline. This would incorporate current codified tax law and would more closely resemble Treasury's model, rather than comparing current law to some theoretical and heretofore undefined in practical use, "normal" baseline. JCT

asserts that this revised approach will result in a more principled and neutral approach to the issues.

Based on this information, Subsidyscope will present the Treasury's estimates, which are compiled annually by the Office of Management and Budget in the Analytical Perspectives of the President's Budget. Those interested in the JCT estimates may find them here; for the transportation sector, the estimates are very similar.

Tax Expenditures for Transportation

Tax expenditures are not heavily used in the transportation sector in comparison to direct expenditures. As the table below illustrates, the totals in a given year are around $4 billion. Just as there are difficulties measuring subsidies in general, estimating tax subsidies is no different. Tax expenditure data presented are estimates of revenue forgone. They represent the lost revenue attributable to the use of the provision, which is not necessarily the same as what would be raised if the tax expenditure were repealed. Summing tax expenditures, while not technically accurate, often provides a reasonably good estimate for the total cost of groups of tax expenditures. The repeal of any single tax expenditure can trigger behavioral effects that in turn affect other tax expenditure amounts or even the total amount of tax revenue flowing into the Treasury. For example, if the tax expenditure favoring employee parking is repealed, more taxpayers may take the tax expenditure for employee transit passes, thus increasing the estimate for that tax expenditure.

Transportation Tax Expenditures for Individuals and Corporations by fiscal year ($ millions)

	2008	2009	2010	2011	2012	2013	2014
Exclusion of employer-paid transportation benefits							
Exclusion of reimbursed employee parking expenses	2,920	3,000	3,120	3,270	3,400	3,520	3,630
Exclusion of reimbursed employee transit passes	480	500	530	570	600	630	660
Tax credit for certain expenditures for maintaining tracks	180	180	70	20	10	10	0
Exclusion of interest on bonds for financing of highway projects and rail-truck transfer facilities	80	90	100	100	90	60	60
Deferral of tax on shipping companies	20	20	20	20	20	20	20
Total	3,680	3,790	3,840	3,980	4,120	4,240	4,370

Source: Analytical Perspectives, President's Fiscal Year 2010 Budget, p. 297.

Click on specific tax expenditures above for time series estimates of revenue loss, as well as a description of each provision, including impact, rationale and assessment of each, done by the Congressional Research Service.

1. *See pages 25-27 of this document for a summary of the methodological variation between the Congress' Joint Committee on Taxation and the estimates produced for the President's Budget by the Treasury Department.*

Last updated September 28, 2009.

Summary
Grants & Contracts
Tax Subsidies
Employer-paid Transportation Benefits
Tax Credit for Certain Expenditures for Maintaining Tracks
Exclusion of Interest on Bonds for Financing of Highway Project and Rail-Truck Transfer Facilities
Deferral of Tax on Shipping Companies
Loans & Loan Guarantees

Employer-paid Transportation Benefits

All text from the Congressional Research Service's "Tax Expenditures: Compendium of Background Material on Individual Provisions," 2008.

In brief...

Many employers assist their employees in getting to work. Subject to certain limits, employees who receive assistance for transit passes, van pooling, or parking expenses do not need to declare these benefits as income on their tax returns.

Description

The value of transit passes or van pool costs provided directly by the employer can be excluded from employees' taxable income, subject to a monthly limit. The value of employer-provided parking facilities can also be excluded from employees' taxable income, also constrained by a separate monthly limit. Employers may choose to provide these benefits in cash, consistent with a compensation reduction arrangement.

Prior to 2009, the transit pass and van pool limit had been set in 2001 at $100 per month and was adjusted each year for inflation (rounding to the nearest $5). The limit for the parking facilities exclusion had been set at $175 per month in 1998 and was also adjusted for inflation each year. The discrepancy between the two limits resulted in significantly larger subsidies for commuters using vehicles compared to commuters using transit systems or van pools.

In 2009, under the American Recovery and Reinvestment Act (ARRA), the two separate monthly exclusion amounts were set equal to each other. The monthly tax exclusion for employer-provided commuter highway vehicle transportation and transit pass benefits increased to $230, effective from March through December 2009. Employees may exclude from income $230 per month in transit benefits and $230 per month in parking benefits — up to a maximum of $460 per month. Employees may receive benefits for commuter transportation and transit passes and benefits for parking during the same month; they are not mutually exclusive.

The law provides the equal benefits through Dec. 31, 2010. The monthly exclusion amount for 2010 will be adjusted for inflation.

Tax Expenditure by fiscal year: Exclusion of reimbursed employee parking expenses ($ millions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Corporations	0	0	0	0	0	0	0	0	0	0	0
Individuals	1,560	1,725	1,880	1,980	2,070	2,130	2,470	2,590	2,740	2,830	2,920

Tax Expenditure by fiscal year: Exclusion for employer-provided transit passes ($ millions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Corporations	0	0	0	0	0	0	0	0	0	0	0

Individuals	70	130	190	220	250	320	410	480	560	420	480

Source: Analytical Perspectives, President's Fiscal Year Budget, 2000-2010. Numbers provided are from the most recent estimate.

Impact

Exclusion from taxation of transportation fringe benefits provides a subsidy to employment in those businesses and industries in which such fringe benefits are common and feasible. The subsidy benefits both employees, through higher compensation, and their employers, who may face lower wage costs. To the extent that this exemption induces employees to use mass transportation and to the extent that mass transportation reduces traffic congestion, this exemption lowers commuting costs to all workers in urban areas.

Higher income individuals are more likely to benefit from the parking exclusion than the mass transit and van pool subsidies to the extent that the propensity to drive to work is correlated with income. The effective value of the transit benefits rise with marginal tax rate of a recipients. The value of the benefit also depends on the location of the employer: the provision is targeted towards the taxpayers working in the highly urbanized areas or other places where transit is available or parking space is limited.

Rationale

A statutory exclusion for the value of parking was introduced in 1984, along with exclusions for several other fringe benefits. Some employers had provided one or more of these fringe benefits for many years, and employers, employees, and the Internal Revenue Service had not considered those benefits to be taxable income.

The Comprehensive Energy Policy Act of 1992 placed a dollar ceiling on the exclusion of parking facilities and introduced the exclusions for mass transit facilities and van pools in order to encourage mass commuting, which would in turn reduce traffic congestion and pollution. In 1998, the Transportation Equity Act for the 21st Century raised the benefit limits and modified their phase-in periods and inflation adjustment rules. Employees at that time could also choose to receive cash instead of transit benefits.

Many employers used fringe benefits during World War II to attract workers because wage and price controls limited their ability to compete for labor. A generation later, Congress sought to limit the use of tax-free fringe benefits such as employer-provided transportation benefits. After the Treasury Department proposed and then withdrew regulations regarding the tax treatment of certain fringe benefits, Congress in 1978 imposed a moratorium, which was extended in 1981, on such regulations. In the Deficit Reduction Act of 1984, Congress introduced new rules governing the tax treatment of fringe benefits. At that time, Congress expressed concern that without clear boundaries on the use of these fringe benefits, new approaches could emerge that would further erode the tax base and increase inequities among employees in different businesses and industries.

Assessment

The exclusion subsidizes employment in those businesses and industries located where transportation fringe benefits are feasible and commonly used. Businesses and industries located where mass transportation alternatives are lacking gain little or no benefit from this provision.

Subsidies for mass transit and van pools encourage use of mass transportation and may reduce congestion and pollution. Motivating commuters in highly urbanized areas to use mass transportation can reduce commuting costs generally. If workers commute in ways that reduce traffic congestion, all

commuters in an area may enjoy spillover benefits such as lower transportation costs, shorter waiting times in traffic, and improved air quality.

Determining fair market values for fringe benefits such as free or reduced price parking may be difficult in some places. Most highly urbanized areas, however, have many commercial parking lots, so that calculating comparable value of a parking benefits in those areas may be straightforward.

Fringe benefits are part of the total compensation package that employees receive and that employers provide to compete in labor markets. If some fringe benefits, such as transportation benefits, are not considered taxable income, then both employers and firms may wish to reduce taxable wages and salaries in order to increase untaxed fringe benefits. The tax exclusion of such fringe benefits may motivate employees and employers to design compensation packages that increase the consumption of goods and services provided as tax-favored fringe benefits relative to goods and services bought with taxable ordinary income.

Sources: Tax Expenditures: Compendium of Background Materials on Individual Provisions, Congressional Research Service, December 2008, Washington, DC: U.S. Government Printing Office; and "Qualified Transportation Fringe Benefits under ARRA," Internal Revenue Service, 2009.

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Tax Credit for Certain Expenditures for Maintaining Tracks

Description

In brief...

Certain railroad track maintenance expenses are eligible for a 50-percent business tax credit. The tax credit is targeted at work on short-line (regional) railroads.

Qualified railroad track maintenance expenditures paid or incurred in a taxable year by eligible taxpayers are eligible for a 50-percent business tax credit. The credit is limited to $3,500 times the number of miles of railroad track owned or leased by an eligible taxpayer. Railroad track maintenance expenditures are amounts, which may be either repairs or capitalized costs, spent to maintain railroad track (including roadbed, bridges, and related track structures) owned or leased as of January 1, 2005, by a Class II or Class III railroad. Eligible taxpayers are smaller (Class II or Class III) railroads and any person who transports property using these rail facilities or furnishes property or services to such a person. The taxpayer's basis in railroad track is reduced by the amount of the credit allowed (so that any deduction of cost or depreciation is only on the cost net of the credit). The credit cannot be carried back to years before 2005. The credit covers expenditures from 2005-2007. For 2005-2008 the amount eligible is the gross expenditures not taking into account reductions such as discounts or loan forgiveness.

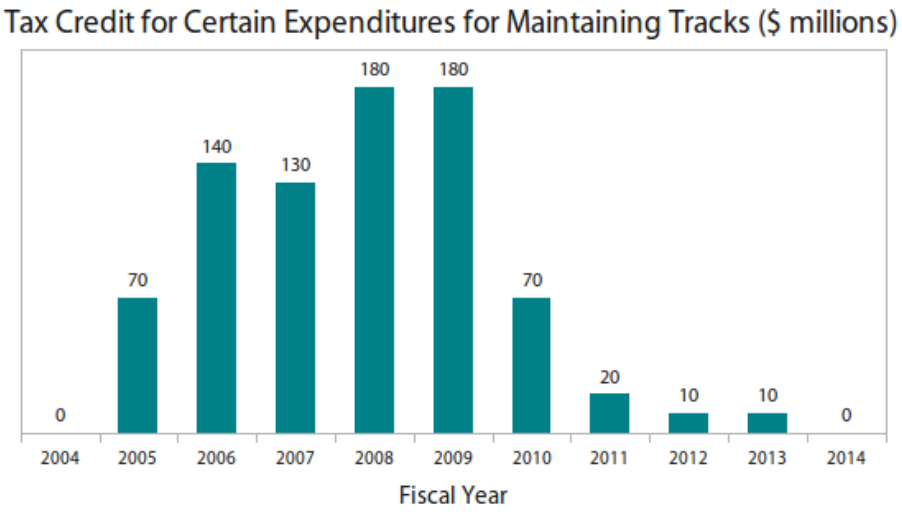
Tax Expenditure by fiscal year ($ millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Corporations	0	70	140	120	160	160	60	20	10	10	0
Individuals	0	0	0	10	20	20	10	0	0	0	0
Total	***0***	***70***	***140***	***130***	***180***	***180***	***70***	***20***	***10***	***10***	***0***

Source: Analytical Perspectives, President's Fiscal Year Budget, 2006-2010. Numbers provided are from the most recent estimate.

Impact

This provision substantially lowers the cost of track maintenance for the qualifying short line (regional) railroads, with tax credits covering half the costs for those firms and individuals with sufficient tax liability. According to the Federal Railroad Administration, as of the last survey in 1993, these railroads accounted for 25% of the nation's rail miles. These regional railroads are particularly important in providing transportation of agricultural products.



Source: Analytical Perspectives, President's Fiscal Year Budget, 2006-2010.

Numbers provided are from the most recent estimate.

Rationale

This provision was enacted as part of the American Jobs Creation Act of 2004 (P.L. 108-357). While no official rationale was provided in the bill, sponsors of earlier free-standing legislation and industry advocates indicated that the purpose was to encourage the rehabilitation, rather than the abandonment, of short line railroads, which were spun off in the deregulation of railroads in the early 1980s. Advocates also indicated that this service is threatened by heavier 286,000-pound cars that must travel on these lines because of inter-connectivity. They also suggested that preserving these local lines will reduce local truck traffic. These is also some indication that a tax credit was thought to be more likely to be achieved than grants. The temporary provision relating to discounts was added by H.R. 6111 (December 2006).

Assessment

The arguments stated by the industry advocates and sponsors of the legislation are also echoed in assessments by the Federal Railroad Administration (FRA), which indicated the need for rehabilitation and improvement, especially to deal with heavier cars. The FRA also suggested that these firms have particular difficulty with access to bank loans. In general, special subsidies to industries and activities tend to lead to inefficient investment allocation since in a competitive economy businesses should earn enough to maintain their capital. Nevertheless it may be judged or considered desirable to subsidize rail transportation in order to reduce the congestion and pollution of highway traffic. At the same time, a tax credit may be less suited to remedy the problem than a direct grant since firms without sufficient tax liability cannot use the credit.

Source: Compendium of Background Materials on Individual Provisions, Congressional Research Service. December 2006. Washington, DC: U.S. Government Printing Office.

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Exclusion of Interest on Bonds for Financing of Highway Project and Rail-Truck Transfer Facilities

Description

In brief...

Legislation passed in 2005 created a new type of bond for financing certain transportation infrastructure projects. The interest bondholders receive on these bonds is exempt from income tax.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, P.L. 109-59, enacted on August 10, 2005, created a new class of tax-exempt, qualified private activity bonds for the financing of qualified highway or surface freight transfer facilities. Qualified facilities include: (1) any surface transportation project which receives federal assistance under title 23; (2) any project for an international bridge or tunnel for which an international entity authorized under federal or State law is responsible and which receives federal assistance under title 23; and (3) any facility for the transfer of freight from truck to rail or rail to truck (including any temporary storage facilities directly related to such transfers) which receives federal assistance under title 23 or title 49. The bonds used to finance these facilities are classified as private-activity bonds rather than governmental bonds because a substantial portion of the benefits generated by the project(s) accrue to individuals or business rather than to the government. For more discussion of the distinction between governmental bonds and private-activity bonds, see the entry under General Purpose Public Assistance: Exclusion of Interest on Public Purpose State and Local Debt. Bonds issued for qualified highway or surface freight transfer facilities are not subject to the federally imposed annual State volume cap on private activity bonds. The bonds are capped, however, by a national limitation of $15 billion to be allocated at the discretion of Secretary of Transportation.

Tax Expenditure by fiscal year ($ millions)

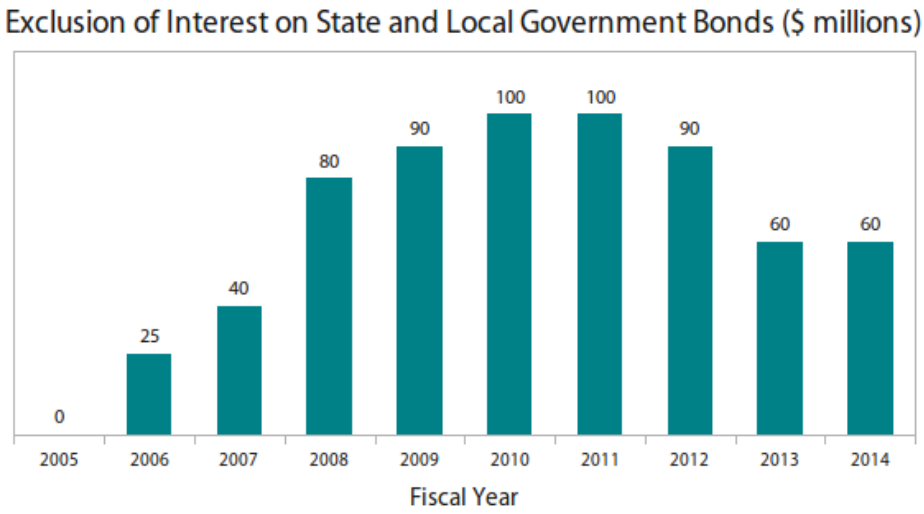
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Corporations	0	10	10	20	20	30	30	20	10	10
Individuals	0	15	30	60	70	70	70	70	50	50
Total	***0***	***25***	***40***	***80***	***90***	***100***	***100***	***90***	***60***	***60***

Source: Analytical Perspectives, President's Fiscal Year Budget, 2007-2010. Numbers provided are from the most recent estimate.

Impact

Since interest on the bonds is tax exempt, purchasers are willing to accept lower before-tax rates of interest than on taxable securities. These low interest rates allow issuers to construct highway or surface freight transfer facilities at lower cost. Some of the benefits of the tax exemption and federal

subsidy also flow to bondholders. For a discussion of the factors that determine the shares of benefits going to bondholders and users of the highway or surface freight transfer facilities, and estimates of the distribution of tax-exempt interest income by income class, see the "Impact" discussion under General Purpose Public Assistance: Exclusion of Interest on Public Purpose State and Local Debt.



Source: Analytical Perspectives, President's Fiscal Year Budget, 2007-2010. Numbers provided are from the most recent estimate.

Rationale

Before 1968, State and local governments were allowed to act as conduits for the issuance of tax-exempt bonds to finance privately owned and operated facilities. The Revenue and Expenditure Control Act of 1968 (RECA 1968), however, imposed tests that restricted the issuance of these bonds. The Act provided a specific exception which allowed issuance for specific projects such as non-government-owned docks and wharves. Intermodal facilities are similar in function to docks and wharves, yet were not included in the original list of qualified facilities. The addition of truck to-rail and rail-to-truck intermodal projects to the list of qualified private activities in 2005 is intended enhance the efficiency of the nation's long distance freight transport infrastructure. With more efficient intermodal facilities, proponents suggest that long distance truck traffic will shift from government financed interstate highways to privately owned long distance rail transport.

Assessment

State and local governments tend to view these facilities as potential economic development tools. The desirability of allowing these bonds to be eligible for tax-exempt status hinges on one's view of whether the users of such facilities should pay the full cost, or whether sufficient social benefits exist to justify federal taxpayer subsidy. Economic theory suggests that to the extent these facilities provide social benefits that extend beyond the boundaries of the State or local government, the facilities might be underprovided due to the reluctance of State and local taxpayers to finance benefits for nonresidents. Even if a case can be made for a federal subsidy arising from underinvesting at the State and local level, it is important to recognize the potential costs. As one of many categories of tax-exempt private-activity bonds, those issued for transfer facilities increase the financing cost of bonds issued for other public capital. With a greater supply of public bonds, the interest rate on the bonds necessarily increases to lure investors. In addition, expanding the availability of tax-exempt bonds increases the assets available to individuals and corporations to shelter their income from taxation.

Source: Compendium of Background Materials on Individual Provisions, Congressional Research Service. December 2006. Washington, DC: U.S. Government Printing Office.

Last updated September 28, 2009

Deferral of Tax on Shipping Companies

Description

In brief...

Operators of U.S.-flag ships may set aside money to construct or reconstruct ocean-going vessels. These funds are deductible from taxable income, and income tax on earnings from this money is deferred.

U.S. operators of vessels in foreign, Great Lakes, or noncontiguous domestic trade, or in U.S. fisheries, may establish a capital construction fund (CCF) into which they may make certain deposits. Such deposits are deductible from taxable income, and income tax on the earnings of the deposits in the CCF is deferred. When tax-deferred deposits and their earnings are withdrawn from a CCF, no tax is paid if the withdrawal is used for qualifying purposes, such as to construct, acquire, lease, or pay off the indebtedness on a qualifying vessel. A qualifying vessel must be constructed or reconstructed in the United States, and any lease period must be at least five years. The tax basis of the vessel (usually its cost to the owner), with respect to which the operator's depreciation deductions are computed, is reduced by the amount of such withdrawal. Thus, over the life of the vessel tax depreciation will be reduced, and taxable income will be increased by the amount of such withdrawal, thereby reversing the effect of the deposit. However, since gain on the sale of the vessel and income from the operation of the replacement vessel may be deposited into the CCF, the tax deferral may be extended. Withdrawals for other purposes are taxed at the top tax rate. This rule prevents firms from withdrawing funds in loss years and escaping tax entirely. Funds cannot be left in the account for more than 25 years.

Tax Expenditure by fiscal year ($ millions)

	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14
Corporations	15	15	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Individuals	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: Analytical Perspectives, President's Fiscal Year Budget, 2000-2010. Numbers provided are from the most recent estimate.

Impact

The allowance of tax deductions for deposits can, if funds are continually rolled over, amount to a complete forgiveness of tax. Even when funds are eventually withdrawn and taxed, there is a substantial deferral of tax that leads to a very low effective tax burden. The provision makes investment in U.S.-constructed ships and registry under the U.S. flag more attractive than it would otherwise be. Despite these benefits, however, there is very little (in some years, no) U.S. participation in the worldwide market supplying large commercial vessels. The incentive for

construction is perhaps less than it would otherwise be, because firms engaged in international shipping have the benefits of deferral of tax through other provisions of the tax law, regardless of where the ship is constructed. This provision is likely to benefit higher-income individuals who are the primary owners of capital (see Introduction for a discussion).

Rationale

The special tax treatment originated to ensure an adequate supply of shipping in the event of war. Although tax subsidies of various types have been in existence since 1936, the coverage of the subsidies was expanded substantially by the Merchant Marine Act of 1970. Before the Tax Reform Act of 1976 it was unclear whether any investment tax credit was available for eligible vessels financed in whole or in part out of funds withdrawn from a CCF. The 1976 Act specifically provided (as part of the Internal Revenue Code) that a minimum investment credit equal to 50 percent of an amount withdrawn which was to purchase, construct, or reconstruct qualified vessels was available in 1976 and subsequent years. The Tax Reform Act of 1986 incorporated the deferral provisions directly into the Internal Revenue Code. It also extended benefits to leasing, provided for the minimum 25-year period in the fund, and required payment of the tax at the top rate.

Assessment

The failure to tax income from the services of shipping normally misallocates resources into less efficient uses, although it appears that the effects on U.S. large commercial shipbuilding are relatively small. There are two possible arguments that could be advanced for maintaining this tax benefit. The first is the national defense argument — that it is important to maintain a shipping and shipbuilding capability in time of war. This justification may be in doubt today, since U.S. firms control many vessels registered under a foreign flag and many U.S. allies control a substantial shipping fleet and have substantial ship-building capability that might be available to the U.S. There is also an argument that subsidizing domestic ship-building and flagging offsets some other subsidies — both shipbuilding subsidies that are granted by other countries, and the deferral provisions of the U.S. tax code that encourage foreign flagging of U.S.-owned vessels. Economic theory suggests, however, that efficiency is not necessarily enhanced by introducing further distortions to counteract existing ones.

Source: Compendium of Background Materials on Individual Provisions, Congressional Research Service. December 2006. Washington, DC: U.S. Government Printing Office.

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Loans, Loan Guarantees and Other Risk Transfers in the Transportation Sector

Risk Transfers: Credit and Insurance

The federal government uses subsidies to redirect resources and influence economic decisions. One method of subsidization is transferring some or all of the financial risk of an economic activity to the federal government. By reducing risk, the federal government encourages more people to undertake an activity. Such risk transfers are typically done through government credit programs, such as student loans, and insurance, such as federal deposit insurance.

The extent of a subsidy received under a credit or insurance program is generally the difference between the terms the recipient would get in a competitive market and those offered by the government. Click the links below for more detail on Federal credit and insurance programs.

- Loans & Loan Guarantees
- Insurance
- Insurance against Financial Risk
- Insurance Against Natural Disaster
- Insurance Against Security-RelatedRisks

In this section...

- Risk transfers describe government loans and loan guarantees and government insurance. The government assumes some or all of the risk for the borrower or insured.
- Loans are provided directly from the government to the borrower. In a loan guarantee, the government promises to pay back the loan if the borrower defaults.
- Risk transfers provide subsidies when the terms of a loan (or insurance premiums) are better than those offered in the private market.

Risk Transfers in the Transportation Sector

Direct Loans (in millions)	2008 (Actual)			2009 (Enacted)		
Program	Loan Level	Subsidy Budget Authority	Subsidy rate %	Loan level	Subsidy Budget Authority	Subsidy rate %
Federal-Aid Highways (includes TIFIA)	1,019	154	15.10	1,781	186	10.44
Railroad Rehabilitation and Improvement Program	…	…	…	600		

Source: Analytical Perspectives of the President's Budget for fiscal year 2010, "Credit and Insurance." Page 76.

Loan Guarantees (in millions)	2008 (Actual)			2009 (Enacted)		
Program	Loan	Subsidy	Subsidy	Loan	Subsidy Budget	Subsidy

	Level	Budget Authority	Rate %	Levels	Authority	Rate %
Minority Business Resource Center	3	....	2.03	18	...	1.86
MBRC Re-estimation[1]			2.10			
Federal-Aid Highways (includes TIFIA)	...	...	...	200	20	10
Railroad Rehabilitation and Improvement Program	...	....	....	100	...	0.0
Maritime Guaranteed Loan (Title XI) Program Account	...	...	...	958	60	6.26

Source: Analytical Perspectives of the President's Budget for fiscal year 2010, "Credit and Insurance." Page 76.

1. 1. *Federal Credit Supplement Fiscal Year 2010*

Loans and Loan Guarantees

In the case of direct loans, the government lends money directly to the borrower and services the loan by collecting repayments. When the government offers direct loans at below market interest rates, or terms more generous than what private markets would provide, there is a subsidy. Credit subsidies may also be provided when the government pays some of the interest or offers a grace period before the loan goes into repayment. Further subsidies may result from lower administrative fees than would normally be required by private lenders. For example, many student loans provide a subsidy to the borrower because they have lower interest rates than a standard loan. In some cases the government also pays for the interest on the loans while the borrower remains in school.

In the case of a government loan guarantee, a private lender disburses the loan to the borrower, and the government acts as the guarantor of the loan by agreeing to make payments should the borrower fail to do so. Such a guarantee often allows a borrower to secure a loan at a lower interest rate than it could otherwise obtain. Even if the interest rate is a market rate and the loan is repaid in full there may be a subsidy if the borrower did not pay an upfront fee for the guarantee, as they would from a private lender. In addition, a government guarantee encourages lenders to offer loans to borrowers to whom they might otherwise not extend credit.

The way that the federal government accounts for the costs of federal credit, including the associated subsidies, has changed over time. A significant shift occurred with the Federal Credit Reform Act of 1990, which requires that the government use an accrual basis rather than a cash basis to budget for loans, with the main difference being the timing of the recognition of the government's loss on the transaction. This change means that an estimate of the net present value of the expected loss on the loan is accounted for in the budget when the loan is disbursed. While a big step toward increasing transparency, the 1990 change has some shortcomings. As the Congressional Budget Office explains in a 2004 report "Estimating the Value of Subsidies for Federal Loans and Loan Guarantees," the government underestimates the subsidy amount of loans and loan guarantees. This lower estimate results from two omissions: first the government does not include the cost of administering the loan (though this is accounted for elsewhere in the budget, it is not included in the subsidy cost of the credit); and second, the government — using methods required under credit reform — does not include the cost of market risk when calculating net present value. This risk is included in the cost of private market loans. These exclusions systematically understate the cost of loans and loan guarantees to the government. (For more on calculating subsidies under credit reform, see this report.)

Over the years the government's involvement in direct loans has remained fairly steady while it has

become the guarantor of an increasing number of loans. According to the Office of Management and Budget in the President's Budget for fiscal year 2010, the federal government had $286 billion outstanding in direct loans in 2008. In the same year, there were $1.4 trillion in government guaranteed loans on the budget. This makes the total outstanding federal credit $1.693 trillion. The largest category of both direct loans and loan guarantees is student loans, at $148 billion in direct loans and $415 billion in guaranteed student loans in 2008. Guarantees for home mortgage loans also make up a significant portion of government guaranteed loans. OMB estimates that the cost to the government of outstanding guaranteed loans through the Federal Housing Administration's Mutual Mortgage Insurance Fund in 2008 will be $448 billion.

Insurance

The federal government operates a number of insurance programs. These include insurance of bank deposits against financial loss through the Federal Deposit Insurance Corporation; insurance of defined benefit pension plans through the Pension Benefit Guaranty Corporation; insurance against natural disasters,such as crop insurance and flood insurance; and insurance against security-related risks, such as war time insurance.[1]

Government insurance programs often provide a subsidy to beneficiaries. When lower than actuarially fair premiums are charged, a subsidy is provided to the insured. A key characteristic of government insurance programs is their lack of visibility in the federal budget. Insurance programs expose the government to trillions of dollars of contingent liability, yet these potential claims on taxpayers are not reported in the federal budget unless losses occur.[2] For this reason it is difficult to obtain data on government insurance programs and the subsidies they provide.

Insurance programs are reported in the budget on a cash basis. They look like moneymakers for the government in most years because the premiums paid in good times outweigh the claims paid, even if future claims after a bad event swamp the premiums paid. Insurance programs also appear to be self-financing and less dependent on taxes, even though future claims may burden taxpayers. Further, they often target a relatively small group (such as farmers). For these reasons, indirect subsidies through insurance programs are politically appealing because politicians can take credit for visibly supporting specific constituents while also claiming that they are not spending taxpayer dollars.

The following sections look more closely at three categories of federal insurance: insurance against financial risk, insurance against natural disasters, and insurance against national security related risks.

Insurance Against Financial Risk

Before the financial bailout of 2008, two insurance programs in the financial sector — the Federal Deposit Insurance Corporation and the Pension Benefit Guaranty Corporation (PBGC) — were responsible for most of the trillions of dollars of government insurance exposure. Through the FDIC, the federal government insures depositors against the failure of banks up to $250,000[2] per depositor. When an institution fails, a charge is made against the Deposit Insurance Fund, which is supported by fees imposed on the banking industry. The fund is also supported by a backstop line of credit from the U.S. Treasury that could be tapped if the fees were insufficient to cover losses. A rash of bank failures caused the fund's balance to drop from about $52 billion in the fourth quarter of 2007 to about $13 billion at the end of the first quarter of 2009.

The federal government also insures against the insolvency of firms with underfunded pension plans to pay out promised pension benefits (defined-benefits plans) through the PBGC. The largest 10

claims against the PBGC's single employer program from 1975 to 2007 totaled $32.6 billion. Nine of these 10 claims came after 2001; leaving the program at a $10.7 billion deficit in 2008 as compared to a $9.7 billion surplus at the end of 2000.

In addition to increasing the amount insured under federal deposit insurance, the government's response to the financial crisis included actions such as extending credit, guaranteeing more debt and assets and purchasing a number of mortgage-backed securities held by government sponsored enterprises. See these Subsidyscope posts for more on the recent activities of the Federal Reserve, the Treasury, the FDIC and Federal Home Loan Banks.

Insurance Against Natural Disasters

In order to insure against natural disasters, the government provides two main insurance programs — crop insurance and flood insurance. Crop insurance, administered by the US Department of Agriculture in conjunction with the private insurance industry, protects farmers against low yields and crop quality that may result from bad weather or insect damage. Flood insurance, administered by the Federal Emergency Management Agency within the Department of Homeland Security, provides insurance "to homeowners and businesses in communities that have adopted and enforced appropriate flood plain measures." At the end of 2008, OMB reports that 5.6 million policies collectively worth more than $1 trillion were in force in more than 20,200 communities. While disaster insurance programs can be large, on the whole they are smaller than insurance against financial insolvency.

Insurance Against Security-Related Risks

The federal government offers several types of insurance against acts of war and terrorism, including terrorism risk insurance, aviation war risk insurance, and maritime war risk insurance. Terrorism risk insurance — enacted in 2002 in the aftermath of the September 11, 2001 attacks — was set up as a temporary program to support the insurance industry. The budget includes estimates of the cost of the terrorism risk insurance; however, this does not represent the potential costs were there to be future attacks. The extension of the legislation — the Terrorism Risk Insurance Program Reauthorization Act — in 2007 is slated to sunset in 2014. Reflecting this extension, the insurance is forecasted to cost taxpayers $2.16 billion from 2009 — 2014, and $3.069 billion from 2009 – 2018 (spending less receipts from premium surcharges). The *Analytical Perspectives* of the President's Budget for fiscal year 2010 states that the "Administration proposes to lessen Federal intervention in this insurance market and reduce the subsidy to private insurers" (i.e., increase the private sector's share of losses).

Many airlines hold insurance policies against catastrophic events such as war or terrorism. After the September 11, 2001, attacks, third party liability war risk coverage that airlines carried through private insurers was canceled, and the cost of other war risk insurance coverage dramatically increased. As one of the many government responses, the Secretary of Homeland Security was required "to provide additional war risk insurance coverage for hull losses and passenger liability to air carriers insured for third-party war risk liability as of June 29, 2002." The Federal Aviation Administration has made such insurance coverage available; further, the Secretary of Homeland Security is authorized to limit an air carrier's third party liability to $100 million when loss stems from terrorism. Many airlines could be grounded without such coverage.

Backing these policies is the Aviation Insurance Revolving Fund of the Department of Transportation. This fund currently insures 62 air carries for between $80 million to $4 billion per carrier (median insurance is $1.8 billion). The fund contains $1.15 billion in premiums paid in as of the end of 2008, which the Office of Management and Budget states would be insufficient to "meet either the coverage

limits of the largest policies in force ($4 billion) or to meet a series of large claims in succession." The federal government would be on the hook for any outstanding claims in the fund.

The government also offers a maritime war risk insurance program that makes insurance available to commercial ships during wartime. According to the Department of Transportation, the program, along with other Maritime Administration initiatives, "assures [Department of Defense] access to U.S.-flag commercial ships and crews during DOD mobilizations, and helps ensure the efficient flow of military cargo through commercial ports."

1. *Social Security is often called "Social" Insurance, but its key features sufficiently distinguish it from the other insurance programs considered here.*
2. *The current level of $250,000 is a temporary increase through December 2009; it was raised from $100,000 in October 2008. Pending legislation would make the increase permanent beyond 2009.*

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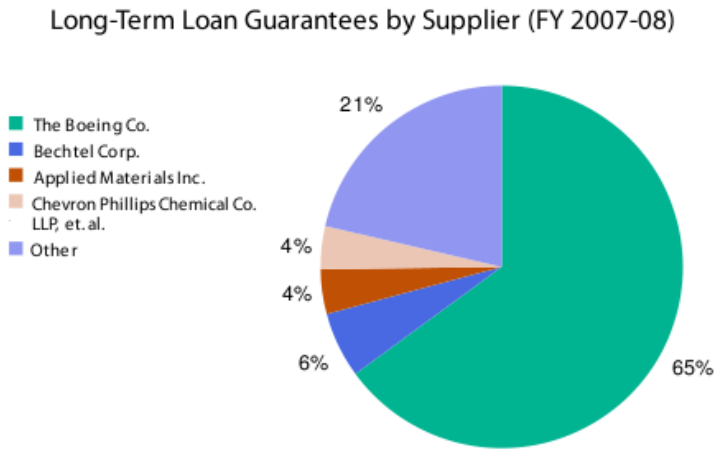
Export/Import Bank
MARAD Title XI Program

Export-Import Bank

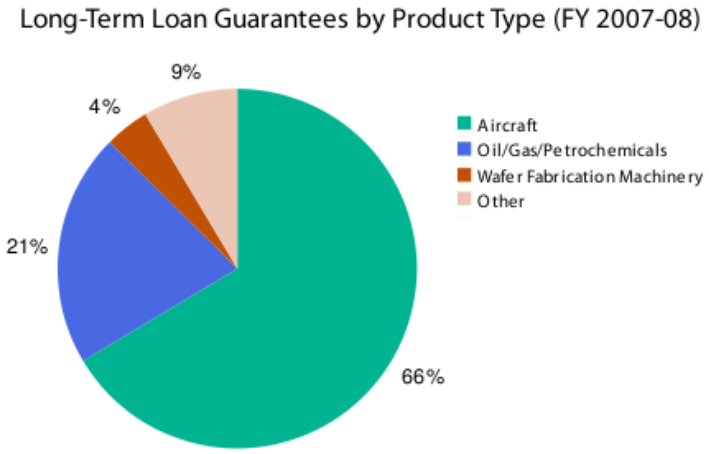
The Export-Import Bank of the United States (Ex-Im) says that its mission is to enable "U.S. companies—large and small—to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy." By assuming risks that traditional creditors are unwilling to take, Ex-Im helps finance U.S. exports by filling gaps in trade financing, thereby leveling "the playing field for U.S. exporters by matching the financing that other governments provide to their exporters." Subsidyscope's analysis shows that a significant portion of the subsidies Ex-Im provides to U.S. companies benefits a single corporate entity: the Boeing Company—the world's largest manufacturer of commercial jetliners and military aircraft combined.

Through the provision of loans, loan guarantees and insurance, Ex-Im helps U.S. businesses secure foreign sales through short-term, medium-term and long-term transactions. In fiscal year 2008, Ex-Im authorized $356 million in direct loans, $10.2 billion in loan guarantees and $3.9 billion of insurance. Ex-Im reports that by dollar value, about 22 percent of its loans, guarantees and credit insurance went toward assisting small businesses in fiscal year 2008 and 27 percent in fiscal year 2007. By number of transactions, about 86 percent of its financing was directed toward support for small business exporters for the two fiscal years combined.

However, Ex-Im's largest financial commitments are in long-term loan guarantees, the category in which Boeing benefits most. In fiscal years 2007 and 2008 combined, Ex-Im issued $15.3 billion in long-term loan guarantees. Of that total, almost $10 billion, or 65 percent, went toward the purchase of commercial aircraft made by Boeing. In fiscal year 2008 alone, Ex-Im issued long-term guarantees on $8.1 billion in loans made by banks in 23 countries. Nearly $5.5 billion—67 percent—of that total supported the sale of Boeing airplanes in nations such as Brazil, Canada, Ireland and the United Arab Emirates. Those four countries accounted for the largest dollar values of Ex-Im supported Boeing sales.



Total Guarantees: $15.3 billion



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In fiscal year 2007, loans for Boeing aircraft accounted for $4.5 billion, or 62 percent, of $7.2 billion in long-term guarantees. For the first 8 ½ months of fiscal year 2009, the bank issued just under $3.5 billion in long-term guarantees. Slightly more than a third of this amount—$1.3 billion—went to support the purchase of Boeing airplanes.

Other beneficiaries of Ex-Im's long-term guarantees in fiscal years 2007 and 2008 include the Bechtel Corporation, a large engineering firm, which accounted for about 6 percent of the value of such guarantees during the period, followed by Applied Materials Inc., a capital equipment producer for the semiconductor and solar industries, which accounted for 4 percent. Chevron Phillips Chemical Company LLP and other U.S. suppliers working on a petrochemical plant in Saudi Arabia also accounted for 4 percent. Products and services from companies such as AGI Industries, General Electric and Deere & Co. made up the remaining 21 percent.

Examining the products and services that were subsidized, Ex-Im data for the two fiscal years show that exports of aircraft (made by Boeing and other suppliers) accounted for 66 percent of the value of the guarantees; oil, gas and petrochemical equipment accounted for 21 percent, and silicon wafer fabrication machinery for a plant in Singapore, 4 percent. Items such as power plant equipment and services, fire trucks and construction equipment and services made up the remaining 9 percent.

Boeing maintains that the support it receives through U.S. government-backed loans and loan guarantees is essential to its ability to maintain a competitive edge. In a statement to Subsidyscope, Boeing said, "[t]he U.S. aerospace industry repeatedly demonstrates its ability to compete in the global marketplace. But as evidenced by the current global economic turmoil, financing markets are very volatile, and the commercial markets' support for export financing can be unpredictable and inconsistent. To be able to compete under such market conditions, aerospace exporting success hinges on the continuity of crucial export credit financing that Ex-Im and other national export credit agencies provide during market ebbs and flows." In Boeing's 2008 Form 10-K, submitted to the Securities and Exchange Commission, it notes that sales to foreign customers accounted for about 40 percent of the company's revenues in 2008.

The Ex-Im Bank is not the only entity that subsidizes exports; other U.S. federal agencies and state governments, as well as foreign export credit agencies (ECAs) and governments also offer export assistance. On September 4, 2009, a panel of the World Trade Organization—an international body governing trade between nations—issued a preliminary ruling in a dispute between the United States

and the European Union (EU) involving Boeing's main rival, Airbus. Acting on a complaint brought by the U.S. trade representative in October 2004, the panel held that European nations had illegally subsidized Airbus, which is headquartered in France. Still unresolved is an EU complaint alleging that Chicago-based Boeing had received illegal subsidies from several U.S. agencies, including the Department of Defense and NASA, and the states of Washington, Kansas and Illinois. A ruling in that case is expected in 2010.

Despite these legal challenges, the U.S. and EU have remained in agreement on the use of export credits, like Ex-Im loan guarantees, for large commercial aircraft; as a result, the EU did not reference Ex-Im in its complaint against Boeing. In its statement to Subsidyscope, Boeing noted that Ex-Im is among "numerous [ECAs] operated by industrialized nations on behalf of their exporters" and said that Airbus benefits from ECAs in France, England and Germany.

While many industrialized nations use export subsidies to boost their domestic exports and remain competitive internationally, a recent report by the Congressional Research Service notes that some Ex-Im critics "doubt that a nation can improve its welfare or level of employment over the long run by subsidizing exports." These critics maintain that such activity "merely shifts production among sectors within the economy, but does not add to the overall level of economic activity, and subsidizes foreign consumption at the expense of the domestic economy," according to the report.

Ex-Im no longer receives direct appropriations from Congress. Its revenue comes from fees it charges when it makes loans or guarantees and from insurance premiums. (Insurance is provided mainly to small businesses for short-term transactions.) At the beginning of each fiscal year, the Treasury Department issues interest-free warrants allowing the bank to draw funds. Ex-Im repays Treasury as the fees and premiums come in; in 2009, repayment was completed by March, halfway through the fiscal year.

By guaranteeing a loan, Ex-Im agrees to pay a claim if there is a default. Since 1992, the default rate for all Ex-Im programs has been 1.03 percent. There have been four defaults on Ex-Im guaranteed loans for Boeing planes since March 1999. Bank officials say that Ex-Im paid $565.8 million in claims as a result of those defaults, but had recovered from the same transactions, as of September 30, 2009, $604 million as a result of interest paid by borrowers.

According to the Federal Credit Supplement, published by the Office of Management and Budget, subsidy rates for Ex-Im guarantees and insurance in fiscal year 2008 were either quite low (1.41 percent for the riskiest transactions) or negative (-2.46 percent for safer ones). Ex-Im assigns risk ratings to each of its transactions based on a number of factors, including but not limited to the financial condition of the borrower, the industry in which the borrower competes, the country in which the project is located and the financial structure of the transaction.

With an annual budget of $200 million, and making up less than 1 percent of U.S. exports annually, Ex-Im is not a significant international trade actor. Further, the costs of providing support to Ex-Im beneficiaries do not negatively affect the budget deficit like many other federal subsidies. However, the implicit backing of the U.S. government through Ex-Im loan guarantees and other financing illustrates one of the many ways government provides a subsidy by shaping market outcomes and by potentially helping decide which companies survive in a tough economy.

Last updated November 6, 2009

Transportation

MARAD Title XI Program

The Title XI Federal Ship Financing Program is a federal loan guarantee program administered by the U.S. Maritime Administration (MARAD). Since 1994, MARAD has committed nearly $7.5 billion in loan guarantees for shipping projects.[1] Its purpose is to assist in advancing and modernizing the U.S. maritime industry through long-term financing that may be otherwise unavailable to ship owners.[2] Between the late 1980s and early 2000s, MARAD experienced defaults of at least $2.5 billion.[3]

The program provides a subsidy to shipyards and shipbuilders by lowering the cost of investment capital. In this case, a private lender provides a loan to the shipbuilder or shipyard and MARAD agrees to guarantee a portion of the project cost, which cannot exceed 87.5 percent of the total cost of the vessel or project, should the borrower fail to repay the loan.[4] MARAD's guarantee allows borrowers to secure a loan at a lower interest rate than they could otherwise obtain.[5] A government guarantee also encourages lenders to offer loans to borrowers to whom they might not otherwise extend credit. For these reasons, shipyards and shipbuilders receive a government subsidy regardless of whether or not they default on a loan. (See this page for more on subsidies through risk transfers.)

Past Title XI projects have left a large imprint on the domestic merchant fleet. Vessels eligible for assistance generally include commercial vessels such as ferries, tankers, tugs, towboats, barges, dredges, boats for oceanographic research, offshore oil rigs and support vessels, floating power barges and dry docks. The current Jones Act fleet,[6] which includes nearly one-half of the U.S. Merchant Marine vessels, is comprised predominantly of vessels constructed with Title XI loan guarantees. According to federal law, in the event of a national emergency, the Department of Defense can mobilize the fleet for its use.

Subsidyscope reviewed 15 years of Title XI program data (fiscal years 1994 through 2009) using information from MARAD,[7] as well as data from the Department of Transportation's Inspector General. The data include information on loan guarantee applications approved since fiscal year 1994, encompassing 115 separate commitments for 801 shipbuilding and shipyard improvement projects. As previously noted, MARAD has committed nearly $7.5 billion in loan guarantees since 1994.[8]

The Title XI program has endured a number of defaults over the last 30 years. In the late 1980s it made payouts of $2 billion in two years due to 129 loan defaults.[9] On January 16, 2009, the program made its first new commitment after almost four years of inactivity, and has approved a total of $330 million in new commitments through September 2010.[10]

Users interested in more details on the Title XI loan guarantees may view the data here, which Subsidyscope has made available in spreadsheet format.

1. *Subsidyscope analysis of data from the U.S. Maritime Administration (MARAD). "Approved Applications." Accessed October 14, 2010.*
2. *"Title XI Loan Guarantee Program." Report Number: CR-2004-095. September 28, 2004. p. 8.*
3. *Subsidyscope analysis of data from the Office of Inspector General, Department of Transportation. "Title XI Loan Guarantee Program." Report Number: CR-2004-095. September 28, 2004. p. 8*
4. *MARAD Web Page. "Program Descriptions." Accessed September 17, 2010.*
5. *"Title XI Loan Guarantee Program." Report Number: CR-2003-031. March 27, 2003. p. 2*
6. *The Jones Act, also called the Merchant Marine Act of 1920, is the federal statute that regulates maritime commerce within U.S. waterways and between U.S. ports. Under the statute, the fleet of privately owned commercial merchant marine vessels, "sufficient to carry the greater portion of its [U.S.] commerce," may also "serve as a naval or military auxiliary in time of war or national emergency."*
7. *Subsidyscope analysis of data from MARAD. "Approved Applications." Accessed October 14, 2010.*
8. *Ibid.*
9. *"Title XI Loan Guarantee Program." Report Number: CR-2003-031. March 27, 2003. p. 3.*
10. *Subsidyscope analysis of data from MARAD. "Approved Applications." Accessed October 14, 2010.*

Last updated October 14, 2010
