



January 29, 2015

Inland Waterways Trust Fund

Overview

What Is It? The Inland Waterways Trust Fund (IWTF) is a fund in the U.S. Treasury that receives revenues from a tax (also known as the inland waterway user fee) on commercial barge fuel on federally designated waterways (see **Figure 1**). Pursuant to the Water Resources Development Act of 1986, IWTF monies are subject to appropriation and are used to finance expenditures for construction and major rehabilitation projects on these waterways. The funds are matched by federal appropriations from the General Fund of the Treasury. Overall, expenditures from the IWTF typically make up 5%-15% of total spending by the Army Corps of Engineers (Corps) on federal inland waterways. Regular operations and maintenance costs on inland waterways, including maintenance dredging and minor lock repairs, are funded separately as a 100% federal responsibility.

What Is the Status of the Trust Fund? The balance of the IWTF declined significantly from FY2005 to FY2010 due to a combination of increased appropriations, cost overruns at individual projects, and a decline in fuel tax revenues. The IWTF balance has since stabilized, but spending through FY2014 was limited to current year fuel tax receipts, which were widely seen as insufficient to finance needs.

The Water Resources Reform and Development Act of 2014 (WRRDA; P.L. 113-121), enacted in June 2014, authorized changes to IWTF project planning and delivery, altered the cost-sharing threshold for major rehabilitation projects, and partially exempted from IWTF cost-sharing a project (Olmsted Locks and Dam on the Ohio River) that recently had been requiring the majority of trust fund balances. Subsequently, another bill (P.L. 113-295) included among its provisions an increase to the inland waterway fuel tax on commercial users. As a result, the fee will increase from \$0.20 to \$0.29 per gallon on April 1, 2015.

Although these changes may allow for more spending on some projects, other alterations to the underlying finance structure for inland waterways (e.g., increased federal spending or additional user fees) may be necessary to fund future project needs.

Background and Statistics

Annual commercial traffic on the federal inland waterways system accounts for 4%-5% of total commercial tonnage shipped in the United States. Although inland waterways are a relatively small part of the nation's freight transportation network, they remain an important transportation route in some regions, especially those that

rely on movement of bulk goods over long distances. In these areas, the percentage of commercial tonnage shipped by barge, especially for specific commodities, is high. Along with freight rail, inland waterways are a primary means of transport for the nation's grain and oilseed exports and for bulk products such as coal, petroleum, chemicals, processed metals, cement, sand, and gravel.

Figure 1. Fuel-Taxed Inland Waterways (Federal)



Source: Congressional Research Service.

Notes: Alaska and Hawaii have no fuel-taxed federal waterways.

Although previous estimates by the Corps and others projected that inland waterway traffic would increase, actual traffic has remained somewhat flat over the last 20 years. At the same time, overall freight tonnage for all modes of domestic freight shipping has increased. In the future, inland waterways shipping is expected to increase, but at a rate less than other modes.

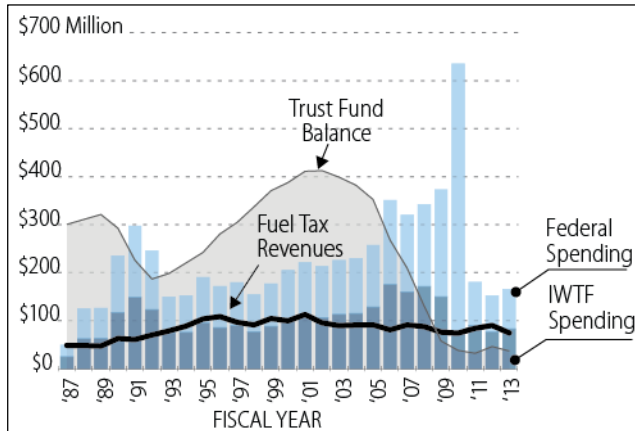
IWTF Financing Trends

Since 1986, the IWTF, financed by the inland waterways user fee, has been an important part of financing inland waterways construction and major rehabilitation projects. IWTF balances since 1986 have varied considerably. Balances reached their highest levels in 2002. On multiple occasions, the executive branch proposed to further increase fees on the user industry, including requiring the IWTF to fund some portion of operations and maintenance expenditures (in addition to the construction and major rehabilitation requirements). These proposals were not enacted.

Beginning in FY2005, appropriations from the IWTF increased significantly as the Bush Administration requested and Congress appropriated greater investments in IWTF-funded projects. These increasing expenditures

exceeded annual fuel tax collections going into the IWTF. Additionally, some projects significantly exceeded their original cost estimates, further stressing the trust fund. One project in particular, the Olmsted Locks and Dam Project, has significantly exceeded estimates. As a result of these issues, balances fell sharply from 2005 to 2010 (see **Figure 2**).

Figure 2. IWTF Financing Trends, FY1987-FY2013



Source: U.S. Army Corps of Engineers data. Graphic by the Congressional Research Service.

To reduce pressure on the IWTF and prevent the balance from falling further, Congress enacted a number of stopgap measures. For instance, Congress appropriated funding for inland waterways projects from the General Fund in the American Reinvestment and Recovery Act (ARRA; P.L. 111-5), exempted major rehabilitation projects from their usual cost-sharing requirements in FY2009 appropriations, and limited spending from the IWTF to current year fuel taxes in recent appropriations bills. These changes stabilized the IWTF balance, but a lack of fuel tax revenues relative to needs, coupled with cost overruns at the Olmsted Project, limited the number of ongoing projects.

Proposals

Administration Proposals. Similar to prior administrations, the Obama Administration has regularly submitted proposals to Congress that would raise inland waterways user fees. Most recently, the Obama Administration recommended replacing the fuel tax with other user fees (tolls, licensing fees, etc.) that would increase revenues and potentially allow for more spending on inland waterways projects. Congress and industry interests have rejected these proposals, arguing that they would impose an undue burden on commercial shippers.

Inland Waterways Users Board Proposal. In 2010, the Inland Waterways Users Board (IWUB), a federal advisory committee advising the Corps on inland waterways, endorsed a proposal of its own that was supported by some shipping industry interests. The IWUB proposed to increase the fuel tax by a range of \$0.06-\$0.09 per gallon (depending on collections) and require the federal government to cover all project costs for dam rehabilitations, as well as costs for other inland waterways rehabilitations that are less than

\$100 million (the policy of the federal government had been to fund such costs when they were less than \$8 million). The IWUB also proposed project delivery process reforms aimed at preventing future cost overruns. Several bills to authorize the IWUB proposal were introduced in the 112th and 113th Congresses.

Recent Changes

WRRDA 2014 Changes. The Water Resources Reform and Development Act of 2014 (WRRDA; P.L. 113-121) made changes to inland waterways financing. It authorized the project delivery recommendations of the IWUB proposal, made the federal government responsible for paying all rehabilitation costs less than \$20 million (i.e., more than the previous \$8 million but less than the \$100 million proposed by the IWUB), and reduced the IWTF portion of the cost-sharing requirement for the Olmsted Locks and Dam Project from 50% to 15%. These changes are expected to free up some IWTF monies for other projects. WRRDA also directed additional study by the Corps of new user fee and revenue options, including a study of the efficiency of revenue collection on the inland waterways system, a study on the potential use of bonds or new fees to finance the IWTF, and the convening of a stakeholder roundtable to review and evaluate inland waterways policy alternatives.

Commercial Barge Fuel Tax Increase. P.L. 113-295, enacted on December 19, 2014, included among its provisions an increase of \$0.09 per gallon to the inland waterways fuel tax on commercial barges. The increase had been requested by users and was generally consistent with the recommendation of the IWUB proposal. The change takes effect on April 1, 2015, and will make the overall tax on barge fuel \$0.29 per gallon.

The increase to the fuel tax does not guarantee increased expenditures on inland waterways, which remain subject to discretionary appropriations. The higher fuel tax would, however, increase revenues accruing to the IWTF and thus increase future IWTF balances available for appropriation.

Issues for Congress

In considering further changes related to the IWTF, Congress may consider what, if any, level of improvements (and potential funding increases) is necessary for inland waterways. Other issues may include the appropriate cost share between the federal government and users and the appropriate type and amount of user fees (in the form of the fuel tax or other vehicles for revenue generation). Issues such as the sequencing and funding for individual projects, the efficiency of user fee collections, and the addition or deauthorization of individual waterways from the federal system may also be discussed. For more information, see CRS Report R41430, *Inland Waterways: Recent Proposals and Issues for Congress*.

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