

LONG-TERM FINANCING OF THE HIGHWAY TRUST FUND

HEARING BEFORE THE COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED FOURTEENTH CONGRESS FIRST SESSION

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JUNE 17, 2015
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**LONG-TERM FINANCING OF THE
HIGHWAY TRUST FUND**

WEDNESDAY, JUNE 17, 2015

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 10:00 a.m., in Room 1100, Longworth House Office Building, Hon. Paul Ryan [Chairman of the Committee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
 Wednesday, June 10, 2015
 No. FC-06

CONTACT: (202) 225-3625

Chairman Ryan Announces Hearing on Long-Term Financing of the Highway Trust Fund

House Committee on Ways and Means Chairman Paul Ryan (R-WI) today announced that the Committee will hold a hearing on Long-Term Financing of the Highway Trust Fund. It will explore the feasibility of various ideas to provide a sustainable long-term solution to the highway trust fund shortfall. **The hearing will take place Wednesday, June 17, 2015, at 10:00 a.m. in Room 1100 of the Longworth House Office Building.**

Oral testimony at this hearing will be from the invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, July 1, 2015**. For questions, or if you encounter technical problems, please call (202) 225-3625 or (202) 225-2610.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

3. Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TDD/TTY in advance of the event (four business days notice is requested).

Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available online at <http://www.waysandmeans.house.gov/>.

Chairman RYAN. All right. I would like to have everybody take their seats, if they would. The Committee will come to order.

First, I want to thank Chairman Reichert of the Subcommittee on Select Revenue Measures. He has done a lot of hard work on this topic, and he is one of our team leaders on this. And he is going to continue working on this issue through the Subcommittee.

I also want to thank our witnesses: Chad Shirley, from CBO; my old friend, Bob Poole, from the Reason Foundation; and former Governor of the great State of Kansas, Bill Graves, from the American Trucking Associations. Everybody here holds all three of you in high regard. I am looking forward to an informative discussion on a very important issue that—Members on both sides of the aisle have requested that we dig into this issue, and I am glad we are doing this here today, because we need your ideas.

The roads, the bridges, and the highways in this country are in a sorry state. And the Highway Trust Fund that pays for them, well, it is broke. But, instead of fixing the problem, we have dodged it—on a bipartisan basis. Five times we have come up with temporary solutions, and transferred money from the general fund into the trust fund, which, in English, means we have patched a pothole and not fixed the problem. We are talking over \$63 billion, in total.

And, according to the latest projections, we are looking at a \$168 billion shortfall over the next 10 years. So things are only getting worse. We need to find a real, long-term solution, and that is one of the things we would like to investigate in this hearing today.

Now, ever since we built the interstate highway system, we have had a simple principle: The user pays. The people who use the highways should pay for the highways. So far, that has been done mostly through the gas tax. Problem is, the current user pay system doesn't pay enough. Ever since 2008, the trust fund has spent more than it took in. And the reason? Well, the reason is pretty simple: People have been using less gas. They are driving more fuel-efficient cars. It is a good problem to have. You get a lot more miles to the gallon than you used to. And so, gas just doesn't track use as well as it used to. We just can't chase fuel efficiency with much higher taxes.

So I want to make something very clear. We are not going to raise the gas tax. There is not much happening in this economy to help it grow but lower gas prices, that is one thing that is happening that is good for consumers. Working families have been struggling for years to get by. They have looked high and low for good-paying jobs. Their paychecks have not grown much at all. And now they are finally catching a break at the pump. It would be downright unfair to take that away from them. So we are not going to raise gas taxes, plain and simple.

But we are confronted with a big problem, and there is no easy solution. By the end of July, the Highway Trust Fund will begin running out of money again. I was hoping last month that we could have extended the Highway Trust Fund to the end of the year, to give us the required and appropriate time to come up with a longer-term solution. But that ran into last-minute opposition. It is going to be difficult to reach consensus on a permanent solution, but there are a lot of ideas out there. That is why we are here today, that is why we are having this hearing—to hear more about these ideas.

There is talk about handing more authority over to the States, making greater use of tolls, creating more public-private partnerships, and repatriation as a middle solution. There are a lot of ideas worth considering. But, either way, we need to find a real solution, a permanent solution.

So, again, I want to thank our witnesses. We appreciate your taking time to speak with us today, and I look forward to hearing your testimony.

And all I can say is we are all ears, and we are looking forward to your testimony.

And, with that, I would like to turn it over to the Ranking Member for any opening statements he might like to make.

Mr. LEVIN. Thank you very much, and welcome. Mr. Chairman, we need to be all ears, but we need action. And we have been sending letters to you. We Democrats really are determined that there be action. The key words are “long term,” because, just short—six short weeks from now, as we know, the spending authority expires and the balance runs out. Short-term extensions, there have been 24 to date.

And the facts really are startling: The American Society of Civil Engineers gave our national infrastructure a D-plus grade, and when it came to my home State, they even took the plus off. It is a straight D. Bridges are in terrible condition: 145,000 of them in every State. And a quarter of them are more than 60 years old. And two-thirds of our highways are in poor or mediocre condition. Two-thirds.

So, if safety weren't enough of a factor, economics is. A major 2014 economic report from Standard & Poor's Rating Agency notes, “Each dollar of infrastructure spending, if allocated wisely, translates into much more than that, in terms of economic growth.” And here is what the report finds, a \$1.3 billion investment in 2015 would likely add 29,000 jobs to the construction sector, and even more to infrastructure-related industries. That investment would also likely add \$2 billion—\$2 billion—to real economic growth, and reduce the Federal deficit by \$200 million for that year.

So, inaction is not an option, and this cannot be done on a partisan basis. A long-term infrastructure bill must be a product of our coming together, Mr. Chairman, you and I and all of us on this Committee of jurisdiction.

And I close with this: All options should be on the table, except doing nothing. I yield back.

Chairman RYAN. Thank you. Mr. Shirley, why don't we start with you?

I want to just mention to all witnesses, your full written testimony will be inserted in the record. And if you can try to confine your remarks to 5 minutes so that we can entertain all of the Members' questions, we would be much appreciative.

Mr. Shirley, we will start with you. Please turn your microphone on.

STATEMENT OF CHAD SHIRLEY, DEPUTY ASSISTANT DIRECTOR FOR MICROECONOMIC STUDIES, CONGRESSIONAL BUDGET OFFICE, WASHINGTON, D.C.

Mr. SHIRLEY. Thank you very much. Chairman Ryan, Congressman Levin, Members of the Committee, I appreciate the opportunity to be here today to talk with you about the status of the Highway Trust Fund, and options for financing highway construction.

In 2014, Federal, State, and local governments spent about \$165 billion on highways, another \$65 billion on transit. About three-quarters of that spending came from State and local governments, and about a quarter from the Federal Government. Most of the Federal spending comes from money in the Highway Trust Fund.

For decades, the trust fund's balances were stable or growing. More recently, however, the amount of money collected from taxes on gasoline, diesel fuel, and other transportation-related items, has been less than spending. To address that shortfall, lawmakers have transferred \$65 billion from the general fund to the Treasury to the trust fund since 2008.

The Highway Trust Fund's current sources of revenue cannot support spending at the current rate. By the end of this fiscal year, CBO estimates that the balance on the highway account of the trust fund will fall to about \$2 billion, and the balance in the transit account will fall to about \$1 billion. Because of those declining balances, the Department of Transportation would probably need to delay payments to States before the end of the fiscal year. Beyond that, if nothing changes, the shortfall in the trust fund would steadily accumulate in subsequent years.

Lawmakers have three broad options to address the projected shortfalls in the trust fund: Reduce spending from the trust fund, increase revenues credited to the fund, and continue to transfer money from the Treasury's general fund. One option would be to reduce Federal spending on highways and transit projects. If lawmakers choose to address the shortfall entirely by cutting spending, all of the receipts credited to the fund during the next year would be needed to meet obligations made during or before 2015. Beyond that, the authority to obligate funds from the highway account would decrease by about a third over the next decade. Similarly, the authority to obligate funds from the transit account would decrease by about two-thirds, compared to CBO's baseline.

A second option would be to increase the revenues credited to the fund. That could be done in several ways. For instance, one way would be to increase the existing taxes on gasoline and diesel fuel. The staff of the JCT estimated that a one-cent increase in those taxes would raise \$1.7 billion per year. That amount would decline to about \$1.5 billion per year by 2025. Increasing those taxes by roughly \$.10 per gallon would eliminate the projected shortfall. An-

other way to increase revenues would be to impose new taxes on using the highway system, such as one based on vehicle miles traveled. Still another way would be to impose taxes on activities unrelated to transportation.

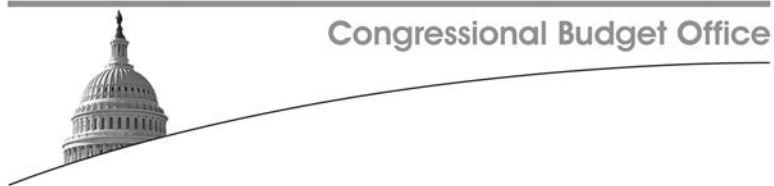
A third option for addressing the shortfall would be to continue to transfer money from the general fund to the Highway Trust Fund. Unless spending were cut, or revenues were increased, that would require a transfer of \$3 billion before the end of Fiscal Year 2015. After that, the amounts needed each year would start at \$11 billion in 2016 and grow to \$22 billion by 2025. The projected shortfall in the trust fund has generated interest in greater use of borrowing by State and local governments or private companies to pay for highways. The Federal Government encourages borrowing through tax preferences that provide a subsidy for highway financing projects.

In addition, the Federal Government offers loans and loan guarantees to assist with highway financing. Through both of those channels, though, the Federal Government bears some of the cost of such financing. Despite some prominent examples, the experience with private financing in the United States is very limited.

In particular, highway projects that have used private financing have accounted for less than 1 percent of all spending for highways over the past 25 years. Some of those projects have failed financially because the revenues for the projects were over-estimated. Perhaps because of that experience, projects that are now under construction rely less on tolls as a revenue source. More commonly, private partners are compensated from a State's general fund, thus limiting the risk to the private partner that it will not be repaid. As a result, the risk of lower-than-expected revenues stays with the public sector.

Ultimately, borrowing is only a mechanism for making future tax revenues or future user fees available to pay for transportation projects today. It is not a new source of revenues. Borrowing can augment the funds readily available for highway projects today, but revenues that are committed to repaying borrowed funds will be unavailable for new transportation projects or other government priorities in the future. Thank you very much for your time, and I would be happy to answer any questions that you have.

[The prepared statement of Mr. Shirley follows:]



Testimony

**The Status of the Highway Trust Fund and
Options for Paying for Highway Spending**

Chad Shirley
Deputy Assistant Director for Microeconomic Studies

**Before the
Committee on Ways and Means
U.S. House of Representatives**

June 17, 2015

This document is embargoed until it is delivered at 10:00 a.m. (EDT) on Wednesday, June 17, 2015. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Notes

Numbers in the text and tables may not add up to totals because of rounding.

Unless otherwise indicated, all years are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.



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Chairman Ryan, Ranking Member Levin, and Members of the Committee, thank you for the invitation to testify about the status of the Highway Trust Fund and options for paying for highway improvements and construction.

Summary

In 2014, governments at various levels spent \$165 billion to build, operate, and maintain highways, and they spent \$65 billion on mass transit systems. For both types of infrastructure, most of that spending was by state and local governments; about one-quarter of that total came from the federal government, mostly through the Highway Trust Fund. For several decades, the trust fund's balances were stable or growing, but more recently, annual spending for highways and transit has exceeded the amounts credited to the trust fund from taxes collected on gasoline, diesel fuel, and other transportation-related products and activities. Since 2008, in fact, lawmakers have transferred \$65 billion from the U.S. Treasury's general fund to the Highway Trust Fund so that the trust fund's obligations could be met in a timely manner.

Moreover, with its current revenue sources, the Highway Trust Fund cannot support spending at the current rate. The Congressional Budget Office estimates that spending in fiscal year 2015 for highways and transit programs funded from the Highway Trust Fund will be \$44 billion and \$8 billion, respectively, whereas revenues collected for those purposes are projected to be \$34 billion and \$5 billion, respectively. By CBO's estimate, at the end of fiscal year 2015, the balance in the trust fund's highway account will fall to about \$2 billion and the balance in its transit account will be about \$1 billion.

The Department of Transportation (DOT) would probably need to delay payments to states at some point before the end of fiscal year 2015 in order to keep the fund's balance above zero, as required by law. In fact, because of the timing of the deposits to the trust fund, DOT has stated that it would need to delay payments if cash balances fell below \$4 billion in the highway account or below \$1 billion in the transit account. Then, if nothing changes, the trust fund's balance will be insufficient to meet all of its obligations in fiscal year 2016, and the trust fund will incur steadily accumulating shortfalls in subsequent years.

Several options (or combinations of those options) could be pursued to address projected shortfalls in the Highway Trust Fund:

- *Spending on highways and transit could be reduced.* If lawmakers chose to address the projected shortfalls solely by cutting spending, no new obligations from the fund's highway account or its transit account

could be made in fiscal year 2016; that would also be the case for the transit account in fiscal year 2017. Over the 2016–2025 period, the highway account would see a decrease of about one-third in the authority to obligate funds, and the transit account's authority would decrease by about two-thirds, compared with CBO's baseline projections.

- *Revenues credited to the trust fund could be increased.* Lawmakers could address the projected shortfalls by raising existing taxes on motor fuels or other transportation-related products and activities; by imposing new taxes on highway users, such as vehicle-miles traveled (VMT) taxes; or by imposing taxes on activities unrelated to transportation. The staff of the Joint Committee on Taxation (JCT) estimates that a one-cent increase in taxes on motor fuels—primarily gasoline and diesel fuel—would initially raise about \$1.7 billion annually for the trust fund, declining over the next 10 years to about \$1.5 billion each year. If lawmakers chose to meet obligations projected for the trust fund solely by raising revenues, they would need to increase motor fuel taxes by roughly 10 cents per gallon, starting in fiscal year 2016.
- *The trust fund could continue to receive supplements from the Treasury's general fund.* Lawmakers could maintain funding for surface transportation programs at the average amounts provided in recent years, but to do so they would need to transfer \$3 billion before the end of fiscal year 2015 and between \$11 billion and \$22 billion every year thereafter through 2025. Spending resulting from such general fund transfers could be paid for by reducing other spending or by increasing revenues from broad-based taxes, or such transfers could add to deficits and thus increase federal borrowing.

The projected shortfalls in the Highway Trust Fund have generated interest in greater use of borrowing by state and local governments to finance highway projects. In particular, state and local governments (and some private entities) can use tax-preferred bonds that convey subsidies from the federal government in the form of tax exemptions, credits, or payments in lieu of credits to finance road construction. Similarly, some of those governments make use of direct loans from the federal government to finance projects.

Federal policies that encourage partnerships between the private sector and a state or local government may facilitate the provision of additional transportation infrastructure, but a review of those projects offers little evidence that public-private partnerships provide

additional resources for roads except in cases in which states or localities have chosen to restrict spending through self-imposed legal constraints or budgetary limits.

Only a small number of highway projects in the United States have involved public-private partnerships with private financing. Some that have been financed through tolls have failed financially because the private-sector partners initially overestimated their revenues and as a result have been unable to fully repay their projects' debts. Perhaps as a response, projects that are still under construction rely less on tolls as a revenue source; more commonly, private partners are compensated from a state's general funds, thus limiting the private risk of not being repaid and leaving the risk of lower-than-expected revenues to the public partner.

Regardless of its source, however, borrowing is only a mechanism for making future tax revenues or user fee revenues available to pay for projects sooner; it is not a new source of revenues. Borrowing can augment the funds available for highway projects, but revenues that are committed for repaying borrowed funds will be unavailable to pay for new transportation projects or other government spending in the future.

Spending for Highways and Mass Transit

Almost all spending on highway infrastructure and transit projects in the United States is funded publicly. Although the private sector participates in building, operating, and maintaining projects, the federal government and state and local governments typically determine which projects to undertake and how much to spend on them. Despite several prominent examples, private spending on highway projects constitutes only a small fraction of the total.

Almost three-quarters of all public spending on highways is by state and local governments: In 2014, state and local governments spent \$118 billion, and the federal government spent \$46 billion. Almost all federal highway spending is capital spending, which is used to build and improve highways; by contrast, about 40 percent of the total for state and local governments is capital spending and 60 percent is for operations and maintenance.

Public-private partnerships that involve private financing have accounted for less than 1 percent of all spending on highways during the past 25 years.

Real (inflation-adjusted) total spending on highways by federal, state, and local governments increased in the 1980s and 1990s, but it has fallen off since then. Real spending on transit programs is much less than for highways but has generally grown—especially spending by state and local governments—during recent decades (see Figure 1).¹

The Highway Trust Fund

The federal government's surface transportation programs are financed mostly through the Highway Trust Fund, an accounting mechanism in the federal budget that comprises two separate accounts, one for highways and one for mass transit. The trust fund records specific cash inflows from revenues collected through excise taxes on the sale of motor fuels, trucks and trailers, and truck tires; taxes on the use of certain kinds of vehicles; and interest credited to the fund. The Highway Trust Fund also records cash outflows for spending on designated highway and mass transit programs, mostly in the form of grants to states and local governments.

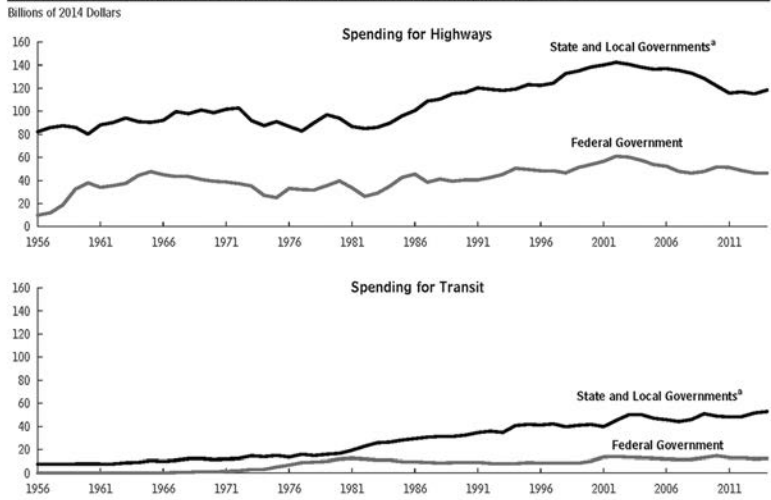
Spending from the Highway Trust Fund is controlled by two types of legislation:

- Authorization acts that provide budget authority (which allows the government to incur financial obligations that will result in immediate or future outlays of federal funds), mostly in the form of contract authority (which permits the government to enter into contracts or to incur obligations in advance of appropriations), and
- Annual appropriation acts, which customarily set limits on the amount of contract authority that can be obligated in a given year.

The Moving Ahead for Progress in the 21st Century Act of 2012 (MAP-21) authorized current highway and transit programs through fiscal year 2014. That authorization was subsequently extended. Most recently, the Highway and Transportation Funding Act of 2015 (Public Law 114-21) authorized those programs until July 31, 2015. The extension provided contract authority for highway and transit programs at an annualized rate of \$51 billion; the 2015 obligation limitations total about \$50 billion.

1. For more information on infrastructure spending, see Congressional Budget Office, *Public Spending on Transportation and Water Infrastructure, 1956 to 2014* (March 2015), www.cbo.gov/publication/49910.

Figure 1.
Spending for Highways and Transit, by Level of Government, 1956 to 2014



Source: Congressional Budget Office based on information from the Office of Management and Budget, the Census Bureau, the American Public Transportation Association, and the Bureau of Economic Analysis.

Note: The spending shown here includes outlays from the Highway Trust Fund (shown in Figure 2) and also other outlays. Specifically, this figure also includes about \$28 billion from the American Recovery and Reinvestment Act of 2009 (ARRA) for highways and spending from amounts periodically appropriated to assist state and local governments in rebuilding highways after natural disasters. Similarly, this figure also includes spending from the Capital Investment Grant program, which primarily supports new rail transit programs, and the operations of the Federal Transit Administration. Those amounts come from general funds, as did about \$8 billion in spending from ARRA and \$765 million from the 2013 legislation that provided funds for relief and recovery from Hurricane Sandy.

a. For 2012 through 2014, state and local spending was estimated by updating prior-year spending to account for changes in spending as reported in monthly surveys of highway and transit construction projects.

Excise taxes on motor fuels account for 87 percent of the Highway Trust Fund's revenues, mostly from the tax of 18.4 cents per gallon on gasoline and ethanol-blended fuels.² Receipts from the gasoline tax now constitute

almost two-thirds of the fund's total revenues (see Table 1). Under current law, all but 4.3 cents per gallon of that tax is set to expire on September 30, 2016. If that occurs, the receipts from the remaining tax will no longer be credited to the trust fund but instead will go into the Treasury's general fund. The second-largest share, accounting for about one-quarter of the fund's revenues, comes from the diesel fuel tax of 24.4 cents per gallon. The remainder comes from other taxes and from a very small amount of interest that is credited to the fund. Most of the revenues from motor fuel taxes are credited to the highway account of the

2. The total gas tax is 18.4 cents per gallon. Of that, 18.3 cents is credited to the Highway Trust Fund, and 0.1 cent goes to the Leaking Underground Storage Tank Trust Fund. (The Omnibus Budget Reconciliation Act of 1993 increased the gas tax by 4.3 cents, from 14.1 cents to 18.4 cents; the added receipts were not initially credited to the trust fund but instead went into the Treasury's general fund.)

Table 1.
Estimated Revenues Credited to the Highway Trust Fund, by Source, 2015

Billions of Dollars

	Highway Account	Transit Account	Total	Share of Total Trust Fund Revenues and Interest ^a (Percent)
Gasoline Tax	20.6	3.8	24.4	62
Diesel Tax	8.5	1.1	9.7	25
Tax on Trucks and Trailers	3.8	0	3.8	10
Use Tax on Certain Vehicles	1.0	0	1.0	3
Tire Tax on Trucks	0.5	0	0.5	1
Total	34.4	4.9	39.4	100

Source: Congressional Budget Office.

a. In 2015, CBO estimates, a small amount of interest will be credited to the Highway Trust Fund, in keeping with provisions of the Hiring Incentives to Restore Employment Act of 2010.

trust fund, but 2.86 cents per gallon goes into the mass transit account, which receives about 13 percent of the trust fund's total revenues and interest.

History of the Trust Fund's Balances. For several decades, the balances in the highway account were relatively stable or growing, but since 2001, receipts have consistently fallen below expenditures.³ (The transit account was not established until 1983 and, until 2006, it had a different accounting treatment that makes historical comparisons inapplicable.) During the 1980s and the first half of the 1990s, balances in the highway account held steady in the vicinity of \$10 billion. The most recent increase in the gasoline tax occurred in 1993, and after the Taxpayer Relief Act of 1997 redirected 4.3 cents of that tax from the general fund to the Highway Trust Fund, the unexpended balance in the highway account began to grow rapidly, reaching almost \$23 billion in 2000. In 1998, the Transportation Equity Act for the 21st Century (known as TEA-21) authorized spending that was sufficient to gradually draw down those balances. As a result of that legislation and the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which was enacted in 2005, outlays have generally exceeded revenues since 2001.

3. In 2010, the trust fund saw a significant decrease in outlays because states spent funds from the general fund of the Treasury that were appropriated in the American Recovery and Reinvestment Act of 2009. That act did not require states to match federal funds or even to contribute funds to projects, and the same projects that were eligible for funding from the Highway Trust Fund were eligible for funding under the act.

Since 2006, when certain accounting changes specified in TEA-21 took effect, spending from the transit account has grown and, since 2008, has exceeded revenues credited to the account. TEA-21 and SAFETEA-LU authorized spending from the account that has exceeded revenues credited to the fund by between \$3 billion and \$4 billion every year.

Because of looming shortfalls, since 2008 lawmakers have enacted legislation to transfer a total of \$65 billion to the trust fund—mostly from the Treasury's general fund—including \$22 billion in 2014. Those intra-governmental transfers have allowed the fund to maintain a positive balance, but they did not change the amount of receipts collected by the government. After those transfers, at the end of fiscal year 2014, the trust fund's balance totaled \$15 billion.

Projections of Outlays and Revenues in 2015. According to CBO's estimates, absent further legislation, the highway account will end fiscal year 2015 with a balance of \$2 billion—at the end of 2014, that balance was \$11 billion (see Table 2). By CBO's estimates, outlays from the highway account will total \$44 billion in 2015, but revenues and interest earnings will amount to just \$34 billion for the year. The situation is similar for the transit account, which is on track to end fiscal year 2015 with a balance of about \$1 billion, CBO estimates, down from \$3 billion a year earlier. Revenues and interest earnings are projected to amount to \$5 billion in 2015, but outlays are expected to total more than \$8 billion.

Table 2.
Projections of the Highway Trust Fund's Accounts Under CBO's March 2015 Baseline

Billions of Dollars, by Fiscal Year

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Highway Account												
Start-of-Year Balance	4	11	2	a	a	a	a	a	a	a	a	a
Revenues and Interest ^b	34	34	35	35	35	35	35	35	35	35	34	34
Intragovernmental Transfers ^c	18	0	0	0	0	0	0	0	0	0	0	0
Outlays	45	44	45	45	46	46	47	48	48	49	50	50
End-of-Year Balance	11	2	a	a	a	a	a	a	a	a	a	a
Transit Account												
Start-of-Year Balance	2	3	1	a	a	a	a	a	a	a	a	a
Revenues and Interest ^b	5	5	5	5	5	5	5	5	5	5	5	4
Intragovernmental Transfers ^c	4	0	0	0	0	0	0	0	0	0	0	0
Outlays	8	8	8	8	8	9	9	9	10	10	9	10
End-of-Year Balance	3	1	a	a	a	a	a	a	a	a	a	a
Memorandum:												
Cumulative Shortfall^a												
Highway account	n.a.	n.a.	-8	-19	-29	-41	-52	-65	-79	-93	-108	-125
Transit account	n.a.	n.a.	-3	-6	-9	-13	-17	-22	-27	-32	-37	-43

Source: Congressional Budget Office.

Note: n.a. = not applicable.

- a. Before the end of fiscal year 2015, CBO projects, revenues credited to the highway and transit accounts of the Highway Trust Fund will be insufficient to meet the fund's obligations. Under current law, the trust fund cannot incur negative balances, nor is it permitted to borrow to cover unmet obligations presented to the fund. Under the Deficit Control Act of 1985, however, CBO's baseline for highway spending must incorporate the assumption that obligations incurred by the Highway Trust Fund will be paid in full. The cumulative shortfalls shown here thus are estimated on the basis of spending that is consistent with obligation limitations contained in CBO's March 2015 baseline—adjusted for projected inflation—for highway and transit spending. To meet obligations as they come due, the Department of Transportation estimates, the highway account must maintain cash balances of at least \$4 billion, and the transit account must maintain balances of at least \$1 billion.
- b. Some taxes that are credited to the Highway Trust Fund are scheduled to expire on September 30, 2016—among them the taxes on certain heavy vehicles and tires and all but 4.3 cents of the federal tax on motor fuels. Under the rules that govern CBO's baseline projections, however, these estimates reflect the assumption that all of those expiring taxes would be extended.
- c. The Moving Ahead for Progress in the 21st Century Act and the Highway and Transportation Funding Act of 2014 required certain intragovernmental transfers, mostly from the U.S. Treasury's general fund, to the Highway Trust Fund in 2014. Those amounts totaled about \$22 billion. CBO's baseline reflects an assumption that no additional transfers from the general fund will occur.

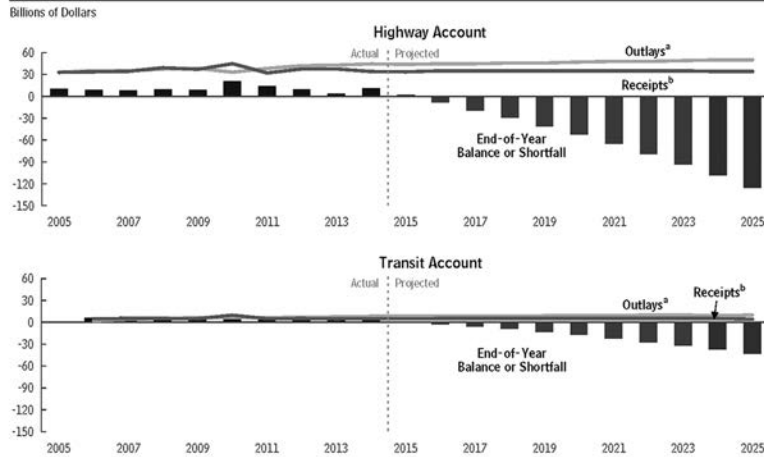
Unless additional funds are provided (either through an increase in revenues or through additional transfers from the general fund), the disparity between the receipts credited to the fund and outlays from the fund will require DOT to delay its reimbursements to states for the costs of construction. CBO estimates that such a delay would probably take effect sometime before the end of fiscal year 2015. Such a slowdown in payments occurred in 2008 when DOT announced that balances in the highway account had fallen below what it needed to reimburse states for the bills presented to the fund. Because deposits into the fund are made only twice each month, DOT has testified that it would need to delay payments if

cash balances fell below \$4 billion in the highway account or below \$1 billion in the transit account.⁴

Projections of Outlays and Revenues From 2016 Through 2025. CBO's baseline projections reflect the assumptions that expiring excise taxes would be extended and that obligations from the trust fund would grow at the rate of inflation. Under those assumptions, CBO

4. Department of Transportation, Office of Inspector General, *Refinements to DOT's Management of the Highway Trust Fund's Solvency Could Improve the Understanding and Accuracy of Shortfall Projections*, CR-2012-071 (March 2012), p. 22, www.oig.dot.gov/node/5736.

Figure 2.
Receipts, Outlays, and Balance or Shortfall for the Highway Trust Fund
Under CBO's March 2015 Baseline



Source: Congressional Budget Office.

Note: Under current law, the Highway Trust Fund cannot incur negative balances, nor is it permitted to borrow to cover unmet obligations presented to the fund. Under the Deficit Control Act of 1985, however, CBO's baseline for highway spending must incorporate the assumption that obligations incurred by the Highway Trust Fund will be paid in full.

- a. Projections of outlays are calculated by adjusting the obligation limitations set in the Consolidated and Further Continuing Appropriations Act of 2015 to account for projected inflation.
- b. Projections of receipts are based on market conditions, and they incorporate an assumption under CBO's March 2015 baseline that some taxes (including taxes on certain heavy vehicles and tires and all but 4.3 cents of the federal tax on motor fuels) that are credited to the Highway Trust Fund but scheduled to expire on September 30, 2016, will be extended.

Receipts include revenues credited to the Highway Trust Fund and intragovernmental transfers, mostly from the U.S. Treasury's general fund. Since 2008, those transfers have totaled about \$65 billion.

projects, shortfalls in both accounts of the trust fund would grow steadily larger over the next decade because revenues from the excise taxes are expected to grow very little, but spending would continue to rise (see Figure 2).⁵ By 2025, the cumulative shortfalls would total about \$125 billion for the highway account and about \$43 billion for the transit account, CBO estimates.

Revenues generated by excise taxes and credited to the Highway Trust Fund are projected to decline slightly over the coming decade from about \$40 billion in 2016 to about \$39 billion in 2025, mostly because increases in revenues from taxes on the use of diesel fuel and on truck sales are expected to be offset by declines in revenues from the tax on gasoline. Tax revenues from diesel fuel and truck sales are projected to increase, on average, by about 2 percent annually over the 2016–2025 period. In contrast, revenues from the tax on gasoline are projected to decline at an average annual rate of 2 percent over that

5. CBO constructs its baseline in accordance with provisions set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 and in the Congressional Budget and Impoundment Control Act of 1974.

period, mainly because of mandated increases in corporate average fuel economy standards.⁶

If lawmakers do not address the projected shortfalls, all revenues credited to the Highway Trust Fund in 2016 will be used to meet obligations made before that year. Most obligations involve capital projects that take years to complete—meaning that outlays for such projects are often spread across several years after funds have been committed. (The Federal-Aid Highway program, for example, typically spends about 25 percent of its budgetary resources in the year funds are first made available for spending; the rest is spent over the next several years.) Thus, in any given year, the vast majority of outlays from the Highway Trust Fund stem from contract authority provided and obligated in prior years. Because existing obligations far exceed the amounts in the fund at any given time, most of the trust fund's current obligations will be met using tax revenues that have not yet been collected.

As a result, the fund's balances are not indicative of the amounts available to cover proposed new spending authority. A more useful measure is the projected balances in the trust fund minus prior obligations that have not yet been liquidated and that must be paid for from future tax revenues collected under current law. At the end of 2014, for example, \$65 billion in contract authority for highway programs had been obligated but not yet spent and another \$26 billion was available to states but not yet obligated, for a total of \$91 billion in contract authority. Tax receipts dedicated to the highway account are projected to be about \$35 billion per year over the 2016–2018 period for a total of \$105 billion. Thus, under the calculation suggested above, there would be only about \$16 billion (\$105 billion plus the \$2 billion in the fund at the end of 2015 minus \$91 billion) in the fund over the next three years to cover the costs that would result from providing new spending authority. So even if states were given no further authority to spend, close to another three years' worth of motor fuel taxes would need to be collected just to meet the highway account's obligations at the end of 2014 plus any new obligations from contract authority made available before 2015. For the transit account, collections of almost five years' worth of taxes, at about \$5 billion per year, would

6. For more information, see Congressional Budget Office, *How Would Proposed Fuel Economy Standards Affect the Highway Trust Fund?* (May 2012), www.cbo.gov/publication/43198.

be needed to meet current obligations and any new obligations from contract authority made available before 2015.⁷

Options for Addressing Projected Shortfalls in the Highway Trust Fund

Lawmakers have three primary options for addressing the projected shortfalls in the Highway Trust Fund:

- Reduce spending on highways and transit,
- Increase taxes dedicated to the trust fund, or
- Transfer general revenues to supplement the trust fund.

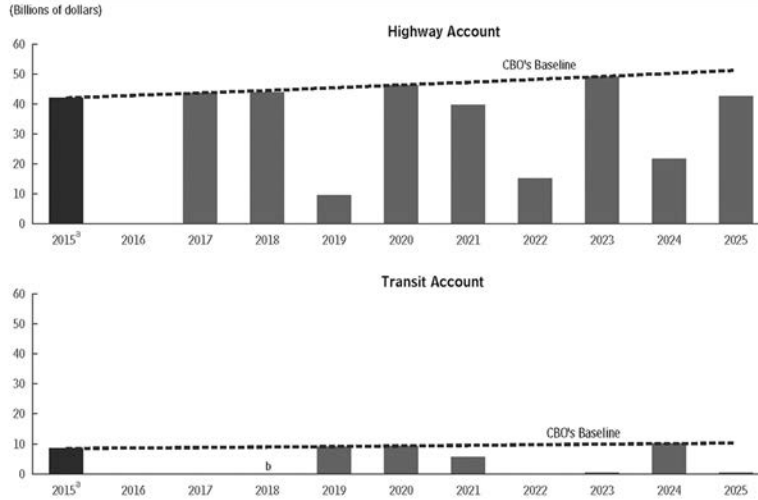
Of course, many combinations of such changes are possible.

Reduce Spending From the Trust Fund. Policymakers might want to address projected shortfalls by limiting federal spending for highways and mass transit to the amount of revenues generated by users. That reduction in spending would probably have significant negative consequences for the condition and performance of the nation's highway and mass transit infrastructure. In addition, unless some other federal spending was increased or federal taxes lowered, the reduction in federal spending would slow economic growth and employment during the next few years relative to what it would otherwise be. Over the longer term, the smaller amount of infrastructure would impose a drag on economic performance, but the smaller amount of federal debt stemming from the decrease in spending would provide an economic boost.

If lawmakers chose to avert projected shortfalls solely by cutting spending, then the trust fund could not support any new obligations in 2016, probably significantly delaying investment in infrastructure and halting numerous transportation projects across the country. Neither the highway account nor the transit account would be able to support new obligations in 2016 because reimbursements to states for multiyear projects already under

7. See Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2016: Appendix* (February 2015), www.whitehouse.gov/omb/budget/Appendix. At the end of fiscal year 2014, the balance in the transit account was about \$3 billion, but unspent contract authority for transit programs totaled \$16 billion in obligated balances and \$8 billion in unobligated amounts.

Figure 3.
Estimated New Commitments That Could Be Accommodated by the Highway Trust Fund
With No Changes in Receipts



Source: Congressional Budget Office.

Note: The figure shows the new commitments that could be provided from the highway and transit accounts of the Highway Trust Fund as long as the minimum balance in the highway account was at least \$4 billion and the minimum balance in the transit account was at least \$1 billion and the obligation limitation for each account did not exceed the amounts projected in CBO's March 2015 baseline.

- a. Data for 2015 represent the obligation limitations contained in the Consolidated and Further Continuing Appropriations Act, 2015, and contract authority that is exempt from those limitations.
- b. A small amount of new commitments could be provided by the transit account in 2018, but the amount is not perceptible in the figure.

way would be expected to exceed the estimated revenue collections for that year. The highway account would be able to support new obligations in 2017, but the transit account would not (see Figure 3). Such sudden shifts in the amount of annual spending authority would probably make program administration and planning difficult for DOT as well as for state and local grant recipients.

Over the 2016–2025 period, obligational authority for the highway account would be about one-third less, and for the transit account, about two-thirds less, than the amounts projected in CBO's baseline. Such a cut would

reduce obligations for highway programs from current projections of about \$47 billion per year, on average, to about \$31 billion per year, on average, from 2016 through 2025. Similarly, such a cut would reduce obligations for transit projects from current projections of about \$10 billion per year, on average, to about \$4 billion per year, on average, for the 2016–2025 period.

The consequences of such reductions in federal spending could be ameliorated, at least in part, if state and local governments responded to the reduction in federal funds by increasing their own spending through some

combination of raising additional revenues, shifting spending from other purposes, and borrowing.

If total funding for investment in highways and mass transit was significantly reduced, then it would be especially important to allocate the remaining funding, and to use that infrastructure, in the most effective way. Specifically, the negative consequences of a substantial reduction in funding could be partly alleviated if the remaining spending was focused on projects with especially large benefits and if people's use of highways and mass transit was focused on the highest-value uses (for example, through taxes on vehicle-miles traveled or congestion pricing).⁸ In addition, the economic efficiency of each dollar of funding could be improved if the federal government limited its support to projects (such as the Interstate highways) that offer significant benefits to more than one state, leaving state and local governments to fund projects with more localized benefits. If the people who benefit from a project bear its costs, the likelihood is diminished that too large a project (or too many projects) will be undertaken or that too many infrastructure services will be consumed relative to the resources needed to provide them.

Increase Revenues Dedicated to the Trust Fund. Another approach to bringing the trust fund's finances into balance would be to increase its revenues—for example, by raising the taxes on motor fuels; by imposing mileage-based, or VMT, taxes; or by imposing taxes on activities that are not related to transportation.⁹ Increasing the charges that highway users pay also could promote more efficient use of the system. Economic efficiency is enhanced when highway users are charged according to the marginal (or incremental) costs of their use, including the external costs that their highway use imposes on society. A combination of a fuel tax and a VMT tax that accounts for the type and weight of a vehicle and the location and time of its use could provide incentives for reducing driving's social costs and could generate funds for federal spending on highways.¹⁰ But generating

additional funds that way would raise questions of fairness, including, for example, whether the structure of user charges would impose relatively greater burdens on low-income and rural users.

Fuel Taxes. Excise taxes credited to the Highway Trust Fund come primarily from taxes on gasoline, ethanol-blended fuels, and diesel fuels. Those excise taxes were last increased in 1993, and their purchasing power is about 40 percent below that in 1993. If those taxes had been adjusted to keep pace with the consumer price index, for example, the tax on gasoline, which is currently 18.4 cents per gallon, would be about 30 cents per gallon, and the tax on diesel fuel, currently 24.4 cents per gallon, would be about 40 cents per gallon.

According to JCT's estimates, a one-cent increase in the taxes on motor fuels, effective October 1, 2015, would initially raise about \$1.7 billion annually for the Highway Trust Fund, declining over the next 10 years to about \$1.5 billion annually.¹¹ The decline occurs mainly because, under current law, annual increases in the use of diesel fuel are expected to be more than offset by annual declines in gasoline use because of mandated increases in corporate average fuel economy standards. If lawmakers chose to meet obligations projected for the trust fund solely by raising revenues, they would have to increase the taxes on motor fuels by roughly 10 cents per gallon, starting in fiscal year 2016.

Fuel taxes offer a mix of positive and negative characteristics in terms of many people's conception of equity. They satisfy a "user pays" criterion—that those who receive the benefits of a good or service should pay its cost. But they also can impose a larger burden relative to income on people who live in low-income or rural households because those people tend to spend a larger share of their income on transportation. Fuel taxes impose a burden even on households that do not own passenger vehicles by raising transportation costs, which are reflected in the prices of purchased goods.

8. For a comprehensive discussion of the benefits and challenges of congestion pricing, including options for its design and implementation for highways, see Congressional Budget Office, *Using Pricing to Reduce Traffic Congestion* (March 2009), www.cbo.gov/publication/20241.

9. See Congressional Budget Office, *Alternative Approaches to Funding Highways* (March 2011), www.cbo.gov/publication/22659.

10. For example, see David Austin, *Pricing Freight Transport to Account for External Costs*, Working Paper 2015-03 (Congressional Budget Office, March 2015), www.cbo.gov/publication/50049.

11. Because excise taxes reduce the tax base of income and payroll taxes, higher excise taxes would lead to a reduction in revenues from income taxes and payroll taxes. The estimates shown here do not reflect those reductions. Those reductions would amount to about 25 percent of the estimated increase in excise tax receipts.

Fuel taxes have two desirable characteristics that are related to economic efficiency: They cost relatively little to implement (the government collects taxes from fuel distributors, and users pay the taxes when they purchase fuel), and they offer users some incentive to curtail fuel use, thus reducing some of the social costs of travel. However, a fuel tax discourages some travel too much and other travel too little, because it does not reflect the large differences in cost for use of crowded roads compared with uncrowded roads or for travel by trucks that have similar fuel efficiency but cause different amounts of pavement damage. Moreover, for a given tax rate on fuels, the incentive to reduce mileage-related costs diminishes over time as more driving is done in vehicles that are more fuel efficient.

VMT Taxes. VMT taxes provide stronger incentives for efficient use of highways than fuel taxes do because VMT taxes are better aligned with the costs imposed by users. Most of those costs—including pavement damage, congestion, accidents, and noise—are tied more closely to the number of miles vehicles travel than they are to fuel consumption.

For VMT taxes to significantly improve efficiency, however, they would need to vary greatly according to vehicle type, time of travel, place of travel, or some combination of such characteristics. For example, because pavement damage increases sharply with vehicle weight but decreases with the number of axles on a vehicle, the portion of VMT taxes assessed to maintain pavement could be small or nonexistent for passenger vehicles but substantial for heavy-duty trucks, particularly those with high weight per axle. Similarly, VMT taxes could be higher for any travel on crowded urban roads during peak hours than for travel in off-peak hours or on roads that are less congested.

In fact, a system of VMT taxes would not need to apply to all vehicles on every road. There already exist less comprehensive systems of direct charges for road use: Toll roads, lanes, and bridges are common in the United States, and several states and foreign countries place weight-and-distance taxes on trucks. Expansion of existing systems could focus on highly congested roads or on entry points into congested areas; such targeted approaches would cost less to implement if they required relatively simple equipment to be placed in vehicles. Alternatively, the focus could be on specific vehicle types: Although trucks (excluding light-duty trucks), for example, constitute only 4 percent of all vehicles in the

United States, they account for roughly 25 percent of all costs that highway users impose on others, including almost all of the costs associated with pavement damage.

The costs of implementing VMT taxes include capital costs for equipment and operating costs for metering, payment collection, and enforcement. The cost to establish and operate a nationwide program of VMT taxes is uncertain and difficult to estimate because projections so far are based mainly on small trials that have used a variety of evolving technologies and because the cost would depend on whether VMT taxes varied by time, place, or type of vehicle. Although the costs of charging drivers are declining with improvements in technology, the costs remain higher than those for collecting revenues through the motor fuel taxes. The idea of imposing variable VMT taxes also has raised concerns about privacy: The collection process could give the government access to specific information about when and where individual vehicles are used.

Impose Taxes Unrelated to Transportation. Lawmakers could also impose new taxes or increase existing ones on activities that are unrelated to transportation. Such taxes could be designed in many ways and might raise more or less than the projected shortfall in the Highway Trust Fund. However, such taxes would not provide the same incentives to use highway infrastructure efficiently as would increasing taxes on motor fuels or imposing a VMT tax.

Transfer Money From the General Fund. Lawmakers could choose to continue to supplement the Highway Trust Fund with general revenues, thus providing more money for highways and transit systems than is collected from excise taxes dedicated to those purposes. For 2015, to continue funding for surface transportation programs at the amounts for which obligation limitation was provided, lawmakers would need to transfer \$3 billion to the Highway Trust Fund, CBO estimates.¹² That transfer would allow the trust fund to maintain cash balances of at least \$4 billion in the highway account and at least \$1 billion in the transit account. Subsequently, to continue funding for surface transportation programs at the average amounts provided in recent years, adjusted for inflation, lawmakers

12. For more information, see Congressional Budget Office, letter to the Honorable Sander M. Levin regarding the estimated revenue shortfall if spending authority for the Highway Trust Fund were extended beyond May 31, 2015 (May 2015), www.cbo.gov/publication/50234.

would need to transfer \$11 billion in 2016; such transfers would need to increase gradually to \$22 billion by 2025 to maintain current spending, adjusted for inflation. At that pace, by 2025, CBO projects, general fund transfers would account for about one-third of the receipts credited to the Highway Trust Fund.

Spending that resulted from such transfers could be paid for by reducing other spending or by increasing broad-based taxes, such as income taxes; or it could add to deficits and thus increase federal borrowing. Reductions in other spending would mean that the benefits of the spending on transportation would be at least partially offset by a reduction in whatever benefits that other spending would have provided. Boosting the already-high federal debt would have long-term negative effects on the economy.

Increasing broad-based taxes would offer advantages and disadvantages compared with raising taxes on highway users. Two arguments can be made in support of using such a source of funding for highways. First, some benefits of better highway infrastructure are distributed more broadly than to just highway users. For example, reducing transportation costs for suppliers and customers increases efficiency by allowing businesses to specialize more in terms of the products and services they produce and the materials they use. Second, large amounts could be raised through small changes in tax rates. JCT has estimated that raising all tax rates on ordinary individual income by 1 percentage point would yield an average of \$69 billion per year from 2015 to 2024—more than all of the current Highway Trust Fund taxes combined.¹³ Moreover, funding highways through broad-based taxes does not impose a larger burden relative to income on rural or low-income users (unlike some taxes on fuel use).

In other respects, however, the use of general revenues poses disadvantages. In particular, the approach gives users no incentive to drive less or to use less fuel, and it does not satisfy the principle that a user-pays system may be fairest and most efficient. Moreover, even a small increase in existing tax rates would hamper economic efficiency by discouraging work and saving and by encouraging people to shift income from taxable to nontaxable forms and to shift spending from ordinary to tax-deductible goods and services.

13. See Congressional Budget Office, *Options for Reducing the Deficit: 2015 to 2024* (November 2014), p. 29, www.cbo.gov/budget-options/2014.

Financing Highways

The projected shortfalls in the Highway Trust Fund have generated interest in increasing the amount of spending that can be sustained in the near term by encouraging state and local governments to rely more heavily on debt financing. Most highway projects now are paid for with current state or federal revenues. Apart from increasing their own taxes or cutting other spending, state and local governments or other public entities could finance additional spending on highways in a number of ways, including one or more of the following:

- Issuing tax-preferred government bonds,
- Obtaining federal loans or loan guarantees, or
- Joining with a private partner to obtain private financing.

Tax-preferred government bonds include tax-exempt bonds (among them qualified private activity bonds, or QPABs) and tax credit bonds, both of which transfer some of the cost of borrowing from state and local governments and the private sector to the federal government in the form of forgone federal tax revenues. Investors are generally willing to accept a relatively low rate of return on tax-preferred bonds because interest income is exempt from federal (and many state) taxes and because those bonds are backed by the taxing authority of the public entity.

Federal loans or loan guarantees can reduce state and local governments' borrowing costs, depending on the terms of the loan, in part because the federal government assumes the risk that would be borne by a lender and paid for by a borrower in the form of higher interest rates. A current federal loan program offers state and local governments an opportunity to borrow money for highways and certain other transportation projects at interest rates that are based on the long-term Treasury rate.

Assessments of the experience with private financing of highways in the United States suggest that turning to a private partner does not typically yield additional financing, although doing so may speed the provision of financing and make new roads available sooner than they would have been otherwise. Private financing can provide the capital necessary to build a new road, but it comes with the expectation of repayment and a future return, the ultimate source of which is either tax revenues collected by a government or fees from road users, like

tolls—the same sources that are available to governments. All told, the total cost of the capital for a highway project, whether that capital is obtained through a government or through a public-private partnership, tends to be similar once all relevant costs are taken into account. Regardless of its source, financing is only a mechanism for making future tax or user fee revenues available to pay for projects sooner; it is not a new source of revenues.

Tax-Preferred Bonds

The federal government provides several types of tax preferences to subsidize infrastructure financing. *Tax-exempt bonds* use the well-established tax preference of paying interest that is not subject to federal income tax. Such bonds can be issued to finance the functions of state and local governments or, in the case of QPABs, certain types of projects undertaken by the private sector. A second, more recently developed type of tax preference for infrastructure financing is associated with *tax credit bonds*. Such bonds come in two basic forms: those that provide a tax credit to the bondholder in lieu of paying interest and those that allow the bond issuer to claim a tax credit. (For issuers with no tax liability, the credit in the second scenario takes the form of a payment from the Secretary of the Treasury. Such bonds are known as direct-pay tax credit bonds.) Tax-exempt and tax credit bonds alike transfer some of the cost of borrowing from state and local governments and the private sector to the federal government, either in the form of forgone federal tax revenues or, in the case of direct-pay tax credit bonds, a federal outlay.

Tax preferences provide federal support for infrastructure financing while generally allowing state and local governments to exercise broad discretion over the types of projects they finance and the amount of debt they issue. However, tax preferences are not governed by the annual appropriation process, so lawmakers exercise less oversight over their continuation and use than is applied to federal grant and loan programs. Also, because forgone revenues are not identifiable in the federal budget, the use of tax preferences can mask the full scope of the government's financial activities. Using some types of tax-preferred bonds can be an inefficient way to deliver a federal financial subsidy to state and local governments. With a tax exemption for interest income, for example, state and local borrowing costs (and the costs of the private entities that make use of QPABs) are reduced by significantly less than the amount of forgone federal revenues; the remainder of that tax expenditure accrues to bond buyers in the highest income tax brackets.

Subsidizing borrowing through the use of payments made directly to borrowers can be more efficient—in terms of the benefits to state and local governments per dollar of federal cost—and more conducive to budgetary review and control.¹⁴

Tax-Exempt Government Bonds. Federal tax exemptions for interest income from government bonds (and QPABs) allow issuers of such debt to sell bonds that pay lower rates of interest than do taxable bonds. Because purchasers of tax-exempt bonds demand a return that is at least as high as the after-tax yield they could obtain from comparable taxable bonds, the amount by which the return from tax-exempt bonds is lower than the yield on comparable taxable debt depends on the income tax rate of the marginal (or market-clearing) buyer of tax-exempt bonds. Thus, the amount of subsidy that state and local governments receive by issuing tax-exempt bonds is determined not by an explicit decision of the federal government, but indirectly by the federal tax code and the financial circumstances of potential investors.

JCT estimates that the tax exemption for state and local debt resulted in \$33 billion of forgone federal revenues in 2014; for the subsequent four years, it estimates that tax-exempt debt will reduce revenues by an additional \$147 billion. According to data from the Internal Revenue Service, tax-exempt bonds issued between 1991 and 2012 to finance highway and other transportation projects (both for new construction and to refund existing transportation debt) accounted for between about one-eighth and one-fifth of the total value of tax-exempt bonds issued that can be classified by the type of project financed. Thus, a rough estimate of the tax expenditure for transportation bonds in 2014 would be between \$4 billion and \$7 billion. Data from proprietary sources suggest that highway bonds may account for as much as one-half of all tax-exempt debt issued to finance transportation projects.¹⁵

14. For more information, see Congressional Budget Office and Joint Committee on Taxation, *Subsidizing Infrastructure Investment with Tax-Preferred Bonds* (October 2009), www.cbo.gov/publication/41359.

15. See Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2014–2018*, JCX-97-14 (August 2014), p. 33, <http://go.usa.gov/3PuXT>; Internal Revenue Service, *Statistics of Income*, "Table 2. Long-Term Tax-Exempt Governmental Bonds, by Bond Purpose and Type of Issue," www.irs.gov/usc/SOI-Tax-Stats-Tax-Exempt-Bond-Statistics; and Thomson Reuters, "Transportation Highlights," *The Bond Buyer Yearbook* (various issues).

Qualified Private Activity Bonds. Qualified private activity bonds are tax-exempt bonds that finance large infrastructure and other projects that are primarily undertaken by a private entity. Thus, QPABs essentially provide publicly-supported financing to private businesses or individuals; a qualified governmental unit serves as a conduit between those entities and the purchaser of the bond. QPABs may be issued to finance a wide range of infrastructure (and other) projects, including those for transportation.

SAFETEA-LU allowed QPABs to be issued for certain surface transportation projects, but the law placed a cap of \$15 billion on the issuance of such bonds. According to DOT (as of May 12, 2015), bonds with a value of \$5.8 billion have been issued for 14 projects in all since 2005. DOT has allocated another \$5.3 billion of that \$15 billion to projects that, although approved, have not started and could use QPABs in the future; about 60 percent of that amount has been allocated during the past year or so. That leaves roughly \$4 billion available for future applicants. However, the \$11 billion in bonds currently issued or allocated under the \$15 billion cap may overstate the amount of QPABs that those projects will use eventually, because some projects that received a QPAB allocation have switched to other forms of financing. For example, in April 2014, DOT allocated about \$5.3 billion from QPABs to seven projects that had not yet issued bonds. By May 2015, however, only three of them had issued QPABs, all for amounts that were significantly less than originally allocated.

Giving private entities access to the tax-exempt market using QPABs lowers the cost of capital for those borrowers and can promote infrastructure projects when state and local governments have self-imposed limits on borrowing. But, like tax-exempt government bonds, QPABs result in forgone tax revenues. And, to the extent that private funding was available without QPABs, albeit at a higher cost, only projects of marginal value would be unable to receive financing without them.

Because of the growing number of projects seeking to use QPABs, some financial market analysts are concerned that the limit on their use will be reached soon. Development of large, complex infrastructure projects often takes years, so financial analysts are seeking certainty that QPABs will be available if they choose to apply for them. In his 2016 budget proposal, the President proposed measures to address the borrowing limits. First, the

President proposed raising the cap, by \$4 billion, to \$19 billion. According to JCT's estimates, such an additional allocation would begin to be used sometime in 2017. Second, the President proposed authorizing a new type of QPAB for financing infrastructure investment that would be fully tax-exempt and that would also not be subject to any volume cap.

Tax Credit Bonds. Starting in the late 1990s, the Congress turned to tax credit bonds as a way to finance public expenditures. In their early form, those bonds allowed their holders to receive a credit against federal income tax liability instead of—or in addition to—the cash interest typically paid on the bonds. The amount of the credit equals the credit rate, which is set by the Secretary of the Treasury, multiplied by the face amount of the bond.

Tax credit bonds offer some advantages over other types of tax-preferred bonds, such as tax-exempt bonds. Because bondholders pay taxes on the amount of credit they claim, tax credit bonds do not result in investors in high marginal tax brackets receiving a portion of the forgone tax revenues. Rather, the revenues forgone by the federal government through tax credit bonds reduce state and local borrowing costs dollar for dollar, a more efficient use of federal resources than that resulting from tax-exempt bonds. Tax credit bonds also allow the amount of federal subsidy to be determined explicitly, rather than depending on other federal policies (such as marginal income tax rates).

The American Recovery and Reinvestment Act of 2009 authorized Build America Bonds, tax credit bonds that were sold only in 2009 and 2010. State and local governments issued the bonds either as traditional tax credit bonds or, if certain conditions were met, as direct-pay tax credit bonds (known as qualified Build America Bonds). In contrast to earlier tax credit bonds, Build America Bonds have an interest rate (or coupon) that is set by the issuer rather than by the Secretary of the Treasury. For the direct-pay bonds, the federal government provided payments directly to issuing state and local governments equal to 35 percent of the interest, in lieu of a tax credit going to the bondholder. The amount of that financing subsidy is greater than the reduction in the interest costs that those state and local governments would have realized if they had issued traditional tax-credit bonds because, in the latter case, the bond buyer claiming the tax credit would have had to be compensated with additional interest income for the resulting tax liability.

The interest subsidies provided by direct-pay tax credit bonds appear as outlays in the federal budget, making the cost more transparent and, in principle, enabling comparison with other federal outlays for the same purposes.

Also, because the yields provided to holders of direct-pay tax credit bonds are similar to the yields of other taxable securities, direct-pay tax credit bonds are more attractive to tax-exempt entities than other tax credit bonds are and may therefore increase the pool of funds available to state and local governments to finance infrastructure projects and other activities.

The President's budget proposal for 2016 includes a direct-pay tax credit bond with a credit equal to 28 percent of each interest payment. By allowing state and local governments to substitute taxable for tax-exempt bonds, the proposal would increase taxable interest income, boosting federal revenues by \$54 billion between 2016 and 2025, according to JCT. Because the proposal also would increase subsidy payments to state and local governments (which are recorded in the federal budget as outlays) by an estimated \$58 billion, the net effect would be to increase the cumulative 10-year deficit by \$4 billion.¹⁶

Federal Loans and Loan Guarantees

The federal government also subsidizes borrowing by state and local governments by providing and guaranteeing loans for infrastructure. Such credit assistance can reduce state and local governments' costs because it can facilitate borrowing at interest rates that are lower than otherwise might be available, and it may open additional access to the capital markets. Specifically, in providing loans and loan guarantees, the federal government assumes the risk that would be borne by a lender and paid for by a borrower in the form of higher interest rates.

The Federal Credit Reform Act of 1990 (FCRA) established rules for calculating the budgetary costs of direct loans and explicit loan guarantees issued by the federal government. The budgetary cost of federal credit assistance programs is recorded as the net present value of the cash flows to and from the government—the loan amount and the expected repayments—when the loan is disbursed to recipients.¹⁷ That subsidy cost represents an estimate of the net cost that the government bears. In contrast, the

cash flows associated with that loan between the Treasury, an agency, and borrowers occur over time and are not recorded in the budget.

An important aspect of the budgetary treatment of federal credit programs is that agencies must receive an appropriation equal to the estimated subsidy cost before they can make or guarantee a loan.¹⁸ In the case of direct loans, FCRA specifies that loan repayments are unavailable for future spending; those repayments are already accounted for in the estimated net present value of the loan, so they are not available to "revolve" into new loans. Such a revolving fund is the model on which many state infrastructure banks are based. However, for the federal government, those repayments represent part of the financing for the original loans and are implicit in the subsidy calculation. Allowing loan repayments to be used for new loans—without any additional appropriation to cover the subsidy costs of the new loans—would raise the effective FCRA subsidy cost of the original loans to 100 percent (the same as for grants).

FCRA accounting, however, does not provide a comprehensive measure of the economic cost of credit assistance. Through its use of Treasury rates for discounting, FCRA implicitly treats market risk—a type of risk that investors require compensation to bear—as having no cost to the government. Specifically, FCRA's procedures incorporate the expected cost of defaults on government loans or loan guarantees but not the cost of risk associated with uncertainty about the magnitude and timing of those defaults. Investors require compensation—a "market risk premium"—to bear that risk. That premium on a risky loan or guarantee compensates investors for the increased likelihood of sustaining a loss when the overall economy is weak and resources are scarce; that likelihood is reflected in higher expected returns and lower prices for assets that carry more market risk. Taxpayers bear the investment risk for federal credit obligations. By omitting the cost of market risk and thereby understating the economic cost of federal credit obligations, FCRA accounting may lead

17. The net present value is the single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) today.

18. In contrast, no appropriations are necessary for the periodic revisions to subsidy estimates that agencies make to reflect actual experience with loans and guarantees. Permanent indefinite budget authority exists for those revisions, which are recorded in the budget as increases or decreases in outlays.

16. See Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2016 Budget Proposal*, JCX-50-15 (March 6, 2015), <http://go.usa.gov/3Pu5Q>.

policymakers to favor credit assistance over other forms of aid that have a similar economic cost.¹⁹

Loans Made Under the Transportation Infrastructure Finance and Innovation Act. DOT administers a loan program under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) that provides credit assistance to state and local governments to finance highway projects and other types of surface transportation infrastructure. The TIFIA program offers subordinated federal loans for up to 35 years at interest rates that are based on the rate for Treasury securities of similar maturity. (On June 1, 2015, the interest rate on the 30-year Treasury bond was 2.94 percent.) TIFIA assistance may be used for up to 49 percent of a project's cost. Combined with other federal grants and credit assistance, TIFIA loans can be part of a package of federal assistance that funds up to 80 percent of the cost of a project.

MAP-21 made several changes to the TIFIA program, notably increasing the amount of budget authority for the subsidy cost of the program's loans from \$122 million per year in the previous authorization for highway and transit programs to \$750 million in 2013 and \$1 billion in 2014. Because contract authority is provided for only about three-fourths of 2015, TIFIA has received \$750 million so far this year. If an insufficient amount of that budget authority was used, provisions of the law directed DOT to reallocate some of those funds to states for use by their formula programs. As of April 1, 2015, uncommitted budget authority for TIFIA totaled \$1.139 billion. As a result, on April 24, 2015, DOT reallocated about \$640 million to states.²⁰

MAP-21 also authorized master credit agreements and created an extra interest rate subsidy for projects in rural areas. Master credit agreements would allow DOT to make commitments of future TIFIA loans, contingent on

future authorizations, to a group of projects secured by a common revenue source. Under provisions of MAP-21, rural projects receive a minimum of 10 percent of the funds appropriated and are eligible to receive loans at half the Treasury rate. Such an interest rate subsidy makes a project relatively less expensive for the sponsors and relatively more expensive for the federal government. It may result in federal loans for projects that would not otherwise generate enough revenues to cover the costs of financing the projects.

Proposals for a Federal Infrastructure Bank. In recent years, the Congress has considered several proposals for establishing a federal bank to fund infrastructure projects through loans and grants.²¹ In recent years, the President's budget has included a request to create a similar entity.²²

Whether federal credit assistance is provided through an existing federal agency or a newly created special entity, however, it would involve similar budgetary costs to the federal government. The support offered for surface transportation by most proposed infrastructure banks would not differ substantially from the loans and loan guarantees already offered by DOT through its TIFIA program. Therefore, differences between the existing TIFIA program and an infrastructure bank would primarily be operational, concerning the types of infrastructure to fund, the kinds of credit assistance to provide, the selection process for projects, the amount of leverage to provide for federal funds, and the amount of private-sector participation to encourage or require. For example, an infrastructure bank could focus on financing transportation infrastructure, or it could define infrastructure more broadly to include sewers, wastewater treatment facilities, drinking water supply facilities, broadband Internet access, or even schools. In principle, an infrastructure bank could use any of several methods to finance projects, including federal loans, lines of credit, and guarantees for private loans.

CBO has previously analyzed an illustrative federal infrastructure bank—one that is representative of certain recent proposals but that would focus on surface

19. Moreover, subsidy rates computed under FCRA exclude federal administrative costs, even those that are essential for preserving the value of the government's claim to future repayments, such as loan-servicing and collection costs; those costs are accounted for separately in the budget. For more information, see Congressional Budget Office, *Fair-Value Accounting for Federal Credit Programs* (March 2012), www.cbo.gov/publication/43027.

20. Gregory G. Nadeau, Federal Highway Administration, Notice: Fiscal Year (FY) 2015 Redistribution of Transportation Infrastructure Finance and Innovation Act (TIFIA) Funds and Associated Obligation Limitation (April 24, 2015), <http://fhwa.dot.gov/legregs/directives/notices/in4510783.cfm>.

21. Other government programs that provide credit assistance for infrastructure projects include the Environmental Protection Agency's grants for states' revolving loan funds for water projects and states' infrastructure banks, all capitalized with federal funds and administered by states.

22. Some other proposals to establish an infrastructure bank include providing bond insurance to issuers.

transportation programs.²³ That entity, which would be federally funded and controlled, would select new, locally proposed construction projects for funding on the basis of several criteria, including the projects' costs and benefits, and it would provide financing for the projects through loans and loan guarantees. To repay the loans, projects would have to use tolls, taxes, or other dedicated revenue streams. Financial assistance could be provided to any consortium of partners with an eligible project, such as a group of state and local entities or a group of nongovernmental partners. The bank could provide the subsidy amounts needed to compensate private-sector investors for benefits that accrue to the general public and to the economy at large.

Such an infrastructure bank could have a limited role in enhancing investment in surface transportation projects by providing new federal subsidies (in the form of loans or loan guarantees) to certain large projects, potentially including multijurisdictional or multimodal projects, and by allowing the benefits of potential projects to be more readily compared in a competitive selection process.

A key limitation of such a bank is that many surface transportation projects would not be good candidates for its support, because most projects do not involve toll collections or other mechanisms to collect funds directly from project users or other beneficiaries.

Private Financing

Only a small number of highway projects in the United States have involved public-private partnerships with private financing.²⁴ Assessments of those projects indicate that such partnerships may accelerate the availability of financing—for example, by circumventing states' self-imposed limits on borrowing—but they do not generally result in additional financing. Some of the projects that have been financed through tolls have failed financially because the private-sector partners initially overestimated their revenues and as a result have been unable to fully repay their projects' debts. Perhaps as a response, projects

that are still under construction rely less on tolls as a revenue source; more commonly, private partners are compensated from a state's general funds, thus limiting the private risk of not being repaid and leaving the risk of lower-than-expected revenues to the public partner.

Increasingly, public-private partnerships also have replaced the funds obtained through private means (at market rates) with tax-exempt bonds or bonds that provide a credit against taxes owed. That change has brought the projects more in line with the way states typically finance infrastructure projects, lowering the private partners' costs at the expense of costs to federal taxpayers and increasing the amount of the government's implicit equity and risk. In doing so, newer projects may have diminished the incentives associated with private financing to control costs and to be completed quickly.

In addition, more recent agreements have reduced private partners' debt-service payments—that is, interest payments on any money borrowed to finance the projects—by increasing the share of financing provided by the state or locality or by the federal government. Accordingly, the financing provided by the TIFIA program or by tax-exempt private activity bonds has become increasingly prominent for highway projects that involve public and private partners.

The history of privately financed roads in the United States encompasses 36 projects that are either under way or have been completed during the past 25 years. The value of the contracts for those projects totals \$32 billion, a little less than 1 percent of the approximately \$4 trillion that all levels of government spent on highways over the period. (Both of those amounts are in 2014 dollars.) In the past few years, the number of partnerships for road projects with private financing has increased; one-half of the \$32 billion in contracts has been committed in the past five years.

The amount of risk transferred to private partners has varied from project to project. In some instances, the financial risk was borne primarily by taxpayers, who were responsible for repaying debt incurred by the private partner. Under one program in Florida, for example, private businesses finance each project entirely with private debt that is to be repaid over a predetermined time—usually five years—with future grants from the federal government, state funds, and revenues from tolls collected from users of the completed road. The state's guarantee of repayments eliminates much of the transfer of risk that

23. See Congressional Budget Office, *Infrastructure Banks and Surface Transportation* (July 2012), www.cbo.gov/publication/43361.

24. For additional information on the experience with public-private partnerships, see the testimony of Joseph Kile, Assistant Director for Microeconomic Studies, Congressional Budget Office, before the Panel on Public-Private Partnerships, House Committee on Transportation and Infrastructure, *Public-Private Partnerships for Highway Projects* (March 5, 2014), www.cbo.gov/publication/45157.

takes place with other privately financed projects. Thus, the financing is essentially public, and the structure of the public-private partnership is similar to that of an approach without private financing. In other instances, the private partner has borne more of the risk of the investment—specifically, some of the private partners' money might be lost if the project did not produce revenues as expected.

Over the past 25 years, 14 privately financed projects—of various sizes but all involving contracts of at least \$50 million—have been completed (see Table 3). A review of those projects offers little evidence that public-private partnerships provide additional resources for roads except in cases in which states or localities have chosen to restrict spending through self-imposed legal constraints or budgetary limits. To varying degrees, the projects that made use of private financing were in states in which the government could have issued bonds to finance the work through traditional means. In some cases, however, the use of a public-private partnership accelerated a project's access to financing by circumventing restrictions that states have imposed on themselves and that limit their ability to issue additional debt. (Earlier financing of a road project adds value when it allows the public to enjoy the benefits of the new road sooner than would otherwise be possible.)

Several such projects are still under construction (see Table 4). New public-private partnerships have sought to reduce their borrowing costs by relying on publicly subsidized borrowing through the TIFIA program and through QPABs issued by local municipalities; the QPABs have tax advantages that lower the private partner's debt-service payments. All but two of those projects have made use of federal subsidies through the TIFIA program. That choice of financing constitutes a return to some features of the traditional approach in which the public sector—the federal government, in particular—retains greater risks, especially the risk of default. For instance, the South Bay Expressway, which had received some financing from the TIFIA program, illustrates what can happen to taxpayers as the ultimate equity holders. The project filed for Chapter 11 bankruptcy in March 2010, finally emerging in May 2011. The new financing and ownership structure required by the bankruptcy court imposed a loss of 42 percent on federal taxpayers, replacing the original TIFIA investment with a package of debt and equity worth only 58 percent of the original investment.²⁵ New public-private partnerships also typically secure state or local loans or grants as part of their

financing. In the other cases, project managers who are responsible for a project's financing have had to take out bank loans. That source of private capital was more attractive during the recent economic downturn as interest rates fell relative to the yields for bonds in municipal bond markets (including those of QPABs). Fewer ongoing projects today are using private debt.

Budgetary Principles for the Treatment of Projects With Complex Financing

Under the principles that govern federal budgeting, the budgetary treatment of complex financing arrangements—those that involve an intermediary other than the Treasury raising money in private capital markets on behalf of the federal government—should depend on its economic substance: who controls the program and its budget, who selects the managers, who provides the capital, and who owns the resulting entity.²⁶ Is the activity governmental (that is, initiated, controlled, or funded largely by the government for governmental purposes) or is it an initiative of the private sector (driven by market forces independent of the government)?

An investment that is essentially governmental should be shown in the budget whether it is financed directly by the Treasury or indirectly by a third party that is borrowing on behalf of the government. Activities need not be conducted by a federal agency to be classified as governmental and included in the budget. When doubt exists about whether a program should be recorded in the federal budget, those same principles indicate that "borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion."²⁷

Likewise, spending financed by all forms of agencies' borrowing, including debt not backed by the full faith and credit of the U.S. government, appears in the budget. However, bond proceeds or repayable equity investments are not recorded as federal receipts; they are a means of financing a project—not the ultimate source of capital, which is the income that will be generated by their operation.

25. Randall Jensen, "Tollway Exits Chapter 11: TIFIA Ends Up Taking a Haircut," *Bond Buyer* (May 6, 2011), <http://tinyurl.com/3fn8vj>.

26. See Congressional Budget Office, *Third-Party Financing of Federal Projects* (June 2005), www.cbo.gov/publication/16554.

27. The President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts* (October 1967).

Table 3.**Completed Highway Projects That Used Public-Private Partnerships With Private Financing**

	Date of Opening	Sources of Revenues	Bankruptcy Declared	Public Buyout of Private Partners	Sources of Funding (Millions of 2014 dollars)					Total Project Cost (Millions of 2014 dollars)
					Private		TIFIA Program	Public		
					Debt	Equity		Qualified Private Activity Bonds ^a	Other ^b	
Dulles Greenway (Va.)	1995	Tolls	No	No	470	60	0	0	0	530
SR-91 Express Lanes (Calif.)	1995	Tolls	No	Yes	164	33	0	0	0	197
Camino Columbia Bypass (Tex.)	2000	Tolls	Yes	No	97	19	0	0	0	117
Atlantic City Brigantine Tunnel (N.J.)	2001	Tolls/Taxes	No	No	157	0	0	0	305	462
Southern Connector (S.C.)	2001	Tolls	Yes	No	264	0	0	0	0	264
Pocahontas Parkway (Va.)	2002	Tolls	No	No	701	0	0	0	0	701
Route 3 North (Mass.)	2005	Taxes	No	No	515	0	0	0	0	515
South Bay Expressway (South section; Calif.)	2007	Tolls	Yes	No	428	224	177	0	0	828
SH-130 (Segments 5 and 6; Tex.)	2012	Tolls	No	No	749	231	470	0	0	1,450
I-495 HOT Lanes (Va.)	2012	Tolls	No	No	0	380	643	643	591	2,257
I-595 Merged Lanes (Fla.)	2014	Tolls/Taxes	No	No	842	234	651	0	250	1,977
North Tarrant Express (Segments 1 and 2; Tex.)	2014	Tolls	No	No	0	459	701	429	618	2,208
Part of Miami Tunnel (Fla.)	2014	Taxes	No	No	368	87	368	0	334	1,157
I-95 HOV/HOT Lanes (Va.)	2014	Tolls	No	No	0	285	305	257	91	938

Source: Congressional Budget Office based on data from the Federal Highway Administration.

Note: HOT = high occupancy/toll; HOV = high occupancy vehicle; TIFIA = Transportation Infrastructure Finance and Innovation Act.

- a. A qualified private activity bond is a bond issued by or on behalf of a local or state government to finance the project of a private business. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), enacted in 2005, added highways (and freight transfer facilities) to the types of private projects for which tax-exempt qualifying private activity bonds may be used.
- b. Mostly loans or grants from states or localities.

Table 4.
Ongoing Highway Projects That Use Public-Private Partnerships With Private Financing

	Start and Expected End of Construction	Sources of Revenues	Sources of Funding (Millions of 2014 dollars)					Total Project Cost (Millions of 2014 Dollars)
			Private		TIFIA Program	Public		
			Debt	Equity		Qualified Private Activity Bonds ^a	Other ^b	
I-635 IBA Freeway (Tex.)	2011-2016	Tolls	0	724	917	654	529	2,824
Midtown Tunnels (Va.)	2012-2017	Tolls	0	276	429	686	731	2,123
Presidio Parkway (Calif.)	2013-2015	Taxes	170	47	152	0	0	371
Ohio River Bridges East End Crossing (Ind.)	2013-2016	Tolls/Taxes	0	79	165	516	580	1,340
I-69 Section 5 (Ind.)	2014-2016	Taxes	0	41	0	244	80	364
U.S. 36 Managed Lanes (Colo.)	2014-2016	Tolls	21	21	60	20	87	208
Goethals Bridge (N.Y.)	2014-2017	Tolls/Taxes	0	107	474	453	425	1,459
North Tarrant Express Segment 3A (Tex.)	2014-2018	Tolls	0	420	532	275	172	1,399
Northwest Corridor (Ga.)	2014-2018	Tolls/Taxes	60	0	275	0	499	834
Rapid Bridge Replacement (Penn.)	2015-2017	Taxes	0	59	0	794	265	1,119
Southern Ohio Veterans Highway (Oh.)	2015-2018	Taxes	0	49	209	251	125	634
I-4 Ultimate (Fla.)	2015-2019	Taxes	484	103	1,256	0	1,035	2,877

Source: Congressional Budget Office based on information from the Federal Highway Administration.

Note: TIFIA = Transportation Infrastructure Finance and Innovation Act.

- a. A qualified private activity bond is a bond issued by or on behalf of a local or state government to finance the project of a private business.
b. Mostly loans or grants from states or localities.

About This Document

This testimony was prepared by Sarah Puro and Chad Shirley with contributions from Mark Booth, Tristan Hanon, Michael Kincaid, Nathan Musick, and Logan Timmerhoff and with guidance from Joseph Kile. In keeping with CBO's mandate to provide objective, impartial analysis, this testimony contains no recommendations.

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Chairman RYAN. Thank you.
Mr. Poole.

STATEMENT OF ROBERT W. POOLE, JR., DIRECTOR OF TRANSPORTATION POLICY AND SEARLE FREEDOM TRUST TRANSPORTATION FELLOW, REASON FOUNDATION, LOS ANGELES, CALIFORNIA

Mr. POOLE. Chairman Ryan, Ranking Member Levin, and Members, thanks very much for inviting me to testify. In 2005, I served on a TRB special committee on the long-term viability of fuel taxes for transportation funding, 10 years ago. We concluded that, in coming decades, per-gallon fuel taxes should be replaced by per-mile charges. Three years later, the Infrastructure Financing Commission agreed with that recommendation. I have written extensively on the problems with today's trust fund, and today offer four recommendations for your consideration.

My first recommendation is do no harm. In fixing the trust fund's problem, the emphasis should be on strengthening the core principle of users pay, users benefit. The best protection for needed transportation investment comes from dedicated user fees funding that is immune to the constraints of the budget process. This is how nearly all other infrastructure is financed. Airports, electricity, railroads, telephones, water supply, they don't have problems like fights—perennial fights over tax increases.

Reliable user-fee revenue streams enable long-term revenue bonds to finance major projects, rather than funding them piecemeal out of annual appropriations. Any uses of general fund revenues to bail out the trust fund undercut the user pays/user benefit principle, and make the program less reliable, going forward, since the Federal Government will have less and less general revenues in coming decades.

My second recommendation is to set real priorities for trust fund spending. If it is politically untenable to increase fuel tax rates, then spending must be trimmed to the level of user tax revenues. You should ask which aspects of the trust fund spending are truly Federal in nature, versus State and local in nature. Government agencies across the country are having to review their budgets and separate core programs from many things that are nice to have, but are not really core. Congress has an opportunity now to do this, or start doing this, regarding the trust fund.

A couple of examples on this. Federal programs' top priority, in my view, should be reconstructing and modernizing the interstate highway system, our most important asset, which will need an estimated \$1 trillion over the next two decades to do. Yet, according to a recent GAO analysis in my written testimony, only half of the \$50 billion trust fund spending goes to highways and bridge projects at all, and only \$3 billion is spent on major projects of the kind that would be involved in reconstructing and modernizing NHS and interstate highways.

Also, why should just highway user taxes support the two highway safety agencies, NHTSA and FMCSA? Nearly all other Federal safety regulatory agencies are funded out of the general fund, not out of user taxes. That's just a point.

My third recommendation is that Congress should encourage the eventual transition from per-gallon fuel taxes to per-mile user fees. It is clear that State DoTs are taking the lead on this with pioneers like California, Minnesota, and Oregon. There are many unanswered questions, though, about which mechanism will be most feasible for collecting the fees, while protecting privacy and ensuring that they actually replace, rather than add to fuel tax revenues, which is the premise.

Congress could further these efforts right now by focusing more of FHWA's research dollars on pilot projects in a larger number of States. Another useful step would be to encourage increased use of per-mile electronic tolling for major highways. Congress could expand the existing three-State pilot program for toll-financed interstate reconstruction. More States should have this option, and existing States should not be able to sit on their slots indefinitely without using them.

The revamped pilot program also needs much stronger protections for highway users to ensure that the new tolls would be pure user fees, not a cash cow to bail out State DoT budgets. Highway user groups will certainly oppose expanding the pilot program without much stronger safeguards along these lines.

My final recommendation is that Congress should give States increased tools to make their transportation dollars go further, and long-term public-private partnerships, P3s, are an important way to do this, and well-suited to major highway and bridge projects like interstate highway reconstruction. Tolls provide a bondable revenue stream so that major projects could be financed now, rather than years or decades in the future. And P3s shift many of the risks of mega-projects to the P3 company, rather than taxpayers.

The Federal Government assists in these kinds of projects in two ways: By enabling the issuance of tax-exempt private activity bonds, and providing subordinated loans via the TIFIA program. The current PABs law only allows \$15 billion worth of tax-exempt bonds. Two-thirds have already been used up. So the reauthorization needs to include, we suggest, a doubling of the \$15 billion cap to keep that pipeline flowing.

Finally, TIFIA was expanded in MAP-21, and doesn't need a bigger expansion. But the money would go further if Congress were to make one important change. The MAP-21 law increased the maximum TIFIA loan from 33 percent of a project budget to 49 percent. It really should go back to 33 percent, consistent with TIFIA being GAAP financing, and enabling more—the existing amount of money would go a lot further if it were only funding up to 33 percent, rather than 49 percent.

That concludes my testimony. I am happy to answer questions at the appropriate time.

[The prepared statement of Mr. Poole follows:]

Rethinking the Highway Trust Fund

Testimony of
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June 17, 2015

Chairman Ryan, Ranking Member Levin, and fellow Members:

My name is Robert Poole. I direct the transportation policy program at Reason Foundation, a nonprofit think tank with offices in Los Angeles and in Washington, DC. I'm a graduate of MIT with two degrees in mechanical engineering, and additional graduate study in operations research at NYU.

My Credentials on Today's Topic

I have been studying surface transportation policy since 1988, when I researched and wrote the Reason Foundation policy study that inspired the first toll concession project in California, which became the prototype for express toll lane projects nationwide. My transportation research over the years includes highway finance, congestion pricing, bus rapid transit, and many related topics. I have served on transportation advisory bodies to the states of California and Texas, and have advised the state DOTs of close to a dozen states, as well as the Federal Highway Administration, the Federal Transit Administration, the Office of the Secretary of Transportation, and the Government Accountability Office.

I was a founding member of the Transportation Research Board standing committee on Congestion Pricing, and am a current member of its standing committee on Managed Lanes. In 2005 I served as a member of the TRB special committee on the long-term viability of fuel taxes for transportation funding. Our report concluded that the fuel tax was not a sustainable long-term funding source, and that it should be replaced by some form of per-mile charging that would be independent of the type of vehicle propulsion¹. That conclusion was amplified several years later by the final report of the National Surface Transportation Infrastructure Financing Commission, which analyzed a wide array of possible fuel-tax replacements and concluded that a mileage-based user fee was the most effective alternative².

My testimony today draws on my more than 25 years of transportation policy research.

Overview of Testimony

As is widely known, the federal Highway Trust Fund (HTF) is no longer being supported exclusively by highway user revenues. Since 2008, Congress has shifted over \$60 billion in general fund money into the HTF, so as to avoid reductions in annual federal highway and transit spending. Given the intense pressures being placed on general fund monies and "discretionary" spending due to the overall federal budget's problems, there are serious concerns about whether such HTF bailouts can continue. At the same time, there appears to be little political support—House, Senate, or Administration—for fuel tax increases that would bring HTF revenues into alignment with current and projected spending.

¹ Committee on the Long-Term Viability of Fuel Taxes for Transportation Finance, *The Fuel Tax and Alternatives for Transportation Funding*, Special Report 285, Washington, DC, Transportation Research Board, 2006

² National Surface Transportation Infrastructure Financing Commission, *Paying Our Way: A New Framework for Transportation Finance*, February 2009

In my testimony I suggest that Congress needs to take these realities seriously as it develops a bill to reauthorize the federal program. I offer for the Committee's consideration four recommendations to guide a fundamental rethinking of the federal role, as follows:

1. Preserve and strengthen the users-pay/users-benefit principle on which the HTF was founded, and which remains the basis for most state highway programs.
2. Set meaningful priorities for the Highway Trust Fund, to balance spending with existing revenues.
3. Encourage state efforts to develop mileage-based user fee models that address the many current unknowns and concerns over this proposed transition.
4. Give states improved tools to make their existing transportation funding go further.

Recommendation No. 1: Preserve and Strengthen Users-Pay/Users-Benefit

This recommendation is analogous to what physicians are taught as a basic principle: "First, do no harm." Users-pay/users-benefit is the basic principle on which Oregon and all the rest of the states created fuel taxes dedicated to highway capital and operating costs, starting in 1919, and it is also the principle adopted by Congress in creating the Highway Trust Fund in 1956. Dedicated user fees (tolls) and user taxes (fuel taxes) have a number of inherent benefits. As outlined in a 2010 Reason study³, they include the following:

- *Fairness*: Those who pay are the ones who receive most of the benefits, and those who benefit are the ones who pay. This is the same general principle used for other network utilities, including electricity, natural gas, water supply, telephones, railroads, and many others.
- *Proportionality*: Those who use more highway services pay more, and those who use none at all pay nothing directly (though they do pay indirectly thanks to the highway user taxes paid by companies shipping goods to them on the highways).
- *Self-limiting*: If a user tax or user fee is the sole source of funding, that is supposed to impose a limit on how high the tax or fee can be: only enough to fund agreed-upon investment. By contrast, in Europe motor fuel taxes are a general revenue source, and in most countries generate several times as much fuel tax money as they actually spend on transportation investment.
- *Predictability*: A user fee or user tax produces a revenue stream that can and should be independent of the vagaries of government budgets.
- *Investment signal*: The user-pays mechanism provides an answer to how much infrastructure to build, assuming that the customers have some degree of say in the matter. The contrasting fortunes of state fuel taxes (numerous increases) versus federal fuel taxes (gridlock since 1993) speaks volumes about the credibility of the respective federal and state transportation programs.

Using general fund and other non-transportation revenues to bail out the HTF undercuts the integrity of the users-pay/users-benefit principle. It has already led to calls from several parties for either diluting the principle further, by opening up the HTF to a much larger array of non-

³ Robert W. Poole, Jr. and Adrian T. Moore, "Restoring Trust in the Highway Trust Fund," Policy Study No. 386, Reason Foundation, August 2010

highway programs⁴ or to abolish the HTF and dedicated funding altogether, with all federal transportation spending henceforth coming from the general fund⁵. The latter approach would model the U.S. federal role after those of most countries in Europe, in which fuel taxes are a general government revenue source, and transportation makes do with whatever funding the national legislative body decides to allocate. Using figures provided in the Eno Center report noted below, one can see that national government fuel tax revenue in Germany is 1.8 times the amount spent on all modes of surface transportation. Even worse is the U.K. situation, in which the national government collects nearly three times as much in fuel tax revenue as it spends on all modes of surface transportation. In effect, highway users are getting a very raw deal in those systems⁶.

Thus, rather than reinforcing the trend of using general fund money to bail out the HTF, a far more prudent policy for the longer term would be to strengthen the users-pay/users-benefit principle by limiting HTF spending to the amount brought in from user-tax revenues. Rather than tying the Trust Fund's future to increasingly dubious general revenues, this approach would restore soundness and reliability to the HTF. This approach is beginning to be taken seriously by transportation experts.⁷

Recommendation No. 2: Set Meaningful Priorities for Trust Fund Spending

In order to make HTF spending match the approximately \$40 billion per year in projected revenues, Congress would have to take a hard-nosed look at the large array of programs now included in the federal program. Over the decades since it was created in 1956 to fund the construction of the Interstate highway system, the program has expanded in scope to cover just about anything related to highways, transit, ferries, bicycling, and even walking. All of these and many other programs serve some useful purpose—and each has a vocal constituency in support of its continuation.

But one question Congress needs to ask is this: which of the myriad programs within the current HTF are truly federal in nature—as opposed to being essentially state or essentially local in nature? One way to set priorities would be to identify the truly federal programs and, over time, refocus the HTF on only those programs. My Reason colleague Adrian Moore and I reviewed the HTF from that perspective in 2010, and came up with the following general guidelines:

- Maintaining and upgrading the Interstate highway system;
- Coordinating multi-state highway and bridge projects;
- Fostering freight corridors, to enhance interstate commerce; and,
- Funding transportation research and safety efforts⁸.

⁴ Tony Dutzik, Gideon Weissman, and Phineas Baxandall, "Who Pays for Roads? How the 'Users Pay' Myth Gets in the Way of Solving America's Transportation Problems," Frontier Group and U.S. PIRG Education Fund, Spring 2015

⁵ Joshua Schank, et al., "The Life and Death of the Highway Trust Fund," Eno Center for Transportation, December 2014

⁶ Robert W. Poole, Jr., "Abolish the Highway Trust Fund?" *Public Works Financing*, May 2015

⁷ Ken Orski, "A Conservative Vision for the Future of the Highway Trust Fund," *Innovation NewsBriefs*, Vol. 25, No. 5, June 13, 2015

⁸ Part 4 in Poole and Moore, op cit.

A 2009 GAO report analyzed HTF spending over the five-year period 2004-2008⁹. It identified \$24.2 billion in miscellaneous spending over that time period, not counting direct outlays for either highways or transit projects. Were just those activities eliminated, the annual savings today would be in the \$5 billion range. Another \$1 billion per year could be saved by eliminating the Congestion Mitigation and Air Quality (CMAQ) and Surface Transportation Program (STP), based on GAO's numbers. Shifting the funding of NHTSA and FMCSA from HTF to the general fund would save another \$1 billion a year. Note that this list of possible lower-priority items does *not* include the Federal Transit Administration, though in principle transit is an essentially local/regional responsibility, not federal or state.

A more recent GAO report sheds further light on the current allocation of resources just within what is nominally the highway and bridges portion of HTF¹⁰. Its analysis of FY 2013 HTF spending found that of the entire \$50.7 billion total, only \$24.05 billion—less than half—is spent directly on roads and bridges. The report then examined that \$24 billion to see where the money went. Given an assumed priority for major corridors for interstate commerce, such as the Interstates and the other highways comprising the National Highway System, the report identified just \$4.6 billion spent on highway and bridge “major projects.” And of that total, only \$3 billion was devoted to actual construction, reconstruction, or rehabilitation. In other words, in a system that was created to foster interstate commerce, *just six percent* of its current budget (\$3 billion out of \$50.4 billion) is devoted to actually investing in those facilities. To me, this finding cries out for Congress to rethink and revamp how HTF monies are being used.

Recommendation No. 3: Encourage the Transition to Mileage-Based User Fees

Both the TRB committee on which I served and the Infrastructure Financing Commission made detailed cases for the necessity, over the medium/long-term, to transition from per-gallon fuel taxes to per-mile charges. The latter are now referred to as mileage-based user fees (MBUFs). Given ongoing trends toward (a) ever-higher miles per gallon ratings of new cars and trucks and (b) the likely increasing market penetration of alternatives to petroleum-fueled internal combustion engines, we need a funding mechanism that will be independent of propulsion sources on an ongoing, sustainable basis. Charging per mile driven—obviously with higher rates for heavy trucks than for personal vehicles—is widely considered as the best alternative among both transportation researchers and state DOTs.

It is also clear that the prime movers in working on this transition are state DOTs, with help from various transportation research institutes. A decade ago many people assumed that if this transition were to come about, it would be imposed top-down by the federal government. Today, it seems far more likely that state DOTs, with support from their legislators, will pioneer MBUFs. Oregon is widely acknowledged as the leading pioneer, though Minnesota and several others have also carried out important research and pilot testing. A recent trend is the formation of MBUF coalitions among adjacent states with significant cross-border travel (e.g., Washington, Oregon, California, and Nevada) to compare notes and learn from one another's pilot projects.

⁹ Government Accountability Office, “Highway Trust Fund Expenditures on Purposes Other than Construction and Maintenance of Highways and Bridges During Fiscal Years 2004-2008,” GAO-09-729R, June 30, 2009

¹⁰ Government Accountability Office, “Highway Trust Fund: DOT Has Opportunities to Improve Tracking and Reporting of Highway Spending,” GAO-15-33

At this point in time, there is no consensus among those actively working on MBUF pilot programs about the best way to charge per mile driven or about how to phase in the transition from fuel taxes to MBUFs. One early lesson from the Oregon experience is that it will be important to offer motorists and trucking companies choices not of whether to pay but of how to pay. For example, among the ideas proposed or being tested in Oregon are the following:

1. A no-tech alternative, in which motorists could opt for a flat annual fee for unlimited miles, paid at the time of annual vehicle registration.
2. A very low-tech alternative, in which states that have annual vehicle inspection (or smog check) would record annual miles driven from the vehicle's odometer at such inspections, with the relevant fee added to the annual vehicle registration fee.
3. A modest-tech alternative, important for people who cross a state border frequently and need to document how many of their miles were on either side (e.g. Oregon/Washington or New York/New Jersey). A device that plugs into the under-dashboard diagnostic port could use cell-tower locations to distinguish total in-state miles from total out-of-state miles.
4. A higher-tech alternative, in which a commercial company would provide a GPS box offering a package of services, one of which would be miles driven.

None of the above, even the last, involves real-time "tracking" of every place the vehicle goes. So privacy need not be a serious obstacle to the MBUF transition. But since there is still a great deal to learn about consumer preferences, possible roles of private-sector vendors, and how to orchestrate the phase-out of fuel taxes and the phase-in of MBUFs, there is a need for more states to engage in serious pilot projects such as those now under way in California and Oregon. The Mileage Based User Fee Alliance is recommending that Congress create a competitive grant program for large-scale multi-state trials. Among the key issues to be addressed would be privacy, cost of collection, and equity¹¹. This new grant program could be funded by making it a priority within FHWA's ongoing research budget.

Another step toward increased per-mile charging would be to encourage states to make greater use of per-mile electronic tolling on major highways. The rationale for this is to use new toll revenue to finance the enormous cost of reconstructing aging Interstates as they reach or exceed the end of their original 50-year design life—without any identified federal program to cover this investment need. A detailed 2013 Reason Foundation policy study used FHWA unit cost data to estimate, for each of the 50 states, what it would cost to reconstruct all the existing Interstate lane-miles, plus selective lane additions, where justified by conservative projections of car and truck traffic. A number of these corridors were proposed as dedicated truck lanes, due to future volumes of truck traffic. The net present value of the cost of this endeavor, in 2010 dollars, was just under \$1 trillion¹².

The study then used the state-specific traffic projections to estimate the toll revenue that could be generated over 40 years, using modest per-mile toll rates for cars and for trucks, indexed to inflation at an assumed CPI of 2.5% per year. The NPV of revenue (net of operating and

¹¹ The MBUFA website provides brief position papers about aspects of mileage-based user fees: www.mbufa.org.

¹² Robert W. Poole, Jr., "Interstate 2.0: Modernizing the Interstate Highway System via Toll Finance," Policy Study No. 423, Reason Foundation, September 2013

maintenance costs) came in very close to the NPV of costs, suggesting that a toll-financed Interstate reconstruction and modernization program is within the realm of financial feasibility. Were many states to implement such a program, they would be leading the way toward the overall transition from per-gallon taxes to per-mile charges. And since the Interstates alone handle 25% of all U.S. vehicle miles of travel (VMT), and other limited-access highways probably handle another 6% or more, if all such highways eventually were reconstructed on this basis, one-third or all VMT would be paying MBOFs. The Reason study also called for rebates of state fuel taxes for all miles driven on the newly tolled Interstates, consistent with the principle that per-mile charges should replace, not supplement, existing fuel taxes.

There is a current pilot program that permits three states to each reconstruct a single Interstate using toll finance. Missouri, North Carolina, and Virginia hold the three slots—but none of them has reached political consensus on making use of it. To increase the odds of one or more pathfinder states solving the political problem of getting to “yes” on this, Congress should make several improvements to the pilot program:

- Add a use-it-or-lose-it provision, with a time limit after which the slot would lapse unless the state gains political support to move forward to implementation.
- Increase the number of states allowed to participate, to encourage potential pathfinder states to take part.
- Allow a participating state to use toll finance for all of its Interstates, so it could plan a comprehensive 2nd-generation Interstate system.
- Require that participating states grant rebates of state fuel taxes for miles driven on the reconstructed, tolled Interstates.
- Provide stronger protection for highway users, by ensuring that the new tolls are pure user fees that can only be used for the capital and operating costs of the rebuilt Interstates.

These provisions are critically important to gain the support of highway user groups, which have legitimate complaints about paying twice (fuel taxes plus tolls) on legacy tolled Interstates and about tolled Interstates being used as cash cows to fund a wide array of other transportation and in some cases “economic development” projects.

Recommendation No. 4: Give States Increased Tools for Long-Term Public-Private Partnerships

If Congress is unable to increase, or even maintain, the current level of HTF spending, the least it should do is to give states more and better tools for doing more with their existing funding. A powerful tool that fewer than a dozen states are using thus far is the long-term public-private partnership (P3) in which the private sector designs, builds, finances, operates, and maintains a major highway or bridge—typically of the scale of \$500 million to several billion dollars in cost. Over the past 12 years, the largest 16 P3 projects of this kind have involved a total investment of nearly \$28 billion. Most of these projects involve some degree of state investment, on the order of 20-25%, analogous to a down payment. The rest is privately financed by the winning concession team, using a mix of debt and equity.

There are many advantages to this type of procurement. Because the same entity will be constructing and operating the project over many decades, its incentive is to build it more

durably so as to minimize its life-cycle cost, rather than the initial construction cost. The P3 company also accepts many of the mega-project risks that are usually borne by taxpayers— construction cost overruns, late completion, inadequate maintenance, and in many cases traffic and revenue. Because these are examples of project finance, the total cost is raised up-front, and the bonds are paid off over many years as highway users benefit from the improved infrastructure. And proper maintenance is contractually guaranteed for these high-profile projects.

Congress has provided two financial tools to help make these projects possible. So that the private investors can compete on a level financial playing field, Congress authorized states to issue tax-exempt revenue bonds, whose interest rates are similar to revenue bonds for state-led projects. These are called Private Activity Bonds (PABs), and there is a statutory cap of \$15 billion. Congress also created the popular TIFIA credit support program, under which P3 projects can obtain subordinated loans to complete a financing package. These tools would be more viable going forward into the next reauthorization period if each were modified.

The PABs program in recent years has been well-used. As of the end of 2014, about \$5 billion of these bonds had been issued, and another \$5 billion had been approved for issuance by DOT. That leaves only \$5 billion of the original \$15 billion available for a growing pipeline of P3 projects. To enable more such projects to be financed, Congress should at least double the cap to \$30 billion, especially if the reauthorization is for a long period such as six years.

The TIFIA program is generally working well, with a healthy loan portfolio and several of the loans already having been repaid. Congress greatly increased the size of the program in MAP-21, but it also made an ill-advised change. For most of its life, TIFIA loans have been limited to providing a maximum of 33% of a project's budget, consistent with the intent that it is to provide supplemental, subordinated debt, not primary debt. Congress increased this maximum to 49% in MAP-21, which has two potentially negative consequences. First, it makes projects overly reliant on federal loans, as opposed to private financing. Second, for a given annual budget, it could lead to a smaller total number of larger TIFIA loans, leaving many deserving projects unable to be financed. My recommendation is that Congress restore the original 33% limit.

These two changes would encourage continued growth in the use of long-term P3 procurement by state DOTs, enabling them to do more with their limited budgets.

This concludes my testimony. I would be happy to answer questions, either oral or in writing.



Chairman RYAN. Thank you very much.
Governor Graves.

**STATEMENT OF BILL GRAVES, PRESIDENT AND CHIEF
EXECUTIVE OFFICER, AMERICAN TRUCKING ASSOCIATIONS,
ARLINGTON, VIRGINIA**

Mr. GRAVES. Chairman Ryan, Ranking Member Levin, Members of the Committee, I appreciate this opportunity to appear before you to comment on an issue of great national importance: A long-term and sustainable funding source for building our roads and bridges. I am particularly appreciative of Congressman Renacci and Congressman Blumenauer for their passionate advocacy on this issue.

While representing ATA, I am proud to be speaking on behalf of many organizations whose members are daily users of our transportation system. The consequences of failing to act are great, and we stand ready to support you in making the tough choice that lies ahead. While I will speak to ATA's preferred option for sustainable funding, let me say at the outset that almost any policy you adopt that supports a multiple-year program and can be relied upon in the future, we will support. The consequences of inaction are just too great.

As we all know, Americans cherish their freedom of mobility to travel in pursuit of economic opportunity, educational training, medical care, or recreational enjoyment. People and products have been moving freely since our Nation was founded. That mobility has served as one of the pillars in constructing the interstate highway system, along with the need to efficiently and quickly mobilize our military resources.

President Eisenhower got it right when he envisioned this interstate transportation network and all it would do for this Nation. In my lifetime, beginning with President Eisenhower, Presidents Reagan, Bush, and Clinton all found a way to successfully enact an increase in the Federal fuel tax. But since 1993, Congress and subsequent Administrations have been predicting the demise of the fuel tax without ever identifying and successfully advocating for an alternative funding source that would be long-term and sustainable.

Today's conversation has been taking place for 22 years. And I believe it is time for Congress to acknowledge, in the near term, that the fuel tax continues to be the lesser of all the infrastructure funding evils. I believe it is the only funding option that actually makes sense. But over that 22-year period, what has made this challenge even greater is that Americans have been promised over and over again that a fuel tax isn't necessary. Yet rarely is an alternative proposed that has a chance of being adopted. And, if it were, it would likely fall short of what the fuel tax has provided for over 50 years: Long-term and sustainable funding.

Roads and bridges aren't free, and they are certainly not cheap. Yet Congress has been operating under the assumption that pennies might fall from heaven. For years, while personally advocating a fuel tax increase, I have been instructed that it wasn't going to happen, that I needed to be thinking outside the box. I have been told to come up with creative financing options to embrace private-

sector investment, or agree to make this problem go away by passing it down to State and local governments.

So, after 22 years of thinking outside the box, we are here discussing the fuel tax, spending general fund dollars, passing off all or greater responsibility to the States, or simply erecting toll roads across the country. We know the fuel tax works. It is easy to administer, Americans are familiar with it, and, with some modifications to account for the emerging class of non-fuel vehicles, it would continue to be viable for years, if the rate were raised.

General funds: With all the fiscal challenges the Federal Government faces, adding one more large mouth to feed makes no sense. Once we start down the path of paying for roads and bridges without user fees, you will have a very hard time ever going back. Some have suggested that devolution is simply a realignment of Federal and State responsibilities.

As a former Governor, I can tell you that a large number of States don't seek to assume this financial responsibility, nor do they have the financial capability to do so, not to mention the incredibly unwise notion that we should leave the condition and capacity of our interstate network of roads to the discretion of 50 State legislatures and Governors. This idea is a ruse to dodge the tough responsibility of finding adequate funding for road and bridge construction.

And the other oft-heard suggestion is to simply toll our interstate roads. Toll systems certainly have a limited place in this country. But they are a more expensive option than the fuel tax we currently enjoy. How could Congress or an Administration ask citizens to pay more than they otherwise would need to pay, in order to get the same system that they could get for less?

My father found opportunity in digging his way out of the Depression by starting a trucking company in 1935. He honed his transportation skills serving in World War II, hauling supplies in Europe. After the war, he built a company that provided economic opportunity for over 2,500 men and women. I am not just sitting before you as a spokesperson for ATA. I am the son and grandson of truckers, representing men and women who work each day on this Nation's highways.

Trucks will keep moving America forward, but only if we have a network of roads and bridges for them to travel. And to do that, Congress must find the courage to admit what I believe it already knows.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Graves follows:]

Before the

**Committee on Ways and Means
United States House of
Representatives**

**Testimony of Bill Graves
President and CEO
American Trucking Associations**

Hearing on

**Long-Term Financing of the
Highway Trust Fund**

June 17, 2015



**AMERICAN
TRUCKING
ASSOCIATIONS**

Driving Trucking's Success

Mr. Chairman, Ranking Member Levin, members of the Committee, thank you for the opportunity to provide testimony on this very important topic. I would like to extend special thanks to Congressman Blumenauer for his persistent efforts to put this hearing on the Committee's agenda, and for his steadfast leadership on transportation issues. The American Trucking Associations is the largest national trade association for the trucking industry. Through a federation of other trucking groups, industry-related conferences and its 50 affiliated state trucking associations, ATA represents more than 37,000 members covering every type of motor carrier in the United States.

Highways are critical to the movement of freight and to our nation's economy. Trucks carry 9.7 billion tons of freight, 69 percent of the total market.¹ In addition, the trucking industry moves \$10 trillion of freight value,² carrying nearly one-third of the nation's GDP. Trucks move three times more freight than all other modes combined. The industry is also a major source of jobs, with seven million people employed, representing five percent of the non-farm workforce.³

The Trucking Industry's Investment in Transportation Infrastructure

Mr. Chairman, the trucking industry has long made a significant investment in surface transportation. In 2013, trucking companies paid \$16.5 billion in federal fuel taxes, heavy vehicle use taxes, retail taxes on new trucking equipment and tire taxes.⁴ This represented 44 percent of total user fee revenue to the Highway Trust Fund. And this is in addition to the \$21 billion in state highway user fees paid by carriers.⁵ Altogether the industry contributed nearly \$40 billion annually toward transportation system investment nationwide, or six percent of total trucking revenue, not including tolls and permit fees.

Condition and Performance of the Highway System

Regrettably, a staggering lack of investment in our nation's highway system has produced a \$740 billion backlog in funding required to address deteriorating highways and bridges, and the traffic congestion that routinely chokes passenger and freight travel. Americans spend an estimated 41 hours sitting in traffic each year, costing our economy \$121 billion in wasted time and fuel, and imposing an \$800 tax on the average commuter.⁶ Congestion on the Interstate System alone cost the trucking industry \$9.2 billion in 2013 and wasted more than 141 million hours, equivalent to 51,000 drivers sitting idle for a full working year.

Current highway capital investment across all government agencies is approximately \$88 billion per year. However, it is estimated that \$120 billion to \$144 billion annually is required to address all needs. Federal funding, which accounted for 52 percent of state capital outlay in 2013, is an indispensable revenue source and cannot be easily replaced, especially by states with

¹ American Trucking Associations, *U.S. Freight Transportation Forecast to 2025*, 2014.

² U.S. Department of Transportation, U.S. Census Bureau, *2012 Commodity Flow Survey*, Feb. 2015.

³ American Trucking Associations, *American Trucking Trends 2015*.

⁴ American Trucking Associations, *American Trucking Trends 2015*.

⁵ *Ibid.*

⁶ U.S. Department of Transportation, *Beyond Traffic: Trends and Choices 2045*.

low populations and large highway networks. A few pertinent facts illustrate the consequences of underinvestment:

- Two-thirds of highways are in poor or mediocre condition;
- One-quarter of bridges are more than 60 years old;
- 63,000 bridges are structurally deficient and require replacement or significant improvements;
- 67,000 bridges are closed or load posted; and
- Poor road conditions are a factor in one-third of crashes.

The Impacts of Funding Uncertainty on States

Multiple short-term extensions of highway policy, coupled with the HTF's continued funding uncertainty have had devastating impacts on states' ability to move forward on many important infrastructure projects. Prior to the 2014 extension of MAP-21, transportation officials in 35 states indicated publicly that their programs would be impacted by a shutdown of federal surface transportation funds, and nine states retracted or delayed projects totaling over \$366 million due to uncertainty about future federal investment.

This year 19 states have so far indicated concerns about the feasibility of future transportation projects, and state DOT officials have suggested that over \$1.1 billion in projects is at risk if federal funding is disrupted. Seven states have already delayed or canceled projects valued at \$1.63 billion.⁷ This represents more than 45,000 lost jobs. Georgia, for example, announced that it would delay 329 projects valued at \$715 million due to the uncertainty of federal funding. Arkansas stated that 130 projects worth approximately \$520 million are at risk this year. Texas has indicated that the state would not be able to start any new major capital projects until federal uncertainty is resolved.

Delays and cancellations of projects due to a lack of certainty created by a destabilized HTF layers on project costs that will ultimately be borne by taxpayers. Congress' failure to address the long-term fiscal needs of the HTF is directly responsible for the loss of thousands of jobs, and is a major factor in the declining health and safety of our nation's transportation systems.

Revenue Options ATA Supports

Mr. Chairman, while the trucking industry already makes a substantial contribution to the Highway Trust Fund, clearly federal investment is falling short, and we are therefore willing to support an even greater commitment. While we will consider providing support for any revenue source that ensures stable, long-term and sufficient funding for the HTF, ATA believes that any revenue measure should meet the following criteria:

- Reasonably uniform in application among classes of highway users;

⁷ American Road & Transportation Builders Assn., *Looming Highway Trust Fund Crisis: Impact on State Transportation Programs*, May 27, 2015. States that have publicly disclosed delayed or canceled projects in 2015 (Number of projects and value): Ark. (9; \$120M); Del. (1; \$100M); Ga. (329; \$715M); Mont. (1 \$40-45M); Tenn. (33; \$400M); Utah (25; \$65M); Wyo. (18 \$28.5M).

- based chiefly on readily verifiable measures of highway and vehicle use;
- should not provide opportunities for evasion;
- inexpensive and simple for government to administer, collect and enforce without imposing excessive administrative and record keeping burdens on highway users; and
- should not create impediments to interstate commerce.

Fuel Tax

An increase in the fuel tax, with indexing, can meet current and future highway investment needs. While improvements in vehicle fuel efficiency – particularly in light-duty vehicles – will have a progressively negative impact on revenue from fuel taxes, the fuel tax is today and will, for the foreseeable future, be a viable revenue source for the HTF. According to the Department of Energy, over the next decade on-highway fuel use will drop by just five percent.⁸

Highway Access Fee

A new annual flat registration fee could be levied on all vehicles, with revenue deposited into the HTF. Since all states currently collect a registration fee the infrastructure is already in place for efficient, cost-effective collection. States could be permitted to retain a portion of the revenue to cover additional administrative costs.

Royalties from New Oil and Natural Gas Leases

A portion of the royalties from new energy leases would be deposited into the HTF. While short-term revenue estimates are relatively small, future income could be significant.

Barrel Tax on Imported Petroleum and Domestic Crude Oil

The federal tax code currently imposes a tax on crude oil prior to entering the refinery, and on imported petroleum. Therefore the infrastructure is already in place to collect an additional fee dedicated to surface transportation. While a significant share of crude oil is refined for on-highway use, a large portion is used for other products such as home heating oil and jet fuel. Mitigating the impacts of an increased tax on these industries is an important consideration.

Position on Current Proposals

As previously stated, ATA is willing to support any proposal that addresses the long-term solvency of the HTF and meets the criteria outlined above. We have evaluated the various proposals that have been introduced by Members of Congress and to date have issued statements in support of two bills:

The UPDATE Act, sponsored by Rep. Earl Blumenauer (D-OR) would increase the fuel tax by a phased in 15 cents per gallon and adjust the tax rate to inflation annually. When the fuel tax is fully phased in, the average automobile driver would pay just \$1.51 more each week, while the cost to the average commercial truck driver would be \$12 per week.

⁸ U.S. Department of Energy, *Annual Energy Outlook 2015*.

The “Bridge to Sustainable Infrastructure Act,” sponsored by Rep. Jim Renacci (R-OH). This legislation would provide for two years of HTF funding from fuel tax indexing, followed by additional revenue identified by a Congressional commission.

Revenue Sources ATA Opposes

A number of revenue options have been considered which do not meet the criteria for a fair or efficient HTF revenue source.

Increase in Heavy Vehicle Use Tax – Trucks subject to this tax comprise less than one percent of registered vehicles and less than four percent of vehicle miles traveled. Furthermore, because it is a flat fee, there is no tie to highway use.

Increase in federal excise tax – The 12 percent tax on new trucking equipment discourages trucking companies from purchasing new vehicles, which tend to be safer and more fuel efficient than older models. An increase in this tax would exacerbate this problem. ATA supports eliminating the tax altogether, provided replacement revenue can be found.

Increase in tire tax – The tire tax generates a relatively small amount of revenue; it currently accounts for less than one percent of HTF funds. Raising the tax by an amount necessary to generate meaningful revenue would necessitate a prohibitively large increase in the rate of tax.

Vehicle Miles Traveled Tax – While some believe that a VMT tax is the logical replacement for the fuel tax, it faces many obstacles which must be overcome before ATA can support this concept. A VMT tax will have extremely high collection costs due to both capital and ongoing administrative expenses. While the fuel tax is collected on less than 1,000 taxpayers, under a VMT tax more than 250 million individual accounts would have to be established: one for each registered vehicle. Besides the high administrative costs, tax evasion is likely to be extremely high. We also have concerns about privacy and data security, among the many other challenges that will have to be addressed.

Interstate Tolls – While not a potential HTF revenue source, it has been suggested that in the absence of sufficient federal funding, states should be given the option to toll their existing Interstate Highways. Tolls are an act of desperation, a symptom of the failure by elected officials to provide necessary funding for highways from more efficient sources. Tolls are very expensive to collect, with up to 20 percent of revenue going to collection costs even on facilities using the latest technology. Tolling existing Interstates pushes vehicles onto secondary roads, which are less safe and require more maintenance. Federal exemptions that allow states to toll existing Interstates should be eliminated, and ATA will adamantly oppose any attempt to expand states’ tolling authority.

General Fund Subsidies

Since 2008 an imbalance between authorization levels and HTF revenue has caused Congress to subsidize the HTF with General Fund money to the tune of \$64 billion. While we appreciate Congress’ efforts to prevent the Fund from collapsing, these continuous infusions of short-term

money have broadly negative impacts. State and local transportation agencies cannot properly plan or program funds for the long term without the certainty of user fee revenue. This recent pattern of lurching from one extension to the next increases construction costs and forces project delays and cancellations. This destructive practice must stop. It is past time for Congress to provide the HTF with sufficient, long-term revenue that agencies need to address their considerable maintenance and construction backlog, and to begin the process of determining how to accommodate the transportation needs of 70 million more people over the next 30 years, without having to be concerned about whether their federal allocations will be available over the next 30 days.

Conclusion

Mr. Chairman, the committee must identify a long-term, stable and sufficient revenue source for the Highway Trust Fund. It is important for all to understand that the decisions made by this Committee over the next few months will have effects beyond the immediate solvency issues. The federal commitment to investment in transportation, if not properly addressed this year, could be placed in jeopardy for many years, or even decades, to come. This is not just an esoteric debate about a line item in a budget. Congress' actions have real consequences, and the decisions this Committee makes will determine whether a business succeeds or fails and whether a job is created or is eliminated. And most importantly, these decisions will determine the safety of the motoring public as well as the safety and efficiency of the millions of professional drivers operating daily on our highway system.

Chairman RYAN. Thank you. Let me ask all of you a quick question right now, and let me start with you, Mr. Shirley.

We have had patches for a long time. I am looking at a list here. We had a patch in 2008, which was an \$8 billion general fund transfer. We had one, two, three, four patches in 2009: 7 billion was the first one, the three subsequent ones were not offset. Then we had three patches in 2010 from the general fund, totaling \$19.5 billion in just 3 patches there. So, having these temporary patches, obviously, is no way to run a railroad—no pun intended—but it is something that we are not unfamiliar with.

There has been a suggestion that we look for a user pay solution to the trust fund shortfall that can be enacted by the time the next expiration occurs in July. But from all of your testimony, what I am hearing is that there are several promising options that may realistically require several years to develop and implement in a best-case scenario.

The point I am trying to get at is, first, it seems to me a general fund transfer this summer is unavoidable. Do any of you think we can enact and Treasury could implement and collect sufficient funds by the end of July to avoid a general fund transfer? Let's start with you, Mr. Shirley, and just go.

Mr. SHIRLEY. Thank you. I see—I am not clear exactly on the timeframe of the spend-out that the Treasury—I am sorry, that the Department of Transportation is facing on the trust fund, other than we do understand that there would be a need for additional funds in order to prevent delays in payment some time before the end of the fiscal year.

Some of the alternatives that have been proposed to the fuel tax, such as a vehicle miles traveled tax, and there are experiments that are in place in some other States, could certainly take some time to put together.

Chairman RYAN. If we want to keep the fund full and level-financed, level-funded, is there any other way than a general fund transfer to do that in the timeframe we are talking about, with the expiration—or the insolvency occurring at the end of July?

Mr. SHIRLEY. General fund transfer certainly would take care of it.

Chairman RYAN. Bob.

Mr. POOLE. I don't see any way to do that. I mean you have a very short-term problem, and I think that is probably the only realistic short-term solution.

Mr. GRAVES. I am certainly not going to disagree with CBO and Bob. I think that there is no doubt we are going to see another transfer.

Chairman RYAN. Yes. So the question is, for us here, we don't like transfers any more than anybody else does. We think it is bad for planning, bad for certainty, bad for our transportation strategies. So what we are trying to figure out is, how do we come up with a longer-term solution? We like doing 6-year highway bills. That is the tradition here, that is what our goal and aspiration is.

But the other solutions that are out there to replace gas taxes—Bob, you mentioned three or four of them—those aren't really ready for prime time yet, are they? I mean give me a—Bob, this is for you. Those aren't ready for prime time. How long would it

realistically take to take one of these innovative ideas and solutions and get it actually occurring in a law?

Mr. POOLE. Well, on the mileage-based user fees, I think you really are looking at probably close to a decade of pilot projects and experiments at the State level, possibly some implementation on a large scale at the State level to figure out, really, how to do this in a way that is economical to collect—which I think is possible—that protects privacy, and gives users a real choice of method.

But we are nowhere near there, and I think, if Congress tried to do—to impose a Federal one in the next year or two, you would risk a huge fiasco and a tremendous backlash from the motoring public. And I don't think any of us want to go there.

Chairman RYAN. So I—

Mr. POOLE. The one thing you could—this reauthorization could easily do the expansion of the interstate toll financed reconstruction program with stronger safeguards. And we will have to have lots of discussions with ATA about that. But I think that is something that is a near-term possibility, and—including the use-it-or-lose-it provision for the States that—the three States that are sitting on their slots and not yet using them. You need to give them a push to actually figure out how to get to yes on this at the State level.

But that could start the ball rolling on some major projects. That, plus increasing the cap on private activity bonds. I mean those things would keep the P3 pilot programs—the P3 programs going. Twenty-eight billion dollars have been financed in the last decade through major P3 projects in the highway and bridge sector. And a lot more of that is possible if we don't run out of financing ability.

Chairman RYAN. Okay. So to continue this thought a little further with you, Bob, we know that the current financing mechanism isn't really working, and I want to ask you a question about why that is. We know that a long-term solution isn't actionable right now. So we have to find an interim measure. That is pretty much what this Committee does—the Transportation Committee, they are the authorizers, they are the ones who determine the things you just discussed. This Committee does the financing in between. So we have to figure out what the bridge is, the financing bridge.

But, to the point about why the current revenue system isn't working, let me ask you this. We have Federal regulatory policies like CAFE, you know, the Corporate Average Fuel Economy standards. They mandate more fuel-efficient cars. So, on the one hand, we have these laws and regulations that mandate more fuel-efficient cars. On the other hand, we have fuel taxes that are measured on a per-gallon basis. So the farther those gallons can take a car, the less money per mile the taxes raise. So, we have this contradictory Federal policy—

Mr. POOLE. Exactly. They are going at cross purposes.

Chairman RYAN. Exactly. So, you know, also, people who drive electric vehicles don't pay gas taxes. In fact, this Committee, I remember, I think 2005, 2006, we had a tax incentive for people to buy gas—I mean electric cars.

So, we are at cross purposes here. Even if we decided to raise gas taxes, it is just another temporary solution to a long-term problem that doesn't solve the problem. Am I not correct in that?

Mr. POOLE. I agree. That is my assessment, certainly, and that was the assessment of the TRB committee 10 years ago, that we were going to be in this situation by about now. And it is going to get worse and worse. That was before the CAFE standards were increased—

Chairman RYAN. Right.

Mr. POOLE [continuing]. Dramatically a few years ago. And that is—they are going to devastate the State and Federal transportation budgets over the next couple decades, as they fully work their ways out to—

Chairman RYAN. So we have Federal policy colliding with each other. And the casualty is our roads and our bridges. So we are going to have to figure out what is the interim financing bridge to get to this better world of a more accurate, consistent system that doesn't have this contradictory Federal policy.

There are lots of ideas out there. I don't want to take up all of the time, because I want to give other Members the opportunity. But I thank you very much for your indulgence.

Mr. Levin.

Mr. LEVIN. Thank you. Thank you for your testimony. Mr. Chairman, as I hear the back-and-forth in answer to your questions, I think the problem is a bridge to what. And we keep on building a short bridge because we don't face up to the what.

And to simply focus on the interim, the interim has been used as a reason not to do the long-term. And, you know, I wish we really had a video today. Your testimony has been graphic, but nothing would be like having videos as to the conditions of roads and bridges in this country.

I was in Nepal last year, before the tragic earthquakes. And then I came back here to Washington and to Michigan, and I thought some of the roads were as bad as I had seen in Nepal. And so, I really think the time has come for us to make a basic decision, and that is whether we are going to make one.

And my concern about the focus on finding an interim, and arguing about how long, is that it becomes a reason for us not to face up to what needs to be done, long-term. And that is why my suggestion is that we just should not take—begin to take ideas off the table, because that becomes, essentially, a stalemating of action.

So, in my few minutes left, just the three of you, just have a little discussion—or, if you want, a debate—about the premise user-pay/user-benefit. The three of you just argue. Talk.

[Laughter.]

You have 2, 2½ minutes.

Mr. SHIRLEY. I will briefly start off. The idea of the user pay is that it provides incentives for the users of the highway or the infrastructure to use it more efficiently if they have to pay for the infrastructure. And alternatives that would not be user pay wouldn't contain those incentives.

Mr. POOLE. I think another key lesson comes from Europe, where they have gas taxes, but the gas taxes are a general revenue source. And if you compare the amount that comes in in gas taxes in Europe, in most countries, with the amount they actually spend on surface transportation, they typically take in two or three times as much in fuel taxes as they actually invest in the infrastructure.

So, I mean, making a direct connection between the users and having the money be dedicated to transportation is critically important. If we lose that, I think we may go the way of Europe, and have higher and higher payments and less and less actual investment because of losing that tie.

Mr. GRAVES. Congressman, it just feels to me like, you know, for 50 years this is what our Nation has known, that users pay. I mean people do get that concept. Now, they expect you to deliver, programmatically, what they are paying for. And I think we have, you know, room to go in that regard.

But I think we make a terrible mistake to move away from that concept. And I would also argue that, as Chairman Ryan just mentioned, even, you know, with another extension, we end up once again reassuring the American public that we don't need to find new sources of revenue, we are just going to go find—you know, clean out the sofa for dimes and nickels and come up with some sort of general fund solution, and everybody is reassured that they are never going to have to increase their—you know, the user fee.

I just think we need to have a more honest discussion with the American public about what is necessary to upgrade and improve this road system.

Mr. LEVIN. Okay, close. You know there is talk about electrification, and how that doesn't quite fit with user fees. It is often raised by people who don't support the effort for more electric vehicles. And private activity bonds, I think, need to be looked at. And often, it is raised by people who sometimes would propose their elimination.

So, I think all that shows we have to face up to this, and we need an interim, as long as it is not another excuse for the failure to act long-term. And 24 times, is it? That is exactly what has been happening in this country by this Congress, by Congresses. And we need to do much better. Thank you.

Mr. REICHERT [presiding]. Thank you. The gentleman's time has expired.

Mr. Johnson, you are recognized.

Mr. JOHNSON. Thank you, Mr. Chairman. You know, according to the *Wall Street Journal*, "simply using the taxes that are supposed to pay for highways to pay for highways makes the Highway Trust Fund 98 percent solvent for the next decade." I would like to ask to have this inserted in the record.

[No response.]

Mr. REICHERT. Without objection.

[The submission of The Honorable Sam Johnson follows:]

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REVIEW & OUTLOOK**Abolish the Gas Tax**

A better way to fund roads and bridges than more pain at the pump.



Gas prices in Corpus Christi, Texas PHOTO: AP PHOTO/CORPUS CHRISTI CALLER-TIMES

Jan. 14, 2015 7:20 p.m. ET

Tumbling energy prices are the first lucky break for U.S. consumers in years, but Washington is feeling left out. So the gougers of both parties are joining to steal some of the proceeds with the first gasoline tax hike in more than two decades.

The federal gas tax is now 18.4 cents a gallon and the logic seems to be that motorists won't notice an extra dime or more since gas prices are down 40% on average from the 2014 peak. Congress can then "invest" the windfall in roads, bridges and other projects. A convenient pretext for a tax increase arrives in May with the expiration of a temporary highway funding bill, and many otherwise intelligent Republicans are open to the idea, perhaps as a tax swap.

Now here is a formula for popularity that only a lobbyist or liberal could love: As one of its first major acts, the new GOP majority would make the commodity

that most Americans must buy every week more expensive, offsetting the discretionary-income gains from cheaper gas. Republicans should be talking about downsizing the federal gas tax instead, with a target of zero.

The gas tax—plus a 24.4 cent tax on diesel and other excises—finances something called the Highway Trust Fund, or HTF. The proceeds from the original 1956 three-cent tax built the interstate highway system and its expansion and upgrades over the decades. The tax was increased in 1982, 1990 and 1993.

The problem is that since 2008 federal HTF spending has far outpaced dedicated gas-tax revenues, and Congress has made up the difference with \$54 billion in cash transfers from general revenues. To cover future HTF obligations and close the deficits, fuel taxes need to rise by 10 to 15 cents a gallon, according to the Congressional Budget Office.

The solons now claim the arc of history bends toward precisely that. The real purchasing power of 18.4 cents has slipped amid inflation and the rising cost of labor and materials. Vehicle miles travelled are plateauing and cars are more efficient, eroding the projected growth of the tax base.

But since the 1990s, the Highway Trust Fund has come to fund much more than new roads and bridges and highway maintenance, abandoning the original “user pays” principle behind a gas tax. Drivers now see about a quarter of their gas taxes diverted to subsidize mass transit in merely six metro areas and sundry other programs for street cars, ferries, sidewalks, bike lanes, hiking trails, urban planning and even landscaping nationwide. Trolley riders, et al., contribute nothing to the HTF.

Federal spending on such side projects has increased 38% since 2008, while highway spending is flat. Here's what the politicians won't say: Simply using the taxes that are supposed to pay for highways to, well, pay for highways makes the HTF 98% solvent for the next decade, no tax increase necessary.

Your local interstate will not close if HTF “goes broke.” The feds will continue to spend all the money that the gas tax will continue to throw off. Some projects would merely be delayed, or states and cities would fill the gaps.

Another myth is that U.S. roads and bridges are “crumbling,” to use the invariable media description. Federal Highway Administration data show that the condition, quality and safety of U.S. surface transportation are steadily improving. The Chicago Federal Reserve Bank noted in a 2009 paper that roads

have “indisputably” improved over the last two decades and that “the surface of the median interstate highway mile is suitable for superhighway speeds not typically permitted in the United States.”

Some highways do need repair and modernization, and the U.S. does need more roads to relieve congestion and encourage trade and economic activity. The real crisis isn't the amount of money but how it is spent.

The 47,714 miles of the interstate highway network would likely be less complete absent federal support, but the system was officially finished in 1992. It is less rational for drivers nationwide to send so many dollars to Washington for Congress to apportion among winners and losers as they did under Eisenhower. Today, the costs of transportation can be reasonably borne by the people who enjoy the benefits, which will generate more accountability and fewer political boondoggles.

In an ingenious 2013 paper, Pengyu Zhu of Boise State University and Jeffrey Brown of Florida State studied federal highway spending between 1974 and 2008. They found that the gas tax tended to redistribute money from poorer to wealthier states and to regions with lower transportation needs than other parts of the country.

Texas recovered only 88 cents of every dollar residents paid in taxes, while seven states and Washington, D.C. (no surprise) received more than twice as much. Such misallocated resources are the inevitable result of the political mediation of the HTF.

Almost three-quarters of highway spending is already supplied by state and local governments, and if the federal role is reduced, they can decide either to increase their own gas taxes; fund roads some other way, such as tolls or public-private partnerships; or use tax dollars for other priorities like schools. States can build cheaper in any case, since the Davis-Bacon prevailing wage rules and Buy America procurement provisions that accompany federal funding don't apply.

Democrats always want to raise the gas tax. When prices are high, that's the best time to encourage drivers to buy an electric car or take the bus. When prices are low, they can skim some of the proceeds for other spending. The mystery is why Republicans would go along.

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Mr. JOHNSON. Thank you. Mr. Chairman, I would just note that I have recently introduced legislation by the name of Right of Way for American Drivers Act that would begin to do just that: Pay for it.

Speaking of the gas tax, some in Washington are calling for a higher gas tax. Mr. Shirley, for the record, isn't it true that a majority of the tax burden of a gas tax increase would fall on hard-working, low-income Americans? Yes or no?

Mr. SHIRLEY. A higher relative burden of the gas tax does fall on lower-income households, compared to higher-income households.

Mr. JOHNSON. Okay, I appreciate that.

And, Mr. Poole, I see you are a big fan of tolls. I have to tell you, folks back home in Texas would most likely drive you off the road because my constituents have had it up to here with tolls. In fact, you can't get out of Plano, Texas, without getting on a toll road. North Texas is said to have the largest toll network in the country. So you know I have actually put out legislation to stop the Federal authorization for tolling.

Wouldn't you agree that tolling is like a double tax? I mean folks have already paid for the road with their gas tax dollars, and now they have to pay a toll. Don't you think that is a double tax?

Mr. POOLE. I agree. I am opposed to double payment. And we have supported at Reason Foundation rebates—all electronic tolling makes it possible to give—to calculate how many miles people have driven, paying tolls. And you know the vehicle, so you know the fuel economy. You can figure out how much gasoline or diesel they used, and give rebates based off that. And that is an integral part of the planning in Oregon, for example, for mileage-based user fees, that it would be—that people would get rebates for the fuel taxes they paid, and wouldn't be paying both the user fee and the gas tax.

Mr. JOHNSON. That is interesting. Okay, Mr. Chairman, I yield back the balance of my time.

Mr. REICHERT. Mr. Lewis, you are recognized.

Mr. LEWIS. Thank you very much, Mr. Chairman. Let me thank all of the witnesses for being here.

Governor Graves, thank you for your leadership, and thank you for your statement. When I first came to Congress almost 30 years ago, I served on the old Public Works and Transportation Committee. And we tried to do something to authorize our transportation needs. Democrats and Republicans came together. We never thought that our roads and our bridges were partisan, we just did it. And there is a need today to come together.

You know, I represent a city, the City of Atlanta. And we have three major interstates coming through the heart of the city: I-75, I-85, and I-20. We have a lot of trucks, and we need to do something. I want you to tell the Committee, I want you to dramatize it, to make it plain, to make it clear. If we fail to act, if we fail to do something, what is—what would happen?

Mr. GRAVES. Well, Congressman, it is happening already. I think the cost to this Nation in terms of congestion, what we are wasting every day in terms of burning fuel and emitting into the atmosphere, what we are wasting in terms of missing our commer-

cial delivery schedules, not to mention just every individual who is late for this, that, or the other, or doesn't get to a job interview or a medical appointment, or whatever.

I mean our trouble just getting here this morning, and the condition of the roads in this city, you know, we are having a hard time with a driver shortage, because most drivers get paid by the mile, or in some form or fashion based on meeting a delivery schedule. And it is a hard living to make. And, therefore, we have a lot of people who are turning away from our industry, just because the conditions out on the Nation's highways are such that they just don't want to do that.

So, it is having a tremendous impact. And, you know, we are not benevolent. We have to absorb the cost associated with the safety concerns, the maintenance concerns on vehicles, the delays that we have to endure. We build those into shipping rates, and those get passed on, and Americans all pay more than they otherwise need to for their products. So it is a very real problem, and it exists today. And when we look at the numbers, they are staggering.

We can't cut our investment in the Nation's infrastructure. We need to increase, on an annual basis, somewhere in the neighborhood of \$25 to \$50 billion. We are going to lose our competitive edge as a country, vis a vis the rest of the world, if we don't figure this one out.

Mr. LEWIS. Could you tell the Committee what the impact is of short-term fixes and emergency action, rather than being bold and preparing for the long haul?

Mr. GRAVES. Well, it would be my opinion the problem with all the short-term fixes is that it always messes up State governments and their ability to adequately predict what revenue is going to be available and what projects they can do. Some of your States have very, very short construction seasons, and we end up essentially delaying. We end up with whatever inflationary factor it is that kicks a project a year down the road. It is one more year that a road is less safe. It is one more year that we have the same kind of congestion that is detrimental to our economy.

So, I mean, delay just leaves us, again, right where we are and, again, having the same conversation that started 22 years ago.

Mr. LEWIS. Thank you very much.

Mr. Chairman, I yield back.

Mr. REICHERT. Mr. Brady.

Mr. BRADY. Chairman, thank you for holding this hearing. This is long overdue.

A couple of observations, then I want your advice on something. Governor, I agree. We ought to have a real serious discussion about moving away from user pay in our transportation infrastructure. I think that is a critical part of how we fund, and we ought to have a long discussion about moving even farther away from that.

Secondly, our transportation system, how we fund and operate it, you know, reminds me of a leaky bucket. We have diversion into non-highway and transportation issues, you know, you have very long permitting processes that drive up the cost and delay them. We have issues like Davis-Bacon—very sensitive, but have an impact on all that. And so, I think one of the keys to pouring more

money into this system is to fix the bucket. Before or as we do that, I think it draws more support to this.

I am skeptical that tax reform on the international side is the solution. The two are unrelated. I am sort of old-school. I think changes in the Tax Code should accrue to make us more competitive and create a stronger tax growth for growth, which will help to generate revenues, generally, for the country.

So here is my question. There doesn't seem to be one single solution to this problem. It will be—require a series of them. What I have noticed is, you know, around the world, other countries draw much more private investment to infrastructure than America. Dramatically more. Countries we wouldn't even expect it in. I think in France, 70 percent of the water and sewage systems are created by private investment. We already know long-term expressways are privately funded. Airports, the 100 largest airports in the world by revenue, 36 are created by private investment. Yet that trend toward investment in America, in modern, efficient infrastructure, has grown a bit, but still is largely missing.

I think part of that could be because of these very capital-intensive projects. I think tax exemption on municipal bonds is part of the problem. I am not saying end that at all, but if you start off with a 40 percent disadvantage in the cost of capital, you are not likely investing in infrastructure. I am not suggesting that.

But my point is I don't think a minor lifting of the private activity bond solves the problem. How do we draw—as part of the solution, how do we draw more private investment into infrastructure in the United States? It seems to me we do have a lot of capital. These are needs. I think they can be structured the right way. As part of the solution, what do we do?

Mr. POOLE. If I may, since I have done a lot of work on that subject, I find it is truly ironic that Congress is perennially grappling with “there is not enough funding, there is not enough funding,” and yet the global infrastructure investment funds have raised hundreds of billions of dollars for sound infrastructure, and large-scale projects, many of them in Europe, in Latin America, in Australia. And so far, only \$27 billion in this country.

We could do a lot more if—Federal Highway Administration is doing some good work on developing, basically, prototypes for the kinds of long-term agreements that States who don't have the experience with this could adapt. We really need a bigger effort to—this is not the whole solution, by any means—

Mr. BRADY. No, no, I get that.

Mr. POOLE. But it is a piece that could go a lot further. And U.S. public employee pension funds, like CalPERS and CalSTRS are starting to invest in these kinds of infrastructure projects. They see the long-term—you know, a project that generates revenues in a long, steady, increasing fashion is a very good match for pension fund liabilities. So—and insurance companies have the same kind of long-term—we need to figure out how to mobilize more of that capital, and get it into the investment cycle for—

Mr. BRADY. Yes. You know, we are doing that in some of the States, not on the private side, but on the public side. You know, States are advancing—or local communities are advancing dollars for projects. States are reimbursing on a per-mile and per-use

basis—so you are already laying out sort of the cost benefit of these projects, it is just happening on the government side of the equation. My question is, why can't we be doing more of that, not as the full solution, but could that not be helpful in filling that gap on the private-sector side?

Mr. POOLE. It would be very helpful. We have major bridges that need to be replaced. We have aging interstates, like I-70 in Missouri, that still has some of the original pavement from the highway that I-70 was built on top of that is falling apart. So, mega-projects of that sort are really good fits for the long-term P3s. And that, again, is part of the solution. It is not the whole thing, but it would help a lot if we did more of that.

Mr. BRADY. Okay. Thank you all very much.

Mr. REICHERT. Mr. Neal, you are recognized.

Mr. NEAL. Thank you very much, Mr. Chairman.

I want to thank our panelists, as well, and note that Congress has not been very good at doing the seminar side of things. Mr. Tiberi and I, in our respective positions on the Select Revenue Committee some years ago, along with Mr. Blumenauer, we addressed this issue head on with the American Trucking Associations and with the American Chamber of Commerce. We brought in witnesses. And here we are, 8 years later, in stalemate over the same issue.

And Governor, one of the things that you noted correctly was that President Eisenhower had the vision to move forward, but also to connect another very important element, and that was he had Lyndon Johnson as the Majority leader in the Senate, and Sam Rayburn as Speaker of the House. We saw this as an act of national purpose. We saw it as an act of national will. Not the divisiveness that currently confronts this Congress on every single issue that comes along. One bad story, let's get rid of earmarking.

We have watched Congress be reticent about the challenges that we face every day, when we have had this opportunity to go forward. And I really hope Chairman Ryan is going to lay out his ideas as we go forward on this issue. That is what the Chairman does. And it is important for all of us to ask questions. But at some point, 8 years later—after we began these hearings—we have to have some action.

Now, let me call attention to something specific, Governor. The Port of Boston is now being dredged for the purpose of accommodating the tankers that will come through the new Panama Canal expansion, the double tankers. Those are going to be union jobs, \$350 million of dredging, more longshoreman. And I supported the FTA with Panama, because of that very purpose.

So, could you address the issue of what is happening with congestion at our major ports, including Logan Airport in Boston, as well as one of the great ports on the East Coast, the Boston Port?

Mr. GRAVES. Well, I think you all know that one of the problems we face in this country is that so many of our ports, airports, major infrastructure projects, were built so many years ago, that no one anticipated the kind of expansion and activity that would ultimately take place. So we have land-locked ports that don't have any way to expand. And therefore, there is congestion, just inherent with where they are located.

You start bringing in thousands and thousands of trucks every day to move containers. I think there is great potential in some of the inland intermodal facilities that we are starting to see spring up, but they are not inexpensive. We have had—I hope you all know the number-one customer of our class-one railroads are trucking companies. We are putting more and more freight on intermodal movement than we ever have before. But, to tell you the truth, it barely scratches the surface, in terms of the tonnage that, overall, gets moved in this Nation.

And, as I often say to people, we—you know, in 2006, for the first time, we had 300 million people in this country. In 2042, we are going to have 400 million people in this country. That is just a lot of stuff, a lot of mobility, a lot of demand. And yet we are basically, you know, treading water on our infrastructure investment.

Mr. NEAL. In addition—I am glad somebody mentioned the private activity bond cap. That is something that ought to be able to apply here. We ought to be talking about something I worked very, very hard on, the Build America Bonds effort, which was extraordinarily successful. Massachusetts alone issued \$5 billion in Build America Bonds, municipal bonds.

There used to be a can-do attitude about infrastructure in America. And I am delighted that Sam Johnson said his constituents have about had it with toll roads. This is a public responsibility and we have to increase efficiency and productivity.

And, Mr. Shirley and Mr. Poole, would you speak about those three bonding opportunities that we have that I just addressed?

Mr. POOLE. Well, I think bonding is critically important. We really need to be financing, through long-term kinds of vehicles, more of the needed infrastructure than we have. We are way behind, as several people have mentioned, in what we should be building. And so, if you continue funding almost all of these big infrastructure projects out of annual appropriations, it is a losing game. To catch up, to have a chance of catching up, you have to go to more long-term financing through revenue bonds. And all the vehicles that would do that deserve serious consideration, in my view.

Mr. NEAL. We need to embrace here, Mr. Chairman, pro-growth economics. This economy has grown at 2.1 percent and even less in previous years. For 15 years, with downward pressure on wages and very little growth in the economy, and we can't find a common path forward in infrastructure? This used to be the easiest thing to do in Congress. Members would rush to the well in an opportunity to put their cards into the polling place so that they might vote, based upon requests from local government for hospitals and colleges and airports and roadways and bridges. And, for all of us, this stalemate has ill-served the American people.

Mr. REICHERT. Mr. Neal, thank you.

Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman. Thank you for your leadership. And I want to associate myself with the Irish-American from Massachusetts over there, my friend, Mr. Neal. I have been using the same argument on trade, by the way. That is a discussion for another time.

[Laughter.]

I will talk to you about it, too, Bill.

Mr. NEAL. Will the gentleman yield?

Mr. TIBERI. Sure.

Mr. NEAL. I did cite the example of the Panamanian FTA.

Mr. TIBERI. I know you did.

[Laughter.]

Thank you. Let me take—and I am serious about his comments. I do associate myself with him.

I will take a little bit different tack. Mr. Poole, as we have done today, and as we have done over the last 8 years, much of the focus has been spent on revenue, and I understand that. Much of the focus has been spent on the solvency of the trust fund, and I understand that. But there is another aspect of this that I found in your testimony to be quite interesting, and I want to take it a little bit farther, because I think Governor Graves is right, that this is a crisis, and this is a conversation that we need to have with the American people in a broad way.

And that is the struggle that we all have here. If I am at an event, talking to a group of people, and a gas tax comes up, and the wealthiest person there drives a Tesla, he is not as invested as the person who drives a Chevy Cruze.

So, the question I have, though, is I had a county engineer in my district who has complained for a long time about Federal regulations. And to prove the point that he was complaining about, he did a road construction project with State and local funds and a very similar project in the county with Federal funds, same distance, same basic type of project. As you can expect, the one with Federal funds cost twice as much and took twice as long.

We never seem to have the discussion here in the context of making the fund solvent. I understand revenue component is extremely important. Mr. Neal is right. But, from a taxpayer component, that is extremely important, too. What can we do to ensure that we provide our constituents, our taxpayers, the users of the highway, the greatest bang for their buck when Federal dollars are involved in a construction project? What can we do that will actually make that dollar go farther, by the way, so you can build more—

Mr. POOLE. Right. Congressman, you have really hit the nail on the head, that Federal projects, because of all of the regulations that go along with them—well-intentioned things, Davis-Bacon, the Buy America, and a whole lot of others, and all the different regulatory oversights, if the project is Federalized, really do—double may be an exaggeration, but certainly 30 or 40 percent more is pretty routine. And I know some State DoTs that try hard to figure out projects that they can do without a dollar of Federal money in them, in order to have the cost savings. So that clearly—regulatory reform would be one key to making the dollars go further.

Another, of course, as I said in my testimony, is to look really hard at what the scope of the Highway Trust Fund is. I mean there are all kinds of things in there that are nice to have, but aren't necessarily core Federal concerns. There are things that, over time, have migrated from being solely State and local responsibilities to now shared Federal, State, and local responsibilities.

I know this is not really this Committee's jurisdiction. But on the other hand, if you cannot come up with a medium-term revenue fix—

Mr. TIBERI. All right.

Mr. POOLE [continuing]. I suppose you could go back to the authorizers and say, "Look, you guys haven't done your job of figuring out a scope of the program that is actually fundable."

Mr. TIBERI. Let me just add one more thing. In my home State of Ohio, the Ohio Department of Transportation has looked inward because of a lack of a reauthorization bill. And they have actually implemented cost-efficient reforms that have redirected some \$600 million from their operating budget into capital projects in our State. So they are leading. Ohio has streamlined project delivery for more innovative methods, such as design-build.

I sat on the conference committee of MAP-21, and it was supposed to reduce red tape. Not as much as I wanted to, but it was supposed to reduce red tape, streamline programs. But many of the reforms that were in MAP-21 have yet to take place.

So, looking long-term, I ask the three of you—and you don't have to answer—if you can just help put pressure on us and the administrators of this highway fund, to do what not only we have said for them to do, but do more to make taxpayers' dollars go further.

Thank you, I yield back.

Mr. REICHERT. Thank you, Mr. Tiberi. Mr. Becerra, you are recognized.

Mr. BECERRA. Mr. Chairman, thank you very much. Gentlemen, thank you for your testimony.

In California, we are told by our State transportation agency that there are about 6,800 bridges that are structurally deficient. That is one in every four bridges in the State of California.

There is also a letter that was recently issued by Caltrans, our State transportation department, that said the following: "Caltrans may be forced to shut down ongoing construction, due to an inability to absorb the Federal shortfalls with State cash, in the event that the Federal Government doesn't move forward with financing the Highway Trust Fund."

Governor Graves, let me ask you a question. I have to believe—and let me add one other thing. LA County's metro agency, which deals with a large sector of all transportation within Southern California, also said the following: "In order to avoid massive cost increases associated with construction stoppage or delay as a result of any shortfall in Federal funding for these projects, LA Metro would refrain from beginning any new project construction all together, as well as stop any construction bid notices for projects that are in the pipeline, because of the uncertainty of Federal funds."

What, Governor, does that do to a State, a State government, when it comes to planning its long-term projects, not just in a metro area, but in the entire State, if you have a Federal Government for the last several years doing 2-month extensions of funding when you have long-term, multi-year projects to have to worry about?

Mr. GRAVES. Well, it is, obviously, incredibly disruptive.

I mean, I will tell you that in my 8-year experience, I thought I had the best State DoT that there was. They were great profes-

sionals, they understood what the needs of our State were. I thought their planning efforts were just, you know, outstanding. But it involved that partnership with the Federal Government.

Were we frustrated from time to time with some of the regulatory burden? Yes, we were. But we eventually worked through that. And it was the—and I know we need to think programmatically, because, at the end of the day, it is the delivery that matters, that we got something built and done.

But the States have to know that you are going to be there for them in that funding partnership. And every time there is a bit of uncertainty, it sends shock waves through the various States, who are in various stages of planning. I mean not every State is on the same schedule, in terms of a 5-year plan or a 10-year plan, or whatever it might be. We happen to have done a 10-year plan in our State while I was in office.

But they count on you, they expect this partnership to be—to work both ways. They will adhere to whatever requirements the Federal Government sends their way. But they expect the money and, clearly, that is where our problem is today.

Mr. BECERRA. I think you said the operative words, “They count on us.” And I think—actually, I compliment all three of you for saying pretty clearly that there are pretty straightforward ways of doing this. And I think I have heard a lot about user fees. And I tend to agree with you. You are going to use it, you should pay for it. And we should step to the plate.

I think you all have been saying this—folks on the outside, in State government, local government have been saying this for quite some time. In fact, in Los Angeles—not just city, but county—we have stepped up to the plate. We have actually passed user-fee proposals, ordinances, that provide a pot of money that we can come to the Federal Government with and say, “Look, we are willing to impose a user fee on ourselves through bonds to show you how serious we are about completing these projects,” so it is not just going to be Federal money that helps pay for California’s projects. Our local dollars are being invested, and we are ready to fork it over, put it on the table to show you how serious we are about these projects.

I believe that any delay is just an excuse. We have every opportunity to move with proposals that are clearly before us. I think I would agree with you gentlemen, that user fees are clearly the way to go. And the sooner we get to it, the better, because we are just deceiving the American public by making them believe that we can fund all that we need without coming to the table.

And so, you are right. Folks have a belief, and they have a right to believe that we are going to be at the table coming up with solutions. I hope you will continue to weigh in, give us your thoughts, because we should not be doing these piecemeal, itty bitty baby-step extensions of funding for projects that don’t get done in 2 months. No contractor, general contractor, who is going to build a highway buys cement or asphalt or lumber for 2 months. You buy it ahead of time. And if there is any place where the adage “time is money” applies, it is in construction.

So, thank you all for your testimony. Hopefully we will get there and solve it, and people can count on us.

I yield back.

Mr. REICHERT. I thank the gentleman. I will yield myself 5 minutes for questions.

And I first want to thank the three witnesses for being here. And I think you have heard at least one voice today saying that we need to do something. All of us here believe that. There is frustration for not accomplishing some progress here. And, of course, frustration in trying to find a solution which we know would include more than one aspect of all of the things that are being talked about here today.

So, we know it is difficult, and recognize there is a problem. When you start to look at some of the options that you have all talked about—the Federal gas tax and tolling and public-private partnerships and vehicle miles traveled, and the Transportation Infrastructure Finance and Innovation Act, which is a program that provides credit assistance, the mass transit account has even been—people have talked about phasing that account out to help—reducing the Federal burdens, which we have talked about, some of the Davis-Bacon issues which I support, and some other regulatory issues. And then also streamlining the National Environmental Policy Act, NEPA, requirements is another issue that has been talked about.

So, in trying to find a solution here, we have to go through an awful lot of gymnastics to get agreement, not only amongst the panel here that you have before you today, but in the House of Representatives, on to the Senate, and then the White House. Right? So we need your help.

I come from the State of Washington. We have had our issues with bridge collapses, as you know. On the Skagit River Bridge, three vehicles plunged into the river as a result of the bridge failing after a collision. We have had some other bridges collapsing in Washington State. This is not a story that is new to, I think, Americans. In every State we have had similar experiences.

I would like to revisit the P3s. I think Mr. Brady focused on that somewhat. And Mr. Shirley, Mr. Poole, you both highlighted the current role of public-private partnerships in financing. The first—could you discuss specific benefits that you have seen?

And, Mr. Graves, you may also have some opinion on the private partnerships.

And, second, if there are benefits that you have seen, what obstacles, current obstacles, do you see that would prevent us from getting to those?

And then, lastly, what, if any, impact would greater access to public-private partnerships—what kind of benefit would that provide to us?

So, a three-part question. I hope you got it. I can repeat it, if you didn't. But I would like to hear from all three of you. You have 2 minutes.

Mr. POOLE. I think there is an important set of benefits from the long-term P3s. One of the biggest ones is—these are really a best fit for mega-projects, \$500 million to several billion dollar-scale projects, bridge replacements, and so forth. And risk transfer is a very important benefit.

Mega-projects are notorious, worldwide, for cost overruns, late completion, and over-optimistic traffic forecasts. Most of those risks can be transferred to the P3 entity, which has skin in the game, by making an equity investment in the project and then taking on those risks. And it means the taxpayers aren't burdened with them. That, to my mind, is the most important benefit of the P3s.

Another, of course, is that it means you are financing the project, instead of building it out of operating cashflow, annual appropriations. We need to do a lot more long-term financing of the major projects. And so P3s are a mechanism to do that.

Mr. SHIRLEY. The risk transfer that takes place will depend on the nature of the particular structure of the deal for a P3.

I would also point out that, in some instances with private financing, there can be incentives to move the project along a little bit more quickly. We have seen some evidence that some projects come to fruition a little faster with private financing.

Mr. REICHERT. Mr. Graves.

Mr. GRAVES. I think, Congressman, it is important to note that P3 generally means a toll project, whether it is a bridge or a road. And since it is a private investment, there is an expectation that there is going to be a return on investment. So, inherent in that, you at least potentially have some additional costs that otherwise wouldn't be there if the government were doing it on its own.

We think P3s have a place in this dialogue. We think, certainly, there is a lot of bridge projects that they match up nicely on. The experience in this country with a lot of tolled road, private investment in roads, is mixed. Some have not done and fared nearly as well as some anticipated. And a lot of that has to do with the amount of diversion, where people just simply are not going to pay, or can't pay the cost to use that facility. And, therefore, they start to run, in our case, commercial vehicles off onto routes that they otherwise shouldn't be on. So there can be a safety issue, from our perspective, as well.

Mr. REICHERT. Thank you. I appreciate your comments and would just quickly mention that I look forward to continuing this discussion next week. We will have a hearing in our Subcommittee to delve deeper into some of the solutions. And we will see where this investigation takes us.

So, Mr. Doggett, you are recognized.

Mr. DOGGETT. Thank you. Thank you very much, and thanks to each of our witnesses for your testimony. It has been a long time coming. We asked for this hearing at the beginning of this Congress. And now, I don't know, 17, 18 months later, we finally have you here. And I think your testimony has been very helpful.

Certainly, Governor Graves, I agree with you that this affects our competitiveness in so many areas of our economy. Our foreign competitors see the tremendous advances that we are making in technology, not just on highways, but—and transportation—but in other areas. And then they take that technology and adapt it, copy it at home, and gain a competitive edge over us. And I think that is a real problem. It cannot help but cause significant harm to our competitiveness if we are not meeting the needs of a 21st century transportation system.

I think it is also a security issue. When President Eisenhower developed our interstate system, he recognized the importance of tying the country together, and the importance, from a security standpoint, of having adequate transportation.

It seems to me what is missing from our transportation policy that you have addressed very well is, of course, first and foremost, money, revenue. We cannot build these highways with fairy dust. It takes dollars. And those dollars have not been forthcoming.

But a very equally important factor is certainty. It is amazing that, during the first 6 or 7 months, when we were trying to get the hearing that we finally have today, the lead proposal from some of our Republican colleagues was to finance our highways by eliminating Saturday mail delivery. That and other ludicrous proposals were offered as a way to address needs that are urgent and that our planners need to be able to know that the funding is not there, just for the next 3 or 6 months or even a year, but that it will be there as these significant projects need to be developed.

I really live on Interstate 35, between San Antonio and Austin, back and forth. And it is one of the biggest bottlenecks. I think the bridge over the Colorado River in Austin has been listed as number one, but it has plenty of competition around the country as being a major bottleneck, with a steady stream of 18-wheelers both ways. It is clearly not just Willie Nelson who is on the road again, but many of my neighbors that are out there.

And there is great uncertainty there, because you never know when that traffic is just going to completely stop, you can't get to your work, you can't get to pick up the kids, or, in my case, simply move from one office to another to meet with constituents.

I do agree with my colleague, Mr. Johnson, on one factor, and that is there is a bit of a problem in tolling roadways that have already been financed originally by taxpayers. Our former colleague, Senator Kay Bailey Hutchison, included a provision in the Transportation Act once about that. And we are headed to a situation in Texas where it will be impossible to get to any of our major cities—Austin, San Antonio, Dallas, Houston—unless you are willing to pay a toll or stop every few blocks on the access road.

The other revenue source that I have some concern about—and, Mr. Poole, you have addressed this in an article that you wrote back in February, and perhaps at other times—is the notion that, speaking of fairy dust, that there is some magic way we can handle this through repatriation. And you looked, I believe, at all of the proposals: The one from the Administration, which you described as the most foolhardy; the one from Mr. Delaney; the one from Boxer and Paul. And, in February, said that you could not support any of them. Is that still correct?

Mr. POOLE. That is still my position for the reasons I stated, that it would be another big departure from the user pays principle, which I think is crucially important, to strengthen, rather than continue weakening.

Mr. DOGGETT. And that a one-time fix, whether it is repatriation or Saturday mail delivery, or some other gimmick, would not provide the certainty—

Mr. POOLE. Exactly.

Mr. DOGGETT [continuing]. That is important, along with the funding.

Mr. POOLE. Yes.

Mr. DOGGETT. And I was pleased to see that our colleague, Dr. Boustany, was quoted earlier this month in *Politico* as saying that this is—"It is not a real way to fix the problem of finding the cash for the chronically under-funded highway program."

There is a tendency to believe, because we have some carpet tax dodgers that have hidden money they earned here in the United States in the Caymans or some other tax haven, and they are just dying to bring it back at a nickel or a dime a dollar, which is a—anyone would love to pay on all of their Federal taxes, but only these folks, that haven't paid anything in many cases, want to bring it back. It is so tempting, even though the cost, when you actually go out and score it, of most of these repatriation proposals—well, as the President told me at one meeting here a year, year-and-a-half ago in a presentation, he has looked at it and the math just doesn't work. And I don't think it works either for certainty, in terms of tax fairness, or any other way, to be a funding source here.

I hope we can come together. I think there are many people here that are willing to cast some tough votes, to provide the revenues needed to fund our transportation system, but it has to be done in a bipartisan way, rather than just setting up an argument to attack someone as being for more revenue for an essential public service.

And your testimony here today, all three of you, is helpful, I hope, in advancing that. And, hopefully, we can get an answer sooner than we got this hearing, and—

Chairman RYAN [presiding]. The time for the gentleman has expired.

Mr. DOGGETT. Thank you.

Chairman RYAN. Thank you. Mr. Boustany is recognized.

Mr. BOUSTANY. Thank you, Mr. Chairman. I am really glad we are holding this hearing. This is really an important topic.

In my home State of Louisiana, we have two key infrastructure projects that have been on hold. One is completion of Interstate 49 south. This is a project that has been on the books for two-and-a-half decades.

Now, why is it important? This is the energy corridor for the country. I mean it links key ports and key energy infrastructure that supplies this country. It is also an important hurricane evacuation route, which is important more locally. And then, third, we have a number of fatalities, a rising number of fatalities each year. This is a project that has been on the books, it is authorized. The limitation is funding. We have to fix the problem with funding and financing of infrastructure.

Secondly, I have a key bridge on Interstate 10 in a location that is seeing \$65 billion in new investment coming in related to energy and trade. This piece of infrastructure is a limitation. The bridge is increasingly dangerous. The maintenance schedule has escalated. We have to fix this. So, I mean, these are local cases in point for the necessity.

Now, why is it important? The infrastructure is key to addressing the issues that my friend, Mr. Neal, talked about, and that is 2 percent growth is just unacceptable in this country. And infrastructure basically serves the key elements of growth, whether it is the energy sector or the international trade and exports.

I firmly believe we need to get to a user fee system that works, is broad-based, and sustainable. And I have some concerns about one source of funding that has actually been vetted about, and that is it has been talked about perhaps replacing or supplanting or augmenting the gasoline tax, or a motor fuel tax system, with a per-barrel fee on crude oil.

I don't think that is a very good idea, for a number of reasons. One, I think it adds additional complexity in how do you—you know, in terms of separating out the user fee piece versus consumers of other types of crude-based products that have nothing to do with the highway system. That is a problem. I think it would also cause serious competitive harm. We are now seeing our refineries, for the first time in many decades, being competitive, not only more profitable domestically, but very competitive internationally. I think we would harm that. Finally, I think the per-barrel increase that would have to be put in place, in terms of a fee like this, is somewhere on the order of \$10. I don't think that would be very popular, either, at a time when, you know, we are just starting to see lower oil prices.

So, I have a concern about that particular method of payment or financing, but I would be curious to get your input. I don't think it fits the classification of being a broad-based user fee that is sustainable.

Mr. GRAVES. Congressman, that option is on our list. We actually—because we know how difficult your challenge is, collectively, we tried to sit down, as an industry, and come up with a whole lot of things that we could support, if it wasn't just a—if it wasn't a fuel tax, if it wasn't indexing, I mean, if it wasn't some sort of freight fee, I mean, we just—and the barrel tax is on the list.

I will tell you we discussed at length the concern you addressed, which is there are people who derive benefit off of a barrel of oil who have nothing to do with running cars or trucks on the Nation's highways. It is—at least in our conversation, it was there simply because we acknowledge that there has to be a path forward somewhere, and we didn't want to be at the table, being prepared to support whatever you all might, you know, grasp as the best path forward. But I recognize the concern on the users of the barrel of oil.

Mr. BOUSTANY. Thank you, Governor. Mr. Poole, do you want to comment on that?

Mr. POOLE. I agree exactly with your objections. I think it is—it would have all kinds of unintended negative consequences on other parts of the economy, and is another departure from the user—the real user-pays principle.

Mr. BOUSTANY. Are there any thoughts on how we capture electric vehicles, vehicles fueled by electrical—or batteries and so forth? I mean this is a growing area, and it is currently outside of the scope of the motor fuel tax.

Mr. POOLE. A number of States, a small number—I think maybe less than a dozen—have started putting in an annual fee tied to the vehicle registration fee as a way of recovering something from users of electric and some other types of alternate fuel vehicles. That is a good start, at least. They certainly should pay for using the highways.

Mr. BOUSTANY. Does anybody else want to comment on that? Governor.

Mr. GRAVES. Well, I would only say that I would imagine, in most instances, the person that is driving the vehicle was previously driving something that burned gasoline or diesel, and so the concept of paying something for the use of the roads, again, is not something they are not familiar with, and I don't think there is going to be a huge outcry to support the roads of this country through some sort of a registration fee on non-fuel vehicles.

Mr. BOUSTANY. Thank you.

Chairman RYAN. Thank you. Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman, and thank you for holding the hearing. And thanks to all the witnesses for being here. You have all done a great job. I think there is one thing that we can all agree on, and that is that Congress is failing the American people in our responsibility to help ensure that we have safe and efficient infrastructure upon which to travel and to move our goods, and that is something that is totally unacceptable. We do need to step up. We do need to address this. And we need to do it sooner, rather than later.

A number of my colleagues referenced the fact that the cost of dealing with this problem somehow falls disproportionately on hard-working people. And I guess it is hard for me to understand why the same concerns aren't voiced when you look at the costs that fall disproportionately on those same hard-working people when it comes to repairing their automobiles.

I know in California, my home State, 34 percent of our major roads are in poor condition. And I am told by my State folks that it costs the motoring public \$17 billion a year to drive on these roads that are in such bad shape, about \$703 per motorist. So, who do you think pays that cost? The same hard-working folks, the same trucking companies that are trying to move goods across the country and across the States.

Also, in California we have two of the top three most congested urban areas: Los Angeles and the San Francisco open area. I am told that costs—that congestion costs billions of dollars a year, and can be translated to—costs about \$1,000 per commuter in lost wages and time spent on the road in their cars and in their trucks. It disrupts the amount of time it takes to deliver goods from either manufacturing to a point of distribution or whatever else your truck drivers, Governor, are doing. And that is just totally unacceptable. And we need to fix this now. We can't wait any longer.

The construction costs, I am told, for building infrastructure are down 20 percent since before 2007, and they have been flat since 2011. And, at the same time, bonds are at an historic low. It seems to me that this is the time to lock these construction projects in place, and to set it up so every State, States with short construction windows, States with long construction windows, can get to

work and make these repairs and improvements that are so much needed.

And I would like to ask all three witnesses, is this the time to fund these projects? Should we lock this in now, and get going?

Mr. GRAVES. Well, I will start and say, you know, the time is now, next week, next year, 5 years, 10 years from—I mean, again, we are starting to lag so far behind, in terms of the investment we have made—and, as I said, the blessing we have is our economy is expanding, and will continue to expand. And, therefore, the demand and pressure on all our infrastructure will continue to grow.

So it is—in some way it is not an option, you all have to address this, it is just getting around to finding the will to do it.

Mr. THOMPSON. Governor, let me just ask you. I got a memo today from a constituent, and it says that our transportation system is in an historically unique state of decline and, if not addressed soon, will make even strong investment potentially incapable of meeting the level of structural decay. Do you agree with that?

Mr. GRAVES. I do. I think any of you that have driven in your own communities, your own States, or certainly, if you travel much around this country, are seeing the same problems everywhere.

The States are doing a great job making an effort to sort of fill that void. And you have seen a number of them take action as of late. But it is a drop in the bucket, compared to what the overall demand for investment is.

Mr. THOMPSON. And I can tell you I am from a State that has taken action. Many of my counties in my congressional district are what we call self-help counties. They have taken action. They have taxed themselves in order to step up and help contribute to fixing the infrastructure problems that are hampering all of us. And the only holdback, the only dark spot in all this is the Federal Government's participation.

I know my constituents want this addressed now. They are ready to go. And they see us as failing in our job—

Chairman RYAN. Thank you. The time of the gentleman has expired.

Mr. Smith.

Mr. SMITH OF NEBRASKA. Thank you, Mr. Chairman. Thank you to our witnesses, as well. Obviously, these topics are very important, this topic of transportation and the Highway Trust Fund. And it is interesting how I think the general public certainly wants solutions. They want their taxpayer dollars to end up where they are intended to end up. And yet there seems to be frustration, in terms of bureaucracy.

I mean the President himself kind of looked back on the stimulus and the so-called shovel-ready projects as not so shovel-ready, or I—in discussion with my constituents, I mean, there were small communities who had a project ready to go, and when they pursued the dollars from the stimulus, it actually delayed the project further. And so, that creates frustration.

I know many folks are frustrated with Highway Trust Fund dollars going to non-highway projects. And I was just wondering, Governor, if you could touch on, you know, the use of these dollars—

obviously, there is a shortage of dollars—and how they might be used on non-highway projects.

Mr. GRAVES. Well, I would first of all say that, you know, one of the—you all did such a fine job on stimulus that people did come away with a notion there was going to be a massive infusion of dollars into infrastructure programs, and it really didn't turn out that way. And I think that left everyone a bit disillusioned. And I think we missed an opportunity there, to some extent. But we won't, you know, relive that history.

You know, we obviously have a frustration with where some of the dollars we pay into the Highway Trust Fund go. But we also have come to appreciate that there is a big diverse transportation community in this Nation. As I mentioned, you know, if we had our druthers, would we want, you know, the money that goes to public transit to come out of the Highway Trust Fund? No. But the reality is, as a Nation that is now approaching, as I said, 400 million people in a few years, there are more and more communities and States that, essentially, must have public transit options available to them. So it is a partnership, it is a deal we have made, maybe in our perspective, with the devil, but it is one we are willing to live with and continue to work on.

Mr. SMITH OF NEBRASKA. Okay. Do any other witnesses wish to comment?

Mr. POOLE. Well, I think I address this point at greater length in my written testimony, which I hope you will have a chance to read. I think there is a huge scope for rethinking the wide breadth of the Highway Trust Fund programs. Again, this is not this Committee's job, per se. But, from Congress' overall standpoint, it is really time to start saying, well, the Federal Government can't do everything in transportation, it really needs to focus more on the core problems that are uniquely the Federal Government's responsibility.

Mr. SMITH OF NEBRASKA. Mr. Shirley.

Mr. SHIRLEY. Let me just briefly acknowledge that, you know, highway projects typically do take some amount of time for the money to spend out, and they take time to build and put together.

Mr. SMITH OF NEBRASKA. And another concern that has been brought to me is the concern that it takes as long to build a highway today, perhaps, as it did 50 years ago. I mean I would hope that we would have more to show for new technology and new methods than that. And so that creates a frustration that, as we heard earlier, you know, we have a diminishing source of revenue, and yet an increasing need for the dollars. And so it kind of—you know, chasing those, as was stated earlier, chasing projects with reduced gas mileage—or increased gas mileage and efficiency, it is just, I think, a troublesome combination.

So, with that, Mr. Chairman, I yield back.

Chairman RYAN. Thank you.

Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman. And I deeply appreciate the fact that we are having this hearing today.

Mr. Chairman, I agreed with much of your opening statement. I have one slight exception that I will reference in a moment. But Mr. Thompson pointed out that the American public is right now

paying the price. They are paying hundreds of dollars a year in damage to vehicles or being stuck in traffic. Mr. Graves' teams of drivers are losing money, and wasting fuel. The American—there are people in this room, if we were able to have real hearings on this, who could dive in and give you details about what those problems are, what the solutions are, and how to refine them. And I hope that we will be able to have those hearings.

The Committee has a bill. I have had legislation to extend the road user charge experiment that Oregon has been doing for the last 10 years to extend it to other States to refine it. That is part of a long-term solution everybody agrees with. I think the Committee ought to look at it after a year-and-a-half.

I am hopeful, however, that we don't somehow believe that there is nothing we can do.

Chairman RYAN. Will the gentleman yield just real quickly? Some of these are not in our jurisdiction, as you well know.

Mr. BLUMENAUER. It has been referred to this Committee.

Chairman RYAN. Oh, okay.

Mr. BLUMENAUER. House Bill 679 is here. It is a dual referral.

The notion that somehow we can't do anything over the next 6 weeks, I would respectfully suggest, is not the case. The gas tax is legislation that is well known, it is not hard, it is simple. Six Republican States have raised it already this year. This is something that, if the Committee wanted to, we could have hearings on next week. We could have Members go back over the Fourth of July recess and talk to people at home, their Chambers of Commerce, their unions, their contractors, their truckers. The vast coalition that is ready for us to step up and take action we could hear from during that period. And we could come back in July, in the course of a week, finish the hearings, and get a bill out, and it could be enacted. It is all about will. This is not complex. It has been done by Republican and Democratic Presidents alike. So I just respectfully suggest that we could do better.

But I want to go to the Chairman's point, that he doesn't think it is a good idea to raise the gas tax because it is problematic for the people out there. I would ask unanimous consent to enter into the record testimony that would have been given by the road builders about the tax and political implications and costs on fuel after these States have raised the gas tax.

Chairman RYAN. Without objection.

[The submission of The Honorable Earl Blumenauer follows:]



**Testimony of the American Road &
Transportation Builders Association**

Long-Term Financing of the Highway Trust Fund

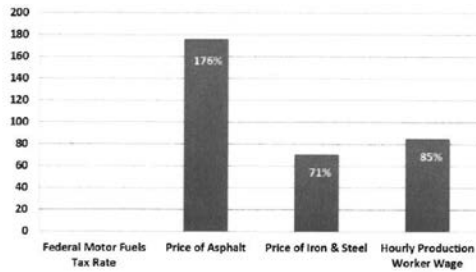
**House Ways & Means Committee
June 17, 2015**

Chairman Ryan and Representative Levin, we appreciate you scheduling today's hearing to discuss the status of the Highway Trust Fund. The federal highway and public transportation programs are already on their second temporary extension since the 2012 surface transportation law, the "Moving Ahead for Progress in the 21st Century Act" (MAP-21), expired more than eight months ago. President Obama and leaders of both parties and both chambers have all routinely pointed to a long-term surface transportation reauthorization bill as an area of common ground where meaningful progress could be achieved in 2015. That will not happen unless and until the Highway Trust Fund's revenue stream is stabilized and increased.

The root of the trust fund's revenue challenge is not an antiquated gas tax, alternative-fueled vehicles dominating the U.S. automobile fleet, or improved vehicle fuel economy, but a more direct and obvious flaw: the federal motor fuels tax rates and other highway user fee rates have not been adjusted for 20 years. As such, it should surprise no one that the Highway Trust Fund is on the verge of insolvency. The only surprising thing is that it did not happen sooner.

While the federal motor fuels tax rates have remained constant for more than 20 years, the rest of the world has moved forward. The U.S. population, highway-related freight shipments, and traffic congestion levels have all grown substantially since 1993. The figure below demonstrates why, at a time when our infrastructure needs are greater than ever, revenues from the motor fuels tax are buying less and less.

Cost Increase Since Federal Motor Fuels Tax Rate Was Last Adjusted in August 1993



Source: U.S. Bureau of Labor Statistics Producer Price Index

ARIBA American Road & Transportation Builders Association

Allowing the Highway Trust Fund's structural revenue deficit to persist has forced five separate revenue shortfalls since 2008 and a sixth crisis is looming later this summer. Instead of generating sufficient resources to support needed federal investment in the nation's surface transportation network, Congress has chosen to infuse the trust fund with more than \$60 billion from non-transportation portions of the budget—\$50 billion of which added to the deficit. The U.S. Department of Transportation (DOT) will be forced to begin rationing reimbursements to state departments of transportation in August unless the trust fund is stabilized. Further, the Congressional Budget Office (CBO) projects that without new resources the trust fund will be unable to support any new spending when FY 2016 begins—requiring a one-time cut in surface transportation investment of nearly \$49 billion.

This uncertainty about future federal investment has caused seven states in 2015 to delay roughly \$2 billion in planned highway improvements. Given federal funds support on average 52 percent of state highway and bridge capital projects, we understand why a number of states would be hesitant to move forward without a reliable federal partner and expect that number to increase as the July deadline gets closer.

Mr. Chairman, let me be clear. The Highway Trust Fund has a revenue problem, not a spending problem. Federal highway investment is \$800 million less today than it was four years ago. Furthermore, House Republicans rejected an effort in 2011 by then House Transportation Committee Chairman John Mica (R-Florida) to scale back highway and public transportation

investment to the levels existing trust fund revenues could support. The House approved last week a FY 2016 Transportation, Housing and Urban Development Appropriations bill that maintains current levels of trust fund-supported highway and public transportation investment levels. The evidence is clear an overwhelming majority of both parties support either maintaining or increasing federal surface transportation investment.

We should also be clear that the Highway Trust Fund has a political problem, not a substantive one. Congress created two independent commissions in the 2005 surface transportation law to provide recommendations on how to stabilize the Highway Trust Fund. Both groups reported roughly the same conclusion: increase the federal gas tax in the short term and transition to a vehicle miles traveled fee to pay for surface transportation improvements. Stakeholder groups ranging from the U.S. Chamber of Commerce to AAA to the American Trucking Associations to Transportation for America all support increasing the federal motor fuels tax. Despite unsupported claims about declining gas tax revenues and reduced driving, the CBO projects constant Highway Trust Fund revenues for the next eight years and U.S. DOT data show driving levels have increased for three consecutive years. Furthermore, a February U.S. DOT press release states unquestionably, "U.S. Driving at Highest Level Since 2007, New Data Show."

Mr. Chairman, Congress has been told time and time again increasing or creating new highway user fees is the most equitable, transparent, and effective approach to address the nation's growing surface transportation infrastructure challenges. Unfortunately, scorecards from professional conservative lobbyists and misconceptions about the political concerns of increasing user fees are clouding this situation. I want to share with the Committee two new research pieces from the ARTBA economics team that clearly illustrate the lack of political consequences and impact on the price of gasoline from recent state gas tax increases.

89 Percent of Gas Tax Supporters Re-elected

Voting for a gas tax increase to fund transportation investments has not hurt Republicans or Democrats at the ballot box. Ninety-five percent of all Republican state legislators who voted to increase their state gas tax to fund transportation improvements in 2013 and 2014 and ran for re-election last November won their races. That was a one percent higher winning percentage than that racked up by all state Republican legislators who voted against a gas tax increase during the prior two years.

On the Democratic side, 88 percent of state legislators who voted in favor of a state gas tax increase and ran last year were re-elected, as were 86 percent who voted “no.”

This analysis shows two things members of Congress need to know. First, a bipartisan majority can be found to increase transportation investment if the leadership of both parties actually lead—rather than play politics—and give their colleagues a chance to vote. Second, if legislators are honest with their constituents and clearly explain why a gas tax increase is necessary and important and what benefits their constituents will derive from it, they have little reason to fear the ballot box over a gas tax vote.

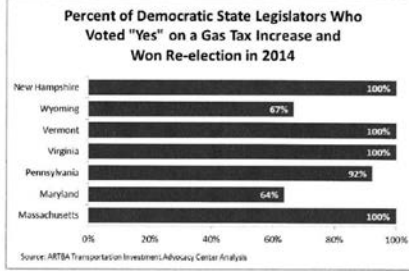
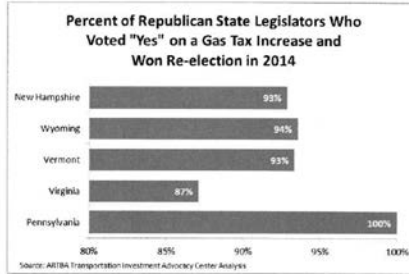
Seven state legislatures passed a gas tax increase or its equivalent during the last election cycle, according to the analysis by ARTBA’s Transportation Investment Advocacy Center: Massachusetts, Maryland, Pennsylvania, Virginia, Vermont, Wyoming and New Hampshire.

Three of the states passing increases had a Republican governor and GOP control of both the House and Senate—Pennsylvania, Virginia and Wyoming. Three had Democratic governors with party control of both legislative chambers—Maryland, Massachusetts and Vermont. New Hampshire had a Democrat as governor and a split party state legislature.

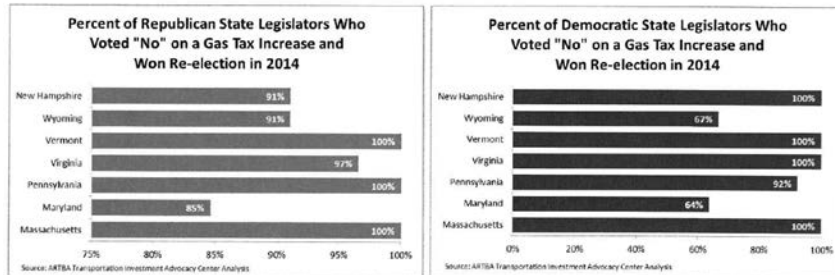
Republicans helped pass gas tax increases with 216 votes in six states, 34 percent of Republican state legislators in office at the time of the vote and 36 percent of Republican state legislators who cast a vote. No Republican legislators supported the increases in Maryland and only one legislator supported the increase in Massachusetts. All but eight who supported gas tax bills and ran for re-election won.

The analysis shows 384 Republicans voted against the gas tax measures in the seven states. Of the 305 who ran for re-election, 19 lost.

Democratic state legislators cast 673 votes in favor of a gas tax increase, 82 percent of Democrats in office at the time of the vote and 87 percent of Democratic state legislators who cast a vote. Of the 546 who ran for re-election, 68 lost. Democrats cast 101 votes against a gas tax increase. Of the 83 who ran for re-election, 12 lost.



A total 1,385 state legislators cast votes on gas tax measures, the analysis found. Of those voting, 191 were registered as signing the Americans for Tax Reform (ATR) state pledge “to oppose (and vote against/veto) any efforts to increase taxes”—180 Republicans and 11 Democrats. Thirteen percent of the signees ignored the ATR and supported increased revenue for transportation improvements, the analysis found. Only one legislator who defied the ATR and sought re-election was not returned to office



Only a Portion of State Increases Passed Through

Ask any American driver. They will tell you the price they pay for a gallon of gasoline can change significantly week to week. In fact, as the chart below illustrates, U.S. Energy Information Administration (EIA) data tracking the weekly national average retail price Americans paid for gasoline shows it has fluctuated an average five cents-per-gallon since January 2005.

The fluctuation has varied state-to-state. For example, our review of weekly price data compiled the EIA for nine states since January 2005 found:

- Ohio retail gasoline prices have fluctuated an average 10 cents-per-gallon weekly;
- In Minnesota the average weekly fluctuation has been seven cents-per-gallon;
- In California, Colorado, Florida, Texas and Washington, it matched the national average fluctuation of five cents-per-gallon; and
- The fluctuation in Massachusetts and New York was slightly lower than the national average at four-cents-per-gallon.



Politicians often cite concerns about raising prices at the pump as a reason to oppose a gas tax increase. But given the weekly volatility of retail gas prices, would a modest gas tax increase even be noticed by consumers when they purchase motor fuel? We analyzed the retail price impact of recent gas tax increases in five states—Massachusetts, Maryland, Pennsylvania, Vermont and Wyoming—to find out. But first, an understanding of the factors that determine pricing for a gallon of gasoline at the retail level is helpful and provides necessary context.

Short Run Impact of Gasoline-Related Taxes on Retail Prices

For our analysis, we obtained daily average retail gasoline price data for all U.S. states from December 1, 2012, through December 31, 2013, from the Oil Price Information Service (OPIS), which is recognized as one of the world’s most comprehensive sources for petroleum prices and news information. Its client list includes the top 200 oil companies, thousands of distributors, traders, government and commercial buyers of petroleum products.

We also obtained source information on 19 changes in state gasoline tax rates (both the excise and/or any related fees that are calculated as a cents-per-gallon change) that occurred in 13 states during 2013.

Our econometric model estimated the daily change in retail gasoline prices at the state level with a fixed effects model using state panel data. The independent variables include the daily difference in state gasoline-related excise tax rates and the lagged daily difference in the national price of Brent crude oil for a period of 30 days prior to each observation. State- and time-fixed effects were included individually and as an interactive variable. This was to account

for any seasonal and state-specific supply and demand factors that could impact the retail price of gasoline, such as the local competitive environment, refinery capacity and utilization, gasoline inventories, different fuel blends, seasonal demand and differences in state economic factors.

The gasoline-related tax rate adjustments in the 13 states included legislatively-approved changes and variable rates that occur automatically based on a price index. States with variable rates set their cents-per-gallon rate either annually, every six-month or each quarter.

Four of the changes tracked in the model were newly-enacted increases, including new tax rates in Massachusetts, Maryland, Vermont and Wyoming. Variable rates were increased in California, Florida, Georgia, Kentucky, Nebraska, New York, North Carolina and West Virginia.

There were four decreases in gasoline tax rates that occurred in states that review their rates more than once a year — Georgia, Nebraska, North Carolina and Vermont. There was also a decline in the Virginia rate.

The model included all of these changes.

Although not always understood by consumers, media, or politicians, the motor fuels tax, while folded into the overall price at the pump, is not collected by retail sales outlets. The federal and most state gasoline taxes are collected either when motor fuel is removed from the bulk storage terminal or at the distributor level.¹

Our econometric model showed that when you hold all other factors constant, on average, about 39 percent of an increase in state gas related taxes is passed through to the retail price of gasoline the day the tax goes into effect.

The model estimates that an additional 16 percent of the gas tax increase is passed through over the next 30 days.

The results did not show any price impact after 30 days, which is consistent with other studies that have found factors considered long term price changes are usually realized within 30 days.² Changes in the lagged daily price of crude oil for up to one month were also significant, as expected.

¹ U.S. Federal Highway Administration, Motor Fuel Tax Compliance Outreach.

² Stanislav Radchenko, *Lags in the response of gasoline prices to changes in crude oil prices: the role of short-term and long-term shocks*, January 2004

These results also confirm previous research that suggest state gas taxes are just one component of a complex pricing scheme that includes consideration of the price of crude oil and other state specific factors.

State Gas Tax Changes between December 2012 and December 2013									
State	Date of Change	Type of Change	Gas Tax Rate Before			Change Amount (cents)	Gas Tax Rate After Change		
			Excise Tax	Other Tax	Total Tax		Excise Tax	Other Tax	Total Tax
California	7/1/2013	Variable Rate	36.0	7.0	43.0	3.5	39.5	7.0	46.5
Florida	1/1/2013	Variable Rate	4.0	12.6	16.6	0.3	4.0	12.9	16.9
Georgia (1)	1/1/2013	Variable Rate	7.5	12.1	19.6	-0.1	7.5	12.0	19.5
Georgia (2)	7/1/2013	Variable Rate	7.5	12.0	19.5	0.6	7.5	12.6	20.1
Kentucky	7/1/2013	Variable Rate	28.5	1.4	29.9	2.4	30.9	1.4	32.3
Massachusetts	7/1/2013	Gas Tax Increase	21.0	0.0	21.0	3.0	24.0	0.0	24.0
Maryland	7/1/2013	Gas Tax Increase	23.5	0.0	23.5	3.5	23.9	3.1	27.0
Nebraska (1)	1/1/2013	Variable Rate	26.2	0.9	27.1	-1.6	24.6	0.9	25.5
Nebraska (2)	7/1/2013	Variable Rate	24.6	0.9	25.5	1.7	26.3	0.9	27.2
New York	1/1/2013	Variable Rate	8.0	17.8	25.8	0.8	8.0	18.6	26.6
North Carolina (1)	7/1/2013	Variable Rate	37.5	0.3	37.8	0.1	37.6	0.3	37.9
North Carolina (2)	10/1/2013	Variable Rate	37.6	0.3	37.9	-0.1	37.5	0.3	37.8
Vermont (1)	1/1/2013	Variable Rate	19.0	7.5	26.5	0.2	19.0	7.7	26.7
Vermont (2)	4/1/2013	Variable Rate	19.0	7.7	26.7	-0.1	19.0	7.6	26.6
Vermont (3)	5/1/2013	Gas Tax Increase	19.0	7.6	26.6	5.9	18.2	14.3	32.5
Vermont (4)	10/1/2013	Variable Rate	18.2	14.3	32.5	-0.3	18.2	14.0	32.2
Virginia	7/1/2013	Gas Tax Increase	17.5	0.0	17.5	-6.4	11.1	0.0	11.1
West Virginia	1/1/2013	Variable Rate	20.5	12.9	33.4	1.3	20.5	14.2	34.7
Wyoming	7/1/2013	Gas Tax Increase	13.0	1.0	14.0	10.0	23.0	1.0	24.0

Source: ARTBA Analysis of data from the Federation of Tax Administrators, state DOT websites and news sources

Real World Short Run Market Impacts of Changes in State Gasoline Taxes

To test the results found with our model, we looked at “real world” occurrences of changes in the daily price of retail gasoline at the state level.

Five states enacted gas tax increases or reforms in 2013 and January 2014 that translated into higher cents-per-gallon rates—Massachusetts (3 cents per gallon), Maryland (4 cents); Pennsylvania (9.8 cents), Vermont (6 cents) and Wyoming (10 cents).

By using daily retail price data obtained from OPIS, we were able to compare changes in the price of gasoline the day before the enacted increase with prices the day of the increase, the day after the increase and again after one week, one month and one year. The overall price change would take into effect both the increase in the state gas related tax, as well as all the other market dynamics affecting supply and demand.

The data show the following:

- The state gas tax rates increased an average 6.5 cents for the five states.

- **On average, the pump price for gasoline increased only one cent-per-gallon the day the increase went into effect**, an increase of 0.3 percent, compared to the baseline price from the day before.
 - **The day after the gas tax increase went into effect, the average pump price compared to the baseline was only 1.4 cents**, or up just 0.4 percent.
 - **One month after the tax increase had gone into effect**, the average pump price had risen by nine cents per gallon, or 2.5 percent, compared to the baseline price. **The change, however, was, in each case, in line with that which had occurred in the national average price of gasoline over the same time period**, which was up 4.2 percent.
 - **One year after the tax increase had gone into effect, the average pump price had dropped 13 cents-per-gallon below the baseline pump price, a decline of 3.7 percent**. Again, this was in line with the national average pump price, which had dropped 3.3 percent.

These finding corroborate the results found with our empirical fixed effects model. They also **strongly suggest that that any additional increase in retail pump prices caused by a gas tax increase will likely be "lost" in the weekly price fluctuation that has been documented over the past 10 years.**

Although our model estimated that 55 percent of any change in state gas tax-related rates would be passed on through the retail price of gasoline within 30 days of initiation, in the real world this change is countered by other market dynamics related to overall supply and demand.

State	Date gas tax increase went into effect	Per gallon gas tax increase enacted	BASELINE average pump price of gas in state (per gallon) (USD)	Average pump price of gas in state (per gallon) (USD)	Plus/Minus cents from BASELINE	% pump price increase/decrease in state from BASELINE	BASELINE national average pump price of gas (per gallon) (USD)	Average national pump price of gas (per gallon) (USD)	% change in national average prices from national Baseline
Massachusetts	7/31/2013	\$0.030	\$3.74	\$3.77	-\$0.005	-0.1%	\$3.65	\$3.67	0.7%
Maryland	7/1/2014	\$0.008	\$3.46	\$3.46	\$0.005	0.1%	\$3.32	\$3.32	0.0%
Pennsylvania	7/1/2013	\$0.009	\$3.51	\$3.52	\$0.016	0.5%	\$3.31	\$3.33	0.6%
Vermont	7/1/2013	\$0.100	\$3.55	\$3.65	\$0.007	0.2%	\$3.52	\$3.62	0.6%
Wyoming	7/1/2013	\$0.100	\$3.57	\$3.61	\$0.033	0.9%	\$3.52	\$3.52	0.0%
Average		\$0.065	\$3.57	\$3.58	\$0.011	0.3%	\$3.51	\$3.51	0.1%
State	Date gas tax increase went into effect	Per gallon gas tax increase enacted	BASELINE average pump price of gas in state (per gallon) (USD)	Average pump price of gas in state (per gallon) (USD)	Plus/Minus cents from BASELINE	% pump price increase/decrease in state from BASELINE	BASELINE national average pump price of gas (per gallon) (USD)	Average national pump price of gas (per gallon) (USD)	% change in national average prices from national Baseline
Massachusetts	7/31/2013	\$0.03	\$3.74	\$3.74	-\$0.002	-0.1%	\$3.65	\$3.66	0.4%
Maryland	7/1/2013	\$0.04	\$3.46	\$3.46	\$0.001	0.0%	\$3.52	\$3.51	-0.2%
Pennsylvania	7/1/2014	\$0.008	\$3.51	\$3.55	\$0.04	1.2%	\$3.33	\$3.31	0.0%
Vermont	7/1/2013	\$0.06	\$3.55	\$3.55	-\$0.002	-0.1%	\$3.52	\$3.51	-0.2%
Wyoming	7/1/2013	\$0.10	\$3.57	\$3.60	\$0.03	0.8%	\$3.52	\$3.51	-0.2%
Average		\$0.07	\$3.57	\$3.58	\$0.01	0.4%	\$3.51	\$3.51	0.0%
State	Date gas tax increase went into effect	Per gallon gas tax increase enacted	BASELINE average pump price of gas in state (per gallon) (USD)	Average pump price of gas in state (per gallon) (USD)	Plus/Minus cents from BASELINE	% pump price increase/decrease in state from BASELINE	BASELINE national average pump price of gas (per gallon) (USD)	Average national pump price of gas (per gallon) (USD)	% change in national average prices from national Baseline
Massachusetts	7/31/2013	\$0.03	\$3.74	\$3.70	-\$0.03	-0.8%	\$3.65	\$3.63	-0.6%
Maryland	7/1/2013	\$0.04	\$3.46	\$3.45	\$0.19	5.5%	\$3.52	\$3.49	-0.8%
Pennsylvania	7/1/2014	\$0.008	\$3.51	\$3.50	-\$0.004	-0.1%	\$3.33	\$3.29	-1.1%
Vermont	7/1/2013	\$0.06	\$3.55	\$3.75	\$0.19	5.5%	\$3.52	\$3.66	4.1%
Wyoming	7/1/2013	\$0.10	\$3.57	\$3.66	\$0.09	2.5%	\$3.52	\$3.66	4.1%
Average		\$0.07	\$3.57	\$3.65	\$0.09	2.5%	\$3.51	\$3.58	2.1%
State	Date gas tax increase went into effect	Per gallon gas tax increase enacted	BASELINE average pump price of gas in state (per gallon) (USD)	Average pump price of gas in state (per gallon) (USD)	Plus/Minus cents from BASELINE	% pump price increase/decrease in state from BASELINE	BASELINE national average pump price of gas (per gallon) (USD)	Average national pump price of gas (per gallon) (USD)	% change in national average prices from national Baseline
Massachusetts	7/31/2013	\$0.03	\$3.74	\$3.63	-\$0.11	-3.0%	\$3.65	\$3.54	-2.9%
Maryland	7/1/2013	\$0.04	\$3.46	\$3.69	\$0.23	6.7%	\$3.52	\$3.70	5.2%
Pennsylvania	7/1/2014	\$0.008	\$3.51	\$2.54	-\$0.96	-27.5%	\$3.33	\$2.30	-31.0%
Vermont	7/1/2013	\$0.06	\$3.55	\$3.74	\$0.18	5.1%	\$3.52	\$3.70	5.2%
Wyoming	7/1/2013	\$0.10	\$3.57	\$3.57	\$0.00	0.0%	\$3.52	\$3.70	5.2%
Average		\$0.07	\$3.57	\$3.43	-\$0.13	-3.7%	\$3.51	\$3.39	-3.3%

Estimating the Retail Price Impact of a 15 Cents per Gallon Increase in the Federal Gas Tax

The American Road & Transportation Builders Association (ARTBA) has proposed enactment of a 15 cents-per-gallon increase in the federal motor fuels tax to put the Highway Trust Fund back on solid financial footing and provide the first significant increase in federal surface transportation investment revenues since 1993. The ARTBA proposal would fund a six-year, \$401 billion federal highway and transit investment authorization and permanently eliminate the program's \$15 billion per year "funding gap."

To mitigate any perceived political backlash that might be caused by the proposed gas tax rate increase, ARTBA suggests the Congress provide American tax filers with an annual income of \$100 thousand or less with an annual tax rebate of \$90 for the six-year authorization period. The rebate would return to 94 percent of all tax filers the \$90 per year they would pay, on average, in additional federal gas tax.

The federal government gave much larger tax rebates to middle and lower income tax filers in 2001 and 2008.

Our econometric model suggests a 15 cents-per-gallon increase in the federal gas tax would result in the following retail market impacts:

- Holding all other factors constant, the retail price of gasoline would increase just under six cents per gallon the day of the rate increase.
- It would increase an additional 1.2 cents as a result of the tax increase after a two week period.
- An additional 0.4 cents and 0.8 cents would be paid by consumers at the pump in weeks three and four, respectively.
- In total, the model estimates that 55 percent of the gas tax increase—about 8.2 cents—would be passed on to consumers through the retail price of gasoline over a one month period following the rate increase. "Real world" observation of that actually happened in the five states that increased their highway user fee in 2013, however, suggests the increase at the pump could likely be less than estimated by our model.

ARTBA's empirical analysis and examination of daily price data strongly suggest that changes in gasoline-related taxes are a small part of the overall dynamics driving the retail price of gasoline. Our fixed effects model, which is the first to examine the impact of a change in state gasoline-related taxes on the daily retail price of gasoline, suggests that just over half of an

increase in gasoline-related taxes is actually passed through to the consumer at the retail pump.

Furthermore, the likely impact of a 15 cents-per-gallon increase in the federal gas tax would likely be in line with the weekly retail gasoline price fluctuations that Americans have experienced over the last 10 years.

In an interesting side note, EIA data show the U.S. average retail price for all grades of gasoline was \$1.06 per gallon the week before the federal gas tax was last adjusted by 4.3 cents (up to 18.4 cents) in August 1993. In each of the following three weeks, the average national price variation—up and down—was within a penny. A month after initiation of the adjustment, the average price per gallon had decreased a half-cent below the baseline.

It's Time for A Real Highway Trust Fund Solution

Mr. Chairman, it's a truism that has been said many times before: we do not have a Republican road network. We do not have a Democratic road network. We have an American road network, an American bridge network, and an American transit network.

And if one thing has been learned over the past decade, it's that neither political party has had the will to enact a long-term funding solution when they had the numbers and opportunity to do it. It is going to take bipartisan cooperation, a bipartisan solution and bipartisan political risk to get the job done.

And by long-term solution, we do not mean a four- to six-year patch from repatriated overseas profits of a few large companies or some other one off mechanism. That will just leave us facing another \$16 billion a year-plus funding cliff at the end of the next authorization. We need a sustainable funding solution to put this critical national program back on solid footing for the next decade.

While some are worried about the political consequences of voting for a real trust fund fix, the rest of America is worried about commute times growing, bridges being closed, shipping costs increasing, and jobs being lost.

It's time for both parties to work together for America to put this behind us.

Mr. BLUMENAUER. Thank you.

Governor, I would like to turn to you, if I could, maybe in a different hat. Because I recall when you were Governor of Kansas, you had to face this question about funding your own issues. Do you have some thoughts about what calculation you went through in Kansas, what difference it made, what you did?

Mr. GRAVES. Well, obviously, you know, we are a large, rural State. And roads and bridges—you know, mobility is very, very important, both to our economy and to individuals. What we did was essentially do a road show throughout the State. We assessed what the needs were, we came up with a list of the projects that we felt, you know, met the criteria for action, told people what the cost was going to be, created the program, and went out and just sold the fuel tax to the State legislature. And it was actually, I will confess, a little easier than I thought it would be.

But—and it had tremendous benefit. We did a \$13 billion program over the course of 10 years, and it was of great importance to our State. And Congresswoman Jenkins was part of that, so she remembers.

And I mean it is hard. There is no doubt about it. We don't think that, you know, for one instant that what we are asking of you isn't hard. But, again, as I said in my remarks, I still believe the fuel tax is the lesser of all the funding evils you will confront.

Mr. BLUMENAUER. And it didn't destroy your political career? You were—

Mr. GRAVES. Well, I was term-limited out, which is a wonderful thing.

[Laughter.]

Mr. BLUMENAUER. Yes. Some of us are starting to look at it favorably ourselves. Thank you very much.

Chairman RYAN. Yes, thank you.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Chairman RYAN. Ms. Jenkins from Kansas.

Ms. JENKINS. Thank you, Mr. Chairman. And thank you all for being here. A special thanks to my fellow native Kansan, Governor Graves.

It was a pleasure to work with you in the State's capital, and it has been equally pleasurable to work with you in the Nation's capital.

We have talked some already this morning about the public-private partnerships. But I have a more specific question. So, for Mr. Shirley, studies have shown that for every dollar that government spends on P3s it is likely to attract several dollars of private capital, provided there is sufficient market for the type of project being financed. In your testimony you state that the scoring of P3s depends on where control of a given project resides. Historically, CBO has not scored private capital raised by P3s as reducing spending obligations.

So, my question is, what could be done to change that? If detailed instructions were specified as conditions for accepting government financing of a P3, would the resulting project be scored as reducing spending obligations? So, if you would comment, please.

Mr. SHIRLEY. So, one comment, certainly at one level the rules that are established for scoring legislation could be changed by law-

makers. Another comment would be spending by private parties is not something that is scored. So whatever sort of private capital happens to be spent on highways or infrastructure is not something that the CBO would score.

Ms. JENKINS. So if we gave you specific instructions, then you would include that in scoring. We would get credit for that. Is that what you are telling me?

Mr. SHIRLEY. Ultimately, I would discuss and—with some of my colleagues, their understanding of the scorekeeping requirements. But, yes, my understanding is that the Congress has the ability to alter scorekeeping rules if it so desires.

Ms. JENKINS. Okay. Obviously, Kansas roads and bridges are important to the good people of Kansas. We have a strong commitment to that. But sometimes the scoring in this town gets in the way of making good decisions. And so we would be happy to work with you on that and, again, I appreciate your time.

I yield back.

Chairman RYAN. Thank you. Now we are in the two-to-one cycle, so we will go to Mr. Paulsen.

Mr. PAULSEN. Thank you, Mr. Chairman. And I know we have kind of exhausted, I think, the topic of the hearing, some of the focus on the long-term financing connection to the Highway Trust Fund, but—and there are other options that are outside of our jurisdiction, as was just mentioned a little while ago.

And one that I think is worth mentioning—Congressman Tim Murphy and Congressman Tim Walz, in a bipartisan effort, I have been a part of the effort in past years, as well—focuses on more Outer Continental Shelf exploration for energy resources, and then dedicating those royalties and those monies to transportation. In fact, I think the score was something like the largest investment in U.S. infrastructure funding in the history of the country. So I think that is absolutely something we do need to look at that hasn't had as much attention. I think those are probably conservative estimates. And that also looks at locks and dams and bridges and a whole source of our transportation infrastructure.

But I want to get into one other point and follow up on what Congressman Tiberi had mentioned earlier. And, you know, we have had a lot of conversation today that has been centered around the trust fund, obviously, and that is rightly so. But the important other piece of the equation is the regulatory aspect, right? Making sure we have reforms that are in place that are actually channeling the resources in the most efficient and appropriate manner possible, reducing red tape to ensure we are spending money wisely.

And a lot of folks recall the tragedy we had in Minneapolis back in 2007, when the I-35 bridge collapsed. And had they rebuilt that bridge using the normal regulatory process and timeline—that was a major artery into the Twin Cities, and it would take, like, 3 to 5 years to complete. Instead, we were able to cut through a lot of the red tape. We streamlined the regulatory process, all without sacrificing any safety, any quality issues. And the new bridge opened in September of 2008—so, essentially, 1 year from the starting point of when the collapse happened. Furthermore, the cost of the bridge was projected to be something like \$350 million,

but the final price tag came in at about \$234 million. So you saved more than \$100 million.

And, Mr. Poole, I will start with you, just because you kind of were having a conversation with Mr. Tiberi before. What lessons can we learn from that rebuilding effort in Minnesota that could be applied to similar projects across the country? And what does streamlining the regulatory process mean for individual project costs, as well as the greater balance of the Highway Trust Fund in general? Mr. Poole, go ahead.

Mr. POOLE. This is not an area that I have really studied and researched, but there are other examples. When the Northridge earthquake happened in Southern California, which I lived through as a resident, a bridge on I-10, the Santa Monica Freeway, collapsed. And it was rebuilt in something like 4 months with 24/7, round-the-clock activity and significant incentive payments for the contractor to get it done expeditiously, because it was such a crucial artery.

I don't know how the regulatory barriers were gotten around in that case, but that is another good example, along with your I-35 case, that, if the barriers are not there, we can do tremendous amounts of speedy construction of needed things. So it suggests that this Congress—maybe not this Committee, per se, but this Congress—really needs to do a much better job of environmental and other kinds of regulatory streamlining for the—in the interest of better highway projects.

Mr. PAULSEN. Mr. Graves, I mean, for your members—and I talked to the general contractors and others that just say, “Yes, that should be a model we should be using, actually, in terms of future projects.” Do you ever have those conversations with your members?

Mr. GRAVES. Well, from conversations with Chairman Shuster I know that, while everyone is proud of the reforms that were in MAP-21, the Chairman would love to take that to the next level, and all the more reason why getting a bill done is, I think, so critically important.

Mr. PAULSEN. Mr. Poole, let me ask one other question, because you mentioned earlier the trust fund and were identifying what the Federal priorities are, what the State priorities are, the core focus of what the program should be, the nice-to-haves, et cetera. Because the trust fund has been diluted, right? It has been diluted over time, and is now going into all these other different areas. Do you have any sort of sense of what percentage of the trust fund now is not going to highways, bridges, et cetera, as it was originally set up to do? And just to kind of paint a picture a little bit, every penny, every dollar.

Mr. POOLE. Well, there is a GAO analysis that is referenced in my written testimony that says about half of the trust fund is not actually being spent on highway and bridge projects. It is being spent on planning and CMAC and all kinds of other things that, you know, you really need to be—somebody should really be taking a look at to see is that really the purpose of the program, to do huge numbers of things, even paying for the safety regulatory agency out of the user fee revenues, rather than out of the general fund revenues?

So half is the—you know, half of the \$50 billion is not being spent directly on highway and bridge projects. And when you look at the major projects, it is really only about 6 percent of the total \$50 billion that is actually going to build or rebuild major highway and bridge projects around the country. I mean, I think that is complete distortion of what the program was set up to be, and it is way overdue to be rethought, from first principles.

Mr. PAULSEN. Thank you, Mr. Chairman.

Chairman RYAN. Mr. Pascrell.

Mr. PASCRELL. Mr. Chairman, we have had a very civil and reasonable discussion up until now. One could almost be lulled into some sense of fantasy. I think, Mr. Chairman, with all due respect, that I don't sense—maybe you do—a sense of urgency about funding transportation, because—I am glad Governor Graves is here today. We are missing Governors that stand up nowadays. Because I am going to ask him a question afterward about devolution because there is a movement, as you know, afoot to move all of these responsibilities—graduated, of course—to the States.

Now, when we look at the States and their trust funds, it is also very interesting. In fact, there are three States—Montana, Tennessee, and Arkansas—who just delayed projects this summer due to Federal uncertainty. Well, if they come and listen to this discussion today, they would say, “No kidding. No kidding.”

So, I see a lot of familiar faces here today, great faces, good people among the guests. I see advocates for—from the construction industry, from engineering, Chambers of Commerce, transportation advocates, and our highway users like Governor Graves. There are the truckers, our transit users, engineers, and our highly-skilled construction labor force. Of course, we are talking about jobs here. And this is not make-work. This has to be done.

They bring their members into our offices time and time again. They track us down the hallways. They tell us how our roads are crumbling, our bridges—you know, we travel these roads, we go over these bridges ourselves. Instead of heeding the call, we are lurching from crisis to crisis. It is almost as if the folks that are holding up our infrastructure investments must have watched too many episodes—and we mentioned this before—of *The Jetsons*. We wouldn't need roads, because we would be traveling in flying cars.

However, due to neglect, our roads and bridges are something that Fred Flintstone would be more familiar with. It is our job to find solutions. So, ensuring the solvency and the sustainability of our Highway Trust Fund is a key component. And we have done this in the past.

Up until 2010, we were always able, as a Congress—and even our Presidents, it didn't matter which side of the aisle that we were on, it didn't matter whether they were awake or asleep, we were always able to come to a conclusion and resolution of this. So, I wouldn't look at that very lightly. We have passed a dozen extensions since SAFETEA expired. We have made eight infusions of general fund dollars. That's dangerous. That's very dangerous, as you have pointed out.

My colleague, Jim Renacci, and I have presented a bipartisan plan to fund the Federal Highway Trust Fund in a sustainable way, from the Chambers of Commerce to the unions, collective bar-

gaining, they have all agreed that this is the way to go. There are two things: A short-term solution indexing the gas tax for inflation, which would probably mean about half-a-cent per gallon. Let's talk—why are we afraid to touch the live wire here? Why are we afraid to do this, when it must be done, or come up with another solution?

So, for the long term, Mr. Renacci and I have suggested we put a bicameral, bipartisan commission together to work for 16 months on a plan or plans that would come before the Congress, and we would have a long-term plan.

Now that, indexing the gas tax, gets us about \$27.5 billion over 10 years. And we would have at least the beginning—at least we have done something tangible instead of talking the damn thing to death. Once that funding runs out, Congress has a choice. We could either adopt the commission's plans to fund the highway bill, or come up with our own plan.

Now, I have to ask you one question. I only have a few seconds left. Let it hang in the air. What do you think about devolution, Mr. Graves?

Mr. GRAVES. I think devolution is a huge mistake, and I don't think the States are ready for it. They couldn't accept it anyway.

Chairman RYAN. Thank you.

Mr. PASCARELL. You know there is legislation—

Chairman RYAN. The time for the gentleman has expired.

Mr. Marchant.

Mr. PASCARELL. Thank you, Mr. Chairman.

Chairman RYAN. Thank you.

Mr. MARCHANT. Thank you, Mr. Chairman. In Texas we use private activity bonds on—mainly on our very largest projects. So, in talking to our highway commissioners, their question is what is the future of private activity bonds, what is the prospect of raising the amount, and is it going to be a long-term part of our solution, or is this just something that was used to stimulate some temporary growth? I will let—

Mr. POOLE. There is certainly a lot of support among the P3 community, the road-building community for example, for a big increase in the current \$15 billion cap on private activity bonds and, essentially, making it a permanent part of the overall program, because it has proven to be very effective in helping put the financing packages together for these P3—large-scale P3 projects.

Mr. MARCHANT. Governor Graves.

Mr. GRAVES. I agree, yes, absolutely. And they were a big part of our efforts in our State during the program that we put together. I think they are one of those critical elements. And I want to use this opportunity to say, whether it is tolling, whether it is P3s, the private activity bonds, there are—there is a place in what we need in the way of infrastructure for all these items. It is just that the underlying basis, in my opinion, still has to rely on the fuel tax.

Mr. MARCHANT. Does Kansas use—or is anyone on the panel aware of the use of revenue anticipation bonds? Are revenue anticipation bonds a key part of—was it a key part of your road program in Kansas, Governor?

Mr. GRAVES. I believe it was, yes. We had some certainty at the time of what the Federal funding stream was going to be, and I be-

lieve that was what underscored our effort to raise the State fuel tax in order to have the money to meet those—the—match up with the Federal money. And the anticipation bonding is a big part of our program.

Mr. MARCHANT. So you would contractually set aside your Federal funds that were coming in?

Mr. GRAVES. Yes.

Mr. MARCHANT. They couldn't be touched to plan for. So States generally don't have a problem with that concept, do they?

Mr. GRAVES. Not that I am aware of.

Mr. MARCHANT. So if you were trying to stimulate long-term capital growth, not repairing potholes, not repairing, but going in and putting in relatively new, long-term systems, if you raised the gas tax and then required that the raised amount of that gas tax—say a penny or two pennies—had to be dedicated to only revenue anticipation bonds, where you would get an immediate flush of new bonding and new activity, that would make, I think, a significant district across—difference across the country.

Have you ever given any thought to what—how your State would have responded to that?

Mr. GRAVES. Well, I think that, in terms of the attractiveness of the bond program, that is clearly something that the—you know, would make people more inclined to want to make that investment. And I think, again, if you are—you know, we try to pay for things as we go, if you will, or at least make commitments that we will pay for them as we go. So it makes perfect sense.

Mr. MARCHANT. Thank you.

Thank you, Mr. Chairman.

Chairman RYAN. Thank you.

Mr. Pascrell, is there a motion you want to make?

Mr. PASCRELL. Yes, Mr. Chairman. I motion—seek unanimous consent to introduce a report by the American Road and Transportation Builders Association on the looming Highway Trust Fund crisis.

[No response.]

Chairman RYAN. Without objection.

[The submission of The Honorable Bill Pascrell follows:]

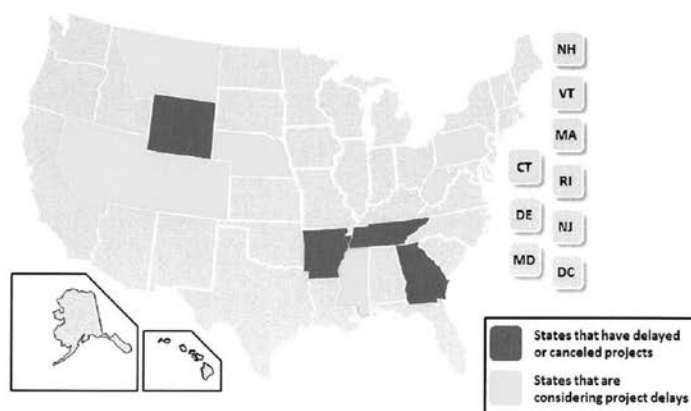


Looming Highway Trust Fund Crisis: Impact on State Transportation Programs

Federal funds, on average, support 52 percent of annual state department of transportation (DOT) capital outlays for highway and bridge projects.¹ Uncertainty surrounding the short and long-term fiscal condition of the Highway Trust Fund continues to have a significant effect on state transportation planning.

MAP-21, the latest surface transportation authorization bill, was set to expire at the end of September 2014. Before a last-ditch effort by members of Congress led to an eight-month extension, DOT officials in 35 states had publicly stated their state programs would be impacted by a shutdown of federal surface transportation funds. In fact, nine states retracted or delayed projects in 2014 totaling over \$366 million due to uncertainty about future federal investment.

The highway and transit programs are now authorized through May, and the U.S. Department of Transportation says it will need to begin slowing down reimbursements to state DOTs in July if additional trust fund revenue is not generated. As a result, 14 states (indicated on the map below) have expressed concerns about the feasibility of future transportation projects. According to state DOT officials, over \$1.8 billion in projects is at risk if federal funding is disrupted. Already, four states have delayed or canceled projects valued at \$805.4 million.



¹ ARTBA analysis of Federal Highway Administration Highway Statistics data

In addition to DOTs, transit agencies are impacted by this uncertainty as well – the Southeastern Pennsylvania Transportation Authority (SEPTA) delayed the start of a procurement process for a four-year contract until they “see how things transpire in Washington,” according to SEPTA Chief Financial Officer and Treasurer Richard Burnfield.²

Below are a series of news article excerpts of state officials describing how this threat would impact state DOT transportation improvement efforts.

PROJECT DELAYS INFLUENCED BY FEDERAL UNCERTAINTY

1. Arkansas:

“The Arkansas State Highway and Transportation Department (AHTD) has withdrawn 56 construction projects scheduled for consideration in its April 21, 2015 bid opening due to continuing uncertainty of Federal-aid reimbursements available from the Federal Highway Trust Fund. The estimated value of projects withdrawn from the April bid opening is more than \$112 million and includes \$50 million authorized by the Arkansas Highway Commission for its 2015 highway overlay program. This brings the total number of projects withdrawn from the 2015 bid openings to 61. The estimated construction value of these withdrawn projects is \$162 million.... ‘Now that we have cancelled our overlay program for this year, there are few areas in the State that are not affected by projects withdrawn from the April bid letting,’ said AHTD Director Scott Bennett. ‘If you stop and think about the economic impact this has – not only on construction jobs, but the lost commerce that results in each local area because construction isn’t taking place – then you begin to understand the trickle-down effect and the urgency of solving this national problem.’”³

“Bennett says about \$1.1 billion worth of highway improvements over the next two years are in jeopardy because of the condition of the federal fund, and the state has already cut \$60 million worth of highway projects this year.”⁴

² Progressive Railroading 3/16/15 (http://www.progressiverailroading.com/passenger_rail/article/Transit-agencies-plan-their-moves-as-Congress-dances-around-funding-questions--43738)

³ Arkansas matters.com 3/24/15 (<http://www.arkansasmatters.com/story/d/story/arkansas-highway-projects-cancelled-over-uncertain/34398/XKifsJjZzk6qu4vnYfeB0w>)

⁴ thecabin.net 2/21/15 (<http://thecabin.net/news/local/2015-02-21/arkansas-officials-warn-cancelled-highway-projects#.VOuB7nf98E>)

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2. Georgia:

Between July 2014 and February 2015, the Georgia Department of Transportation has placed 112 ready to let projects valued at \$214.9 million on hold due to lack of federal funding.⁵

3. Tennessee:

"Tennessee's highway director has delayed \$400 million in road projects until fiscal 2016 because of uncertainty over future federal funding. John Schroer, commissioner of the Tennessee Department of Transportation, notified state lawmakers in a Friday letter that the 12 construction projects and 21 right-of-way acquisitions were supposed to be finished in fiscal 2015, which ends on Sept. 30 next year....The 33 stalled projects are in addition to 13 projects moved from fiscal 2014 to fiscal 2015. Those could be delayed further if federal funding expires at the end of May, said Heather Jensen, a TDOT spokeswoman."⁶

4. Wyoming:

Wyoming DOT Director John Cox: "With the uncertainty of when—or even if—Congress will authorize the rest of the 2015 program, Wyoming and other cold-weather States may miss this construction year for a full third of our programs. We have already delayed 18 projects worth some \$28.5 million. It will also force us to advertise projects late in the construction season, resulting in less competitive bidding, less value for the public's investment, and the potential for delaying important and needed projects that will improve communities and their economies."⁷

⁵ GDOT 1/15/2015 (<https://www.dot.ga.gov/aboutGeorgia/dot/Board/Presentations/February2015Letting.pdf>)

⁶ The Tennessean 10/30/14 (<http://www.tennessean.com/story/news/politics/2014/10/29/tdot-delays-million-worth-road-projects/18140949/>)

⁷ Prepared Testimony of John Cox before the Committee on Transportation and Infrastructure of the United States House of Representatives 3/17/15 (<http://transportation.house.gov/uploadedfiles/2015-03-17-cox.pdf>)

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STATES CONCERNED ABOUT UNCERTAINTY

5. Colorado:

"At Colorado DOT, [executive director Shailen] Bhatt says, 'We're evaluating the program right now.' He says the state may let the situation in Washington play out a bit before making decisions, but adds that there are definitely projects that we will not advertise and we will not let contracts if the funding is not there."⁸

6. Connecticut:

"Kevin Nursick, spokesman for the Connecticut Department of Transportation, said 'uncertain federal funding' is something the DOT and the state has to deal with continually. 'We have had basically stagnant federal funding levels while infrastructure needs have been increasing,' he said. 'On top of that ... is the uncertainty of federal funding in the future. 'This has left states in a very tough position in trying to plan infrastructure needs,' Nursick said."⁹

7. Mississippi:

"If U.S. Congress does not take action with regard to the Highway Trust Fund, the Mississippi Department of Transportation's (MDOT) main focus will continue to shift toward system preservation, and the backlog of highway and bridge projects will continue to grow.... 'If Congress doesn't address long-term infrastructure needs, our transportation network is going to continue to deteriorate,' said MDOT Executive Director Melinda McGrath. 'This delay is not only halting progress, but it will eventually create safety hazards for the traveling public.'"¹⁰

⁸ Engineering News-Record 2/27/15 (http://enr.construction.com/policy/washington_observer/2015/0227-state-dots-plan-ways-to-cope-with-uncertain-federal-funds.asp)

⁹ New Haven Register 2/25/15 (<http://www.nhregister.com/general-news/20150225/uncertain-funding-a-problem-for-aging-roads-in-connecticut-nation>)

¹⁰ MDOT 3/19/15
(<http://sp.mdod.ms.gov/Public%20Affairs/Lists/News%20Releases/Item/displayifs.aspx?List=ae1b236c-924d-498c-b14e-aaefec6dc2864&ID=1447&Source=http%3A%2F%2Fspgmdot%2FPublic%2520Affairs%2FPages%2FNews-Releases%2Easpx&ContentTypeId=0x010087606675CA7A95408B80E8BFBB944273&isDlg=2>)

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8. Montana:

"Michael T. Tooley, Montana DOT's director, said his state is 'having to come up with contingency plans right now, because the way the federal measure was set up, May 31st is just the start of our construction season and because...we have such a short one we like to try and get 85% of our work out the door in those first couple of months.'... Montana DOT hasn't postponed bid lettings yet. But Tooley says, 'We are looking at the late March lettings for the first potential projects to slip to later months.' He adds, 'We are not going to meet our goal of letting 85% of our work early....May 31st was not a good time to have this issue come up.'"¹¹

9. Nebraska:

"The state plans to delay federally funded highway projects beginning in July 2015 unless Congress passes an extension of highway funding before May 31. Randy Peters, director of the Nebraska Department of Roads, said it's too risky for the state to begin work when federal funding is uncertain."¹²

10. Nevada:

"Nevada DOT Director Rudy Malfabon says his agency hasn't yet postponed bid lettings, but it has advised the State Transportation Board about the 'slate of projects that would be slowed down if we don't see any relief on funding.' They include highway preservation projects on Interstate 80. Malfabon also says, 'The lack of long-term funding just means that we have to be very hesitant to pull the trigger on larger projects.' For example, near Las Vegas, the state DOT would like to widen the freeway and frontage road and construct bridges over rail tracks. He says, 'But if we don't have the federal funds to do something...of that magnitude, what's the use of pulling the trigger on something that large if you can't pay for it?'"¹³

¹¹ Engineering News-Record 2/27/15 (http://enr.construction.com/policy/washington_observer/2015/0227-state-dots-plan-ways-to-cope-with-uncertain-federal-funds.asp)

¹² Norfolk Daily News 2/23/15 (http://norfolkdailynews.com/news/nebraska-eyes-road-funding-options-as-federal-aid-declines/article_1d451bd0-bb6f-11e4-b991-033e56029ce1.html)

¹³ Engineering News-Record 2/27/15 (http://enr.construction.com/policy/washington_observer/2015/0227-state-dots-plan-ways-to-cope-with-uncertain-federal-funds.asp)

11. Pennsylvania:

"Act 89 put us in fairly good shape compared to other states, but federal funding is a key component," PennDOT spokesman Rich Kirkpatrick said. "We get \$1.5 to \$1.6 billion a year. If somehow federal funding stopped, all the progress under Act 89 would be delayed." ...[According to former PennDOT Secretary Barry Schoch, a special adviser to Gov. Tom Wolf,] "Every time the federal government defers action, it's increasing the cost."¹⁴

12. Utah:

Utah DOT Executive Director Carlos M. Braceras: "With the uncertainty of when—or even if—Congress will authorize the rest of the 2015 program, Utah, and other cold-weather States may miss this construction year for a full third of our programs. It will also force us to advertise projects late in the construction season, resulting in less competitive bidding, less value for the public's investment, and the potential for delaying important and needed projects that will improve communities and their economies."¹⁵

13. Vermont:

"In the short term, if Congress doesn't pass a spending bill, we will borrow money on a cash flow basis from the state treasury," says [Secretary for Vermont's Agency of Transportation Sue] Minter. Minter says come May, there will be a budget gap in the highway trust fund of \$15 billion. Not passing a new spending bill would mean the loss of \$200 billion to \$300 billion for Vermont. "We will have to put a halt on all these important projects and there are hundreds of miles of paving to be done this summer and hundreds of bridges needing repair," says Minter."¹⁶

¹⁴ TRIBLIVE News 2/21/15 (<http://triblive.com/news/alleggheny/7789062-74/federal-funding-pennsylvania#axzz3SaVKQ0WQ>)

¹⁵ Prepared Testimony of Carlos M. Braceras before the Committee on Environment and Public Works of the United States Senate 2/25/15 (http://www.epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=3ebb37c8-2a0f-4bc7-aea2-5945b7a856bd)

¹⁶ myChamplainValley.com 3/12/15 (<http://www.mychamplainvalley.com/story/d/story/federal-funding-set-to-run-out-for-highway-trust-f/77497/PXagYZEKcUg80UXRNu6aOg>)

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14. West Virginia:

"In West Virginia, funding uncertainty caused state DOT officials to reduce and rework highway funding levels in 2014, and that has continued this year. Gregory L. Bailey, state highway engineer, says that before 2014, West Virginia's annual highway program had totaled about \$500 million, but 'because of the funding levels and the uncertainty, we've reduced that down to a little over \$400 million a year.' The mix of funds also changed. Highway expansion projects, which had been about \$250 million a year before 2014, were trimmed to about \$120 million. But what Bailey terms the state's 'regular' program—which includes paving, small bridge-replacement jobs and resurfacing—rose to \$280 million a year from \$250 million. So far this year, Bailey says WVDOT hasn't postponed any projects, 'but we're about a month away from making decisions on what we do on that front, if we don't see any movement on the extension, or something.'"¹⁷

¹⁷ Engineering News-Record 2/27/15 (http://enr.construction.com/policy/washington_observer/2015/0227-state-dots-plan-ways-to-cope-with-uncertain-federal-funds.asp)

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Mr. PASCRELL. Thank you very much.

Chairman RYAN. Mr. Reed.

Mr. REED. Thank you, Mr. Chairman. Thank you to our witnesses today on this important topic. I am very much interested in this, as a former Mayor of a small city up in Western New York. I can tell you we look at this issue very closely.

And not to echo everything that has already been said, I want to kind of move away from that and maybe get into a more creative way of looking at this, because one of the things, coming to Washington, that I have tried to commit myself to is not maintaining the status quo, but disrupting this place, and seeing if there are new ways to skin the cat, so to speak. I understand, and I have concluded, that this is going to be a multitude of solutions type of process that we are going to have to put together here. One solution is not going to be the panacea for the issue before us.

So, Mr. Poole, you spent a tremendous amount of time—from the testimony I see you have been at this issue for quite some time. I have been looking at some international models as alternative sources. For example, I have been looking at the Hong Kong model, in particular, for mass transit. And I believe they have utilized their under-utilized development rights above their mass transit facilities to fund their mass transit structures.

That is intriguing to me, because that seems to be a creative way to try to look at this in a way that—look at our Federal assets, potentially, that are under-utilized, and maximize them with new revenue lines that could come in. Do you agree that the Hong Kong model could be an issue, could be a way to address the mass transit issue, in particular?

Mr. POOLE. Well, the Hong Kong mass transit railway is just about the only urban rail system that is financially self-supporting. It is a government corporation that runs as a business. And a key to that is exactly what you mentioned, it is the real estate ownership that system has. And it is a good model, if you are starting from scratch.

The problem is, in places like Washington, D.C., New York City or Chicago, the mass transit system doesn't own the real estate surrounding its stations. So you have to try to come up with imposing, after the fact, some kind of value-captured tax on the real estate that is privately owned adjacent to those facilities. And that is a lot harder to do than if you are starting with a clean sheet of paper and building a system from scratch with the transit agency owning a lot of that real estate.

Mr. REED. So, again, being that this is going to be a piecemeal type of solution that we patch together, potentially long term, would not the expansion of mass transit be a possibility, the expansion of the system—

Mr. POOLE. Yes, yes. I mean—and the Washington Metro did a little bit of that with—I think it is the New York Avenue Station, the Gallaudet University. They have some degree of value capture in that new station that was added to the system. So that is a place where the idea could be used.

Mr. REED. Okay.

Mr. POOLE. Yes.

Mr. REED. So, going further, do you have any other examples of creative new lines of financing that we should take a hard look at? And, if not, do you know of anybody who is really taking a leadership role, nationally or internationally, looking at America's infrastructure needs on this issue that you could direct me to?

Mr. POOLE. Well, I would suggest reading some work that Professor David Levinson at the University of Minnesota has done on rethinking how we organize and pay for an urban transit system. David is a very respected academic who—

Mr. REED. Do you know of any ideas that he could offer that you could give me?

Mr. POOLE. Well, one of his ideas was increased reliance on value capture. Another was on—that transit systems should be charging something closer to market-level fares, except for low-income people who would get—

Mr. REED. How about things like—even thinking outside the box and kind of spitballing here a little bit—things like looking at our international—our national right-of-ways in regards to advertising space, advertising royalty payments, those types of things. Do you see any legitimacy there to explore further?

Mr. POOLE. It is worth looking at any and all of those ideas—

Mr. REED. How about looking at the technologies of tomorrow as we get into driverless cars, and things like that? Obviously, there is going to be some spectrum space that is going to have to be necessary in order to operate those vehicles. Do you see any value in that under-utilized or untapped resource today?

Mr. POOLE. Well, the Federal Government owns a huge amount of spectrum that is not very efficiently used. The DoD, the DoT for the FAA radars that are big spectrum hogs. Newer technology could free up a lot of that spectrum, and could be, then, used to more productive uses in other infrastructure and other parts of the—

Mr. REED. Again, those are long-term potential ideas that need to be—get ready for prime time, as Chairman Ryan indicates, or—a lot of these proposals are.

The other one that is interesting to me is looking at the different alternative. And I have the AASHTO report here. It is a report of the oil, gas, and minerals receipts for the Federal Government. There is a score here, I think, of \$14.2 billion from 2015 to 2020. Are any of you familiar with that revenue line, as a potential source? And I want to know if that resource, Mr. Chairman—to the witnesses, if that score—

Chairman RYAN. Thank you.

Mr. REED [continuing]. Is based on present analysis of our oil and gas reserves that are located in America, or old reserves?

Chairman RYAN. Thank you.

Mr. REED. Thank you. I yield back.

Chairman RYAN. If anybody has a quick answer. CBO.

Mr. SHIRLEY. I am sorry, that one in particular is not one I am particularly familiar with. But I will certainly have somebody get back to you.

Chairman RYAN. All right, thank you.

Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman. I thank all of our witnesses for your time here today. This is a really important hearing, pursuant to what is a broader competitiveness agenda. I really feel like the United States—it has been discussed here—is falling behind with respect to infrastructure financing, development, and so forth.

I think part of the answer is, indeed, P3s, public-private partnerships. For the uninitiated, that is essentially allowing, say, local governments to contract longer term with private entities for the financing, for the design, building, operating, ultimately maintaining of pieces of infrastructure. Indiana, my home State, has been a leader in this area, along with Texas and some other States. But the United States more generally, we lag the world.

And, Mr. Poole, you spoke to this. Let me put some numbers to the extent to which we lag the world. Between 1985 and 2011, there were nearly 2000 projects funded worldwide. But the United States accounted for only 377. Now, there are a variety of reasons for this, including certain States not having authorizing legislation for P3s, but that is changing, increasingly. And there are now 33 States that have legislation for such projects; 39 have some form of P3 legislation.

But one thing I hear again and again from industry and local government—and this relates to the Federal Government—is that P3s are difficult to get approved locally, because of competition with tax-exempt municipal bonds. That is why I agree with testimony today, again, offered by you, Mr. Poole. We need to raise the cap on private activity bonds for highways, and we are working on legislation to make that happen, along with some of our colleagues. We need to allow a very limited amount of P3s, I think, in the public building space to utilize tax-exempt financing.

And I also think we should remove restrictions to allow more of what is known as infrastructure recycling. And without getting into the details of that, I would just offer into the record an article from the *Wall Street Journal* that explains this concept. I ask for unanimous consent.

[No response.]

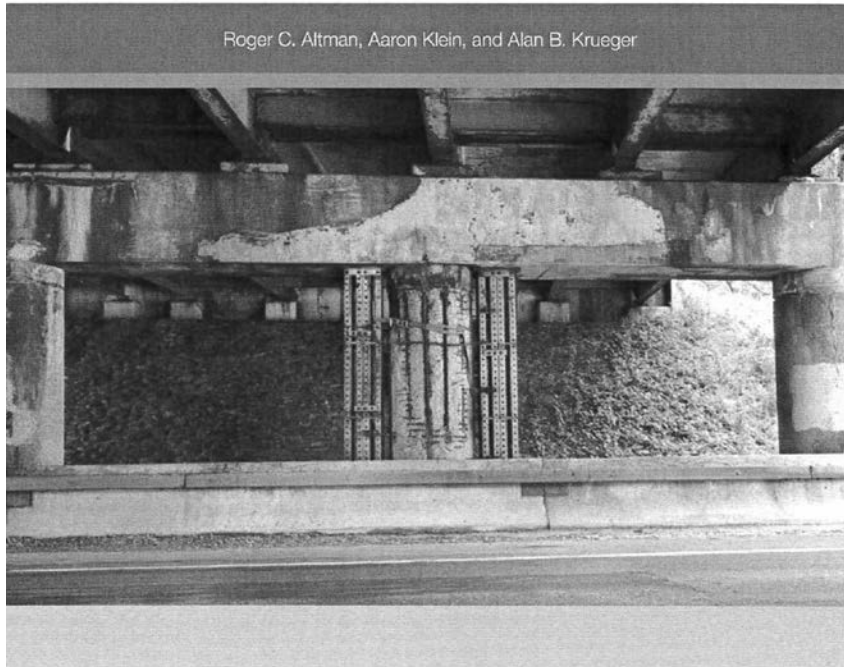
Chairman RYAN. Without objection.

[The submission of The Honorable Todd Young follows:]



Financing U.S. Transportation Infrastructure in the 21st Century

Roger C. Altman, Aaron Klein, and Alan B. Krueger



MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth.

We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.





Financing U.S. Transportation Infrastructure in the 21st Century

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MAY 2015

NOTE: This discussion paper is a proposal from the author(s). As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The author(s) are invited to express their own ideas in discussion papers, whether or not the Project's staff or advisory council agrees with the specific proposals. This discussion paper is offered in that spirit.

BROOKINGS

Abstract

The nation's transportation infrastructure, it is widely agreed, is eroding and in need of investment. Most policymakers recognize the merits of investing in the system, such as gains in productivity, global competitiveness, and job creation. Low public borrowing rates have also created an attractive climate for increased public investment. However, government leaders have failed to agree on which investments to make and how to pay for them. In order to break this logjam, this paper proposes two tracks of solutions, some of which can be implemented quickly, and others can be executed over the longer term. In the short term, we propose improvement and expansion of the Transportation Infrastructure Finance and Innovation Act lending program, reauthorization of Build America Bonds, better utilization of the Army Corps of Engineers and the Harbor Maintenance Trust Fund, and reform of the federal gas tax. Over the longer term, we recommend investing in research to improve user fee technology and using federal incentives to encourage states to adopt standardized and innovative user fee technology, fostering cooperation in pooled procurement among states and municipalities, and developing and implementing a broad national strategy to guide infrastructure investment in the United States.

Acknowledgments

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Chapter 1. Introduction

Most Americans feel the burden of a weakening transportation infrastructure. The evidence is right in front of us: in poor road and bridge conditions, aging airports and seaports, weak passenger rail service, and inadequate public transportation. Most economists and government leaders agree on the merits of upgrading these systems to improve productivity, global competitiveness, and job creation. Most also agree that our nation would benefit from federal action on infrastructure. There are disagreements, however, on which investments to make and how to pay for them, and these disagreements have led to counterproductive inaction.

It is crucial to resolve this stalemate and launch a federal initiative to increase investment before the decay of U.S. infrastructure further affects national well-being. For example, the declining condition of the American road system alone already imposes a large toll on the economy in traffic delays and vehicle repairs.

Moreover, economic reasons suggest that now is an opportune time for infrastructure investment. First, public borrowing rates are near historical lows, with the federal government able to borrow funds at an interest rate of 2 percent, and state and local governments enjoying similarly low rates.¹ For any given rate of return on infrastructure investment, a lower cost of funds today results in greater net benefits for society from the investment in the longer run.

Second, although the labor market has rebounded significantly from the economic recession, the job sectors most involved in building infrastructure remain relatively weak. According to the U.S. Department of the Treasury (DoT), 61 percent of the jobs created by investment in infrastructure are in construction, with another 12 percent in manufacturing (DoT with the Council of Economic Advisers 2010). The unemployment rate for construction workers was 8.9 percent in 2014, significantly higher than the 2014 national average of 6.2 percent (Bureau of Labor Statistics n.d.).

Finally, improving infrastructure today provides an opportunity to incorporate new information on the value of increasing resilience. Superstorm Sandy, Hurricane Katrina, and other natural disasters have demonstrated the significant costs of inadequate and decaying roads, bridges, and tunnels, as well as the potential economic returns from investments that make these byways more resilient. By investing now, with the knowledge gained from recent experiences, we can more efficiently and effectively maximize the return on infrastructure investment.

Given the importance and urgency of these investments, we propose a two-track solution: a first track that offers approaches that could be implemented quickly and over the short term, drawing on existing programs and agencies; and a second track of more-strategic approaches that could be rolled out and implemented over the longer term.

In the short-term track, we propose (1) improving and expanding the Transportation Infrastructure Finance and Innovation Act (TIFIA) lending program, (2) bringing back Build America Bonds (BABs), (3) using the Army Corps of Engineers (Army Corps) and Harbor Maintenance Trust Fund (HMTF) in a more efficient way, and (4) indexing the federal gas tax so it varies with retail gasoline prices.

On the long-term track, we recommend (1) federal incentives and guidelines for the development and adoption of new technologies to collect user fees, (2) cooperation among states and municipalities to foster pooled procurement, and (3) development and implementation of a national strategy that calls for federal actors to commit themselves to a long-term plan for infrastructure investment in the United States.

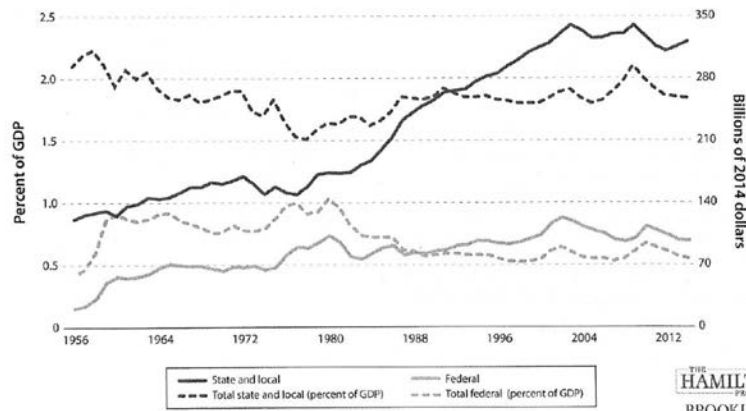
Chapter 2. High-Level Challenges to Federal Infrastructure Investment

The backbone of America's economy is our transportation infrastructure system. Key parts of this system have been decaying for a variety of reasons, as documented by earlier Hamilton Project reports (Basso and Duvall 2013; Engel, Fischer, and Galetovic 2011; Kahn and Levinson 2011), and chief among them is a lack of investment. The cost of this decay is often invisible at first, with small problems and delays causing minor costs and inconvenience. Over time, these costs magnify. Extreme results, such as the collapse of the Interstate 35 Bridge in Minneapolis in 2007 or the collapse of the Skagit River Bridge on Interstate 5 in Washington State in 2013 are still quite rare. Without increased investment, collapses could become more common: the American Society of Civil

Engineers (2013) deems one in four bridges either functionally obsolete or structurally deficient. Furthermore, the World Economic Forum's annual *Global Competitiveness Reports* show that in the past six years the United States has fallen from ninth to sixteenth in overall infrastructure quality (Portier and Schwab 2008; World Economic Forum 2014). The American Society of Civil Engineers issues annual, increasingly dire, assessments of the nation's underpinnings.

It was not always this way. Historically, infrastructure investment received steady support at all levels of government. The legendary New York City mayor Fiorello H. La Guardia captured this spirit in his reported observation that "there

FIGURE 1.
Public Infrastructure Spending by Federal, State, and Local Governments, 1956–2014



Source: CBO (2012).

Note: State and local spending for infrastructure is net of federal grants and loan subsidies. These loans and subsidies are counted as federal spending. Public infrastructure includes spending on highways, mass transit, rail, aviation, water transportation, water resources, and waste utilities. Annual values in dollars are adjusted using an infrastructure-specific index that accounts for changes in the prices of goods and services spent for infrastructure.

is no Democratic or Republican way of cleaning the streets.²⁰ Indeed, the federal gasoline tax was first enacted under President Dwight D. Eisenhower to fund construction of the interstate highway system. This federal tax became the key revenue source for the Highway Trust Fund (HTF), the nation's primary finance mechanism for highway construction and maintenance. Subsequent increases in this tax occurred under President Ronald Reagan, who was the first to expand the HTF to cover mass transit, and under President Bill Clinton.

However, the federal gasoline tax currently stands at 18.4 cents per gallon, the same level as it was in 1993.²¹ If the gas tax had been set to automatically adjust for inflation, it would currently be 30 cents per gallon. Looked at another way, motorists in 1993 were paying about 17 percent of the average price at the pump (\$1.07 per gallon) in federal gas taxes. Over the past five years, federal gas taxes made up only 5 percent of the price paid at the pump (\$3.42 per gallon). Even with the sharp drop in gas prices at the beginning of 2015, the share of the price that went to federal taxes was half of what it was in 1993 (U.S. Energy Information Administration n.d.).

Concomitant with the effective freezing of the gas tax has been a stagnation, followed by a decline, in total national spending on transportation infrastructure. According to the Congressional Budget Office (CBO 2015b), total public spending on U.S. infrastructure in 2014 was \$416 billion—a lower level in real terms than we saw ten years ago. This sum includes funding for highways (48 percent of total spending), aviation (17 percent), rail and mass transit (16 percent), as well as funding for water resources such as ports and harbors, and utilities.

Not all of this money comes from federal sources. Historically, infrastructure spending has largely been the domain of state and local governments. For example, as shown in figure 1, in

2014 state and local governments provided more than three quarters of the funding to build, maintain, and operate the nation's highways, mass transit, airports, and water infrastructure, compared to the federal government, which supplied just under one quarter of funding (CBO 2015b).

In recent years there have been varied attempts, often bipartisan, to expand federal support for infrastructure. Calls for a National Infrastructure Bank, which would make federal loans to qualified infrastructure projects, began in 2007, with different versions of this idea proposed again in 2013. More recently, President Obama proposed allowing multinational corporations to repatriate their overseas cash in exchange for paying a 14 percent tax on the returned amounts, with the proceeds going entirely to infrastructure investment. A different proposal, which rested on repatriation of deferred foreign corporate income to fund an infrastructure bank, garnered more than seventy-five cosponsors in the House in the 113th Congress. There have also been advocates for a hike in the federal gas tax. Nevertheless, no legislation to fundamentally reform the national infrastructure financing system has advanced through any legislative committee.

The challenge we face is how to improve the quantity and quality of infrastructure investment in the United States. The federal government's investment in infrastructure is declining, budgetary resources for discretionary programs are becoming even scarcer, and political gridlock is increasing. Exacerbating this, the United States has a highly decentralized system of infrastructure investment, operation, and control, with states and localities playing a major role in selecting, funding, financing, and operating infrastructure. We propose ways to break through this logjam and jump-start new infrastructure investment through legislative and executive action. If done properly, there should be no long-term adverse effect on the federal deficit.

Chapter 3. Benefits of Investing in High-Quality Infrastructure

There is much evidence and widespread agreement that wise infrastructure investment pays a high return to society in both the short and longer terms. In the short term, infrastructure investment creates jobs and can grow the economy at a higher rate than other types of government investment (Leduc and Wilson 2012). Recent work by the International Monetary Fund concluded, "In countries with infrastructure needs, now is a good time for an infrastructure push. Many advanced economies are stuck in a low growth and high unemployment environment, and borrowing costs are low. Increased public infrastructure investment is one of the few remaining policy levers to support growth" (Abiad, Furceri, and Topalova 2014).

Quality infrastructure investment also increases the economy's long-run potential for economic growth, reduces negative externalities such as congestion and pollution, and improves mobility and choices for consumers and businesses. The promise of increasing the economy's long-run growth potential is a strong claim, but highly regarded research demonstrates the link between infrastructure and productivity. Public infrastructure investment has been linked to significant private sector productivity gains, and

in many cases these returns were higher than private capital investment (Aschauer 1989a, 1989b, 1989c). Other research finds that infrastructure investment also improves a region's economic growth, with one channel being the productivity gains in the private sector (Munnell 1992).

Reaping economic returns from investing in infrastructure does not apply only to new construction. In fact, the late Edward Gramlich, before he joined the Board of the Federal Reserve, argued that the highest return on investment comes from bringing existing infrastructure up to a state of good repair (Gramlich 1994).⁸ The hidden costs of poorly maintained infrastructure can be substantial. Indeed, one study found that more than 27 percent of the nation's major urban roads are in substandard condition, which costs the average urban driver \$377 in additional fuel and car maintenance a year. This equates to \$80 billion in costs borne by families and businesses each year due to poor road conditions (TRIP 2013). Investing in basic maintenance can also reduce future need for more-expensive repairs, with evidence that for every \$1 spent on preventive pavement maintenance, between \$4 and \$10 are saved on future rehabilitation (Baladi et al. 2002; CTC & Associates 2003).

Chapter 4. Proposals for the Short Term

Given the scope of the problem, we offer a realistic set of short-term improvements that can be made to existing programs and processes. First, we recommend expanding and revising the TIFIA lending program by increasing its annual funding authorization, expanding its scope of feasible projects beyond surface transportation, and updating the manner in which project credit ratings are assigned. Second, we propose reauthorizing BABS, which offer several advantages over municipal bonds for the purpose of infrastructure financing. Third, we advocate more-efficient use of the existing surplus in the HMTF and the Army Corps to support high-priority projects. Finally, we propose reforming the existing user fee that supports the HTE, primarily the gas tax.

1. REFORM TIFIA

a. Background on TIFIA

The federal initiative that offers perhaps the greatest opportunity for near-term improvement is the TIFIA lending program. Congress realized the potential for TIFIA when it increased the program's funding in 2012 through the Moving Ahead for Progress in the 21st Century (MAP-21) legislation reauthorizing federal surface transportation spending. However, we believe that there is room to further expand and enhance TIFIA so it can provide additional financing to a broader set of eligible projects in a more efficient manner. Specifically, the following steps should be taken:

- Federal funding should be increased from \$1 billion per year to \$10 billion per year. This would allow financing for infrastructure projects to total nearly \$400 billion.
- Project eligibility can be expanded to include a broader definition of transportation infrastructure including ports, aviation, and economic development that maximizes the value of infrastructure assets.
- Internal accounting can be improved to allow the program to fund more infrastructure projects within its existing budget.

TIFIA has a sixteen-year track record; during that time approximately \$3 billion of federal funds have been authorized to cover \$21.8 billion of loans. None of these loans has lost federal dollars.⁶ Of the fifty loans made with TIFIA assistance, only

two have defaulted, and in both those cases the government is expected to recover almost its full investment. In fact, the most recent estimate projects that, among all TIFIA loans, the federal government will receive 99.9 percent of its money back (Office of Management and Budget [OMB] n.d.a).

What is TIFIA?

TIFIA was created in 1998 as part of a broader surface transportation reauthorization act, the Transportation Equity Act for the 21st Century. TIFIA was partially a response to a perceived market failure in which states and local governments had difficulty obtaining financing on reasonable terms for infrastructure projects backed with user fees, such as toll roads (USDOT 2015c). TIFIA provides three forms of assistance for infrastructure financing: direct loans, loan guarantees, and standby lines of credit. USDOT awards these forms of credit to eligible applicants on a project-by-project basis.

Who is eligible and what types of projects are funded?

Those eligible for TIFIA financing include state transportation departments, public transit operators, local governments, railroad companies, private entities, and special transportation authorities (USDOT 2015d). Private entities engaged in projects with public sponsors are also eligible if they can demonstrate state support for the project through the project's inclusion in the state's planning documents (the long-range plan and the state transportation improvement plan; USDOT 2015e). Eligible projects include highway, bridge, intercity passenger rail, certain types of freight rail, and public transit projects; and projects involving multiple forms of transportation or access to a port (USDOT 2015f). A list of sample projects, including sponsors, project type, project cost, size of TIFIA assistance, primary revenue pledge, and fiscal year closed are included in table 1. Additionally, projects that are focused on intelligent transportation systems, such as real-time traffic and accident monitors and red light cameras, are now eligible as well. Because TIFIA receives its federal funding from the HTE, only projects involving surface transportation can receive money.

Furthermore, TIFIA projects must be of a certain size, typically at least \$50 million in capital construction costs, although the threshold is lower for rural or intelligent transportation

TABLE 1.
Sample Projects Financed by TIFIA

Project	Sponsor	Project Type	Project Cost (millions)	TIFIA Assistance (millions)	Primary Revenue Pledge	Fiscal Year Closed
Dulles Corridor Metrorail Project	Metropolitan Washington Airports Authority; Fairfax County, VA; Loudon County, VA	Public transit	\$5,683	\$1,876	State or local appropriations; toll revenues	2014
Triangle Expressway	North Carolina Turnpike Authority	Roadways and bridges	\$1,135	\$387	User charges	2009
Reno Transportation Rail Access Corridor	City of Reno, NV; Union Pacific Railroad	Railroads	\$280	\$51	Room tax revenues	2001
Miami Intermodal Center	Florida Department of Transportation; Miami-Dade Aviation Department	Other surface transportation	\$2,043	\$270	User charges	1999

Source: USDOT (2015b).

systems projects. The projects also must have a dedicated revenue source in order to repay the federal government (USDOT 2015f). There has been increasing latitude in what can be considered a dedicated revenue source in order to move beyond tolls and direct user fees to include broader tax increment financing or general obligation pledges. However, no federal funds may be used as part of this dedicated revenue stream. In addition, the federal government cannot take an explicit equity position in the project.

How large is TIFIA and how much effect has it had on infrastructure built?

The answer to this question is not as straightforward as it might appear. As discussed above, TIFIA is a federal credit program, and the way the government budgets and accounts for the program is very different from the actual amount of infrastructure that the program supports. TIFIA leverages the federal money allocated in two ways. First, the appropriated funds are generally in the form of loans or loan guarantees, and these monies are gradually repaid and can be used to fund additional projects. Some money may be lost if the project defaults on its obligation, but, similar to other loans, this does not mean the creditor gets nothing back. To be concrete, suppose TIFIA contributes \$100 million to a project that has a 10 percent chance of defaulting. (TIFIA projects are credit scored, again like other loans, and we return to this point below in section IV.2.c.) Even if the project defaults, the government can expect to get 60 percent of its money back. In that case, the expected loss to the federal government—or funds permanently expended—is only \$4 million (\$100 million x 10 percent x 40 percent = \$4 million). Thus, the \$100 million loan actually costs only \$4 million and can be appropriated as such.

The second way that TIFIA funds are leveraged is through the nonfederal share of the project itself. For most of TIFIA's history, TIFIA's commitment to any project was capped at no more than 33 percent. Returning to our earlier example, the \$100 million TIFIA loan would be part of a \$300 million project. Thus, in this hypothetical case the \$4 million of appropriated federal funds was leveraged to support \$300 million worth of infrastructure. This can be thought of as leveraging real federal dollars at a rate of 75:1, assuming that the \$300 million would not have been invested in infrastructure absent the TIFIA funds.

For most of its history, TIFIA's federal appropriations were approximately \$100 million per year. As a result of the MAP-21 legislation in 2012, TIFIA's federal funding was increased from \$125 million per year in FY 2012 to \$750 million in FY 2013 and \$1 billion in FY 2014.

The recent changes in the TIFIA program both expand and reduce the leverage of TIFIA funds into actual infrastructure activity. The increase in appropriated TIFIA dollars allows for greater activity. Specifically, this new level could support federal lending capacity of approximately \$9.2 billion in FY 2014 (USDOT 2015f). This includes only the first level of leverage discussed above and excludes the matching from other, nonfederal, sources. However, the matching rate between TIFIA investment and nonfederal sources was recently increased as part of MAP-21. The maximum TIFIA match is now 49 percent instead of 33 percent. This effectively lowers the second level of leverage, from a peak of 3:1 to about 2:1, and reduces the scope of projects that TIFIA can help fund.⁵ If each new TIFIA loan were made at a matching rate of 51:49, that would translate into total infrastructure activity of roughly \$18.4 billion. For comparison's sake, at the prior 3:1 match ratio, the current TIFIA appropriation of \$1 billion could generate \$27.6 billion of infrastructure activity.

How much demand is there to participate in the TIFIA program?

In FY 2013 total demand for TIFIA funding was \$46.5 billion (USDOT 2015g). Thus, TIFIA was oversubscribed by more than two to one. While demand fell in 2014 as USDOT worked through this backlog of applicants—it can take several years after submission of an application to reach an executed TIFIA deal—there have been seven new projects requesting more than \$9 billion in TIFIA funding in just the first half of FY 2015 (USDOT 2015g). TIFIA's appeal rose substantially during the financial crisis as it became more difficult and expensive to obtain other sources of funding.

TIFIA also enjoyed popularity during its founding years. From the first loan in 1999 through 2001, TIFIA made seven deals financing over \$8 billion of project activity (USDOT 2015b). However, from 2002 through 2004 only two TIFIA deals were completed, and in two of those three years there were no transactions. It is also worth noting that one deal, the South Bay Expressway (formerly SR 125 Toll Road) in California experienced significant financial problems, with the private operator filing for bankruptcy in 2010. However, given TIFIA's preferred status as a creditor, the program is expected to recover all of the original loan balance (USDOT n.d.).

b. Components of Proposal

Our proposal for TIFIA has three key components:

Increase TIFIA's funding.

Despite Congress increasing appropriations—more than 800 percent in a two-year period—demand for TIFIA funding continues to exceed supply. There are multiple potential explanations for this increased demand: A first reason could simply be the size of the infrastructure deficit. A second reason could be the continued movement away from funding infrastructure through upfront revenue and reliance on financing. TIFIA remains the largest federal financing program for surface transportation infrastructure. A third reason could involve the recent financial crisis. During and after the financial crisis, many states and localities faced problems accessing credit markets, particularly for newer and more-innovative financing systems. A final possible reason for the increased demand is that TIFIA has grown large enough to attract the interest of very large infrastructure projects, which may not have previously considered TIFIA, given its smaller size.

We propose increasing annual congressional funding of TIFIA from \$1 billion to \$10 billion in order to finance projects totaling up to \$200 billion. The goal of TIFIA, even at this enhanced level, is not to fund the entire infrastructure backlog. By its very nature, TIFIA is meant to deal with projects that generate dedicated revenue, primarily through users and beneficiaries. These projects tend to be newer construction. However, by providing additional financing incentives and opportunities for these projects, we can help address the demand to use existing federal grants for new construction as opposed to using them for maintenance of existing infrastructure.

An increase of that magnitude would require significant new demand beyond the existing set of TIFIA applicants. We believe that in addition to attracting more applicants from existing mega-projects, this increased demand can be met by expanding the eligibility of TIFIA projects.

We propose increasing annual congressional funding of TIFIA from \$1 billion to \$10 billion in order to finance projects totaling up to \$200 billion.

Expand TIFIA eligibility.

Second, TIFIA should be expanded to fund a broader definition of infrastructure beyond surface transportation. This broader set of assets would include ports, aviation, and economic development projects that maximize infrastructure assets' value. Supporting economic development that directly maximizes the value of infrastructure is good public policy. In addition, it can create more revenue streams to help pay for projects. A natural next step is expansion to ports that need dredging and other investment and that have strong revenue streams. Assisting aviation, including air traffic control upgrades for qualified private entities, could open up significant economic returns and solve a problem that has lingered for decades.

TIFIA's existing eligibility is restricted to surface transportation. Historically, TIFIA funding has come from the HTF, which has been funded by user fees—mostly by

the gas tax. In recent years, however, as expenditures have outpaced revenues from the gas tax, the HTF has relied on a mix of user fees and transfers of general revenue. Indeed, since 2008 Congress has periodically authorized transfers of general revenue into the HTF to continue funding surface transportation (Kile 2014).

Our proposal for enlarging TIFIA is somewhat agnostic as to whether that funding comes via the HTF, from other transportation trust funds (like the aviation fund), or from the general fund. *Whatever the funding source, the reality is that TIFIA is not funded solely by the gas tax. Thus, TIFIA project eligibility should not be tied to only surface transportation.*

Develop more-accurate credit scoring.

As discussed above, TIFIA is a credit subsidy program that takes appropriated federal dollars and assigns them to individual reserve funds dedicated to specific projects. Each project is assigned a credit score that represents the expected cost to the government. That expected cost is simply the size of the loan, the probability of default, and the assumed loss to the government given default. Subsidy ratings are often given, however, in terms of the anticipated percentage loss relative to the size of the loan. Over the history of TIFIA, the average subsidy rating has been around 9.3 percent of the government's exposure (OMB n.d.a). Although individual project subsidy ratings vary greatly, in the past few years the average subsidy rating has been 7.0 percent, which was substantially less than the 10.3 percent that earlier estimates had expected (OMB n.d.b).

The federal government has not yet lost any funds in the program's sixteen-year history. TIFIA's low-to-nonexistent loss given default is particularly noteworthy, but not surprising, given that TIFIA is taking a minority stake in projects that generate cash flows. Even if those cash flows significantly underperform expectations, they continue to exist. Infrastructure investing is inherently different from venture capital. Complete failure with no revenue recovery is an extremely unlikely outcome. This is particularly true given the other TIFIA requirements, including the requirement that the project is part of a state's existing transportation improvement plan.

We propose that the administration—specifically, USDOT and OMB—use executive action to align TIFIA's future credit scores with its past track record. Simply put, almost fifteen years of experience provide evidence to illustrate that the government has been engaged in safe lending. In the beginning of the program, it was appropriate to be conservative, particularly given other credit subsidy programs that have been problematic. However, at this stage we should learn from our experience and adjust our procedures accordingly.

Aligning TIFIA's credit scoring with its true risk could greatly expand the program's ability to fund projects. While still being prudent and conservative relative to historical experience, cutting TIFIA's average credit subsidy score by half would increase overall infrastructure financing by a factor of at least four. That is, the projected average TIFIA credit subsidy rate would be closer to 5 percent than 10 percent. This subsidy rating would still be far greater than what historical experience has shown to be necessary, as actual losses have been close to zero. The lower subsidy rate allows existing TIFIA funding to support twice as much federal government lending. Given that TIFIA projects require at least a 1:1 match, these new TIFIA funds could support four times the amount of infrastructure as before.

It is important to note that this recommendation can be done entirely by the administration, without any legislation. Better aligning TIFIA's credit subsidy scoring with actual performance would fit a host of previously stated administration goals, including increasing infrastructure investment, running government through a more data- and fact-based regime, and increasing nonfederal investment in infrastructure.

Lowering the average reserve required against a TIFIA loan would not alter variation in individual project credit scoring. As projects differ greatly, variable scoring can serve as appropriate discipline to deter overinvestment in riskier projects. TIFIA expansion may result in more applications from projects with elevated levels of risk. If TIFIA is expanded along other avenues that we suggest, which would require legislation, then the future risk profile of TIFIA loans may look different from how it looked in the past. A riskier future profile might suggest prudence at first, as well as higher credit scores on average. However, for future projects that are similar to those with which we have experience, we see no reason to continue inaccurately assigning credit subsidy scores that fail to take into account past performance of similar projects.

2. RESTORE THE BABS PROGRAM

A reliance on user fees to build infrastructure introduces a gap in the timing between revenue for repayment and the need for upfront funding to build the project. This gap is most often resolved by financing through the issuance of debt. As stated earlier, state and local governments are the dominant actors in the building of infrastructure, and have been dominant for nearly two centuries. Many factors have led state and local governments to issue increasing amounts of debt to pay for infrastructure, including the separation of budgets for capital projects and operating expenses, the creation of specific infrastructure authorities, and the federal tax subsidy available for municipal debt.

The development of a robust municipal debt market has been one of America's great historical advantages used to finance

infrastructure projects. The municipal debt market, however, has structural inefficiencies. Although the federal government subsidizes municipal debt by exempting the interest earned from income taxes, this subsidy may benefit the American taxpayer more than the state or local government issuing the debt. This inefficiency can be fixed through an alternative form of taxable debt, in which the federal government provides a direct subsidy to the municipal issuer rather than to the taxpayer. This innovative approach was pioneered in the BABs program, passed in 2009. BABs could take a few different forms, but they typically allowed issuers to offer a higher interest rate on bonds. In the roughly twenty months of the program's history, \$181 billion in BABs were issued by state and local governments. There were 2,275 separate BAB issuances in all fifty states, the District of Columbia, and two territories. According to DoT (2011), BABs issuers saved an estimated \$20 billion in borrowing costs, on a present value basis, as compared to traditional tax-exempt municipal debt. Unfortunately, the authorization for BABs expired at the end of FY 2010.

Unlike traditional tax-exempt municipal bonds, BABs are an attractive option for foreign investors, pension funds, nonprofits, and other individuals and institutions that do not

have U.S. tax liabilities. BABs are also attractive to municipal issuers because the federal government directly subsidizes interest costs. States and municipalities used BABs for longer-term securities in particular, which was appropriate for long-lived infrastructure projects. In contrast, most buyers of tax-exempt municipal bonds are high-income taxpayers and not very sensitive to the interest rates offered. For local governments to raise additional revenue, they often have to attract additional buyers in lower tax brackets through higher interest rates, which is both expensive and inefficient, since much of the tax-exempt subsidy goes to the higher-income taxpayers with relatively little increases in the amount of financing raised.

We propose restoring the structure of this taxable debt instrument in which the state or local issuer can opt to create a taxable debt, with the federal government providing a direct, rather than an indirect, subsidy. The federal government could choose to set this subsidy equal to a revenue-neutral rate such that this change would result in no net cost to taxpayers (i.e., the taxable earnings on the interest from the debt would exactly offset the subsidy provided). The revenue-neutral rate would likely be around 28 percent (DoT 2011). The subsidy rate could be higher for projects that are higher priority, such as

BOX 1.

Summary of Short-Term Proposals

1. Proposal: Reform the TIFIA program to increase federal funding to \$10 billion and support up to \$400 billion in projects; broaden eligibility requirements to include, for example, ports and aviation; and administratively align scoring of funded projects to accord with historical loss rates.

Rationale: Expanding TIFIA can increase infrastructure investment in the short run without increasing cost to taxpayers. Expansion to nonsurface transportation will benefit the entire transportation system and is justified based on the increasing reliance on general revenue for the HTF. Improving accuracy of scoring to align with experience will maximize efficiency.

2. Proposal: Use the Army Corps more efficiently, and reform the Harbor Maintenance Trust Fund (HMTF) to utilize HMTF's existing surplus to pay for high-priority projects; implement a competitive process whereby ports would submit proposals for funding, along similar lines as the existing Transportation Investment Generating Economic Recovery (TIGER) program run by the U.S. Department of Transportation (USDOT); and convert the harbor maintenance tax to a more traditional user fee.

Rationale: Reforms would increase the value of projects undertaken by the Army Corps and reduce the distortions created by the current ad valorem tax revenue structure employed for the HMTF.

3. Proposal: Reinstate the BABs program with a revenue-neutral subsidy rate of 28 percent.

Rationale: BABs are a more efficient way of helping state and local governments to finance infrastructure projects and are attractive to a broader segment of potential investors, as compared to traditional tax-exempt municipal bonds.

4. Proposal: Adjust the gas tax for inflation and to rise (but not above or below set thresholds) when the price of gasoline falls, and vice versa.

Rationale: The gas tax is an efficient form of a user fee, and varying the tax inversely with the price of gasoline will reduce fluctuations in the after-tax retail price of gasoline.

those that cross jurisdictional lines or involve multiple modes of transportation, or are specified as projects of import in the national strategy.

3. USE THE HMTF AND THE ARMY CORPS OF ENGINEERS MORE EFFICIENTLY

The Army Corps plays a critical role in improving critical ports and waterways and responding to natural disasters. Signature projects of the Army Corps include the Panama Canal, the Pentagon, and the Kennedy Space Center. The Army Corps has also worked on lower-profile but nonetheless economically significant projects, such as dredging harbors to enable ships to pass, restoring beachfronts after hurricanes, and producing nearly a quarter of the nation's hydropower.

In view of the critical role the Army Corps has played for more than 200 years and the growing importance of infrastructure resilience in the face of increasingly volatile storms, we propose increasing the Army Corps' activity in the short run. This can be accomplished without additional costs to taxpayers by more fully utilizing the HMTF. The HMTF was established for the operation and maintenance of harbors as part of the Water Resources Development Act of 1986 (U.S. Congressional Research Service [CRS] 2011). The funds collected go into a trust fund; it takes a separate appropriation from Congress to spend the money from that fund. In past years, the HMTF collected more than it spent, resulting in a surplus that approached \$8.5 billion at the end of FY 2014 (DoT 2014). The latest version of the Water Resources Development Act, enacted in 2013, addressed this issue by authorizing HMTF spending equal to the prior year's receipts plus accrued interest. This should reduce the build-up of the HMTF, although to the extent revenues continue to grow, the fund will continue to grow as well. In addition, there is evidence of significant undercollection of funds, potentially near \$500 million (CRS 2013). U.S. Customs and Border Protection should collect these funds immediately.

In light of the current high level of need for increased harbor maintenance, due to historical underinvestment as well as the ongoing expansion of the Panama Canal, we propose more-aggressive use of the existing surplus in the HMTF to fund high-priority projects. To best leverage these funds, we advocate a competitive process whereby ports would submit proposals for funding, somewhat analogous to the existing Transportation Investment Generating Economic Recovery (TIGER) program run by USDOT. The TIGER program already evaluates and accepts port projects, having approved thirty-one such projects to date (USDOT 2015h). Aspects of this competition could include enhancement of economic competitiveness, leverage of nonfederal funds, environmental sustainability, and resilience.

The harbor maintenance tax is an ad valorem tax that, similar to a sales tax, is a direct share of the value of cargo. This system of revenue capture is at odds with other transportation-related taxes, including tolls and motor fuel taxes, which are aligned more with the cost of the use of the infrastructure. A ship of a given size takes up the same space at a port regardless of what it carries—wheat or iPads, cotton or BMWs. Although trucks are not taxed based on the value of their cargo, ships are. Using an ad valorem system for one mode of transport is unnecessarily distortionary. We propose that this ad valorem tax be changed to a user fee. One proposal to do so was authored by Senators Murray (D-WA) and Cantwell (D-WA) in their bill, the Maritime Goods Movement Act for the 21st Century (2013).

4. REFORM THE GAS TAX

The HTF was established in 1956 as a means of financing the U.S. Interstate Highway System; today it provides funding for the construction and maintenance of many U.S. and state highways. Since the early 1980s the HTF has also helped pay for public transit projects. However, as noted above, the federal gas tax that largely supports the HTF has been declining in real terms since 1993. Moreover, the cost of infrastructure maintenance and new construction has increased over the past decade, largely because of growing demand from developing countries such as China, and proceeds from the gas tax have paid for considerably less. Starting in 2008, the HTF has periodically been in deficit, with authorized expenditures exceeding revenue generated, and Congress has employed stopgap measures to transfer more than \$50 billion of general revenue to shore it up (CBO 2014). With fuel economy expected to improve, and growth in the total number of miles driven expected to slow, the fiscal condition of the HTF will only deteriorate further if the status quo remains (CBO 2014).

Without adding to the deficit, the alternatives facing Congress in the immediate term are to:

1. Let the HTF program lapse or sharply curtail spending;
2. Continue to transfer general fund revenue into the HTF to make up for recurring shortfalls; or
3. Reform the existing user fee that supports the HTF, primarily the federal gas tax.

We support the last choice: reforming the federal gas tax so that it generates more revenue, at least during periods of relatively low retail gasoline prices. In our view, having users pay for infrastructure in rough proportion to the benefits they receive is more economically efficient and fairer than using general revenue.

We propose two specific reforms. The first is in the spirit of a proposal that was developed and recommended by a bipartisan

group including former senator Bill Bradley (D-NJ), former governor Tom Ridge (R-PA), and former U.S. Government Accountability Office (GAO) comptroller general David Walker. They called for a gas tax that would vary inversely with gasoline prices (Bradley, Ridge, and Walker 2011): the tax would fall when retail gasoline prices rose, and vice versa.⁶

To their proposal, we would add a minimum and maximum on the gas tax. The minimum would be set below the current 18.4 cents per gallon tax rate, so it would be possible for the tax to be lower than it is today if gas prices rise considerably. The maximum would be set at a level substantially greater than the current rate.

We propose to gradually phase in this variable tax, to give consumers and businesses the opportunity to understand it and prepare for it. In addition, we would index the minimum and maximum levels to an agreed-on measure of inflation. Otherwise, the costs of maintaining transportation investment will rise with inflation, but the funding to pay for these investments will not.

These reforms should help stabilize prices at the pump, thus allowing users to better plan their budgets and anticipate costs. If this variable tax had taken effect a year ago, the HTF would have received more revenue and the nation's infrastructure would have benefitted from the sharp fall in world oil prices.

Although revenue would vary from year to year depending on the price of gasoline, transportation funds nonetheless could be appropriated based on expected revenue over a ten-year window and therefore would be less sensitive to fluctuations in annual tax revenue raised. The federal government already budgets over multiyear periods using projected gasoline tax revenue, which can deviate substantially from estimates. While our proposal would require more-detailed modeling and greater annual deviation between estimated and collected revenue, it is still quite possible to set constant multiyear funding levels based on this new formula for collection.

Chapter 5. Proposals for the Longer Term

Our next set of proposals aims to modernize the infrastructure financing system over the longer term. We propose three specific elements. First, in an attempt to better align the costs and benefits of infrastructure investment, we call for upgrading user fee technologies. This would involve additional federal spending for research and development and to incentivize and support localities in their efforts to modernize the types of user fees available to finance infrastructure projects. Second, we call for a federal platform to facilitate cooperation among states and municipalities through pooled procurement. Third, we call for the creation of a national infrastructure strategy. While acknowledging that it is outside the scope of this paper to detail a national strategy, we emphasize the urgent need for one and call on federal actors to commit themselves to developing and implementing a long-term cohesive vision for infrastructure investment in the United States.

1. UPGRADE USER FEE TECHNOLOGIES

Our first long-term proposal focuses on user fees, rather than on an infrastructure bank or other approaches, because these fees or tolls are the best mechanism for aligning the costs and

benefits of infrastructure investment. Furthermore, a valuable role for additional federal spending is to incentivize and support localities in their efforts to expand the types of user fees available.

In an ideal world, beneficiaries would simply pay for the cost and maintenance of a given infrastructure system. Reality is far more complicated, however. Transaction costs of collecting assessments on beneficiaries can be substantial, though modern technology may make that process more efficient. Identifying beneficiaries may not be as simple as it appears at first glance, especially given the long duration of infrastructure assets. Distributing costs is another challenging task, particularly when dealing with projects that cross state and jurisdictional boundaries and/or involve multiple modes of infrastructure. Our solutions address aspects of these issues.

The classic user fee model is the toll road, for which each driver pays a toll in exchange for driving on a road that is typically well maintained and has less traffic congestion. However, there are usually beneficiaries of infrastructure who are not users or whose benefit is in great excess to their use. For example, businesses located along newly constructed toll roads become

BOX 2

Summary of Long-Term Proposals

1. Proposal: Promote collaboration among USDOT, private industry, and academic researchers to develop new mechanisms for collecting user and beneficiary fees based on state-of-the-art technology. Federal incentives would be provided for states, localities, and related authorities to adopt standardized user fees.

Rationale: User fees are an efficient way to fund infrastructure investment, and the means of collecting fees from users and beneficiaries will change with the evolution of transportation technology. In addition, such technology is a public good.

2. Proposal: Create a national, electronic platform for pooled procurement to reduce costs.

Rationale: Scale economies in purchasing could reduce costs for infrastructure operators and increase stability for manufacturers.

3. Proposal: Appoint a commission to develop a national strategy for infrastructure investment. Projects that are deemed consistent with the national strategy would receive more-generous federal funding, such as through a higher subsidy rate for BABs.

Rationale: A national strategy could guide infrastructure investment more effectively, and connecting funding mechanisms to the strategy could ensure that the commission's recommendations are implemented.

more accessible to consumers, increasing the businesses' revenues. Consider also the property owners of the land around the toll road, particularly around the access points: studies have shown that their land's value will rise, often substantially, as a result of the new infrastructure (DoT with the Council of Economic Advisers 2010; Garrett 2004; Weinstein and Clower 1999). Those who benefit but are not users should be willing to contribute to this infrastructure investment as long as their benefits outweigh their contributions. However, reaching these beneficiaries and determining how and how much they should pay can be far more challenging than simply setting a toll.

Federal infrastructure policy has long recognized the wisdom of having those who benefit from infrastructure—regardless of whether they directly use it—pay for its construction and use. For example, the federal gas tax has been used to pay for public transportation since the Reagan administration. The logic is that in congested areas every driver benefits from reduced traffic when others utilize public transportation instead of roads. Indeed, recent research has found that average highway delays increased by 47 percent when transit service unexpectedly ceased (Anderson 2014).

Our proposal for upgraded user fee technologies

Fundamentally, infrastructure is a long-term investment and should be paid for over the long term—and it should be funded permanently, not just temporarily. Innovative financing programs can lead to new mechanisms through which a steady fee stream can ensure the durability of the investment.

We propose federal incentives for states and localities to expand their capacity to collect user fees for the financing of new infrastructure. The need for these new funding sources is clear, as inflation-adjusted revenue from gas taxes may have already peaked (CBO 2015a). Vehicles that are more fuel efficient, the potential growth of alternative-fuel vehicles, and shifting attitudes among millennials toward vehicle ownership and driving all indicate that revenue derived from the traditional gas tax will struggle to keep pace with the cost of maintaining the existing system.

We propose that the federal government support this expansion through three main roles:

1. Assist in developing and standardizing collection of new beneficiary fees;
2. Subsidize the projects that these new fees support, particularly among early adopters, with direct support and provision of insurance; and
3. Create new and more-efficient financing structures.

This new system could help promote the infrastructure investment in research and development that America needs. It would build on the American tradition of strong local

control in project delivery and selection while positioning the federal government in areas where it has long held a comparative advantage—the facilitating of standardization and applied research.

The exact collection of fees will vary, reflecting political will, technology, and economic circumstances. We propose allowing flexibility for state and local governments to develop revenue collection mechanisms that work in their region. By providing matching funds, the federal government could empower state and local governments to improve collection of revenue from users and beneficiaries. This federal subsidy could be more generous for projects that involve multiple jurisdictions and multiple modes of transportation.

The federal government would also create innovative financing tools that will allow states and localities to more efficiently coordinate beyond their existing municipal boundaries. Since new types of user fees are inherently riskier than standard user fees, they would likely require higher costs to finance from skeptical creditors, even if they would be worthwhile in the long run. This creates an even stronger rationale for and greater benefit from federal action than traditional infrastructure finance.

We are not identifying a single type of desired revenue collection because the pace of technological change is so rapid. For example, all-electric cars do not pay traditional gas taxes even though they still use the highway and roads system. Also, car-sharing services like Uber and Lyft may change the economics of driving and of parking privately-owned vehicles (Shontell 2015). Driverless cars are another potential technological game changer. Such rapidly changing transportation technology is causing the nature of beneficiary fees to change. However, it is also making possible new forms of beneficiary fees that take advantage of GPS and other mobile devices.

These new technologies also potentially alter the way in which we use infrastructure. For example, the provision of free or highly subsidized parking is a significant use of our existing infrastructure. By one estimate, the cost of free parking is \$1,750 per space built and about \$400 annually in maintenance (Litman 2012; Stromberg 2014). As evidence that free street-side parking spaces are valuable, a new app allows users to essentially sell their street parking space to another driver through a private, online transaction (McMillan 2014). Innovation that creates more-efficient use of existing infrastructure should be prioritized, especially if it reduces the need to build more infrastructure.

The advent of new technology to reduce the transaction cost of collecting user fees has been a significant development over the past twenty-five years, starting with electronic toll collection (Samuel 2012). States and local agencies have increasingly

been deploying electronic toll collection as well as capturing revenue from windfall increases in property value as a result of infrastructure investment (e.g., taxing so-called incremental financing districts). This revolution in new and advanced forms of collection from infrastructure users and beneficiaries has created more-efficient methods for revenue streams to support infrastructure. However, the local nature of these efforts results in fragmented, highly regionalized systems that could benefit from greater standardization. As the International Bridge, Tunnel, and Turnpike Association (2010, supplementary appendix) stated, "The net result is that technical interoperability and commercial interests have created a regional patchwork of different [electronic toll collection] systems across the country, operating as E-ZPass in the Northeast/Midwest; SunPass in Florida; FastTrak in California, and so forth."

The federal government should establish national revenue collection standards. These standards should include interoperability of electronic toll collection such that a single pass can work throughout the country. The creation of a single smartphone application that would function similarly to transponders such as E-ZPass is one potential approach. Furthermore, requiring—and providing funds for—existing toll plazas on roads and bridges that receive federal support to switch to electronic collection, particularly with high-speed lanes, would reduce travel times, congestion, and corresponding air pollution.

A national standard for defining and implementing congestion pricing would be another useful system. Congestion pricing can include (a) variable-rate tolls based on road congestion as well as (b) fixed prices for driving into core areas of a major metropolitan area. The latter (b) is sometimes referred to as cordon pricing; it has been successfully adopted in London and Singapore, and was used successfully on a trial basis in Stockholm. The former (a) can shift demand for infrastructure away from peak times, as has been used to some extent in Florida, Maryland, and California, among other places (USDOT 2006).

Another national standard could include mechanisms for state or local government to collect additional tax revenue from districts in which property values increased as a result of new infrastructure (i.e., value growth above a specified baseline). An example of such a mechanism already in use is the incremental finance district, also known as tax increment financing, in which local governments define a geographic area to benefit from improved infrastructure and earmark increased property tax revenues in that area to pay for the infrastructure investment. Currently, states legislate the use and parameters for these types of districts, but there is little guidance on how states should most effectively structure these districts.

A fourth potential standard would involve a master framework for the terms of debt issuance for project finance.

By standardizing the terms of debt issuance, whether through BABs or other vehicles, investors could more easily access, digest, and potentially amalgamate project debt. Reducing transactional costs for infrastructure users, beneficiaries, and investors will lead to greater investment in infrastructure.

The federal government can also build on the initial launches of centers for infrastructure investment within USDOT and the Environmental Protection Agency (White House 2015). Combining these centers into one national center for infrastructure investment and standardization could further reduce transaction costs, improve efficiencies, and enhance effectiveness. Although infrastructure responsibilities are spread across multiple federal agencies, as demonstrated by the creation of multiple centers for infrastructure investment, we believe the value of creating a one-stop shop for the consumer (state and local infrastructure providers and investors), as well as the potential for learning and standardization between modes of infrastructure, outweighs the benefits of creating specialized but siloed centers. Thus, given the large role that transportation plays among all types of infrastructure, we call for combining the centers at USDOT. Part of this combined center would act as a hub for affiliated institutes focused on developing and promoting user-fee technology. This hub would serve to bring together the wide universe of professionals, academics, market participants, infrastructure providers, and government officials involved in infrastructure design, construction, operation, and finance. Creating such a national hub for technology development could help spur greater innovation, standardization, and collaboration.

2. FACILITATE POOLED PROCUREMENT

As discussed earlier, state and local governments are often the actors making investment choices about infrastructure, from the asphalt for highways to road signs to public buses. The dozens of state governments and the thousands of local governments usually make these investments in isolation, without necessarily coordinating with other agencies, even if they are purchasing similar products. This decentralization of payers for infrastructure results in the loss of economies of scale. One of the classic values of economies of scale comes from purchasing power: larger purchasers are able to negotiate better prices. These costs are therefore generally higher for smaller infrastructure providers, which also tend to be located in areas that are more rural. The benefits from solving this coordination problem—and realizing the benefits of economies of scale—may largely go to smaller infrastructure providers.

This problem was recognized previously with the creation of the pooled procurement program in the Transportation, Treasury, and Independent Agencies Appropriations Act of 2004. This act and subsequent legislation created five pilot programs to facilitate the coordination and pooled procurement by transit agencies across the country. These pilots each contained only a limited

number of transit operators, typically in the same geographic region. As an incentive, the federal government agreed to pay for 90 percent of the cost of items purchased through the pilot program, far greater than its typical matching-grant rate. To be clear, there were no additional federal funds directly provided, only a waiver of state and local match levels down to 10 percent. Overall, the pilots were found to be ineffective, as “the additional Federal share allowed in the pilot program did not sufficiently induce greater use of pooled procurement” (USDOT 2010). Difficulties in forming consortiums, the administrative burden on the agency leading the procurement, and unwillingness to cede control by participating agencies to the lead agency were all cited as challenges to successful pooled procurements (USDOT 2010). Given the potential benefits to agencies, especially those operating in smaller jurisdictions, the question becomes how to overcome these organizational challenges to support pooled procurement.

Our proposal for pooled procurement

We propose a two-pronged effort to promote pooled procurement. The first prong is the creation of a national platform for pooled procurement. This would be an electronic system, open to all infrastructure operators where they could search for and post information regarding their needs for procurement. The federal government would serve only as the platform operator; it would not be involved in any additional way in actual procurement or negotiation. However, creating a national platform would vastly expand the network of potential agencies that could work together. In the long run this may not even need to be operated by the federal government. It may well be that once the federal government creates this platform, it can eventually be spun off to the private sector or a broad consortium of public and private operators in a cooperative model.

Platforms for bringing together infrastructure projects are already occurring regionally, such as the West Coast Infrastructure Exchange, a partnership among California, Oregon, Washington, and British Columbia designed to encourage “public sector decision-makers . . . to develop best practices and access hands-on training in innovative financing and maintenance methods” (West Coast Infrastructure Exchange n.d.). Expanding this idea nationally as well as broadening its scope to include pooled procurement as a focus could generate significant value.

The second prong consists of direct incentives in terms of federal funding. Rather than simply getting a higher federal match rate, localities that can demonstrate cost savings through pooled procurement should receive additional federal grants explicitly tied to infrastructure funding. Rewarding innovative cost savings from procurement through a race-to-the-top style incentive system might be enough to overcome the organization gridlock and existing impediments to coordination.

3. CREATE A NATIONAL INFRASTRUCTURE STRATEGY

Our nation would benefit from a national infrastructure strategy. The current decentralized nature of our infrastructure system poses fragmentation problems, both in terms of public participation (federal, state, and local) and in terms of type of infrastructure (highway, transit, port, airport, water system, etc.). Poor accounting systems that do not adequately keep track of or incentivize wise investment create another problem. Simply calling for increased infrastructure investment misses a key area where policy makers could considerably improve the current framework: more-carefully managing investments to ensure that projects with the greatest return are selected for investment. Maximizing returns on investment is a simple policy object but one that proves highly difficult to achieve with respect to infrastructure.

A national strategy should not be confused with a one-size-fits-all approach. Infrastructure needs vary substantially based on local and regional factors. A perfect example of this is high-speed rail, which may work very well between certain cities, such as those in the Northeast corridor, from Washington, DC, to Boston, but not nearly so well between cities in less-populated parts of the country. There may be compelling cases for intensive air travel corridors between areas such as Los Angeles and San Francisco, which is the busiest air corridor in the country (USDOT 2015a). Thus, a national strategy needs to allow for regional variation and substantial state and local input.

Finally, a national strategy must consider the interaction between infrastructure networks. A strategy for ports that focuses on the Gulf Coast coupled with a strategy for freight rail that focuses on the eastern seaboard would be a failure. Current transportation infrastructure policy is heavily focused on individual modes, with each working internally to develop its own strategy (if there is one at all). In some instances the data necessary to measure how well our current infrastructure system works are not even collected, as the GAO found: “There was not a federal source of data that could reliably be used to analyze freight truck trends from 2007 to 2012, because, among other things, the data do not sufficiently distinguish among classes of trucks” (GAO 2014).

Congress has recognized the increasing importance of strategic planning and, as part of MAP-21, directed USDOT to establish a national freight strategic plan. Wisely, Transportation Secretary Ray LaHood filed the Freight Policy Council, the organization tasked with developing this plan, with leadership from multiple transportation modes (highways, rail, ports, and airports; USDOT 2012). Yet, this plan for freight needs to be part of an even larger, more-comprehensive strategy to move goods and people, and provide basic services (telecommunications, power, water) in ways that complement

each other. A broader national infrastructure policy with input from all stakeholders is the right way to start.

Our proposal for a national infrastructure strategy

We propose the creation of a national strategy for American infrastructure through a commission of federal, state, and local parties, including infrastructure operators and private companies. This commission, which could be created through legislation or by executive order, would be responsible for developing a comprehensive national infrastructure strategic plan. This would build on the strategic plans already created on a modal basis within the federal government, such as the freight strategy discussed above, along with the strategic plans developed by states, metropolitan planning organizations, and private infrastructure partners. The commission's first task would be to identify where there is convergence with these various existing strategic plans and where there is divergence. It would further analyze and identify national goals and priorities. Ideally, the strategy would identify which modes of infrastructure are most cost-effective in addressing key challenges in certain corridors and regions. The commission would also make recommendations for improving available data on infrastructure use and needs in a way that balances individual privacy rights. This national strategy could guide subsidies for more-generous funding and financing of infrastructure investment.

A national strategy would provide a unique opportunity to look at our infrastructure systems and the investment that is necessary to create and maintain those systems from a user's perspective. For example, it would work to unify freight investment strategies with port investment decisions. This would maximize the efficiency and effectiveness of both networks. The strategy would ensure that investment to build high-speed rail between cities corresponds with investment in strong public transit in those cities.

The national strategy should help coordinate infrastructure investment at a high level. However, there are significant efficiencies that could be gained from enhanced coordination at a local or granular level. Our proposal focuses on governance improvements at that level. We call for increased coordination within geographic areas among different infrastructural modal providers. An example is the highway department communicating with the water department, so that when major improvements need to be made by both parties, construction crews dig only once (see box 3). We also propose increased coordination among the same types of infrastructure providers coordinating across geographies. For example, multiple subway systems use similar rail cars. Coordinating long-term planning and purchasing through pooled procurement could lower costs for the subway systems and allow the private manufacturers who build the rail cars to achieve greater stability and long-run profitability.

BOX 3

Dig Only Once

Aligning construction schedules at the state and local levels could produce significant savings by combining activities. A simple example is coordination between the crews for local water systems and road maintenance. Planned water infrastructure improvements, such as expanded pipe capacity or replacing aged pipes, require digging up roads and sidewalks. This work should occur simultaneously with regular road repaving. This would save costs for both of the infrastructure providers, as well as reduce side-effect costs such as traffic congestion due to roadwork.

This simple commonsense solution is not as easy to implement as it may seem. It requires public and/or private water systems, which tend to operate on the municipal or regional level, to coordinate with road maintenance, which is often at the state or county level. Aligning timing for major and minor projects requires significant advance joint planning. Making sure that work schedules and zones are able to occur on a simultaneous schedule requires logistical precision. Competing priorities, including emergency and other unforeseen problems that alter scheduling, are unavoidable. Furthermore, negotiations to split the direct savings from combining work will not be costless, and the value gained from reduced externalities such as traffic congestion and service disruption will not be internalized.

Nonetheless, the savings are worth pursuing. The federal government could establish a pilot program, similar to what the Obama administration did with respect to project permitting. This pilot program would be open to infrastructure providers of any form and would be coordinated at a regional level. To incentivize participation, the federal government should provide expedited project and permitting review, including eliminating duplicative requirements that exist across infrastructure modes. Simply put, if the highway department has a permit it would apply for the water company and vice versa. To the extent that federal grants or funds are used for such a project, at a minimum there should be no penalty for the dual use of those funds, while there should be a creative exploration of methods to provide additional funding for coordinated work that reduces costs.

Chapter 6. Questions and Concerns

Any large- and small-scale proposals that seek to address the infrastructure challenge will raise legitimate concerns. Among the concerns that must be addressed are:

1. The regressive nature of user fees;
2. The risks stemming from user fee adoption;
3. Whether sufficient demand exists for the federal financing proposed; and
4. Concerns about the ability to finance projects across modes of transportation.

A brief discussion of each concern follows, with an understanding that any of these concerns could merit a more in-depth conversation.

1. THE REGRESSIVE NATURE OF USER FEES

User fees that are not tied to income (which is the case for almost all governmental fees) are inherently regressive, meaning that lower-income individuals pay a higher share of income toward the tax than do higher-income individuals. This is generally true for the gas tax, highway tolls, and bus fares. In general, we share a desire to raise revenue for public goods in a progressive—or at least, nonregressive—manner. Yet with regard to infrastructure, there are several reasons to be less concerned with the regressivity of user fees.

The benefits of infrastructure are largely progressively distributed. First, if users benefit equally from the service, then the benefits, as a share of income, are distributed progressively. Second, to the extent that users have a choice whether to use the infrastructure and pay the extra fee, then there is an added level of protection against regressive fees. (For example, lower-income drivers could shift away from driving on toll roads.) Furthermore, the provision of alternatives (such as public transit) is often available on a subsidized and progressive basis. Third, the benefits of building infrastructure, specifically job creation, are progressively distributed. Research from the DoT shows that 80 percent of the jobs created in the top three sectors (construction, manufacturing, and wholesale and retail trade) are jobs that typically pay in the middle range of wages (DoT with the Council of Economic Advisers 2010).

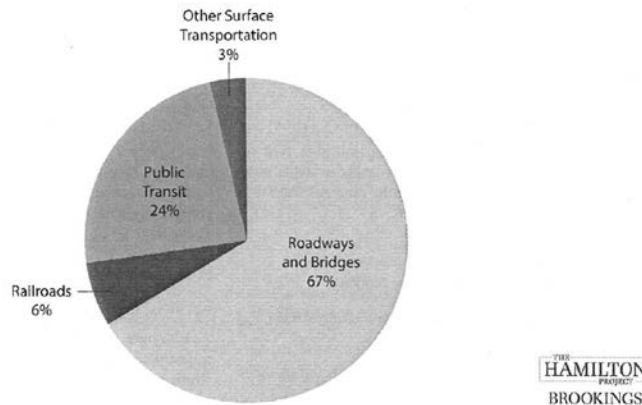
Finally, there are often substantial benefits from infrastructure that escape easy quantification, such as the utility of traveling outside congested periods or areas, broader economic and productivity gains, and the health benefits from living in walkable communities. These free benefits may be distributed progressively, or may be distributed to those on the lower end of the socioeconomic spectrum who do not pay the user fee.

2. THE RISKS STEMMING FROM USER FEE ADOPTION

As with most infrastructure, state and local governments and infrastructure operators will be the ultimate decision makers as to whether to adopt a user- or beneficiary-fee model. Adopting new technology comes with additional costs and risks. Developing and implementing new forms of fee collection can have higher upfront costs and uncertainty about revenues if the technology does not function as expected. In order to promote adoption, we believe that the federal government should provide subsidies to early adopters of such systems, subject to oversight. These subsidies can take the form of direct payments, below-market interest rates, flexibility in terms of existing federal matching requirements, and explicit acceptance of tail-risk outcomes. We define tail-risk outcomes as the potential that the infrastructure asset fails to generate any substantial revenue as compared to estimates (e.g., less than 10 percent of projected revenue).

Subsidizing early adoption would also promote standardization, particularly given the long lead times of infrastructure projects. For example, imagine if such a subsidy program were announced today with a generous but declining subsidy level: State and local governments and infrastructure providers would have a strong incentive to adopt these forms of revenue and standardize collection. While some projects would move quickly through planning and so receive subsidies, others would undoubtedly hit unexpected snags and delays. The world of infrastructure projects is rife with such unexpected delays. However, as the early adopting projects demonstrated success and the perceived level of risk diminished, the private financing system would be increasingly comfortable providing capital. As government subsidies fall over time, market participants would be willing to provide financing on more-generous terms, balancing some of the decrease in subsidies. Thus, we believe that even as initial subsidies fade, our financing system will have enough momentum to sustain itself at the state and local levels.

FIGURE 2.
TIFIA Project Loan Allocation, by Project Type



Source: USDOT (2015b).

Note: All TIFIA projects (retired and active) are included. "Other Surface Transportation" includes road and/or public transit projects at airports, ferries, and intermodal transit centers.

3. WHETHER SUFFICIENT DEMAND EXISTS FOR THE FEDERAL FINANCING PROPOSED

One critique of the TIFIA proposal is that it relies on a build-it-and-they-will-come basis. While we can definitively show excess demand for the current level of funding, we cannot definitively show sufficient demand for the size and scale of our proposal. In addition, the robust and highly developed municipal finance market, which offers a substantial federal incentive in the form of an exemption from federal tax, would appear to be a viable alternative. As credit market conditions return to a more-normal state post-financial crisis, the competitive value proposed by programs such as TIFIA may decline. In fact, during several years of the credit boom in the 2000s, few eligible projects applied for TIFIA funds.

We believe that if there is to be an imbalance between the supply and demand for infrastructure financing, it is in the nation's interest to err on the side of having too much financing available rather than too little. Furthermore, knowing that additional financing is available may encourage planners to think for the longer term. This can be particularly true for infrastructure projects that are built to levels predicted by future demand rather than current demand. For example,

certain interstates that are congested today opened years ago to low traffic volumes and public accusations of overbuilding.

Rather, an alternative criticism of our proposals, particularly in the short run, is that we are not being bold enough. The potential that federal government support is not compelling relative to alternatives, including the municipal bond market, is real. If the municipal credit market can offer better terms that provide sufficient incentive for a project to get built, then that is a good outcome. If infrastructure is created to meet demand without the support of these proposals, we would see that as a victory. But why take this unnecessary risk?

4. CONCERNS ABOUT THE ABILITY TO FINANCE PROJECTS ACROSS MODES OF TRANSPORTATION

One of the major problems within federal infrastructure policy has centered on the difficulty in creating policies and programs that work through multiple modes, or types, of transportation. For example, TIFIA was criticized for effectively favoring road projects over transit projects (Baxandall 2012). As of April 2015 roadway and bridge projects received two thirds of all TIFIA loans, public transit received just under a quarter, and railroads and other surface transportation projects received 6 percent and 3 percent, respectively (USDOT 2015b).

However, changes to the program contained in the recent surface transportation reauthorization, MAP-21, have allayed concerns of some critics (Transportation for America 2012). The government has taken steps to work more proactively across transportation modes, such as the changes within USDOT's Credit Council to provide enhanced multimodal analysis (GAO 2012).

On a more fundamental level, the diagnosis of the problem of a lack of multimodal cooperation should not preclude a multimodal solution. By enhancing the multimodal

capabilities of programs like TIFIA, and encouraging projects that cross modes, these proposals offer incentives to correct past mistakes. In addition, the requirement to rely more on revenue generated from infrastructure, through user and beneficiary fees and ancillary economic growth, ought to encourage cooperative thinking. Including more modes of transportation with shared vested interests in building infrastructure will also likely enhance cooperation. The alternative to solving this project would be greater central control of a single entity of multimodal scope, which is a far more radical proposal than this one.

Chapter 7. Conclusion

There is little dispute that the United States would benefit from enhanced infrastructure investment. The barrier has been finding a politically viable solution to the financing challenge. An infrastructure overhaul is timely for macroeconomic and employment reasons. Public borrowing rates are at historical lows, and the lower cost of funds today will result in greater net benefits for society in the long run. Also, while the labor market has rebounded significantly from the economic recession, sectors that contribute heavily toward infrastructure, such as construction and manufacturing, remain slack and would benefit from greater demand.

Breaking the political logjam on infrastructure financing is imperative. In the near term, we propose an enhanced and

strengthened TIFIA program, a restoration of the BABs program, an expanded Army Corps, and reform of the gas tax, to responsibly increase infrastructure investment without raising taxes for the American people. In the longer term, we propose mechanisms for the federal government to promote better utilization of user fees, a federal platform for pooled procurement, and the creation of a National Infrastructure Strategy Commission that would aim to better coordinate and finance projects aimed at bolstering America's backbone. If adopted, these proposals would put our nation back on track to build and maintain infrastructure that is critically needed to advance economic growth and prosperity through the twenty-first century.

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Endnotes

1. As of March 26, 2015, the yield on the 10-year Treasury note was about 2 percent.
2. The federal tax on diesel fuel is 24.4 cents per gallon; this level is also unchanged from 1993 (USDOT 2015).
3. This point has also been made in a recent Hamilton Project discussion paper by Kahn and Levinson (2011).
4. For a current portfolio of TIFIA-financed projects, see USDOT (2015b).
5. On the other hand, the higher federal match means fewer nonfederal resources are needed for a project of a given size, and this could increase the chance that a given project will be funded.
6. Technically, their proposal varies with the price of oil and applies to upstream oil purchases. While there are good arguments for imposing the tax on oil, whether it is used for transportation fuel or other purposes, we propose taxing gasoline to align the tax with a user fee.

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Highlights

Roger C. Altman of Evercore, Aaron Klein of the Bipartisan Policy Center, and Alan Krueger of Princeton University offer seven proposals to address the lack of investment in the nation's infrastructure and improve its financing. These proposals—four of which would be implemented in the short run while three would be implemented in the longer term—would reduce inefficiencies, create jobs, and spur economic growth.

The Proposal

Expand TIFIA. The federal government would expand the amount of funding available through the Transportation Infrastructure Finance and Innovation Act (TIFIA) from \$1 billion to \$10 billion annually, expand eligibility to nonsurface transportation infrastructure projects such as airports and seaports, and improve internal accounting to increase the amount of private sector financing that can support TIFIA projects.

Bring Back BABs. The federal government would restore the Build America Bonds program to provide a direct interest subsidy to support infrastructure projects financed by state- or locally issued debt, at no net cost to the federal government.

Expand Utilization of the Army Corps of Engineers and Harbor Maintenance Trust Fund. The federal government would more effectively employ the Army Corps to carry out high-priority projects funded with the \$8.5 billion Harbor Maintenance Trust Fund surplus.

Reform the Gas Tax. The federal government would index the gas tax to inflation and have it vary inversely with the price of gas to promote price stability and shore up the Highway Trust Fund.

Modernize User Fee Technologies. The federal government would incentivize state and local governments to adopt new forms of user and beneficiary fees to finance infrastructure projects, while also encouraging innovation in user fee technologies.

Encourage Pooled Procurement. The federal government would establish a national platform and provide funds to state and local governments to encourage pooled procurement of materials and equipment.

Develop a National Infrastructure Strategy. The federal government would create a commission charged with longer-term strategic planning and coordination between the many modes of the nation's transportation infrastructure. Their strategic plan would guide subsidies for infrastructure investment.


Benefits

These proposals would help increase infrastructure investment by expanding financing, more efficiently using existing funding sources and developing new sources, lowering costs, and improving coordination and planning across levels of government. Increased infrastructure investments would reduce economic inefficiencies and costs from deferred maintenance, boost economic competitiveness, create jobs, and encourage economic growth.

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Mr. YOUNG. Now, I understand, as does everyone here, that P3s aren't a panacea. They are not going to take care of all of our infrastructure financing needs. And, ultimately, those bonds need to be paid off, whether that is a prescriptive model driven from Washington, D.C. or, instead, left up to the States, or some combination thereof.

But with all of that laid out there, and with 2 minutes remaining, I want to ask Mr. Poole this. I often hear from some of my colleagues that PABs, or public activity bonds, are suboptimal, because they allow the creation of infrastructure that doesn't serve a public purpose.

Now, it is my understanding that there have been some special programs in response to, say, natural disasters, where the impetus was to get money out the door. But beyond those sorts of in extremis situations, are you aware of any instances where infrastructure has been created under PABs that don't serve a public purpose in recent years?

Mr. POOLE. Not that I am aware of, certainly, in the PABs that were authorized for surface transportation projects. Those have to meet a strict criteria, and they are all—can only be authorized for a State to issue on behalf of P3 projects if the USDOT's credit council approves them as meeting the requirements of the statute that says that for serving the public interest—I think 90 percent of the users have to be benefiting members of the public. And they are all doing that, as far as I can tell.

Mr. YOUNG. Thank you. Beyond that misunderstanding—which I also sense is a misunderstanding—do you agree with concerns that I have heard from numerous local governments in Indiana and even from some folks outside my own State, that one of the main inhibitors to the use of P3 models, delivering oftentimes below cost, ahead of projected schedule, and delivering important services with private capital at a time of constrained resources, is one of the main concerns with competition with munis, which don't allow private sector engagement?

Mr. POOLE. Well, there has been some tension in a few States between government toll authorities and the private sector, whereas the government toll authorities believe—this is true particularly in Texas—they should have first pick of projects, and not let the private sector come in and take them. That is the only kind of problem of that sort that I have noticed. And that—it has only been, really, in Texas that that has been a problem. In Florida and Virginia it has not come up.

Mr. YOUNG. But this dynamic is a real one.

Mr. POOLE. It is a real one.

Mr. YOUNG. Munis, and then—which also do not allow private-sector—

Chairman RYAN. Thank you.

Mr. YOUNG [continuing]. Engagements. Thank you, sir.

Chairman RYAN. Thank you. Mr. Kelly.

Mr. KELLY. Thank you, Chairman, and thank you to all our witnesses.

Now, I know we talk about this, we don't want to make it political. But, as everything in this town is, everything is political. Just to set the record straight and not to get into any type of an argu-

ment, it is interesting that when the Minority was in the Majority, they actually extended this, I think, in that short time period—when you were in the Majority, the short-term extensions, I think, took place eight times. And so, when it comes to—what, do you want to use the term “kicking the can down the road,” or putting something off until a better time? I just don’t want to make it too disingenuous about what is going on.

And I agree with what you say, Governor, it takes a really strong government to raise gas taxes. Our former Governor Corbett in Pennsylvania did that. He is no longer Governor. Pennsylvania has the highest State tax when it comes to gas. And when I am back home, everybody I talk to there says, “I want better roads, I want better bridges, I want better railroads, I want better waterways, I want everything to be much better,” and I say, “That is fine, who do you think should pay for it,” and they say, “The government.” And I say, “Fine. You know where the government gets its money,” and they will say, “They have all kinds of it.” I say, “Yes, but they get it from you.”

So then it becomes a matter of—Mr. Poole, I really liked your analysis, talking about how we would get to that. And I think your term is “users” and “beneficiaries.” But the truth of the matter is payers and users—the end game for all of this is the consumer. I don’t care what it is, I don’t care what we talk about in this town. When it comes to who is going to pay for everything, make no mistake. Whether it is a good or a service, it is the final consumer who pays for it. And that is where the money comes from.

I liked your idea on the—I think Mr. Neal had talked about the bonds, because I think you get more of the private sector engaging in something where there is a positive ROI, and it is an upscale. Everybody wins under that situation.

Listen. I don’t think there is any lack of recognition of where we are on this. But it really is—as much as we would like to say it shouldn’t be partisan and it shouldn’t be political, it is totally partisan, it is totally political, and it is totally the end to your career here if you choose to raise taxes, though well intended. If you use the phrase for the general public’s welfare, the interpretation will be that you are a tax-and-spend guy or girl who just wants to keep raising taxes so the government can keep paying for it.

I know in my home State of Pennsylvania, as—I am going to repeat it—I mean everybody wants better roads, better river—bridges, rivers, everything else.

[Laughter.]

We deal not only with the Highway Trust Fund, but also with the Harbor Maintenance Trust Fund. Everybody who puts into that says, “You know what? I don’t mind putting in more, if the funds would stay dedicated to the reason I put it in.” And I think, until we learn to do that here, it is going to be very difficult.

You know, we have college education—we set money aside for our kids for college, and then we have a hot summer and we decide to put a pool in, and we get the money from the kids’ college education fund. Then, when it is time for them to go to school, we say, “Gosh darn it, you know, I hope you had fun in the pool, because you are not going to school.”

Mr. Poole, what else could we do? And break it down for me, because you said—and if I understood you correctly, and I read your testimony—in the Highway Trust Funds we use funds out of that for a lot of other programs, to fund them, that—this is the only fund that does that. Is that correct?

Mr. POOLE. I have not studied the other transportation trust funds to a significant degree. But I think the diversion to not building highways and bridges and transit systems of half of the trust fund money strikes me as extreme, and I don't see that happening with the aviation trust fund that I do know a lot about.

So I think it is really time for Congress to take a hard look at that. And so, part of the answer—I mean, obviously, we need to invest more in this country in transportation. But part of the answer is to spend wisely and spend it on the core priorities, and not try to be all things to all people.

The Federal Government—Federal fuel taxes are not very credible to people. They don't believe they are getting value, they would get value if they went up. Most of the States are able to—State DoTs and Governors are able to come up with a credible package and persuade the voters that they will really get something out of it.

Mr. KELLY. But that is the key. I think the Governors—

Mr. POOLE. That is really the key.

Mr. KELLY [continuing]. Around his State proving to people this is a good investment—

Mr. POOLE. Absolutely.

Mr. KELLY [continuing]. A great return on this investment. That is the gap that we face, really. I don't think there is a person on this panel or in this country that doesn't agree that we need to do it. It is how you get it to a point where people out there who are paying for it accept it, and also understand the fact that, you know, necessarily, prices are going to rise if we are going to continue to build our infrastructure. That is just the way it is.

So, I think what you did was marvelous, but it really does take a really strong will and ability to get out and get people to listen to what you are doing, with the end result being an uptick for the American people, and not just a drain down, because certainly their cost of living, especially for middle-income people and lower-income people, they are getting killed right across the board with this.

So I appreciate you all being here today, and this is something we are going to—I guess we will continue to talk to, but there has to be a positive end. Thank you.

Chairman RYAN. Thank you.

Mr. Renacci.

Mr. RENACCI. Thank you, Mr. Chairman, and again, I thank the witnesses for being here. I really appreciate it.

Ten months ago I sat in this hearing room and said that I would never vote for another short-term solution. I said that to the Chairman. But I did vote for that one. I told him I would vote one more time. So when you say no around here, you better have an answer. And I spent the last 10 months trying to come up with an answer. And, sure enough, I have talked to think tanks, and I have talked to individuals.

But the most important people I talked to are my constituents. And my constituents, when they really realize that paying for something is important, user fees are important, they agree with it, and they are okay with it. They just want to make sure that what they are paying for they are getting.

And it is interesting, because the one thing we have never talked about—I was also a Mayor in my community—we had a project back in 2002, it was \$18.1 million. It was an interstate project. I was the Mayor and I had to come up with \$1.8 million to put our 10 percent in. That money is now still sitting there, 12 years later. And that project, today, is over \$30 million. And that is the number we never talk about, the delay and the delay and the delay and the upward cost. And that is why these short-term fixes are not the answer.

We have to make sure that we look at what is going on in the real world. So I also talked to my constituents, brought it to my Tea Party people. And everybody is afraid of the Tea Party. I brought them all in. I said, “Well, I have a bill. That bill indexes the user fee. Are you for it or against it?” First they were against it too, and I explained it to them.

You know, then, what they said to me? “Quit going to the general fund. Quit going in there and taking dollars, because what you are doing is you are passing it on to our children and grandchildren. And what I would be willing to do is pay a user fee, as long as I get my roads and bridges fixed.” Amazing.

One person said to me, “I just busted a rim. It cost me \$400. And it would only cost me a couple pennies a year so I don’t bust my tire?” It costs the average driver \$200-some per year in repairs. Truck drivers, I am sure, it costs them. So we have to come up with a long-term solution. We just can’t continue to go down this path.

And when I hear people talk about, you know, electric cars, they only represent .71 percent. We have to start—when I hear people saying we have more miles per gallon, absolutely. We have more drivers, 23 percent more drivers since 1980. So if you start using statistics here, we just have to come up with an answer. Because statistics, I have learned a long time ago, can be used in your favor or against you.

Now, what I heard from all three of you—and I hope you will answer this—you all agree that user fees are the answer. Correct? Every one of you?

Mr. SHIRLEY. User fees provide, certainly, good incentives.

Mr. RENACCI. All right. In fact, Mr.—

Mr. SHIRLEY. Or economic—

Mr. RENACCI [continuing]. Poole, you say using general fund and other non-transportation revenues to bail out the Highway Trust Fund undercuts integrity of the user-pay/user-benefit principle.

Mr. POOLE. Yes, and I firmly believe that. And I think there is—in the written testimony there is a lot of amplification of the reasons why user-pays/user-benefits is the best approach. And I think we are probably all in agreement on that.

Mr. RENACCI. Right. And that is what I thought I heard.

And I also heard you all say—and I agree with you—that we don't—we are not going to have an answer by July 1st, a user-fee answer. Correct? You would all agree with that? So, we have to come up with a long-term solution.

Now, Mr. Pascrell mentioned a bill that he and I have. And, quite frankly, it does give us 18 months by indexing the user fee. But what a lot of people don't realize in that bill is that the bipartisan bicameral committee can eliminate that index. If they think there is another answer, they can go and—so it is not really an increase, it is a short-term solution.

Now, Mr. Poole, you also mentioned—and I heard it in your oral testimony—that we should stay with a user-based system, but we should modify it in order to get to what you believe is a vehicles miles-driven tax. Correct?

Mr. POOLE. That is correct, yes.

Mr. RENACCI. So some modification of the current user fee would get us there. Correct?

Mr. POOLE. Well, we need to get about 10 years before you could really have something at the Federal level, a mileage-based user fee that would really be politically and economically feasible.

Mr. RENACCI. Well, I am glad you said that. Because the other thing I did for the last 6, 10 months, is go around to my colleagues and ask them for answers. And I have had people say, "I am not voting for anything but a vehicle mileage tax," and I say to them, "That is 10 years down the road."

Mr. POOLE. And you are right.

Mr. RENACCI. You just confirmed that.

Mr. POOLE. You are right.

Mr. RENACCI. But I think what I am hearing out of this—and I really do appreciate the Chairman willing to have this discussion—is we need to have a user-fee-based program, and we need to do something long-term. And that is why, if you know the text of my bill, it gives us 18 months, it sets up a bipartisan, bicameral committee. Any thoughts on the bill from any of you that are aware of it?

Mr. GRAVES. My only comment, Congressman, that, based on what I saw in the last day or two from CBO about the—again, the challenges with debt, with the need for this Congress, this country, to wisely use its general fund revenues, I think the near-term solution is something that is user-based, and the long-term solution is, well, whatever the long-term solution might be.

Chairman RYAN. Thank you.

Mr. RENACCI. Thank you. I yield back.

Chairman RYAN. Thank you.

Mr. Meehan.

Mr. MEEHAN. Thank you, Mr. Chairman. And I thank you for holding this important hearing. I have a couple of questions that I would like to get some feelings on.

One—and, Mr. Poole, you have identified a couple of times that there have been ideas of prioritizing and moving away from support of other kinds of transit. But I represent an area that is a suburban/urban area, with 36.7 million trips last year that were taken on that. And, in fact, the regional rail, which has not been invested in other regions—part of the problem in California, the

lack of this regional rail—that which exists has increased by 50 percent over the last 10 years. And so, the utilization rates are up.

If they are left to not get the kind of support—what does that do to create flow back into already crowded places where—these kinds of Federal investments in highways, it is increasingly expensive to do the kinds of construction in urban areas.

Mr. POOLE. Well, in my testimony I did not call for eliminating transit from the trust fund. Although, in principle, it is a local issue that eventually I think ought to become, again, a local responsibility, like it once was. But there are a lot of other things that could be done—

Mr. MEEHAN. Can you do that, if you have 36.7 million people? Can you make that a local—

Mr. POOLE. Well, I think so, if you look at more cost-effective approaches. And a combination of an improved design of a bus system, outsourcing competitively to bus operators and a big push for bus rapid transit, which is a lot more cost-effective in most cases than passenger rail, could significantly reduce the cost, while increasing the service that—

Mr. MEEHAN. If you take passenger rail and you are coming from—you could get into town in 22 minutes. The same bus ride is an hour and 25 minutes.

Mr. POOLE. Well, there are ways—if your freeways have express lanes, express bus service—

Mr. MEEHAN. Where do you put an express lane? Have you driven in New York lately?

Mr. POOLE. I have not driven—I try not to drive when I am in New York—

Mr. MEEHAN. Let me ask a question, just one other thing. And I appreciate that. I have questions about vehicle miles traveled. And I think it is a fascinating concept. But I also bring a history in some other areas, working on matters associated with privacy and other kinds of issues, with cyber. How does this work?

And those of you who have spent time, will Americans buy into the idea of having the government track everywhere they are driving?

Mr. POOLE. No, they won't. And that is why that is not the solution. There—Oregon, I think, is doing the most important pioneering work, and I give some examples in the written testimony. There is a whole array of options, including an all-you-can-drive option, where, when you pay your annual vehicle registration fee, you pay a fee that is your mileage charge for the year. Another simple one is you have your odometer read. If your State has an annual vehicle inspection or a smog check inspection, they read your odometer then, and you pay a fee, a per-mile fee, based on how many miles you have driven.

There are low-tech options that use cell phone towers to tell the general area you are in if you are at a State border, where you need to know how many miles to go to New Jersey and how many to New York, a cell phone tower can—without tracking exactly where you drive, but just which side of the border you are on.

So there are a lot of options, and that is why we need pilot programs, we need a lot more research to figure out how to do this

in ways that are cost effective and privacy protected. We are in a learning stage right now.

Mr. MEEHAN. Governor, Mr. Shirley, in my remaining minute, do you have any insights on—

Mr. GRAVES. Well, I just—on that point, I would refer back to my submitted testimony in that the—you know, the estimates, however, are that we have to figure out how to collect from about 250 million moving vehicles, 250 million. And this will be a government program, for the most part. Maybe we can privatize it.

But my concern would be—is that today we collect fuel tax from about 1,000 payers, and now we want to transition to 250 million. So let's just—again, I agree with a 10-year assessment. It is not ready for prime time, and might not be for quite some time.

Mr. MEEHAN. Thank you for your insights.

I yield back.

Chairman RYAN. Thank you. Mr. Davis, do you want to go? The gentleman is recognized.

Mr. DAVIS. Thank you very much, Mr. Chairman. This has been a very interesting hearing. And I want to thank the witnesses for all of their testimony.

You know, we have heard a great deal, in terms of options, in terms of possibilities, alternatives, approaches that might be used. I noticed that many people are totally averse to the notion of taxation, that we try to avoid it as much as we possibly can. And when we get down to the bottom line, the ultimate is that the consumer, or the people, will always be the ones that pay, will always be the ones that pay.

I am thinking it was Justice Oliver Wendell Holmes who suggested that taxation is the price that we pay for a civilized society, meaning that there is no way around it. Another one of my favorite philosophers, a guy named Frederick Douglass, used to say that he understood one thing if he didn't understand anything else, and that is in this world we may not get everything that we pay for, but we most certainly will pay for everything that we get, and that if we didn't pay one way, we would pay another way. Another truism is that we go all the way back to the Bible, and the prophet Isaiah suggested that we had to come and reason together, otherwise we would ultimately be destroyed by the edge of the sword.

And so, as I think of all these philosophical—Lyndon Johnson was fond of saying there is no gain without some pain, that there is just no way around it. I think that the general public is pretty reasonable when they understand. We are not talking about any kind of entitlements. We are not talking about any safety nets. We are not talking about any kind of giveaways. We are talking about how do we maintain, an absolute need, our infrastructure that we can't do without, that there is just no way to do without it.

Governor, I find you to be quite refreshing, in terms of your approach that is kind of direct, saying you have to bite the bullet, you have to do what you have to do in order to accomplish what it is that you want to accomplish. How do you feel the general public might react? I mean we have seen gasoline prices fluctuate. We have seen them go way up, where you don't want to go to the service station. We have seen them come down. How do you think the general public might respond to a modest gasoline tax increase like

Mr. Renacci may have been talking about, or Mr. Pascrell may have been talking—how do you think the general public, the guy who has to pull up to the pump, might respond to that?

Mr. GRAVES. Well, Congressman, I think it depends a lot on the program that you all would sell to the public. And you have to—you know, again, you have to tell them, “This is what you are going to get in exchange for what we are asking from you.”

I think my concern in this entire discussion is that, if we are worried about what it costs people, I am still one who believes that almost every option we have discussed has a price point that is greater than what the price point would be if we funded it through the fuel tax. And I—you know, tolls, if we are worried about people’s mobility, toll is an impediment for a lot of Americans to enjoy the mobility that they enjoy today. PPPs, as I said, there is an ROI expectation, that people are going to make money off of operating that system.

So, I am just—you know, as you can tell, I am a fan of the system we have, it is the one we know. But I am not averse to discussing what a future would look like that might be different than that.

Mr. DAVIS. I thank our witnesses, Mr. Chairman, I thank you, and I yield back.

Chairman RYAN. Thank you.

Mrs. Noem.

Mrs. NOEM. Thank you, Mr. Chairman. I come from a part of the country that a lot of folks refer to as flyover country. I call it home. And I love it there. But the fact is it is one of the areas where we need roads and bridges to move commerce and move people. No matter where you drive or where you go, it is a long way to get there.

In fact, you know, families have to drive tens of miles to go to the doctor, to get groceries, to go to work, to go to school. Every morning at my house, four vehicles leave the yard, and by the time they come back they have traveled hundreds of miles. And that is just an everyday occurrence that happens in South Dakota.

And so, I am very concerned about transportation funding, because it is necessary to have good roads and bridges all the way across the country to move commerce, and for that to happen efficiently in America. But also, we need to make sure that we aren’t disproportionately putting a burden upon people in rural America. We do not want to hollow out the center of this country by forcing high costs on people that can’t afford it.

I had one woman I visited with in a grocery store one winter that came to me, crying, with her hands full of coupons, because she couldn’t pay her electricity bills because they were so high because of the cold weather. She had ridden into town with a friend to go to work, but therefore had missed taking her son to the doctor and had missed her daughter’s basketball game, because she was waiting for her friend to get off work so she could ride back home with her.

And that is the concerns that I have when we talk about a VMT tax or adding some kind of miles traveled tax. And I know, Mr. Poole, this is something you have put forward as a solution. But tell me. Is there some kind of an assessment that we are going to

take into account the high burden that we will be putting on people in rural America with that kind of a system?

Mr. POOLE. The researchers that are working on this are very aware of that concern and that problem. And a couple things—you know, this is longer than we have time to discuss. But, number one, there is good statistical evidence that, on average, rural people drive fewer miles per year than urban people.

Now, that is going to vary in different cases, but that is important to keep in mind, to the extent that that is legitimate, and a verified fact. Number two is that a VMT system doesn't necessarily charge the same rate for every kind of road. It may end up charging higher rates for premium roads, like interstates, and lower rates for, you know, two-lane farm-to-market roads, and this kind of thing, because those roads actually, you know, do cost less to build and maintain.

Mrs. NOEM. Yes.

Mr. POOLE. So this is what I mean. We need more research on this. A lot of research is going on. We don't have all the answers yet to how a system like that would work.

Mrs. NOEM. Okay. Governor, could you speak to this issue, as well? Because you may have some experience. I know that one of the proposals being put forward by your association is to have an increase of the user fees. But while in your industry it can be passed on to customers, that is not available to people that maybe are incurring that increased burden themselves and upon their family budgets.

So I am concerned about that, especially being from a part of the country where we just don't have public transportation as an option. There are no buses, there is no rail, there is no other way for them to get anywhere, except through their own vehicles that they have the cost of maintaining and running, but also paying the gas to fill them up every day. Could you speak to this issue, as well?

Mr. GRAVES. Well, I think that, if I understand, you know, as I said earlier in my comments, we are not benevolent. We are going to figure out, as commercial operators, how to embed within our freight rate cost whatever it is, whether it is an increase in the fuel tax, whether it is toll, whether—you know, whatever it might be.

And I just—you know, I could be proven wrong here, and Bob probably will at some point, but I still believe that, at the end of the day, the least expensive option of raising the money we need for infrastructure is the fuel tax. It is basically in the neighborhood of 1 or 2 cents on every dollar raised, compared to anything else you might use.

Mrs. NOEM. Okay. Mr. Shirley, could you speak to CBO and how you look at geographical locations and take into account some of the challenges that we have been discussing, the variation between rural and urban areas of the country, and if that is accounted for in the analysis?

Mr. SHIRLEY. Certainly. That is something that, you know, we see as being a difference out there between different geographical areas.

In terms of a potential VMT tax system, you know, there would be trade-offs between sort of how perhaps complex this system would be to administer, and what the cost might be for that. A

trade-off between that and the ability to allow for different fees or taxes to be charged in different areas. That would be one factor to take into consideration.

Mrs. NOEM. Well, I just want to, as we have the discussion, have a complete discussion, and talk about the challenges that we face in certain parts of our country. In urban areas we have seen investments by the Federal Government, and many more dollars poured in to provide other transportation options that simply doesn't happen in rural America. And so I think we do need to take into account that we are placing a higher burden on the individuals in certain parts of the country when we look at user fees, just because of their lifestyles and the area and the geographical location in which they are located.

Chairman RYAN. Thank you. Thank you.

Mr. Larson.

Mr. LARSON. Thank you, Mr. Chairman. And thank you again for holding this hearing. And I think I want to thank the witnesses for their patience and persistence.

And I would also remark, Mr. Chairman, that the—I saw the lines of people waiting to get in here. And the number of people who have stayed here to listen to Members of Congress and to listen to our key witnesses, I think underscores the importance of this meeting.

I want to associate myself with the remarks of Mr. Pascrell and Mr. Renacci. I want to commend them for their legislation. And it is my sincere hope that we can take this up. I think that is an important step forward. And it is not kicking the can down the road. And I respect what my good friend, Mr. Kelly, had to say, but this is about us. This is about the Congress now, and our opportunity to do what we were elected to do: Vote.

I would quickly ask all the panelists—I am sure I know your answer to this—do you think we should kick the can down the road beyond July 31st? Yes or no.

Mr. GRAVES. I prefer that you not.

Mr. LARSON. Prefer that we not? Prefer that we not?

Mr. POOLE. I prefer that you not, but I don't think you have any choice.

Mr. LARSON. You would prefer that we—or you can't answer, Mr. Shirley, actually, probably.

Mr. SHIRLEY. CBO does not make policy recommendations.

Mr. LARSON. I understand that, and so should the audience, you know, that that is not your position.

So let's—so this is what we have here. I mean this is all going to be determined. And for people out there in the viewing audience, it pains me to say this, because I believe that we should step up and take our responsibility head on, and I believe that is what the American people expect out of us. And it especially pains us, because we know that the only jobs bill that is before the United States Congress is, in fact, this bill. This is the only opportunity people are going to have to vote on jobs, and we are going to kick that can down the road, which further destroys people's credibility in Congress.

I do think that there will be a solution. I do think, unfortunately, that solution will come by way of an omnibus bill.

Now, for those of you—and many in this audience are familiar with omnibus bills—but Congress either does a continuing resolution or an omnibus bill. We don't do anything in regular order, which means we don't take up good proposals like this. We wait until the last minute because we can't do the fundamental thing that we were sent here to do, which is to vote on difficult subjects.

If we did, irrespective of the outcome of the vote, we would be moving the agenda forward and the—so that is really why these public hearings are important, that we need the opportunity to vote.

I think a number of you have mentioned, with respect to private activity bonds, that you support them. Am I correct in saying that? And at least, Mr. Shirley, you acknowledge the benefits that they would provide, as well, in terms of the testimony that we have heard. We—however, that has been eliminated. Private activity bonds have been eliminated in a draft of the tax reform bill put together by our colleagues. I think we have to revisit these things, as well. But, fundamentally, we have to vote.

Mr. Tiberi, who is a dear friend of mine, said, “Look, you have to”—in some of his comments talking about how he agreed, as I do, with what Mr. Neal had to say about private activity bonds and Buy America bonds, and what we have to do. And he said—and then acknowledged, “Keep the pressure on us.”

Well, we were elected to vote. And that is our fundamental responsibility. And it may be, as Mr. Poole suggested, we get to the 31st and you see no other alternative. Let us hope—and our Chairman is very resourceful—let us hope, as they come up with a bridge, that it is not a bridge to nowhere, that, once again, everyone in America doesn't see us kicking this down the road again to come up with another piecemeal solution.

Mr. Renacci and Mr. Pascrell have put forward a bill that at least can provide us with that opportunity to do all the studies that we need. Personally, I would agree with Mr. Graves. I would be for whatever it takes. If it is a gas tax, it is a gas tax. If it is a carbon tax, it is a carbon tax. But, for God's sake, put America back to work. That is what Roosevelt would have done, that is what Eisenhower did. When are we going to step up to the plate, as Americans, not Democrats or Republicans, but as Americans, and do the right thing for the citizens we represent?

I yield back my time.

Chairman RYAN. The gentleman is done with his question.

[Laughter.]

Mr. LARSON. Mr.—

I did have a couple.

Chairman RYAN. Mr. Dold.

Mr. DOLD. Thank you, Mr. Chairman. And I just want to say to my good friend, Mr. Larson, I don't disagree. I think, as we look at a long-term surface transportation bill, this is absolutely critical. This isn't a Republican or a Democrat issue. We all use the roads. And, frankly, as we look at how do we grow our economy, people are looking. When they are saying, “Where am I going to place my business,” one of the things that they look at is they look at our infrastructure. “How am I going to get my raw materials in? How

are we going to get our finished product out?” And, certainly in the Chicago terminal, my home area, how do we move people around?

I mean this is absolutely critical. In talking to stakeholders back in the Chicago area, they are looking for that long-term certainty. How do we buy rail cars? Do we buy them one at a time, or do we buy them ten at a time? I can get a much better price if I am buying them ten at a time. The same thing is true if we are looking at how we are going to be able to fund our roadways.

And so, frankly, this is an issue that has been kicked down the road. The can has been kicked by multiple different Administrations. We need a long-term surface transportation bill, and that is one of the things that I do believe unites us. And, frankly, we need to look at creative ways on how we are going to be able to fund this, because we have been operating, obviously, at a deficit for a period of time, roughly about \$13 billion on an annual basis is kind of what the shortfall is. That is some pretty real dollars.

And so, you know, when I look at certainly the Chicago terminal, and I look at Chicago and mass transit and highways—because, again, there are some that want to talk just about the roads, and I want to make sure that people understand that mass transit—and I know some of you on the panel aren’t necessarily big fans of mass transit—but when we look at congestion—Governor, can you talk to me for a second about how congestion impacts trucking and impacts just overall productivity?

Mr. GRAVES. Well, again, I think the submitted testimony reflects the Texas Transportation Institute’s assessment of the billions of dollars that directly impacts our industry, just sitting idle. And, obviously, we have the hours of service issue, where, you know, a worker might be out trying to move a load, and if they somehow get caught in congestion, and then the hours run out, then you can’t finish the delivery, which disrupts the supply chain.

And, of course, to Americans in totality, I believe the number is well over \$100 billion of—\$120 billion—of impact on our economy each year.

Mr. DOLD. That is a lot of money. I know UPS did a study that said for every 5 minutes of idling time it cost the company about \$100 million. Now, when you expand that off—that is enormous.

But I want to highlight just another issue that is—okay, that is a business perspective, but I am talking about a real-life perspective. So we have switches, you know, that date back generations in the Chicago terminal. And, frankly, that could add as much as 15 minutes a day to somebody’s commute on a train, 15 minutes each way. That is 10½ hours a month, if you are a regular commuter. That is time that you could spend with your family. That is time that could be spent doing a lot of other things. That is a quality of life issue.

And so, as we look at these types of things, Mr. Shirley, can you elaborate on the connection between the highway account and the mass transit account within the Highway Trust Fund? Specifically, do drivers on the roads and highways benefit from a robust mass transit network?

Mr. SHIRLEY. So, drivers may face congested urban areas. Mass transit may make some contributions to reducing some of that congestion.

Mr. DOLD. It is a "may." You think it may reduce? Could you definitely say it absolutely does?

Mr. SHIRLEY. Yes, mass transit systems—

Mr. DOLD. Absolutely do? I can tell you that in—certainly in the Chicago area, if we got rid of our mass transit system, we would see an increased congestion of 50 percent on our roadways. Talking to some of the folks over at Metra, they tell me we need an additional 29 lanes of traffic. So, I mean, again, that is a lot of traffic.

And so, again, I just want to make sure that, as we look at our surface transportation, as we look at this issue, it is going to be enormously important for us to work in a bipartisan fashion to come up with solutions. And, frankly, we have to start thinking outside of the box, because this is something that is not going away. And if we want to grow our economy, if we want to make sure that we are making people productive, this is one of the ways that we can do it.

Governor, can you talk to me just a little bit about the importance of freight in the Chicago area?

Mr. GRAVES. Well, there is—as I said, as our economy grows, and the number of people in this country grow, we have a ever-increasing demand for freight movement. And the supply chain has become very, very precise, in terms of what their expectations are.

The combination of the congestion, the road conditions, has made it very difficult for us to continue to meet some of those expectations, and it is having a very real impact on, you know, the economic competitiveness of this country, vis a vis the rest of the world. No doubt about it.

Mr. DOLD. Governor, thank you.

Mr. Chairman, my time has expired.

Chairman RYAN. Thank you.

Mrs. Black.

Mrs. BLACK. Thank you, Mr. Chairman. And I am going to wrap this up. I think I am the last one to ask a question today. The discussion has been excellent. This has been a great hearing. I appreciate all the panelists' written materials that you have given to us. I am going to keep them and reread them, because there is so much good material here.

I really appreciated, Mr. Poole, that you gave us a little bit of history there in the—1919 is when the gas tax was originally put in by States. And then in 1959 is when the Highway Trust Fund was begun by the Federal Government. Those are two little facts that I was not aware of.

But as we look at all of the challenges that have been talked about by my colleagues here, we know that regulations are increasing costs. I think we have to make sure that, as we talk about this, it is not a panacea to say the only solution here is to raise a tax. Because some of the folks in my community will say to me, "Well, if you just raise that tax on fuel, then it will take care of the problem."

But we know regulations are a part of increasing the costs in building a road when it takes—when I originally got into the public sector some 14 years ago, it took about 3 to 5 years in our community to build a road. Now it takes anywhere from 7 to 10 years. And the cost of those regulations are continuing to increase, and

that's money that comes out of our trust fund. That's robbing the trust fund for other kinds of things. Certainly I like walking paths, and I like those kinds of things, but that doesn't take care of a pothole that is in the road, nor does it build another road to decrease the congestion.

The cost of building materials is certainly going up. The cost of steel and concrete. So to just have that panacea, to say, "Oh, all we have to do is just raise the gas tax" certainly is not the answer to this. There are a whole lot of other things that we need to look at.

So I want to go to the user pays, the user benefits. And that is certainly how we ought to think about anything that we do, is that when I use something I have to pay for that. I know that the VMT has some promise to it.

I know, Mr. Poole, you talk about it is going to take a while before we can actually get there. Can you give me an idea of any State that has been using—doing a pilot project where you have seen things that have come out of that that we could maybe start with now, rather than waiting for 10 years to initiate?

Mr. POOLE. Well, I think everybody agrees that Oregon is ahead of most of the other States. They have a 5,000-person pilot program that is going to get underway July 1st. They are using private-sector vendors to be the interface for people so that it is a private sector company that is going to be getting the mileage totals and arranging with the State to get the rebates for the fuel taxes that people are paying, their per-mile charge, instead of the fuel tax.

They are also giving people a set of choices of how they want to pay. And that is a little more detailed in my written remarks. But that is—I think they have learned a couple of things. One is that it is really important that there be choices. Number two, we need a lot more trying out of different methods to see which ones people like and which ones they don't, which ones cost too much and which ones are economical.

There is also going to be—to go to Governor Graves' comments about the cost of collecting, on very large-scale volumes, at the scale of Oregon, they are looking at maybe 3 to 4 percent of the revenue needing to be cost of collection once it were rolled out to the entire State population. Now, that is more than the 1 or 1½ percent fuel tax. But it is not like the old tolling that was 20 to 30 percent of the revenue that was needed for manual cash toll collection.

So, there is potential there for this thing—these things to be economically doable. But we really don't know enough yet to do anything at—certainly at the Federal level in the next year or two, for sure. Maybe sooner than 10 years, but that depends on how much is learned on pilot projects in the next maybe 3 or 4 years.

Mrs. BLACK. What is the length of their pilot projects when they expect to be able to get some good information that could be shared—

Mr. POOLE. You know, I am not absolutely sure. It is at least a year in Oregon. And California is designing theirs, which is probably going to be a model on the Oregon one. But it will be at least a year, possibly two.

Mrs. BLACK. And I know my time is running out, but I think there is also some discussion that could be had on more toll roads. When you consider the amount of congestion that takes place on the roads that, obviously, are very busy roads, that—there has to be an alternative. Because sitting there for that amount of time I know—

Mr. POOLE. Right.

Mrs. BLACK [continuing]. Mr. Graves, you talked about how that costs the trucker that sits in that traffic. If there were an alternative, would the cost of that alternative be better than them sitting for that amount of time, and not delivering their product, interrupting the supply chain, and then also the cost of the driver sitting there, when he could be on the clock, actually delivering the product?

Thank you, Mr. Chairman. This was a great hearing.

Chairman RYAN. Thank you. Thank you, gentlelady.

The gentleman from Connecticut, did you have—I see that you wanted to make—

Mr. BLUMENAUER. Yes. Thank you, Mr. Chairman. Thank you for the opportunity to—for unanimous consent.

I would like the witnesses—I am sure you are probably familiar with the Hamilton Project, and a number of the recommendations that they have put forward. I would like to submit their summary to you and ask if you could respond to that. I know we don't have the time today. If you could respond with your—to their various notions that they have put forward. Thank you so much.

Chairman RYAN. Yes, thank you. This concludes the hearing. I want to thank the three of you, known experts in your field. This is very informative. You can tell that Members on both sides of the aisle have a lot of passion for this issue. We are in search of solutions.

I want to thank you for spending such a good amount of your time with us today. This concludes our hearing.

[Whereupon, at 12:45 p.m., the Committee was adjourned.]

[Questions for the Record follow:]


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Bill Graves
 President and Chief Executive Officer

July 21, 2015

 The Honorable Paul Ryan
 Chairman
 Ways & Means Committee
 U.S. House of Representatives
 Washington, DC 20515

Dear Chairman Ryan:

Thank you for the opportunity to provide additional input on surface transportation funding options. I am pleased to provide responses for the record to your July 8 letter.

Response to question from Rep. Larson. ATA has reviewed the May 2015 Hamilton Project report. The report makes several short-term and long-term recommendations for addressing transportation infrastructure investment shortfalls.

With regard to the short-term recommendations, three of the four impact highway funding, and one involves funding for harbor maintenance. We will address the highway funding proposals only. The document proposes to expand and reform the TIFIA program, and restore Build America Bonds. In general, ATA is not opposed to providing transportation agencies with additional financing tools. However, agencies' critical needs center around a lack of funding, and many cannot afford to take on more debt. Furthermore, we are concerned that additional debt instruments, without sufficient revenue, will spur state and local governments to accelerate their growing dependence on tolls as a primary source of funds for highway construction. As I mentioned in my testimony, toll financing is far less efficient than traditional methods, and many toll projects have failed to realize projected traffic and revenue levels, which creates public financial risk. Furthermore, we would be very concerned if additional bond subsidy costs are borne by the Highway Trust Fund.

Another short-term funding proposal would adjust the gas tax based on retail prices, lowering the tax when prices rise above a set threshold and raising it when lower than the threshold. An inflation-adjusted floor and ceiling would be established to prevent large spikes or drops in the tax rate. While not stated explicitly, we assume on-highway diesel and natural gas taxes would receive the same treatment. We are concerned about the variability in tax revenue produced by this proposal, which is important to transportation agencies that depend on predictable revenue levels for long-term planning. We also fail to see how this proposal is more beneficial than simply raising and indexing the existing fuel tax. The authors claim a consumer benefit from more stable retail prices. However, assuming tax rates do not increase substantially, federal taxes would be such a small percentage of the retail price that the impacts will be marginal and largely unnoticeable to consumers.

With regard to the report's long-term funding recommendations, ATA recognizes that fuel taxes will, over the long term, be a declining source of revenue, particularly from passenger vehicles, and a supplement or replacement will be needed. We support the report's recommendation for more research into the potential use of technology to improve revenue collection. We are concerned, however, with the proposal to allow state or regional fee collection systems, which could create inefficiencies for carriers that operate over large geographic regions. ATA agrees with the report's recommendations on adoption


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July 21, 2015
Page 2

of national standards. We also note that current toll collection and mileage-based user fee technologies have far higher collection costs than traditional user fees, and significant technological advancement would have to be made before they are more widely adopted.

ATA supports the concept of a national infrastructure strategy. However, such an effort is likely to be either too broadly conceived to be useful – effectively a check the box exercise – or too obtrusive to be accepted by state and local officials who would be reluctant to cede authority, particularly over the expenditure of funds. Furthermore, we would oppose the establishment of a national, multi-modal infrastructure fund paid for primarily by highway users. We recommend a more limited, but feasible approach that identifies major highway freight bottlenecks throughout the country and ensures that they receive federal funding priority.

Response to question from Rep. Sanchez. Poor roads and bridges add additional cost and create safety problems for trucking companies. Potholed pavements increase fuel usage and add maintenance costs (e.g. for tires and suspension systems). When bridges are closed or load-posted they force trucks to take longer routes, which adds cost and increases crash exposure. Congestion on the Interstate System alone costs the trucking industry \$9.2 billion per year due to additional fuel and labor expenses. Furthermore, road conditions are a factor in one-third of highway crashes. These added costs are particularly problematic for small-business trucking companies, which comprise more than 90% of the industry. Smaller carriers are less able to absorb these additional expenditures. If a single-truck operator loses a week of work due to a major maintenance issue, for example, that operator may not be able to recover financially due to extremely low profit margins.

Long-term, adequate and stable funding for the Highway Trust Fund would allow states to address their maintenance needs and fund major projects. Currently, in large part due to the lack of stable federal funding, many states have resorted to a basic maintenance program, and have put larger, more expensive projects on hold or have canceled them altogether. This means that many major bridge projects that in the past were routinely given priority are now indefinitely delayed pending federal action. Eighty-nine percent of Interstate System congestion occurred on just 12% of the network. The major bottlenecks which are responsible for these traffic conditions are not being addressed because states lack the confidence in the federal-aid highway program they need to move forward on long-term projects. This situation will continue to deteriorate unless the federal government implements a long-term solution to the funding shortfall.

Sincerely,



Bill Graves

[Submissions for the Record follow:]

ALAN LOWENTHAL
47TH DISTRICT, CALIFORNIA

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SUBCOMMITTEE ON THE WESTERN HEMISPHERE

COMMITTEE ON NATURAL RESOURCES
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June 15, 2015

Chairman Paul Ryan
Ranking Member Sander Levin
House Ways and Means Committee
1102 Longworth HOB
Washington D.C. 20515

Dear Chairman Ryan and Ranking Member Levin,

I applaud Chairman Ryan and Ranking Member Levin for holding a House Ways and Means hearing to address the shortfalls in the Highway Trust Fund (HTF). I support and encourage the committee to explore new long-term, sustainable user fee options for the HTF. I do, however, have a significant concern that I respectfully ask the committee to consider – **fixing the HTF will not fix freight infrastructure.**

Goods movement depends on multimodal interconnected systems while the HTF singularly funds highways. Freight movement runs through air, sea and inland ports, roads, rail, international border crossings and warehouses. The HTF funds highway construction and maintenance and *does not* fund the connectors that bridge highways, ports, warehouse centers and rail that are so critical to an efficient goods movement system. Frankly, we do not currently have a dedicated federal program that does fund multimodal freight projects. Funding goods movement will require a dedicated revenue stream that equitably taps multimodal users.

According to a report by the U.S. Chamber of Commerce, freight bottlenecks on U.S. highways cause more than 243 million hours of delay in moving merchandise annually. Those delays cost truckers about \$6.5 billion annually and untold costs to businesses awaiting the delayed goods. Nike alone spends an additional \$4 million per week to carry an extra 7-14 days of inventory to compensate for shipping delays.

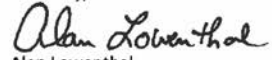
The shippers who utilize our nation's freight infrastructure, including the US Chamber of Commerce and the National Association of Manufacturers are calling for an efficient, cost-effective multimodal goods movement system.

We do not need to wait for a long-term sustainable fix to HTF solvency to fix freight. We can fix freight right now with a freight specific revenue stream – a 1% user fee on freight ground transportation costs, generating an estimated \$8 billion annually. We can create a freight trust fund solely dedicated to freight projects.

I ask that the committee review and consider the contents of HR 1308 *Economy in Motion: The National Multimodal and Sustainable Freight Infrastructure Act*. This bi-partisan bill could hold the key to begin a

significant investment in our nation's commerce and business. We can demonstrate to our nation right now that Congress can indeed agree on solutions that move our country forward.

Sincerely,

A handwritten signature in black ink that reads "Alan Lowenthal". The signature is written in a cursive, flowing style.

Alan Lowenthal
Member of Congress

HR 1308***Economy in Motion:******The National Multimodal and Sustainable Freight Infrastructure Act*****CONGRESSMAN ALAN LOWENTHAL**

Original Cosponsors: Dana Rohrabacher (R-CA), Brenda Lawrence (D-MI), Ann Kirkpatrick (D-AZ)
Cosponsors: Mark Takano (D-CA), Bobby Rush (D-IL), Grace Napolitano (D-CA), Mark Pocan (D-WI), Judy Chu (D-CA), Mark Meadows (R-NC), Gwen Moore (D-WI), Robin Kelly (D-IL), Matt Cartwright (D-PA), Earl Blumenauer (D-OR), Susan DelBene (D-WA)

The movement of goods in our country is the engine that runs our economy, yet we do not currently have a freight-specific, national infrastructure program. Without a plan of strategic investment to expand the capacity, reliability and efficiency of our nation's goods movement, we stand to lose our place as a global economic leader.

Economy in Motion: The National Multimodal Freight Infrastructure Act will provide a dedicated and sustainable revenue source to fund multi-modal, freight-specific formula grants to states and a multi-modal, freight-specific competitive grant program to local, regional and state governments.

Freight Act Goals:

- Strengthen the contribution of the national freight network to the economic competitiveness of the United States;
- Improve the efficiency, reliability, cost and safety of freight transportation;
- Support the connectedness of all freight modalities and relieve the bottlenecks in the freight transportation system;
- Achieve and maintain the freight transportation system in a state of good repair; and
- Reduce the adverse community and environmental impacts of freight transportation, including greenhouse gas emissions, air and water pollution.

Freight Act Provisions:


- **Establish:**
 - Freight Transportation Infrastructure Trust Fund
 - National Multimodal Freight Funding Formula Program for States
 - Tier I Projects – single state formula
 - Tier II Projects – multi-state collaborative analysis
 - National Freight Infrastructure Multimodal Competitive Grant Program for Local, Regional and State Governments
 - 5% set aside for technology neutral clean energy demonstration projects
 - National Multimodal Freight Network and Strategic Plan
- **Qualifying Project Examples:**
 - Capital freight projects on roads, rail, intermodal connectors, including first and last mile connectors, rail grade separations, on dock rail and landside infrastructure on

ports and airports included in a State Freight Plan.


- **Grant Participation Requirements:**
 - State Freight Advisory Committees
 - State Freight Plans which include goals and strategies for reducing adverse environmental impacts.
- **Funding:**
 - Approximately \$8 billion annually provided through a 1 percent waybill fee on goods movement, requiring the entity paying for the cargo to be shipped via ground transportation within the U.S. to pay a fee of 1 percent of total cost of that transportation.

Staff Contact: Mavonne Garrity Mavonne.garrity@mail.house.gov (202) 225-7924





Alliance of the Ports of Canada, the Caribbean, Latin America and the United States



Testimony of Kurt Nagle
President and CEO
American Association of Port Authorities (AAPA)

Hearing on Long-Term Financing of the Highway Trust Fund

House Committee on Ways and Means
Wednesday, June 17, 2015
10:00 a.m.
Room 1100, Longworth House Office Building

Chairman Ryan and Ranking Member Levin, thank you for holding this important hearing on the *Long-Term Financing of the Highway Trust Fund*. How we fund our infrastructure is a conversation that Congress and the Administration must have and AAPA looks forward to being engaged in this conversation, especially from a freight perspective. Thank you both, and in particular Congressman Blumenauer, for your leadership on this issue.

AAPA is the unified and collective voice of the seaport industry in the Americas. AAPA empowers port authorities, maritime industry partners and service providers to serve their global customers and create economic and social value for their communities. Our activities, resources and partnerships connect, inform and unify seaport leaders and maritime professionals in all segments of the industry around the western hemisphere. This testimony is on behalf of our U.S. members. AAPA is also the Chair of the Freight Stakeholder Coalition, which is a unique coalition of 19 national stakeholders comprised of system users, planners and builders, which has provided comments on policy and funding on the transportation reauthorization bill since 1992.

The next surface transportation authorization is an opportunity to provide long-term, sustainable funding and to build upon MAP-21, which recognized the linkage between goods movement and economic competitiveness. However, AAPA believes it is time to match this new emphasis on freight by not only ensuring both long-term Highway Trust Fund solvency but also adding new and additional non-HTF funding dedicated to prioritizing projects that optimize and integrate the nation's freight transportation system.

The federal government must lead long-term efforts designed to further America's competitive advantage by advancing projects of regional and national significance as well as

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first and last mile projects that reduce congestion, enhance goods movement, improve the environment and create jobs. If we are committed to the modernization of our nation's freight transportation system, it must accommodate projected growth in manufacturing and trade in years ahead or risk the U.S. being surpassed by foreign competitors.

One of the biggest challenges our industry sees today – and looking toward the future – is the state of port related infrastructure, and how we as a nation make the necessary investments in that critical infrastructure. There are sizable investment needs at port facilities and the connecting infrastructure on the land- and waterside.

The Highway Trust Fund can be a vital resource for funding freight projects, such as first and last mile projects that connect the ports with the surface transportation system as well as the Congestion Mitigation and Air Quality Program (CMAQ), which provides funding for air quality projects. Port connector projects are also eligible for the Surface Transportation Program (STP) and the Projects of National and Regional Significance (PNRS) program to address large choke points on our freight network.

Earlier this year, AAPA asked our members to look ahead 10 years and identify the key land-side infrastructure investments that need to be made. With 95% of our U.S. port members responding, *The State of Freight* survey results identified \$28.9 billion of project investments. *A copy of this report has been submitted for the record.* Specifically, AAPA members identified 34 Projects of National and Regional Significance totaling \$19.5 billion.

Additionally, MAP-21 required the USDOT to encourage states to develop comprehensive immediate and long-term freight planning and investment plans, and to collaborate with individual states, Metropolitan Planning Organizations (MPOs) and Freight Advisory Committees. In addition to comprehensive freight plans, states were also encouraged to establish freight advisory committees.

Ports are already engaging in the planning process so there is a blue print in place on how to fund freight projects.

- 71% of U.S member ports participated in the development of its statewide freight plan.
- 63% of U.S member ports are working directly with its region's MPO or Council of Governments (COG) in the development and planning of a freight project that is either underway or has recently been completed.

However, fixing the highway trust fund does not fix our freight network. The movement of freight is intermodal, meaning that it predominantly involves both rail and truck. These two modes do not necessarily exist in harmony under the current HTF structure.

For our country to build and sustain our infrastructure we must have an intermodal program that provides direct funding for freight. Our freight infrastructure needs, demands and challenges have become much more dynamic since 1993, the last time the gasoline user fee was increased.

Think of how much our economy, our population and how we conduct business has changed in the past 22 years. The growth and integration of the internet into everyday shopping has dramatically changed how we make purchases and how it is delivered through distribution type businesses such as AMAZON and others. These new business models have placed an incredible amount of stress on our already aging infrastructure.

For example, our population has grown by 23% (or 60 million) since 1993, meaning more freight customers and more demand on our infrastructure. Additionally, in 1993, 20.4 million TEU entered the country and moved on our rail and highways. By 2014 that number has more than doubled to 46.4 million TEUs. And the total tonnage of freight that moves through our ports and around our country has increased by 46.2% since 1993 to a total of 880,841 metric tons in 2014. That is a lot of wear and tear on our infrastructure that is also supporting the everyday trips of commuters, shopper and tourists around the country.

This demand on our infrastructure is only going to increase. Today, international trade through seaports accounts for over a quarter of the U.S. economy – and is projected to reach 60% by 2030. At the center of trade and transportation are America's seaports, which handle approximately \$6 billion worth of import and export goods daily, generate over 23 million jobs, and provide more than \$320 billion in tax revenues.

To address the immediate and long-term freight infrastructure challenges, AAPA recently endorsed the concept of a 1% waybill fee as an equitable approach to provide long-term funding for freight. This was included in legislation, H.R. 1308 *Economy in Motion: The National Multimodal and Sustainable Freight Infrastructure Act*, introduced by Representatives Alan Lowenthal (D-CA), Dana Rohrabacher R-CA and Mark Meadows (R-NC) and 11 other cosponsors. We urge the Committee to carefully look at this bill and how it can fund freight.

To help plan and make sustainable investments in a national freight network, AAPA has suggested several approaches:

- 1) Provide direct funding for freight projects,
- 2) Create a freight fund that provides formula funds to states as well as a discretionary grant program so that adequate funding can be distributed; and

- 3) Provide a sustainable funding source for the freight network. AAPA recently endorsed the concept of a 1% waybill fee as an equitable approach to provide long-term funding for freight.

AAPA is happy to see that Congress and the Administration recognize the value of improving our freight network. Whether we will be successful will very much depend on the Ways and Means Committee finding increased, sustainable funding sources for the highway trust fund and other mechanisms to fund multimodal freight improvements.

AAPA believes a strong case is being made for direct funding toward our freight network and that freight starts and ends with our seaports. We look forward to working with the Committee as you move a sustainable funding package for the Highway Trust Fund and for our Freight Network forward this summer.



Port Surface Transportation Infrastructure Survey

The State of Freight

April 21, 2015
Version 1.2



1 in 3 U.S. ports need at least
\$100 MILLION
 in intermodal upgrades to handle
 projected 2025 freight volumes

Executive Summary

In Peter Zeihan's acclaimed 2014 book, "The Accidental Superpower," he cites the overwhelming freight transportation advantage the United States has over other trading nations in its system of ports and waterways. He argues that America has more miles of navigable waterways than any other nation, together with an enviable coastal geography of naturally deep harbors, barrier islands and indentations that are unmatched for seaport development anywhere in the world.

Unfortunately, due to insufficient investment in its freight transportation infrastructure, every day America is losing some of the goods movement advantage asserted in Mr. Zeihan's book.

Seaports are the backbone of a thriving 21st century global economy. Yet, a nation's freight transportation system is only as good as its underlying infrastructure. In the American Association of Port Authorities' (AAPA) 2015 *Surface Transportation Infrastructure Survey - The State of Freight*, results indicate that the nation's unsurpassed goods movement network needs immediate and significant investment in the arteries that carry freight to and from its seaports. Without that investment, the American economy, the jobs it produces and the international competitiveness it offers will erode and suffer, creating predictable and oftentimes severe hardships to the individuals who live and businesses that operate within its borders.

In 2013 alone, some 1.3 billion metric tons of imported and exported cargo, worth nearly \$1.75 trillion, moved through America's seaports, while an estimated 900 million metric tons of domestic cargo with a market value of over \$400 billion was also handled through these international gateways.

Port-related infrastructure connects American farmers, manufacturers and consumers to the world marketplace and is facilitating the increase of American exports that are essential to the nation's sustained economic growth. In 2007, Martin Associates, of Lancaster, PA, reported that U.S. port activity was responsible for about 13.3 million American jobs and \$212.4 billion in federal, state and local tax revenue. Martin Associates' 2015 nationwide port economic impacts update study shows the benefits

“Enhancing connections between highway and rail systems and port infrastructure will be a key part of ensuring the first and last mile of transportation infrastructure supports growing demand.”

U.S. Senator John Thune (R-SD)
Chairman, Senate Committee on Commerce,
Science and Transportation

of America’s seaports having risen sharply over the intervening years, now responsible for 23.1 million U.S. jobs and \$321.1 billion in federal, state and local tax revenue. According to the study, marine cargo activity at U.S. deep-water ports also generated \$4.6 trillion in total economic activity, or roughly 26% of the nation’s economy in 2014, compared to \$3.2 trillion in combined economic activity associated with U.S. deep-water ports in 2007, or roughly 20% of the nation’s GDP at the time.

Despite the importance to the economy, freight investments are disadvantaged in the current transportation planning and funding process. Freight projects face competition from non-freight projects for public funds and community support. Although passenger and freight movements must coexist on America’s transportation network, these are two distinctly different stakeholder constituencies.

Because there’s no clear definition of what constitutes “freight projects” in the federal government lexicon, there’s been a lack of coordination among federal and state government entities and private sector stakeholders. This has resulted in a shortage of public funds to plan and invest in the nation’s freight network and address the key freight chokepoints that impact both passenger and freight constituencies.

Due to their significant role in driving commerce, public seaports have the experience to help grow the economy, create jobs and promote an efficient, safe and environmentally sustainable freight network. As in any other successful operation, every port has a business plan for its long-term success to identify

markets, leverage assets and prioritize and sustain its capital investments. Similarly, if America wants its transportation system to achieve long-lasting and sustainable success, it must implement a national freight plan to develop, sustain and grow its advantages for moving goods.

The results of AAPA’s infrastructure survey reinforce one of the industry’s key messages, “Seaports Deliver Prosperity.” The survey also illustrates the significant steps public ports are making and have made in working with the planning community in developing and investing in freight projects. This has been particularly evident since passage of the 2012 *Moving Ahead for Progress in the 21st Century Act (MAP-21)*, which laid out a clear and aggressive vision on how America plans and coordinates a national freight plan through collaboration with the individual states.

Additionally, this survey helps define the role ports are continuing to play in developing innovative Public Private Partnerships (P3s) with the nation’s business sector, and facilitating additional resources into the process.

This survey focuses on seaports – critical gateways in the U.S. freight network through which more than 99% of America’s overseas trade must pass. While there are other components of the freight network that must be addressed, the impact of vital seaport “first and last mile” connectors on the country’s regional and national transportation infrastructure cannot be overstated. Ports are national models of effective intermodalism and are the very definition of critical infrastructure.

From 2007-2014 the annual impact of America’s seaports increased:

43% to \$4.6 trillion
in total U.S. economic value

74% to 23.1 million
U.S. jobs

51% to \$321.1 billion
in federal, state & local tax revenue

100% to \$1.5 billion
in personal wages & salaries



Survey Purpose and Participation

The purpose of AAPA's 2015 *Port Surface Freight Infrastructure Survey* is to quantify the baseline need for investment in port infrastructure connecting the United States' deep-draft seaports to the rest of the nation's freight transportation system. The survey results reflect responses to questions asked of AAPA's 83 U.S. member public ports in the six months leading up to the publication of this report. With a 95% response rate, the survey represents nearly all of the top U.S. seaports on the Atlantic, Pacific and Gulf coasts, and along the Great Lakes.

The survey seeks to illustrate the critical nature of connection points between seaports and the national surface transportation system, including highway connectors and on-dock rail. It's at these critical connection and transfer points that the efficiency of moving freight through seaports and to and from the interior of the country can be maximized. These connection and transfer points for goods are the foundation of America's freight network.

The freight network is vast and evolving. It's a living grid that infuses an economic lifeline throughout the country; from small towns to major metropolitan regions, and farming districts to technology centers like Silicon Valley. At its heart are America's seaports, which handle an overwhelming majority of the nearly \$6 billion worth of products that move to and from overseas markets every day. For the network to work properly, it must seamlessly connect to commerce centers in every community, state and territory, as well as to an ever-growing and vibrant inland waterway system that is unparalleled worldwide.

"Every type of transportation plays an important role in our national transportation network, but maritime and waterborne transportation in particular serves as our country's connection to the world economy."

U.S. Representative Bill Shuster (R-PA)
Chairman, House Committee on Transportation and Infrastructure



Analysis of Surface Transportation Connectors With Ports

It's been two decades since the United States addressed its surface transportation connectors. In 1995, the National Highway System (NHS) Designation Act, directed the Secretary of the U.S. Department of Transportation (USDOT) to develop a list of NHS intermodal connectors. With the input of state departments of transportation, the list was completed in 1998. In 2000, USDOT reported to Congress on the state of NHS Intermodal Freight Connectors. USDOT identified significant deficiencies in U.S. freight connectors and estimated the cost of them to be \$2.6 billion.

Between 2000 and 2013, the volume of containers shipped through U.S. ports grew by approximately 50%, from 30.4 million to 44.6 million twenty-foot equivalent units (TEUs), adding further strain to port highway and rail connectors. The population in U.S. metropolitan areas also grew by 33 million people (14%) over the same period, which created a related increase in the demand for goods.

In the AAPA survey, respondents were asked what they anticipated the minimum cost would be over the next decade (through 2025) to upgrade the intermodal connections at their port so it could efficiently handle all of their projected inbound and outbound cargo.

Key Survey Results Included:

Nearly 80% of AAPA U.S. ports surveyed said they anticipate a minimum \$10 million investment being needed in their port's intermodal connectors through 2025, while 30% anticipate at least \$100 million will be needed.

- These intermodal connectors, often referred to as the "first and last mile" of the freight transportation network, account for roughly 1,200 of the 57,000 miles in the national highway system. Many of these connectors are in various states of disrepair and face further deterioration, particularly as trade volumes continue to grow. Like links in a chain, these transportation connections with America's seaports are critical to the overall freight network, and they are particularly vulnerable in large, congested metropolitan communities where commuters and freight share the same system. As the U.S. takes a closer look at planning and investing in its freight grid, intermodal access points must be prioritized.

Looking further at intermodal connectors, the AAPA survey asked respondents how much has congestion on these connectors over the past decade impacted their port's productivity.

One-third of respondents said congestion on their port's intermodal connectors over the past 10 years has caused port productivity to decline by 25% or more.

- MAP-21 made incremental steps in providing resources for improving intermodal connectors. Surface Transportation Program (STP) funds are now eligible for surface transportation infrastructure improvements in port terminals for direct intermodal interchange, transfer and port access. However, the competition for these funds is intense, as states have 27 other eligible funding activities in which to use these federal funds.
- Among AAPA survey respondents, 33% said their port has applied for STP funds during the last two years. However, AAPA has also heard from ports that low success rates in securing funding has made it difficult for them to make long-term commitments for infrastructure projects. AAPA repeatedly hears from U.S. member ports that sustainable and reliable funding sources need to be available in order for them to invest and leverage funding into the connecting freight network.

Needed and Planned Investment in the Freight Network

In a 2012 AAPA survey, U.S. public ports and their private sector partners reported plans to invest more than \$9 billion each year for the next five years to maintain and improve their infrastructure. However, this investment is not being adequately matched by a federal government commitment to improve the corresponding connecting infrastructure. Many of the land-side connections to seaports are insufficient and outdated, negatively affecting the ports' ability to move cargo into and out of the U.S., and threatening our international competitiveness.

Key Survey Results Included:

There is an identified current need of \$28.9 billion in 125 port-related freight network projects. These projects range from intermodal connectors, gateway and corridor projects, to marine highways and on-dock rail projects.

Of these 125 projects, there are 46 intermodal projects totaling \$7.5 billion, and 34 Projects of National & Regional Significance totaling \$19.5 billion. Additionally, respondents identified 35 TIGER (Transportation Investment Generating Economic Recovery) projects totaling \$1.9 billion.



Since 2009 TIGER Funding Has Leveraged \$700 Million for the Freight Network

- Over the past six years, the Maritime Administration (MARAD) has coordinated 39 maritime TIGER projects, worth \$500 million in federal funds.
- About \$700 million in additional freight rail and federal TIGER projects have been awarded that also move maritime freight.
- TIGER is a multi-modal and multi-jurisdictional competitive grant program.

Building on the Planning Provisions of MAP-21

The 2012 MAP-21 surface transportation legislation required the USDOT to encourage states to develop comprehensive immediate and long-term freight planning and investment plans, and to collaborate with individual states, Metropolitan Planning Organizations (MPOs) and Freight Advisory Committees.

In addition to comprehensive freight plans, states were also encouraged to establish freight advisory committees. Furthermore, MPOs were directed to set performance targets for freight and to integrate freight planning performance provisions into their overall planning process.

MAP-21 set into motion a useful process for communicating, planning and ultimately funding important freight projects. Ports are engaging in this process and in many ways have been leading the conversation. In its *The State of Freight* survey, AAPA asked its U.S. member ports a series of questions on how they are building off the MAP-21 planning provisions and engaging with planning the freight network.

Key Survey Results Included:

63% of survey respondents said their port is working directly with its region's MPO or Council of Governments (COG) in the development and planning of a freight project that is either underway or has recently been completed.

- From this response, AAPA learned that not only are two-thirds of its U.S. member ports engaging in the MPO planning process and actively including freight projects in their statewide or Metropolitan Transportation Improvement Program, these ports are also engaged in an ongoing dialogue with their regional planners.
- AAPA also learned from this part of the survey that the availability of TIGER funding has significantly driven U.S. public port engagement with the planning community over the years. Because of port eligibility for TIGER funding and coordination and planning requirements in the submission of projects, the annual TIGER process has served as a catalyst in bringing freight stakeholders to the table.

71% of those surveyed said their port has participated in the development of its statewide freight plan.

- According to the Federal Highway Administration's (FHWA) Office of Freight Management and Operations, 42 states have worked with FHWA or are in various stages of development of their state freight plans. While many of these state freight plans are not yet MAP-21 compliant, the conversation on freight between states, stakeholders and the federal government is continuing.

64% of surveyed ports are members of a local freight advisory committee.

- MAP-21 encouraged the creation of local freight advisory committees to weigh in on the development of local and state freight plans. These freight advisories typically have a broad scope of membership, much like the National Freight Advisory Committee that is housed in the U.S. Department of Transportation. This is a place where the private sector continues to weigh in on the freight planning and funding process, which has been described as chambers of commerce for freight.
- An offshoot of this process has been a growing engagement and strong interest and understanding between ports, the private sector, and local and federal partners, in the development of creative Public-Private Partnership (P3) projects.



Public-Private Partnerships (P3s)

The ability to facilitate business through port entry and exit gates, and the ability to manage transportation logistics, make public ports excellent laboratories for P3-financed projects impacting the freight network.

However, several federal financing tools that could be considered a good fit for ports have not had measurable impacts. Only five of the AAPA U.S. ports surveyed have engaged in the federal Railroad Rehabilitation & Improvement Financing (RRIF) program, which is surprisingly low, given the overwhelming need and focus that ports indicated they had for on-dock rail projects. In follow-up questions on the RRIF program, ports expressed a sense of frustration navigating the program, and cited the need for a capital grants program to match up with RRIF loans to assist in facilitating and leveraging private sector capital.

The Transportation Infrastructure Finance and Innovation Act (TIFIA) program is another example of a financing program underutilized by AAPA's U.S. member ports.

Key Survey Results Included:

8% of the survey respondents reported having utilized a TIFIA loan for a port-related project.

- While freight rail and intermodal transfer center projects are eligible under TIFIA, many ports have reported having experienced difficulty with how USDOT interpreted their TIFIA applications, concluding that USDOT doesn't encourage port-supported TIFIA projects.

33% reported using, or planning to use, P3s; 13% identified using or planning to use Private Activity Bonds (PABs); and 62% indicated they were using or planning to use another financing source.

- The significant use by U.S. ports of P3 financing suggests there is additional opportunity to rein in and leverage private-sector resources in building projects that impact the freight network.
- In late 2014, the USDOT Build America Transportation Investment Center (BATIC) put out a call for projects and more than 25 U.S. ports submitted P3 proposals.

On-Dock Rail

For many ports, on-dock rail (rail track which is located immediately next to the dock front) offers a vital link to efficiently move goods directly between ships and trains to get the goods to America's heartland and major distribution centers. In referencing on-dock rail, Bill Johnson, the former port director for Florida's PortMiami, testified on Jan. 28, 2015, before the Senate Commerce Committee, saying, "Without interconnectivity, you cannot connect your port to America or the global economy."

Key Survey Results Included:

73% of AAPA U.S. member ports have on-dock rail, while most others have rail tracks within terminals near docks, which is often referred to as near-dock rail.

- However, U.S. ports' apparent rail infrastructure strength is misleading. Many port on-dock and near-dock rail systems are out-of-date and need to be significantly enhanced and reinforced, as well as integrated with new technology to accommodate rising shipping volumes.
- Having up-to-date on-dock and near-dock rail able to accommodate all the discretionary cargo that must be moved to and from a port's hinterland is a big priority for U.S. seaports. The need is so urgent that several ports have purchased rail lines to ensure access to their existing freight network and for business development. Based on the survey responses, a majority of ports are engaged in upgrading and/or expanding their on-dock rail systems and have cited the need for federal resources in assisting with on-dock rail investments.
- Even though improving port rail infrastructure is a priority for most ports, only 13% of survey respondents reported having applied for or are planning to use the RRIF program to pay for their projects. This may be due to what has been reported as a difficult application process to navigate. In the AAPA survey, respondents expressed a desire to revamp the RRIF program to make it easier to finance on-dock rail and other freight transportation infrastructure projects. They also indicated a desire that the RRIF program provide a capital grants aspect to work in tandem with its financing program.



Other Federal Options For Financing Port-Related Infrastructure Development

In addition to facilitating the movement of cargo, seaports are also stakeholders and partners in the communities in which they operate. In the U.S., public ports directly generate or influence the creation of millions of jobs, are environmental stewards and play a vibrant socio/economic role in the communities they serve. While the condition of the air, land and water surrounding these public ports is important to those who work and do business in the respective communities, it's equally as important to those who work or do business at the ports themselves.

In addition to infrastructure investments, ports partner with the federal government to fund programs that reduce diesel emissions and create economic opportunities through partnerships with the Economic Development Administration (EDA). To illustrate, the final question in AAPA's survey asked respondents if their port had ever applied for or received funding from Diesel Emission Reduction Act (DERA) grants, Congestion Mitigation and Air Quality Improvement program grants (CMAQ), or the Surface Transportation Program (STP) or Economic Development Administration (EDA) grants.

Key Survey Results Included:

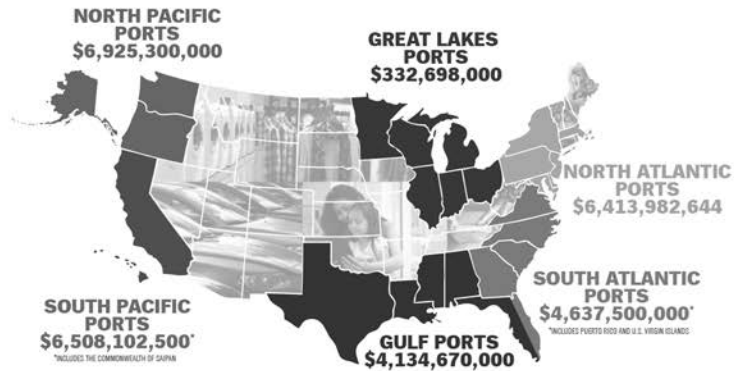
57% of the AAPA U.S. member ports surveyed have applied through the U.S. Environmental Protection Agency for DERA funding, and 43% have applied for CMAQ funding to pay for reducing emissions and congestion while improving air quality in and around their ports.

45% have applied through the U.S. Department of Commerce for EDA grants by partnering with a regional academic institution and a local government authority, while 33% have applied for federal highway STP funding to improve their port's intermodal connections.



Conclusion

U.S. ports require at least \$28.9 billion to handle projected 2025 freight volumes



America's freight network is vast and evolving. It's a living grid and economic lifeline for the country; from small towns to major metropolitan areas, from farming regions to technology centers.

At its heart are America's seaports, which handle approximately \$6 billion worth of goods to and from overseas markets every day. These goods come in all shapes and sizes. Apparel and consumer electronics are shipped in standardized steel containers. Cars and trucks are driven on and off ships. Farm harvests are conveyed into the hulls of vessels. Liquids are moved by pipeline. Gaseous products are shipped in pressurized tanks. Project cargoes, like wind turbines and electrical generators, require special handling. These different cargo types require different transport modes to get them from shore to ship, and ship to shore. For the freight network to operate smoothly and efficiently, it must seamlessly connect commerce centers in every community, state and territory.

As indicated in AAPA's 2015 *The State of Freight* survey, investment in America's port connection infrastructure is an urgent national priority. There is a path forward. This survey documents and illustrates the freight planning successes that resulted from

the TIGER application process. Survey results show how MAP-21 built upon TIGER's targeted investments with the various state freight plans and with ongoing input of the individual states' freight advisory committees.

The survey also, for the first time, documents from the ports' perspective the requisite capital investments that are needed to maintain and enhance a 21st century freight network. These investments include "first and last mile" connector and gateway projects that, when viewed collectively, represent a strategic investment in the national transportation system, the national economy, as well as all of the individual enterprises and people who make the nation great.

This survey is a strong first step towards identifying the critical infrastructure needs of America's seaports, however more must be done. AAPA will continue to gather input from the industry and work with our partners to ensure that investing in our nation's freight transportation system is a national priority. A reliable and efficient transportation system will guarantee that seaports continue to deliver prosperity for all Americans.



AAPA  American Association
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Alliance of the Ports of Canada, the Caribbean, Latin America and the United States

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STATEMENT FOR THE RECORD BY
The Honorable John F. Cox
President, American Association of State Highway and
Transportation Officials;
Director, Wyoming Department of Transportation

REGARDING
**LONG-TERM FINANCING OF THE
HIGHWAY TRUST FUND**

BEFORE THE
**Committee on Ways and Means of the
United States House of Representatives**

ON
June 17, 2015

American Association of State Highway and Transportation Officials
444 North Capitol Street, N.W., Suite 249
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INTRODUCTION

Chairman Ryan, Ranking Member Levin, and Members of the Committee, thank you for the opportunity to provide input on the need to identify a long-term, sustainable revenue solution for the Federal Highway Trust Fund. My name is John Cox, and I serve as President of the American Association of State Highway and Transportation Officials (AASHTO), and as Director of the Wyoming Department of Transportation (WYDOT). It is my honor to provide this Statement for the Record on behalf of AASHTO, which represents the State departments of transportation (State DOTs) of all 50 States, Washington, D.C., and Puerto Rico.

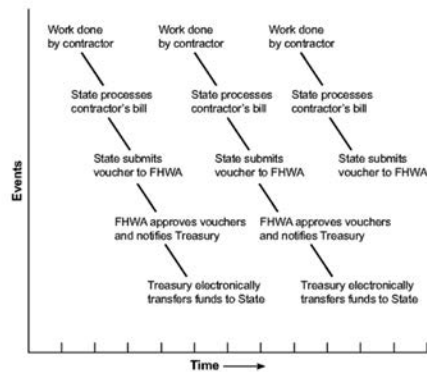
For almost 60 years, the Highway Trust Fund (HTF) provided stable, reliable, and substantial highway and transit funding. However, over the past seven years this has not been the case. Since 2008, almost \$62 billion have been transferred from the General Fund to the HTF to keep it solvent. Recently—and retreading a path that we all have walked down before—the U.S. Department of Transportation (USDOT) announced that the Highway Account of the HTF will likely run out of money later this summer. If this is allowed to happen, States may not be reimbursed for work they have already paid for. In addition, failure to ensure the solvency of the HTF will force States to drastically reduce the obligation of new Federal highway funds in Fiscal Year 2016.

Almost half of capital investments made by States on our nation's roads, bridges, and transit systems are supported by the HTF. Without this strong Federal-State partnership, State DOTs will not be able to play their part in building and maintaining the national transportation network on which our economy relies to be competitive in the global marketplace.

FAILURE TO REIMBURSE STATES FOR PRIOR OBLIGATIONS

The Federal-aid Highway Program currently provides about \$38 billion a year to State DOTs for important road and bridge projects across the country. These funds are derived from contract authority, a unique form of Federal budgetary authority well-suited for infrastructure projects that require a multi-year construction timeline. It is critical to note that the dollars obligated under this program represent the Federal government's legal commitment and promise to pay—or more accurately—reimburse the States for the Federal share of a project's eligible costs.

Under this reimbursement framework, States only receive funding from the Federal Highway Administration (FHWA) when work is completed on a project and the State submits a request for reimbursement. States typically receive reimbursement electronically from FHWA the same day payments to the contractor are made.

EXHIBIT 1. FEDERAL-AID HIGHWAY PROGRAM REIMBURSEMENT PROCEDURES

Source: Federal Highway Administration

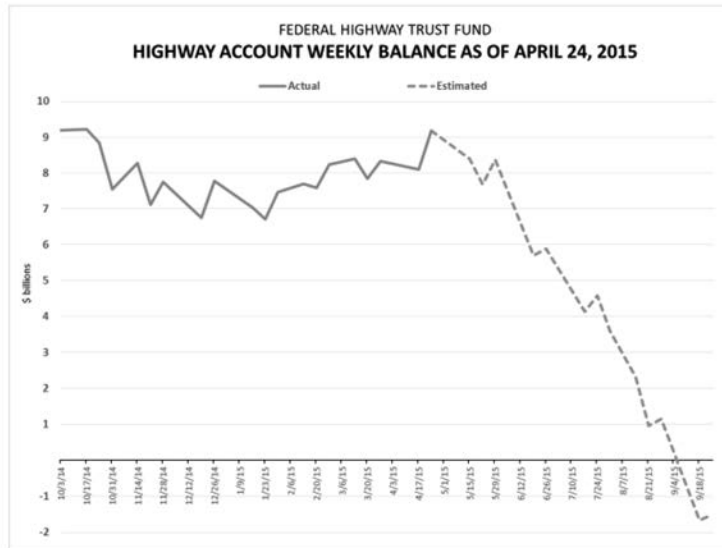
It is currently estimated by the USDOT and Department of the Treasury that the Highway Account of the HTF is likely to run out of cash by early September of this year. Prior to reaching this point of insolvency, FHWA will be forced to institute emergency cash management procedures in order to slow down reimbursements to States for costs already incurred on highway and transit projects.

As Congress was faced with the same HTF insolvency crisis last summer, FHWA announced that under their proposed emergency cash management plan at the time, States' reimbursements would be capped at a drastically reduced amount relative to the full amount owed. This cap would have been determined by the ever-dwindling amount of cash in the HTF accessible by FHWA twice a month. Under this situation where FHWA cannot cover 100 percent of the bills received, States would have been left to provide the cash cushion—by whatever means necessary such as short-term borrowing, standby lines of credit, reliance on the state's general fund—for payments already made. Furthermore, FHWA incurs interest liability if a State pays out its own funds for Federal assistance program purposes, which would only exacerbate the cash shortfall in the HTF. Given the urgency of this situation, Congress passed the Highway and Transportation Funding Act, which was enacted on August 8, 2014, to provide \$10.8 billion to the HTF.

Because States count on prompt payment from the Federal government to be able manage cash flow and pay contractors for completed work, any delay in reimbursement from FHWA will cause a significant disruption in all States. And in turn, contractors that rely on prompt payment from the State would be unable to pay their employees and suppliers. As you can imagine, such a devastating scenario will send shockwaves throughout the transportation community and all other industries supported by Federal infrastructure investment.

Statement for the Record from **John F. Cox**
 President, American Association of State Highway and Transportation Officials
 Director, Wyoming Department of Transportation

EXHIBIT 2. PROJECTED ESTIMATES FOR HTF HIGHWAY ACCOUNT'S END-OF-MONTH CASH BALANCES AS OF APRIL 24, 2015



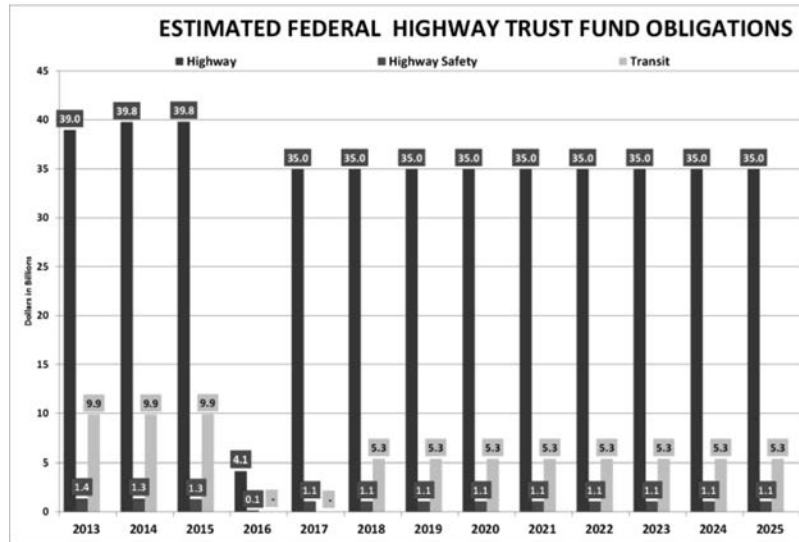
Source: US Department of Transportation; US Department of the Treasury

DEVASTATING IMPACT TO STATES OF A HIGHWAY TRUST FUND SHORTEALL IN FY 2016

Even if FHWA is able to keep the Highway Account solvent by delaying reimbursements to States this summer, it will not address the underlying structural problem. The Congressional Budget Office (CBO) estimates that yearly HTF receipts will be \$17 billion less than HTF spending annually over the next ten years (FY 2016-2025). In order to keep the HTF solvent beyond this fiscal year, AASHTO estimates that States will have to significantly reduce new Federal highway funding in FY 2016—going from \$40 billion to \$4 billion. Even with virtually no new highway funding in FY 2016, there remains a possibility that FHWA will still have to alter its reimbursement procedures in FY 2016 to be able to pay for prior-year obligations.

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EXHIBIT 3. ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2015 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



Historically, Federal highway funding has accounted for approximately 45 percent of what State DOTs spend on highway and bridge capital improvements. This means a significant portion of much-needed highway and transit projects—projects that underpin economic development and improve the quality of life—in every community and Congressional district will either be delayed or cancelled outright. Such cutbacks on contract lettings would mean missed opportunities to pare down the backlog of investment needs, while causing a negative domino effect on construction industry employment exactly when it is starting to rebound after being one of the hardest hit segments in the recent recession. Furthermore, ramping up and down construction activities—including equipment and labor resource management—due to the instability of the Federal program would represent an extremely wasteful exercise and impose heavy opportunity costs for the entire transportation industry and the nation as a whole.

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ADDITIONAL REVENUES NEEDED JUST TO MAINTAIN CURRENT INVESTMENT LEVELS

As a major disruption to the HTF remains on the horizon, the Congressionally-chartered National Surface Transportation Policy and Revenue Study Commission projected annual Federal capital investment needs at \$225 billion for the next fifty years. When compared to the current funding level of about \$90 billion, there is a significant investment deficit in surface transportation infrastructure. In order to sustain the long tradition of robust national investment in transportation, we must ensure the HTF's looming cash shortfall is addressed with solutions that enable sustainable program funding not just beyond this summer or FY 2016, but for the long term.

While the HTF continues to derive about 90 percent of its revenues from taxes on motor fuels, these taxes are facing an increasingly unsustainable long-term future, therefore placing the viability of the HTF in question. Motor fuel taxes at the Federal level were last increased to the current rates of 18.4 cents per gallon for gasoline and 24.4 cents for diesel 22 years ago in 1993. As a static excise tax levied per gallon, taxes on motor fuel have lost a significant share of its purchasing power. Compared to the Consumer Price Index, the gas tax had lost 39 percent of its purchasing power by 2014, and is expected to lose more than half of its value—or 52 percent—by 2024. This loss of purchasing power is unusual considering the increase in nominal cost of virtually all other aspects of the economy.

EXHIBIT 4. SAMPLE OF NOMINAL PRICES RELATIVE TO FEDERAL GAS TAX, 1993 AND 2010

ITEM	UNIT/DESCRIPTION	1993	2010	PERCENT CHANGE
College Tuition	Average Tuition and Required Fees	\$ 3,517	\$ 9,136	160%
Gas	Per Gallon	\$ 1.12	\$ 2.73	144%
Movie Ticket	Average Ticket Price	\$ 4.14	\$ 7.89	91%
House	Median Price	\$ 126,500	\$ 221,800	75%
Bread	Per Pound	\$ 1.08	\$ 1.76	62%
Income	Median Household	\$ 31,272	\$ 49,167	57%
Stamp	One First-class Stamp	\$ 0.29	\$ 0.44	52%
Beef	Per Pound of Ground Beef	\$ 1.57	\$ 2.28	46%
Car	Average New Car	\$ 19,200	\$ 26,850	40%
Federal Gas Tax	Per Gallon	\$ 0.184	\$ 0.184	0%

Sources: U.S. Census Bureau, U.S. Department of Transportation, U.S. Postal Service, U.S. Department of Commerce, U.S. Department of Education, National Association of Theater Owners

Facing these structural headwinds, CBO projects the HTF in FY 2016 to incur \$54 billion in outlays while raising only \$40 billion in receipts, leading to a cash shortfall of \$14 billion for its Highway and Mass Transit Accounts. This situation is not new, as the HTF will have—by the expiration of the current surface transportation program extension on July 31, 2015—relied on a series of General Fund transfers amounting to almost \$62 billion since 2008 to close this gap. But this annual cash imbalance is expected to only get worse, and the HTF cannot incur a negative balance unlike the General Fund.

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This situation leads to three possible scenarios for later this year:

1. Provide additional General Fund transfers to the HTF in order to maintain the current level of highway and transit investment and to meet prior-year obligations;
2. Provide additional receipts to the HTF by adjusting existing revenue mechanisms or implementing new sources of revenue; or,
3. Reduce reimbursement payments this summer and drastically reduce new Federal highway and transit obligations in FY 2016.

In order to support one of the first two scenarios where current highway and transit funding levels are maintained or increased, there is no shortage of technically feasible revenue options—including user fees and taxes—that Congress could consider.

EXHIBIT 5. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

Existing Highway Trust Fund Revenue Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	\$ in Billions	
			Assumed 2014 Yield	Total Forecast Yield 2015–2020*
Motor Fuel Tax—Diesel	15.0¢	¢/gal increase in current rate (approx. 10% increase in total rate)	\$6.54	\$41.79
Motor Fuel Tax—Gas	10.0¢	¢/gal increase in current rate (approx. 10% increase in total rate)	\$13.21	\$78.12
Heavy Vehicle Use Tax	50%	Increase in current revenues, structure not defined	\$0.55	\$3.42
Sales Tax—Trucks and Trailers	10%	Increase in current revenues, structure not defined	\$0.33	\$2.19
Tire Tax—Trucks	10%	Increase in current revenues, structure not defined	\$0.04	\$0.23
Potential Highway Trust Fund Revenue Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	Assumed 2014 Yield*	Total Escalated Yield 2015–2020*
Container Tax	\$15.00	Dollar per TEU	\$0.66	\$4.26
Customs Revenues	5.0%	Increase in/reallocation of current revenues, structure not defined	\$1.80	\$11.66
Drivers License Surcharge	\$5.00	Dollar annually	\$1.08	\$6.98
Freight Bill—Truck Only	0.5%	Percent of gross freight revenues (primary shipments only)	\$3.07	\$19.00
Freight Bill—All Modes	0.5%	Percent of gross freight revenues (primary shipments only)	\$3.80	\$24.60
Freight Charge—Ton (Truck Only)	10.0¢	¢/ton of domestic shipments	\$1.17	\$7.54
Freight Charge—Ton (All Modes)	10.0¢	¢/ton of domestic shipments	\$1.44	\$9.29
Freight Charge—Ton-Mile (Truck Only)	0.10¢	¢/ton-mile of domestic shipments	\$1.41	\$9.15
Freight Charge—Ton-Mile (All Modes)	0.10¢	¢/ton-mile of domestic shipments	\$3.48	\$22.52
Harbor Maintenance Tax	25.0%	Increase in/reallocation of current revenues, structure not defined	\$0.43	\$2.79
Imported Oil Tax	\$2.50	Dollar/barrel	\$5.76	\$37.28
Income Tax—Business	1.0%	Increase in/reallocation of current revenues, structure not defined	\$2.79	\$18.06
Income Tax—Personal	0.5%	Increase in/reallocation of current revenues, structure not defined	\$6.70	\$43.36
Motor Fuel Tax Indexing to CPI—Diesel	–	¢/gal excise tax	–	\$5.22
Motor Fuel Tax Indexing to CPI—Gas	–	¢/gal excise tax	–	\$10.87

Statement for the Record from **John F. Cox**
 President, American Association of State Highway and Transportation Officials
 Director, Wyoming Department of Transportation

EXHIBIT 6. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS, CONTINUED

Oil, Gas, and Minerals Receipts	25.0%	Increase in reallocation of current revenues, structure not defined	\$2.20	\$14.25
Registration Fee—Electric LDVs	\$100.00	Dollar annually	\$0.01	\$0.06
Registration Fee—Hybrid LDVs	\$50.00	Dollar annually	\$0.17	\$1.12
Registration Fee—Light Duty Vehicles	\$15.00	Dollar annually	\$3.57	\$23.11
Registration Fee—Trucks	\$150.00	Dollar annually	\$1.63	\$10.54
Registration Fee—All vehicles	\$20.00	Dollar annually	\$4.98	\$32.21
Sales Tax—Auto-related Parts & Services	1.0%	Percent of sales	\$2.32	\$15.04
Sales Tax—Bicycles	1.0%	Percent of sales	\$0.06	\$0.38
Sales Tax—Diesel	7.0%	Percent of sales (excl. excise taxes)	\$9.65	\$62.50
Sales Tax—Gas	5.6%	Percent of sales (excl. excise taxes)	\$24.05	\$155.66
Sales Tax—New Light Duty Vehicles	1.0%	Percent of sales	\$2.41	\$15.61
Sales Tax—New and Used Light Duty Vehicles	1.0%	Percent of sales	\$3.46	\$22.40
Tire Tax—Bicycles	\$2.50	Dollar per bicycle tire	\$0.08	\$0.53
Tire Tax—Light Duty Vehicles	1.0%	Of sales of LDV tires	\$0.33	\$2.12
Transit Passenger Miles Traveled Fee	1.5¢	¢/passenger mile traveled on all transit modes	\$0.84	\$5.45
Vehicle Miles Traveled Fee—Light Duty Vehicles	1.0¢	¢/LDV vehicle mile traveled on all roads	\$27.12	\$175.98
Vehicle Miles Traveled Fee—Trucks	4.0¢	¢/truck vehicle mile traveled on all roads	\$10.93	\$70.73
Vehicle Miles Traveled Fee—All Vehicles	—	¢/vehicle mile traveled on all roads	\$38.05	\$246.31

* Base annual yield escalated using CPI-U.

On the other hand, if no new revenues can be found for the HTF and the third scenario prevails, State DOTs will be left to face two dire consequences that will severely undermine much-needed transportation investments throughout the nation: potentially significant delays on Federal reimbursements owed to States for costs already incurred, and a virtual elimination of new Federal funding commitments in FY 2016.

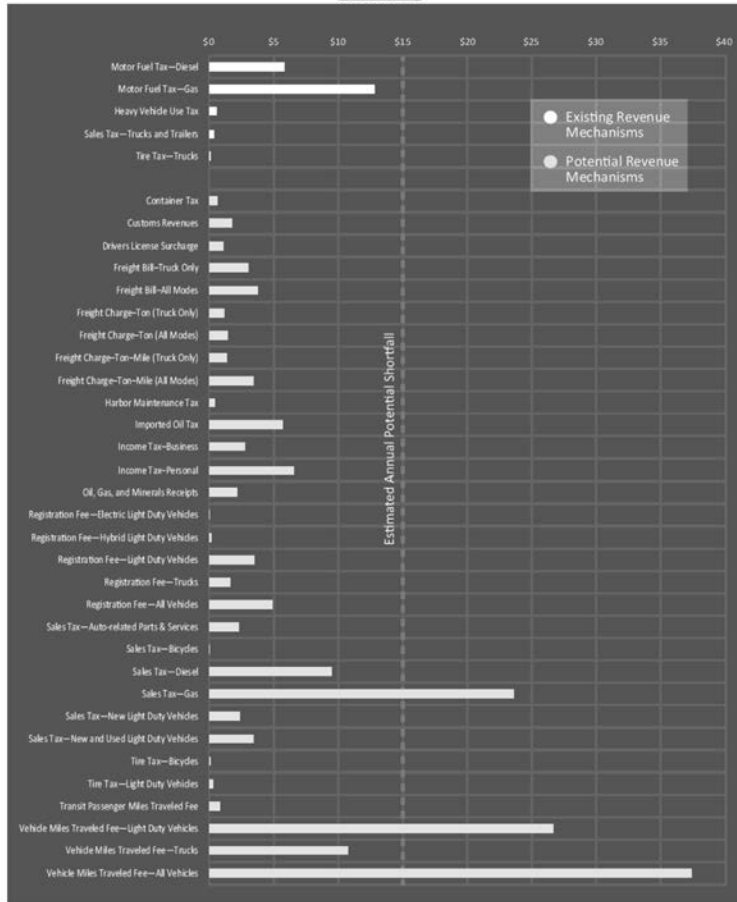
CONCLUSION

There is ample documented evidence that shows infrastructure investment is critical for long-term economic growth, increasing productivity, employment, household income, and exports. Conversely, without prioritizing our nation's infrastructure needs, deteriorating conditions can produce a severe drag on the overall economy. In light of new capacity and upkeep needs for every State in the country, the current trajectory of the HTF—the backbone of Federal surface transportation program—is simply unsustainable as it will have insufficient resources to meet all of its obligations later this summer, resulting in steadily accumulating shortfalls.

Whichever revenue tools are utilized, at a minimum, it is crucial to identify solutions that will sustain the MAP-21 level of surface transportation investment in real terms. Given the devastating impact that potential delays on federal reimbursements to State DOTs combined with a virtual elimination of Federal surface transportation obligations in FY 2016 can have on the economy and construction industry employment, we look forward to assisting you and the rest of your House colleagues in finding and implementing a viable set of revenue solutions to the HTF not only for later this year, but for the long term.

Statement for the Record from **John F. Cox**
 President, American Association of State Highway and Transportation Officials
 Director, Wyoming Department of Transportation

EXHIBIT 7. SURFACE TRANSPORTATION REVENUE OPTIONS: ILLUSTRATIVE ANNUAL ESTIMATED YIELDS (\$ BILLIONS)



*Based on the illustrative rate or percentage increase assumed in the summary matrix.

Statement for the Record from **John F. Cox**
 President, American Association of State Highway and Transportation Officials
 Director, Wyoming Department of Transportation



Statement for the Record

**U.S. House of Representatives Committee on Ways & Means
Hearing on the Long-Term Financing of the Highway Trust Fund**

Wednesday, June 17, 2015

Chairman Ryan, Ranking Member Levin, and Members of the Committee:

On behalf of the American Council of Engineering Companies (ACEC) – the voice of America’s engineering industry – thank you for holding this hearing today on options for providing long-term funding certainty for federal surface transportation programs. There are few more important topics that this committee will address this year, because federal investment in transportation infrastructure plays an essential role in protecting public health and safety, promoting commerce, and keeping America economically competitive.

We were heartened by the action taken by 285 Members of Congress – including 22 members of this committee – earlier this year to write to House leaders on the need to end the cycle of short-term extensions and do the work necessary to enact a sustainable, long-term solution to transportation funding.

As you know, nearly \$63 billion has been transferred into the Highway Trust Fund since 2008 because of the failure to address systemic funding shortfalls with real revenue solutions. Absent congressional action, the balance of the Trust Fund will soon be depleted again, imperiling more state and local projects with continued uncertainty. More than \$1 billion in planned improvements have already been cancelled or delayed because of the uncertainty over future federal contributions, and many more projects are sure to be shelved as this problem persists. These projects will only get more expensive due to the delay.

Engineering is a leading indicator of economic performance, particularly in the building and development sectors. When state and local transportation agencies can’t develop long-term funding programs, our firms can’t hire engineers or make equipment purchases necessary for planning, designing, and delivering those projects. When our firms aren’t working on pre-construction activities, those projects can’t move on to construction, which means fewer construction workers working, fewer machines being built and sold, less economic activity being generated, and ultimately, goods not getting to market and U.S. businesses not being competitive.

According to the ACEC Engineering Business Index quarterly survey of engineering firm CEOs (www.acec.org/publications/engineering-business-index/), nearly one in five respondents (19 percent) expect the transportation on market to worsen over the next year. Only 40 percent anticipate that public

transportation markets will improve. In the Fall 2014 EBI survey, three in four respondents (77 percent) expressed doubt that the U.S. transportation infrastructure will regain its status as a world leader. This disheartening pessimism bodes poorly for the prospects of broader domestic economic growth, and it is firmly rooted in congressional failure to enact sustainable capital investments.

We recognize the need to look for new ways to fund road, bridge, and transit projects because of the long-term challenges posed by the rise in alternative-fueled vehicles and increased fuel efficiency. We have endorsed a range of options, including mileage-based user fees, widespread tolling, new freight charges, and revenues from increased domestic energy production. Numerous blue ribbon commissions have explored these options in depth, and they should all be on the table in your deliberations.

While they all have merit, the reality is that none of these options is a near-term solution for funding a six-year bill.

The simplest and most effective action Congress can take to stabilize the Highway Trust Fund is increasing and indexing federal gas and diesel taxes. These user fees have been the basis of the federal-aid program for decades, but failure to adjust the rates since 1993 has diminished their purchasing power by 40 percent and led to the fiscal crisis of the Trust Fund that we face today. A modest increase in motor fuels charges – a measure endorsed by highway users and the trucking industry representing those paying into the system – is a relatively small price to pay for improving safety, enhancing mobility, and ensuring American competitiveness.

The alternative is to continue on the same path of short-term patches, which is fiscally irresponsible, relying on government borrowing and budget gimmicks.

Continued instability and underinvestment in transportation infrastructure will only hamper economic growth. Deteriorating roads and bridges and worsening congestion have raised the price of doing business through increased maintenance costs, wasted fuel and delayed shipments. Last year, our economy was crippled by \$121 billion in congestion costs, or \$818 per U.S. commuter, and an additional \$230 billion in economic costs from accidents. By contrast, every dollar invested in highway and transit development generates between \$4-8 in economic output.

It is past time for Congress to advance a sustainable, long-term solution to the Highway Trust Fund, beginning with an increase in existing user fees that help pave the way for alternative solutions down the road. Our industry and our economy and our citizens cannot wait for a combination of unrelated tax changes that may or may not materialize later this year. Congress must act now, starting with action in this committee. Predictable and growing revenue sources, particularly user fees, will give state and local agencies the funding certainty they need to plan and deliver infrastructure investments that foster economic growth and enhance our quality of life.

ACEC members – numbering more than 5,000 firms representing more than 500,000 employees throughout the country – are engaged in a wide range of engineering works that propel the nation's economy and enhance and safeguard America's quality of life. The Council and its members stand ready to assist this committee in advancing long-term solutions to the infrastructure crisis facing our country.



Hearing on the Highway Trust Fund
Committee on Ways and Means
Select Committee on Revenue Measures
U.S. House of Representatives

Testimony for the Record

**By Gregory Cohen, P.E.; President & CEO
American Highway Users Alliance**

The American Highway Users Alliance (The HwyUsers) is a non-profit coalition that represents AAA motoring clubs, trucking and bus companies, the RV and motorcycle industries, and a diverse range of companies and associations that fund the Highway Trust Fund through user taxes. Our members represent millions of motorists and employers who want our roads to be safe, efficient, and reliable.

Although we represent road users, we strongly support the principle that users should pay their own way for infrastructure improvements. In return for fully funding the Highway Trust Fund, road users deserve to benefit directly from guaranteed investments in roads and bridges through multi-year highway bills. This type of system has traditionally enabled the United States to outperform competitors by efficiently moving logistics over our vast network of toll-free Interstate highways. It is hard to imagine how much poorer our country would be without the investments of the past generation into modern roads.

The federal role in road funding and the user-pays / user-benefits principle has been an important, principled approach to investment. The conservative user-fee concept dates back as early as 1776, when British philosopher and political scientist Adam Smith endorsed national funding of roads in *The Wealth of Nations*, provided that users pay their costs.

From 1956 to 2008, the Highway Trust Fund was exclusively funded with user taxes. Since 2008, deficits have repeatedly threatened the solvency of the fund. Congress has responded by voting time and again to prevent highway funding cuts. At the same time, Congress has failed to find a fiscally sustainable solution to the revenue shortfall. Over \$60 billion in transfers from the General Fund of the Treasury has kept highway funding flat – preventing cuts but also creating doubts as to the ability of Washington to pass a long-term highway bill that can fund the major highway and bridge projects critical to public safety, economic growth, freight reliability, and congestion relief. Without a sustainable solution, State transportation departments can't plan and implement the most important projects.

As Congress debates a path forward to funding a long-term six-year highway bill, we would be grateful for almost any source of funding to reverse the decline in our road conditions. But Congress should do more than prevent cuts; it should fairly raise enough revenue to make significant inroads in the backlog of national highway and bridge needs.

We urge Members to renew their historic support for the user fee approach to restore a sustainable Highway Trust Fund. We urge policymakers in other Committees to ensure that the programs are transparent, environmental reviews are streamlined, and wasteful diversions are minimized or eliminated. If Congress is to raise the funds to sustain a national highway program, the spending out of that fund must be focused on addressing our major national highway needs. We urge Members to consider the findings of two separate Congressionally-chartered commissions that studied these issues over the past decade and develop a long-term financial sustainability model of growing the trust fund with user-based revenue.

In closing, what is currently occurring would certainly have embarrassed Presidents Lincoln, Eisenhower, and Reagan – all of whom envisioned and supported a major federal role for transportation infrastructure. It is time for a bold, brave and bipartisan solution and this Congress can certainly get it done.

The members and staff of The Highway Users look forward to working with Members of Congress to restore and grow the Highway Trust Fund and urge immediate action to enact a long-term highway bill this year. Thank you for the opportunity to submit these comments into the record.



MICHAEL P. MELANIPHY
PRESIDENT AND CEO
AMERICAN PUBLIC TRANSPORTATION ASSOCIATION (APTA)
SUBMITTED TO
THE HOUSE COMMITTEE ON WAYS AND MEANS
Hearing on the Long-Term Financing of the Highway Trust Fund
June 17, 2015

Mr. Chairman and members of the Committee, thank you for this opportunity to submit written testimony on ideas to provide a sustainable long-term solution to the highway trust fund shortfall. Public transportation systems across the country form an interconnected system of national significance that links our regions, urban and suburban centers, and rural communities. This integrated network of public transportation services is an essential component of our nation's overall transportation system. Public transportation provides mobility that significantly contributes to national goals for global economic competitiveness, congestion mitigation, energy conservation, environmental sustainability, and emergency preparedness. APTA urges the Committee to increase the dedicated revenues that go into the Highway Trust Fund, so that Congress can pass a surface transportation bill that provides predictable funding growth under a multi-year authorization bill.

ABOUT APTA

The American Public Transportation Association (APTA) is a nonprofit, international association of nearly 1,500 public and private member organizations, including transit systems and commuter, intercity and high-speed rail operators; planning, design, construction, and finance firms; product and service providers; academic institutions; transit associations and state departments of transportation. APTA members serve the public interest by providing safe, efficient, and economical public transportation services and products. More than ninety percent of the people using public transportation in the United States and Canada are served by APTA member systems. In accordance with the National Infrastructure Protection Plan, APTA has been recognized by the Department of Homeland Security as serving in the capacity of the Mass Transit Sector Coordinating Council (SCC).

OVERVIEW

Public transportation exists in all 50 states and the District of Columbia and U.S. territories. The nation's public transportation systems are an integral part of the nation's surface transportation system. Transit provides an alternative way to get to jobs, education, healthcare and social activities in every community, it improves the efficiency of the existing roadway system in metro areas by reducing the number of cars on the road and the resulting traffic congestion. Less congestion reduces costs for businesses that transport goods and consumers who buy those goods. Public transportation is important to communities of all sizes, from large metropolitan regions to small cities and rural communities. Less urban states and smaller cities depend on the federal transit program to pay for a larger share of their transit capital investments than more urban areas, and they also rely on federal funds to pay for an important share of the costs associated with providing service.

To meet the demands of our nation's aging infrastructure network, growing urban population, and changing travel and commuting patterns, a renewed long-term federal commitment to public transportation is essential. Currently, system needs far surpass resources from all levels of government. At the federal level, fuel taxes dedicated to the Mass Transit Account of the Highway Trust Fund, last raised in 1993, have lost more than 37 percent of their purchasing power. APTA urges the Committee to increase the dedicated revenues that go into the Highway Trust Fund, so that Congress can pass a surface transportation bill that provides for the growth of predictable federal funding under a multi-year authorization bill.

Since the expiration of TEA-21 in 2003, we have now had 25 short-term extensions, lasting a little more than four years authorization under SAFETEA-LU, and a bit more than two years under MAP-21. More recently, federal transit funding has grown only minimally, from \$10.231 billion in FY 2009 to \$10.692 billion in FY 2014. The uncertainty of recent federal authorizing laws and lack of predictable funding of the federal transit program have made it nearly impossible for the industry to keep the system in a state of good repair, replace the aging infrastructure and fleets, and address the growing demand for service. Short-term authorizations increase project costs and decrease certainty for long-term planning.

While growing communities compete for limited funds to build a variety of new fixed guideway systems (BRT, light rail, trolley, heavy rail and commuter rail), and transit ridership continues to grow, the deterioration of our systems adversely impacts both efficiency and safety. The U.S. DOT now estimates that we have an \$88 billion backlog in the state of good repair of public transportation capital investment needs. And this backlog doesn't even include the annual cost of maintaining the current system, like replacing aging buses, rail cars, vans, buildings, bridges and stations; the cost of building new capacity; and the more than \$3 billion in costs to install positive train control systems at the nation's commuter railroads.

While spending for public transportation is paid mostly by fares that riders pay, as well as state and local funding, the federal government is an essential partner in this process. While federal funding supports 19.2% of all spending on public transportation, 44.4% of all capital spending for transit comes from the federal government. However, according to the CBO, the decline in real spending on transportation infrastructure has occurred at all levels of government, but it has been the greatest at the federal level. Yet, federal funding is critical as it helps to ensure that locally-derived benefits are fully integrated into the national multimodal transportation network that is so essential to ensuring U.S. competitiveness in our global economy.

These are some of the reasons that APTA has urged Congress to enact a long-term authorization bill that grows federal funding for public transportation. We strongly support the preservation of the federal transit program, and we support an increase in the dedicated revenues that go into the Highway Trust Fund for both the Mass Transit and Highway Accounts. It is estimated that more than \$90 billion in new revenues is needed just to maintain current public transportation and highway programs, and APTA strongly believes that there is a need to grow current federal investment levels for transit. We need a revenue stream that supports growth of the federal programs, as flat funding at current levels will not permit transit to adequately address the growing backlog of capital needs or the growing demand for transit service. It should come as no surprise that we strongly oppose efforts to devolve the federal transit or highway programs to

the states. Public transportation is an essential part of the overall surface transportation system, and given our growing population and increasing congestion on our roadways that program is more important than ever.

We know transit ridership is growing, we know the nation's population is expected to grow significantly, and we believe that the demand for public transportation service in our communities will continue to grow. Nationally, public transportation ridership continues to set record levels. In 2014, people took a record 10.8 billion trips on public transportation—the highest annual ridership number in 58 years. Some public transit systems experienced all-time record high ridership last year. This record ridership didn't just happen in large cities. It also happened in small and medium size communities. In fact, some of the biggest gains came in towns with less than 100,000 people with ridership growth of double the national average. This record growth in ridership occurred even when gas prices declined by 42.9 cents in the fourth quarter. From 1995-2014 public transit ridership increased by 39 percent, almost double the population growth, which was 21 percent. The estimated growth of vehicle miles traveled was 25 percent. This proves that once people start riding public transit, they discover that there are benefits over and above saving money.

Our failure as a nation to adequately invest in this essential element of our surface transportation system will only cost the nation more in the long run. Conversely, investment in public transportation will help support a healthy, growing economy, facilitating the efficient movement of goods and people, and stimulating economic development in communities served by vibrant public transportation systems.

One only needs to ride a train or bus during the morning commute to recognize the growing demand, and to experience firsthand the strains that that demand is placing on systems. The demand and support for public transportation is also reflected at the ballot box. Last year, 69 percent of ballot initiatives seeking taxpayer support for transit investment were approved by voters. Clearly, citizens are willing to pay for improved transit service. These local ballot initiatives confirm the stability of the local partnership, but they are not a substitute for the federal partnership.

RETURN ON THE FEDERAL INVESTMENT

For every dollar we invest in public transportation, we generate about \$4 in economic returns. And \$1 billion in federal transit investment fosters productivity gains that create or sustain 50,000 jobs. It is important to note that 73% of federal transit capital funds flow through the private sector. In fact, much of the bus and rail equipment is manufactured in rural areas and provides high wage jobs in those communities. For example, bus original equipment manufacturers have plants located in Alabama, North Dakota, Kansas, Minnesota, South Carolina, California and upstate New York. Rail Cars are manufactured in places like Nebraska, Idaho, Illinois, and Pennsylvania. Components and subcomponents are being manufactured all across this country. As these investment metrics make clear, local and regional transportation improvements yield national benefits.

On a very fundamental level, federal transportation funding keeps this economic engine running, as transit agencies can only plan and advance large, multi-year capital projects when they can be confident the resources will be there when they are ready to break ground.

APTA PROPOSAL

To ensure the reliable, long-term funding best suited to infrastructure investment, APTA urges Congress to enact a 6-year, \$100 billion authorization for the federal transit program that includes robust funding to grow the program from \$10.7 billion in the current year to \$22.2 billion in 2021. Revenues into the Highway Trust Fund (HTF) must increase to support this much needed growth.

Additionally, we see this moment in time as an ideal opportunity to establish a dedicated revenue stream for intercity passenger rail, separate from the revenues required for the Highway Trust Fund and Mass Transit Account. Like public transit, intercity passenger rail is experiencing ridership growth and increased demands for public service in corridors throughout the country. We have asked that Congress provide \$50 billion over the next six years to facilitate the development of a national high-speed and intercity passenger rail system.

APTA's surface transportation authorization recommendations are based on needs identified in eight categories of equipment and facilities funded under the current federal program. They are based on the need for six-year investment from all sources—fares, local, state, and federal—of \$245 billion. APTA's investment requirements include the cost of bus replacements, demand response vehicles, rail vehicles, state-of-good-repair spending, New Starts and core capacity projects, and other costs. And they reflect investment requirements in states, cities and communities across the country.

APTA recommends that Congress take the necessary steps to restore, maintain and increase the purchasing power of the federal motor fuels user fee to support a significant increase in the federal investment for the public transportation program. In addition, in order to meet the full range of funding needs, APTA supports the use of other financing strategies to meet the investment goals.

First and foremost, funding must be sufficient to address the capital investment needs dictated by the nation's population growth, economic and personal mobility needs (including the reduction of traffic congestion), environmental and sustainability needs, and of our aging population. While meeting our capital expansion needs, funding must also be sufficient to address issues of state of good repair across so many of our aging public transportation systems nationwide.

It is important to note that there are differences between funding and financing when it comes to transportation infrastructure projects. Funding options are those that generate revenue streams and financing options leverage revenue streams. Financing options are programs or instruments that leverage revenue streams as a way to move many infrastructure projects forward, especially significantly large and expensive projects. Without adequate funding sources, states and local governments cannot take full advantage of the financing tools available. Additionally, financing options may not be practical or available for every infrastructure project.

Unfortunately, current revenues going into the Highway Trust Fund are \$15-16 billion short of what is needed annually just to fund current transit and highway programs. Since the expiration of the SAFETEA-LU authorizing law in 2009, federal funding has grown by less than one-half percent while demand for transit service has grown and the cost of restoring the existing systems to a state of good repair has grown to \$88 billion.

Second, it is imperative that the funding for transportation investment be stable and reliable, whether they be from federal, state, or local sources, or from public transportation-generated revenues or public-private partnerships. Major transit capital investments often require advance planning and multi-year construction programs.

Third, it is critical that the transportation finance legislation developed by this Committee recognize that not all financing mechanisms and revenue generators work at the same level of efficiency and effectiveness for all modes. Our proposal recommends legislation that would promote the development of revenue generated from traditional financing sources like municipal bonds to innovative financing mechanisms, such as public private partnerships, tolling and congestion pricing to supplement current revenue streams. However, infrastructure banks, municipal bonds, private activity bonds, and loan programs such as Transportation Infrastructure and Finance Act program (TIFIA) and the Railroad Innovation and Improvement Financing Program (RRIIF) that require payback will not sustain an ongoing transit program. They can help public-private partnerships work, but transit public-private partnerships are not a revenue source but rather a management tool.

We want to emphasize that the certainty and predictability of the dedicated funding within the Mass Transit Account of the Highway Trust Fund, and channeled through the Federal Transit Program, has truly served the needs of the public transportation industry, and allowed agency finance professionals to take advantage of and leverage a multitude of financing arrangements.

For many years the federal gas tax has supported the national program and served effectively as a user fee. While trends and market forces suggest that the gas tax is not the growing revenue source that it once was, it remains a viable source that can be collected efficiently and without creating any new federal bureaucracy in the short run. The most sustainable, forward-looking and outcome-oriented approach may be a vehicle miles traveled (VMT) fee, but because the systems, methods and infrastructure to implement such a national system are years away, the augmented gas tax could be the bridge to an ongoing national VMT fee. While APTA has put forward these ideas on how to raise revenues for the Highway Trust Fund, we are open to any mechanism that provides a predictable source of funding for these important investments.

CONCLUSION

Mr. Chairman and members of the Committee, I thank you for this opportunity to share our views as you move forward on this next authorization of surface transportation programs and urge the Committee to support the Federal Transit Program with a six-year investment level for transit projects of at least \$100 billion. The next program will absolutely require a wide range of funding options, but for the immediate future, we feel strongly that the base program must restore and increase the purchasing power of the Federal Motor Fuels User Tax while we concurrently move with a true sense of urgency to develop and implement a national transportation

future funding model that is both economically and environmentally sustainable. We need to have funding predictability, both for our agencies and our private sector partners.

Thank you for allowing us to provide testimony on these critical issues. We look forward to working with you and the members of the Committee as you work to develop this next critical authorization bill.



Statement for the Record
American Public Works Association

House Committee on Ways and Means
Hearing on
Long-Term Financing of the Highway Trust Fund
June 17, 2015

Statement for the Record
House Committee on Ways and Means
Long-Term Financing of the Highway Trust Fund

June 26, 2015

The American Public Works Association (APWA) is pleased to provide the following statement to the House Committee on Ways and Means on "Long-term Financing of the Highway Trust Fund".

APWA is an organization dedicated to providing public works infrastructure and services to millions of people in rural and urban communities, both small and large. Working in the public interest, APWA's 28,500 members plan, design, build, operate and maintain our vast transportation network, as well as other key infrastructure assets essential to our nation's economy and way of life.

Every community has a stake in the future of our transportation system. Local governments own approximately 75 percent of the nearly four million-mile roadway network, more than half of the nation's 300,000 bridges, and manage about 90 percent of the transit systems. With nearly every trip beginning and ending on a local road, street or sidewalk, a strong local state-federal partnership is vital to ensuring a safe, seamless and efficient multi-modal transportation system.

Funding Stream Consistency Is Imperative

We favor a multi-year surface transportation authorization that provides a sustainable funding source. This essential component will ensure American businesses can move goods efficiently and compete globally. We appreciate the budgetary constraints the committee is contending with, but action must be taken to close the gap between transportation needs and funding rather than operating by extension.

Among the solutions we support increasing the federal motor fuel user fee and indexing it to the rate of inflation. APWA believes any revenues from that fee should be used solely for surface transportation purposes.

Additional options we support are a transition to vehicle-mileage fees, an expansion of access to innovative financing tools, moving to a Utility System/Enterprise Funds Model to finance and operate national transportation networks, and encouraging local governments to increase participation in transportation projects.

The purchasing power of the federal fuel tax revenues is declining as electric vehicles, hybrids and other more energy-efficient vehicles increase in number. APWA supports incentives to develop new concepts to offset revenue losses caused by more fuel-efficient vehicles. One such concept is the vehicle-miles driven approach in addition to gas taxes or in lieu of gas taxes. This is a technology-driven application that records vehicle miles driven to allow equitable payment of a fee to the state or federal government based upon an established rate per vehicle-mile driven. A certain level of capital investment will be required to implement a vehicle miles traveled

(VMT) program. APWA encourages the federal government to support a transition to a VMT fee as a stable, long-term replacement for the fuel tax, which would serve as a more appropriate "user fee" and encourage efficient use of our nation's transportation system.

Secondly, APWA recommends further expansion of the use of financing mechanisms such as Public Private Partnerships (P3), tolling, congestion pricing, and "pass through financing". The latter has proven to be quite successful in states such as Texas. Cities and counties are stepping up to design, construct and fund highway improvements in urban areas using revenue bonds backed by guaranteed revenue streams. By doing so, these cities and counties are also guaranteeing their own revenue streams to help ensure low interest rate financing of these specific projects.

Lastly, we understand that improving our transportation system should be a partnership of local, state and federal efforts. We believe that partnership must be continued and even expanded to leverage scarce taxpayer dollars. Our association supports federal incentives for state and local agencies to increase the use of voter approved sales taxes, local option gas taxes, bond programs, transportation impact fees and other dedicated tax revenues to advance or accelerate implementation of critical projects. In addition to financial participation, local agencies should be encouraged to assist by providing rights-of-way, helping with the environmental review process and performing any other local activity that expedites and reduces the cost of the project. To the extent possible, federal programs should remove or minimize any legislative or regulatory obstacles to local use of alternative financial tools for participation in critical transportation projects.

While another short-term extension will ensure some projects move forward, the ongoing use of extensions is hastening the decay of our nation's roads and bridges. There are a number of projects that will not be able to move without at least a patch for the Highway Trust Fund. The Interstate 710 project in Los Angeles is a \$5 billion project to ensure goods can flow from the nation's largest port to the mid-city's rail yards, warehouses, and distribution centers. In Tennessee, 32 projects, totaling \$393 billion are being postponed to at least the 2016 fiscal year because of the lack of a long-term transportation bill.

As these major projects are delayed, so is badly-needed maintenance. This only drives costs higher over the long-term. The American Association of State Highway and Transportation Officials reports that for every \$1 spent to keep a road in good condition, it avoids \$6-\$14 needed later to rebuild the same road once it has deteriorated significantly. These costs will have to be paid by the taxpayers who already pay an extra \$324 annually more in vehicle maintenance due to crumbling roads. This negatively impacts businesses too, who, according to the U.S. Treasury Department pay \$27 billion in additional freight costs because of poor road conditions. The situation is dire and APWA supports any revenue method to ensure our members are able to continue to build, operate and maintain our roads.

Taxpayer Dollars Can No Longer Be Wasted

APWA's members are the ones on the ground implementing our nation's transportation policies. However, they must comply with burdensome, duplicative federal environmental laws adding significant cost to projects with little additional environmental protections. Congress can take

certain steps to guarantee the revenue it collects for the purposes of road, highway, and bridge construction is well spent.

While progress was made in MAP-21, federal and state oversight must be further streamlined to ensure the most efficient use of limited federal, state and local fiscal resources. Legislation is needed to continue to address the problem of project delays and rapidly escalating costs associated with regulatory requirements from numerous federal regulations and agencies. We recognize the committee does not have direct jurisdiction over some of these deficiencies in federal law. However, because Ways and Means has long been the guardian of the federal treasury and taxpayer dollars the committee has a stake in making certain these monies are spent effectively.

APWA supports Congressional action to streamline project delivery by allowing federal participation and approval of alternative neutral activities prior to completion of the National Environmental Policy Act (NEPA) requirements. For projects demonstrating no alternative impact, right-of-way acquisition should be an eligible activity prior to NEPA. Further, we strongly urge the establishment of statutory timelines for project reviews and findings by federal and state regulatory agencies for all transportation improvement projects. These changes would dramatically reduce the overall time to move a transportation project from design to construction.

Moreover, Congress can create a streamlined permitting process for state and local projects that receive \$5,000,000 or less in federal funding. This process should ensure adequate environmental protections and diligence for right-of-way acquisition, but eliminate many of the duplicative steps, like frivolous citizen suits which drive highway costs higher and lengthen timelines. Certain projects should also be included, like the National Safe Routes to Schools and National Scenic Byways programs.

Lastly, we urge increased flexibility to use federal funds on a range of transportation alternatives as well as more flexibility in allowing for contingencies in the planning and funding processes. Without latitude for local flexibility in determining funding sources and amending plans, communities lose the ability to move to the next project in line if an unforeseeable problem develops with a particular project.

Conclusions

The American Public Works Association urges Congress and the Administration to preserve and enhance the federal investment in our nation's transportation infrastructure. Building the infrastructure needed to support our economic health, welfare and safety takes several years, even decades to implement. Action is needed now to identify new revenue sources for sustaining the Highway Trust Fund and Mass Transit accounts, and to enable federal, state and local improvements to our nation's surface transportation network.

Investment in transportation projects is a proven way to boost the economy. Every \$1 billion invested in transportation generates an estimated 27,800 jobs and up to \$6 billion in additional gross domestic product. Our nation cannot remain economically competitive with the rest of the

world if our transportation system is left inadequate and crumbling. Investing to improve and repair our deteriorating surface transportation network will build the foundation for long-term and prolonged economic growth. A strong federal role in funding our national, regional and local transportation systems is critical to job-creation, economic well-being, and the safety and welfare of our country. We commend you for bringing focus to the issue by holding this hearing. APWA is hopeful Congress understands the key role long-term financing plays in the health of our nation's roads, highways, and bridges. Thank you for your consideration of our comments.



Statement of the American Truck Dealers Division
National Automobile Dealers Association
A Hearing Entitled
“Long-Term Financing of the Highway Trust Fund”
Before the House Ways and Means Committee
June 17, 2015

Mr. Chairman, thank you for the opportunity to submit the comments of the American Truck Dealers Division (ATD) of the National Automobile Dealers Association (NADA), to the hearing record. NADA is a national trade association that represents 16,000 franchised new car and truck dealers and collectively employs more than one million individuals. NADA has almost 1,800 ATD members, which represents 82 percent of commercial truck dealers.

MAP-21, the current highway authorization, will expire on July 31, 2015. While there is bipartisan support for a long-term highway bill, the biggest challenge is funding the currently insolvent Highway Trust Fund (HTF). If Congress were to maintain the Federal surface transportation program at current levels, the HTF would need an additional \$168 billion in revenue through 2025.¹

Currently, a 12 percent federal excise tax (FET) on new heavy-duty trucks contributes revenues to the HTF. Proposals have been made to increase the FET as a way to raise revenue for the depleted HTF. The FET already depresses new truck sales and increasing this tax would further slow deployment of cleaner, safer, and more fuel efficient trucks. Congress should also consider lowering or eliminating the tax to address the detrimental impacts of the tax on safety, the environment, and the truck industry.

The truck FET was originally imposed in 1917 to help defray the cost of World War I.² This tax, applicable to most new highway heavy-duty trucks, tractors, and trailers, has risen from 3 percent of the selling price to 12 percent today, **making it the highest percentage excise tax Congress levies**. With the average retail price of a new heavy-duty truck near an all-time high of \$169,000, the 12% FET costs truck customers roughly \$20,000.

Unfortunately, the FET has the effect of discouraging businesses from buying new heavy-duty trucks that are safer, cleaner, and more fuel efficient, and encourages trucking companies to hold on to their older trucks longer.

¹ “Projections of Highway Trust Fund Accounts”, CBO March 2015 Baseline, issued Jan. 26, 2015.
<http://www.cbo.gov/sites/default/files/cbofiles/attachments/43884-2015-03-HighwayTrustFund.pdf>

² FHWA, Federal Tax Rates on Motor Vehicles and Related Products, September 1999:
<http://www.fhwa.dot.gov/ohim/hs98/tables/fe101b.pdf>. In recent years, some even have suggested increasing the FET. For example, in 2013, the Senate Finance Committee included an FET increase of 1 percent (to 13 percent) in an “options paper” on infrastructure funding. Additionally, a Government Accountability Office report, “Highway Trust Fund, Pilot Program Could Help Determine the Viability of Mileage Fees for Certain Vehicles”, (December 13, 2012) concluded that Congress consider “new revenues” on commercial trucking.

An increase in the FET would be in addition to the cost of new federal emissions and fuel economy mandates that are increasing the price of new heavy-duty trucks. For example, the Owner Operator Independent Drivers Associations (OOIDA) calculated the average per truck regulatory costs associated with the Environmental Protection Agency's (EPA) MY 2004-2010 truck emissions standards to be \$20,000-30,000.³

Additionally, EPA has proposed a new set of commercial truck fuel economy/greenhouse gas rules that require fuel economy increases of up to 24% by 2027. The Obama administration estimates that its proposal, phased in between model year 2018 and 2027, will cost at least \$25 billion or some three times the estimated cost of Phase 1. According to a recent *New York Times* article, "It is expected that the new rules will add \$12,000 to \$14,000 to the manufacturing cost of a new tractor-trailer..."⁴ Together, the cost of these new standards, coupled with associated increases in the FET, will price many truck purchasers out of the market.

The complexity of assessing and remitting the FET is another major area of concern. Truck dealers spend considerable time and attention navigating the byzantine and complex IRS regulations associated with the collection of the tax. ATD continually gets questions from truck dealerships regarding how FET should be calculated and collected. In fact, ATD's guide for truck dealers on collecting and remitting the FET is over one hundred pages long. The many exceptions and gray areas related to the FET make it ripe for IRS audit and impose significant financial and administrative challenges for small business truck dealerships and customers alike to stay in compliance.

The HTF is in desperate need of reliable and consistent funding into the future. The FET fails to provide certainty and in fact is a very volatile tax. For example, the FET generated a little over \$1.4 billion in 2008 when truck sales took a hit during the recession.⁵ In 2013, on the other hand when the truck market came back \$3.2 billion was generated for the HTF.⁶ The FET is not a user fee but a tax on a product. When truck sales are down the revenue into the HTF is directly impacted.

H. Con. Res. 33

H. Con. Res. 33, introduced by Reps. Reid Ribble (R-WI) and Tim Walz (D-MN), is a bipartisan concurrent resolution that would put Congress on record in opposition to any increase in the FET on heavy-duty trucks and trailers. ATD strongly supports this bipartisan resolution which to date has 26 cosponsors. The following organizations have endorsed this concurrent resolution: American Highway Users Alliance, American Truck Dealers, Daimler Trucks North America, Mack Trucks, Inc., Meritor WABCO, NAFA Fleet Management Association, National Trailer

³ Scott Greneth (Professional driver and member of OOIDA), Testimony before the House Committee on Oversight and Government Reform, (October 12, 2011).

⁴ Aaron M. Kessler and Coral Davenport, *E.P.A. Proposal Will Put Bigger Trucks on a Fuel Diet*, The New York Times, (May 30, 2015).

⁵ FHWA, Office of Highway Policy Information, October 2007 to September 2008: http://www.fhwa.dot.gov/policyinformation/statistics/2008/fe10_2008.cfm

⁶ FHWA, Office of Highway Policy Information, October 2012 to September 2013: <http://www.fhwa.dot.gov/policyinformation/statistics/2013/fe10.cfm>

Dealers Association, Navistar, NTEA – The Association for the Work Truck Industry, Owner Operator Independent Drivers Association, Recreation Vehicle Industry Association, Truck & Engine Manufacturers Association, Truck Renting and Leasing Association, Truck Trailer Manufacturers Association and Volvo Trucks North America.

Conclusion

ATD strongly supports an equitable long-term funding solution for the HTF designed to ensure that Americans travel safely on our roads and there is a reliable roadway system for goods to travel to market in a cost effective manner. ATD believes that a user fee approach is the fairest and most efficient way to achieve these goals. Finally, Congress should not only oppose any increase in the FET, since this excise tax contradicts government mandates for a cleaner, safer, and more fuel efficient truck fleet, but it should also examine the adverse impacts of the FET policy particularly on the nearly 7 million Americans employed in the trucking industry.





Statement of
The Associated General Contractors of America
Presented to the
House Committee on Ways and Means
on the topic of
Long-Term Financing of the Highway Trust Fund
June 17, 2015

The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 26,000 firms, including America's leading general contractors and specialty-contracting firms. Many of the nation's service providers and suppliers are associated with AGC through a nationwide network of chapters. AGC contractors are engaged in the construction of the nation's commercial buildings, shopping centers, factories, warehouses, highways, bridges, tunnels, airports, waterworks facilities, waste treatment facilities, dams, water conservation projects, defense facilities, multi-family housing projects, site preparation/utilities installation for housing development, and more.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
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Introduction

Mr. Chairman and Members of the Committee, AGC represents more than 26,000 firms, including over 6,500 of America's leading general contractors, and over 9,000 specialty-contracting firms. More than 10,500 service providers and suppliers are also associated with AGC, all through a nationwide network of chapters. These firms, both union and open shop, engage in the construction of buildings, shopping centers, factories, industrial facilities, warehouses, highways, bridges, tunnels, airports, water works facilities, waste treatment facilities, dams, water conservation projects, defense facilities, multi-family housing projects,

municipal utilities, and other improvements to real property. Most are small and closely held businesses.

Since the creation of the Interstate Highway System in 1956, the Highway Trust Fund has been supported by revenue collected from users. This 'pay-as-you-go' system has served America well, allowing States to plan, construct and improve America's surface transportation infrastructure. AGC has long-supported maintaining the user-fee model for providing Highway Trust Fund revenue – including taxes on gasoline and diesel fuel – and encourages Congress to act immediately to provide the revenue necessary to fill the Highway Trust Fund revenue gap we will face this summer and beyond. User fees and taxes have not been increased in over twenty years. Since 2008, the revenue going into the Highway Trust Fund has fallen short of what is needed to address America's infrastructure needs and keep funding at existing levels. This has resulted in the Highway Trust Fund receiving over \$63 billion in transfers from the general fund simply to meet its obligations.

Immediate Highway Trust Fund Shortfall

According to the Congressional Budget Office (CBO) the Highway Trust Fund will be unable to meet all of its obligations in July or August. CBO also estimates that with no change in estimated receipts into the Highway Trust Fund, in 2016, all of the revenue credited to the fund will be needed to meet obligations made before that year. Simply put, without additional revenue the trust fund will be unable to support any new federal obligations in 2016, resulting in a 100 percent cut to new highway and transit funding. In order to avoid such draconian cuts and simply maintain current funding levels, \$16 billion in additional revenue either through a gas tax increase or other user related fees or a transfer from the general fund will be necessary. According to CBO, the gap between trust fund receipts and obligations beyond 2016 is \$11 to \$18 billion annually.

Need for Certainty

Because of the current state of trust fund finances, Congress must take steps to maintain certainty in program continuity. The construction industry makes decisions about investments in new equipment and in retaining and training a workforce based on its best projection about where the market will be over the long term. Without the knowledge that a continuous and growing market is on the horizon, contractors will not make the investments necessary to carry out this program's objectives. This is particularly true for small businesses, which typically have less operating capital to invest, thus are more risk-adverse with their capital. This trait is also magnified by the economic conditions, which make risk reduction a company's top priority. This hurts the program as much as it does the industry. Efficiency and productivity increases when contractors can project a steady future market in which to work. This helps lower costs, and allows for a better constructed project because new equipment and improved technology improves the final project.

The stop gap funding measures since 2008 have caused uncertainty in the transportation construction market place. Congress's inability to make the difficult decisions and provide real, growing and sustainable revenue for the Highway Trust Fund has resulted in states throughout

the county delaying or cancelling much needed transportation construction projects. AGC members from Georgia to Wyoming, Tennessee and South Dakota among others are seeing their state departments of transportation let fewer and fewer jobs. Nearly \$2 billion in vital transportation construction projects has been delayed or cancelled because Congress will not act and fix the Highway Trust Fund.

Federal Role

Not only has Congress failed to act on addressing the solvency of the Highway Trust Fund, some want to strip away most federal funding for surface transportation projects, essentially eliminating the federal government's constitutionally mandated role in promoting interstate commerce (commonly known as devolution). Legislative proposals such as the Transportation Enhancement Act (TEA) would reduce funding for the federal-aid highway program by more than 80 percent, with no consideration of the impact on state and local governments or private industry. It also calls for the elimination of the federal transit program, taking more than \$8 billion from state and local public transportation agencies, which rely on federal funds for more than 43 percent of their capital spending.

While TEA purports to retain a federal role in maintaining the Interstate System, according to the U.S. Department of Transportation (U.S. DOT), Interstates require at least \$17 billion in annual investment to simply sustain current levels of maintenance, and more than \$33 billion per year to improve system conditions. Furthermore, the National Highway System, which carries 55 percent of total vehicle miles traveled and 97 percent of truck miles, also requires an annual investment of \$75 billion, according to U.S. DOT. TEA doesn't "empower" states; it burdens them with 90 percent of the fiscal responsibility for supporting highways that the federal government currently helps to maintain. It would also have a devastating impact on public transportation systems that help to alleviate highway congestion, reduce emissions and provide critical transportation options to underserved populations.

A further burden on states lies in the amount of revenue that they would have to raise to replace the absence of federal transportation funding. On average federal dollars are responsible for 52 percent of states capital budgets for transportation. If states replaced the lost revenue with an increase in their fuel taxes, on average their gas taxes would have to increase by roughly 23 cents by 2020 and some states would have to raise their taxes by more than 30 cents just to maintain the current level of funding.

TEA and other "devolution" proposals do not bring any new money to the table so they are not a solution to the long-term transportation needs of our county. Congress must continue to reject such proposals and instead work in a bipartisan, bicameral way to enact a long-term sustainable revenue source for the Highway Trust Fund.

Motor Fuels Tax

AGC believes that there is no easy solution for addressing our transportation investment deficit. The level of investment provided by the Highway Trust Fund should be increased to address mounting needs. An increase in revenue is necessary just to keep up with inflation additional

funding is also needed to address the backlog of transportation investment needs. Numerous authoritative reports have come to the conclusion that, for the foreseeable future, the federal motor fuels tax is the best method for funding transportation infrastructure investment and that the motor fuels tax needs to be increased. SAFETEA-LU established two national commissions to look at the future of the federal transportation programs and to make recommendations on paying for these needs into the future. Both Commissions were appointed with bi-partisan membership and included transportation experts and individuals representing businesses and other users of the system.

In 2011, the Simpson Bowles Commission recommended a 15-cent per gallon gas and diesel tax increase plus inflation. In addition to Simpson-Bowles, Congressman Early Blumenauer (D-OR) has introduced legislation (H.R. 680) that would increase the gas tax by 15 cents over 3 years (it currently has 32 cosponsors), while Congressman Jim Renacci (R-OH) and Congressman Bill Pascrell (D-NJ) have a bill (H.R. 1846) that would pay for the next surface transportation authorization with indexing the current gas and diesel taxes to inflation and subsequently increasing them by an amount that would maintain current funding levels if Congress failed to address the long-term solvency of the Highway Trust Fund (31 cosponsors). AGC supports all three of the above proposals.

AGC Recommendations

Recognizing the need to look at all viable options to fund the highway trust fund, AGC along with our partners in the Transportation Construction Coalition (TCC) have been advocating for over a year that Congress look at other revenue options – that maintain the user-pays model – that would be viable. This is our all of the above approach.

The chart below (and attached at the end) shows the \$102 billion shortfall from 2015-2020 between the revenue going into the Highway Trust Fund and projected outlays of the fund assuming current funding levels plus inflationary increases. The TCC is proposing a combination of new and existing user fees currently being collected at the federal and state level as options to the 6-year shortfall and create a basis for much needed future growth. In addition, we look beyond 2020 and provide the next generation of revenue options to fund growth that addresses the needs of our transportation network.

Reauthorization Funding Options	
<p>2015 – 2020 Provide 6-Year Funding Security to Create Basis for Growth</p>	
Current spending + inflation:	\$190 Billion
Projected Highway Trust Fund revenue:	\$228 Billion
Shortfall:	\$102 Billion
<p>Proposed Revenue Options</p>	
Dedicate 15% Customs Duties (A1)*:	\$ 34.98 B
\$5 driver license fee**:	\$ 6.98 B
\$5 light duty tire tax**:	\$ 33.90 B
Increase heavy vehicle use tax*:	\$ 6.84 B
230 light duty Reg. fee**:	\$ 15.41 B
20 cent diesel tax increase:	\$ 27.70 B
Index diesel tax:	\$ 5.22 B
Index gas tax:	\$ 10.87 B
Oil leasing fees federal lands**:	\$ 14.25 B
Deermeat Repatriation:	\$ 33.00 B
Total New Revenue:	\$226.53 B
Or	
15 cent increase in gas and diesel taxes:	\$180 B
Or	
Phase in of items listed here	
	*Indexed for inflation
<p>2020 – 2030 Next Generation Revenue Options to Fund Growth that Addresses Actual System Needs</p>	
Needed to improve performance:	\$836 Billion
<p>Potential Future Revenue Options</p>	
Distance traveled fee	
Energy efficiency fee	
Energy transformation fee	
Freight fee (such as customs duties, container fee and freight fee)	
Gas equivalent fee for electric vehicles	
LNG export fee	
Repatriation of corporate profits	
Per barrel oil fee	
Transit fee	

The proposed revenue options include:

- **Dedicating 15 percent of Custom Duties currently collected to the Highway Trust Fund** – The U.S. has recognized the connection between infrastructure investment and international commerce since the Lighthouse Act of 1789 during the first Congress. Customs duties are imposed at varying rates on various imported goods passing through US international gateways and currently go to the General Fund of the US Treasury. A number of interest groups as well as the SAFETEA-LU policy commission have suggested that given the role transportation infrastructure plays in facilitating the import of goods, a portion of current customs duties should be allocated to support transportation investment.
- **\$5 Driver License Fee** - The annual driver's license fee would be a federal surcharge on current state license fees. All states charge a fee which in some cases simply covers the cost of administering the licensing programs. In many states however, license fees also are used as a source of funding for transportation or other purposes. Currently 48 states have a registration fee and all but a handful use the proceeds for road improvement projects. This fee, as with others, should be indexed to CPI for inflation.
- **\$5 Light Duty Tire Tax** – Similar to the existing heavy vehicle tire fee, this fee would apply to tires that do not exceed maximum capacity of 3,500 pounds. This would be a national tire tax on both new cars and replacement tires. This fee, as with others, should be indexed to CPI for inflation.
- **Increase Heavy Vehicle Use Tax** - Currently this tax is levied on all trucks 55,000 pounds Gross Vehicle Weight (GVW) or greater. The tax rate is \$100 plus \$22 for each 1,000 pounds of GVW in excess of 55,000 up to a maximum annual fee of \$550 (thus all trucks with GVW greater than 75,000 pounds pay the maximum).
- **\$10 Light Duty Registration Fee** - All states impose annual vehicles registration and related fees, and at least half the states raise more than a quarter of their

dedicated transportation revenues through this mechanism. The structure of the registration fee varies widely, from a flat per vehicle fee to a schedule of rates based on factors such as vehicle type, weight, age, horsepower, and value. This increase in would apply a federal surcharge to state registration fees. We propose that this and all other fees are indexed to CPI.

- **10 Cent Diesel Tax Increase** - Increasing the tax on diesel only is modeled after the inland water ways trust fund proposals that was included the ABLE Act which was signed into law last December. The barge operators convinced Members of Congress to increase the fuel tax that they pay to fund infrastructure investment.
- **Index Diesel & Gas Tax** – When these user fees were last increased in 1993 they did not include any adjustments for inflations. If you measure the federal gas tax rate today relative to road construction costs, the tax has lost 38 percent of its value since 1993.
- **Oil Leasing on Federal Lands** – Expanding oil and gas drilling on federal lands and in the Outer Continental Shelf and dedicating the royalties to the Highway Trust.
- **Deemed Repatriation** - Some members of Congress have proposed to tax the profits of U.S. corporations on earnings made outside of the United States. Several different ways have been suggested on how to accomplish this, including a “tax holiday.” This proposal is for “deemed repatriation”, taxing corporate profit made outside the U.S. at an 8.75 percent rate, regardless of whether the profits are returned to the U.S.

Again, if Congress continues to fail to increase the user fees for gasoline and diesel fuel, they should look to these options as alternatives that would maintain the traditional user pays model for our federal transportation programs.

Conclusion

AGC believes that the federal government should double-down on its infrastructure investment, not reduce it or shift the responsibility to the states. The long-term benefits from transportation investment are well documented. Every dollar invested in Highway Trust Fund programs returns 74 cents in tax revenue and adds \$1.80 to \$2.00 to Gross Domestic Product (GDP). The “user fee” principle is well respected and easily understood. The Highway Trust Fund concept of fiscal responsibility served the country well for fifty years until the Congress decided it was more acceptable to take money from the general fund than increase the user fee to cover the annual expenditures from the Highway Trust Fund. The United States has face the reality that they have been under investing in our transportation systems for far too long and the impact is now being felt in every state and in most towns. With the interstate system beyond capacity and design life, this underinvestment is costing U.S. businesses and individual’s time and money. Providing continued support for traditional funding mechanisms and finding new user based options is necessary to address this dire situation.

Reauthorization Funding Options	
2015 – 2020 <i>Provide 6-Year Funding Security to Create Basis for Growth</i>	2020 – 2030 <i>Next Generation Revenue Options to Fund Growth that Addresses Actual System Needs</i>
Current spending + inflation: \$330 Billion Projected Highway Trust Fund revenue: \$228 Billion Shortfall: \$102 Billion	Needed to improve performance: \$936 Billion
<u>Proposed Revenue Options</u> Dedicate 15% Customs Duties/HTF*: \$ 34.98 B \$5 driver license fee*: \$ 6.98 B \$5 light duty tire tax*: \$ 10.60 B Increase heavy vehicle use tax*: \$ 6.84 B \$10 light duty Reg. fee*: \$ 15.41 B 10 cent diesel tax increase: \$ 27.76 B Index diesel tax: \$ 5.22 B Index gas tax: \$ 10.87 B Oil leasing fees federal lands*: \$ 14.25 B Deemed Repatriation: \$ 93.60 B Total New Revenue: \$226.51 B Or 15 cent increase in gas and diesel taxes: \$160 B Or Phase in of items listed here	<u>Potential Future Revenue Options</u> Distance traveled fee Energy extraction fee Energy transmission fee Freight fee (such as customs duties, container fee and freight fee) Gas equivalent fee for electric vehicles LNG export fee Repatriation of corporate profits Per barrel oil fee Transit fee
	*Indexed for inflation

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Explanation of Shortfall and Revenue Options

Shortfall – The 2015-2020 shortfall represents the discrepancies between the revenue going into the HTF and the projected outlays of the trust fund assuming current funding levels plus inflationary increases. The Congressional Budget Office projects that without Congressional action the HTF will be unable to meet all of its obligations in 2015 and will be unable to support any new projects in fiscal year 2016.

Revenue Options – TCC is proposing a combination of new and existing user fees currently being collected at the federal and state level as options to fill the 6-year HTF shortfall and create a basis for future growth. States that are currently using various fees for transportation revenue include:

- 48 States w/ Vehicle Registration, License or Title Fees
 - CA, DC, GA – *do not have any such fees*
- 37 States w/ Vehicle or Truck Weight Fees
 - DE, DC, FL, GA, ID, IN, IA, MA, MI, NE, OK, PA, RI, SC, WV – *do not have any such fees*
- 23 States w/ a Vehicle Sales Tax
 - AK, AZ, CT, FL, HI, IL, KY, MD, MN, MO, MT, NE, NV, NJ, NM, NY, NC, ND, SD, UT, VA, VT, WV

Explanation of Revenue Options

(EXISTING) Customs Duties – Customs duties are imposed at varying rates on various imported goods passing through US international gateways and currently go to the General Fund of the US Treasury. A number of interest groups as well as the SAFETEA-LU policy commission have suggested that given the role transportation infrastructure plays in facilitating the import of goods, a portion of current customs duties should be allocated to support transportation investment.

(NEW) Drivers License Fee – The annual driver's license fee would be a federal surcharge on current state license fees. All states charge a fee which in some cases simply covers the cost of administering the licensing programs. In many states however, license fees also are used as a source of funding for transportation or other purposes. Currently 48 states have a registration fee and all but a handful use the proceeds for road improvement projects. This fee, as with others, should be indexed to CPI for inflation.

(NEW) Light Duty Tire Tax – Similar to the existing heavy vehicle tire fee, this fee would apply to tires that do not exceed maximum capacity of 3,500 pounds. This would be a national tire tax on both new cars and replacement tires. This fee, as with others, should be indexed to CPI for inflation.

(EXISTING) Increase Heavy Vehicle Use Tax – Currently this tax is levied on all trucks 55,000 pounds Gross Vehicle Weight (GVW) or greater. The tax rate is \$100 plus \$22 for each 1,000 pounds of GVW in excess of 55,000 up to a maximum annual fee of \$550 (thus all trucks with GVW greater than 75,000 pounds pay the maximum).

(EXISTING) Heavy Duty Truck Tire Tax – Applies to tires with a maximum load rated over 3,500 pounds. The current tax is 9.45 cents for every 10 pounds of maximum capacity that exceeds the 3,500 threshold. The maximum was last increased in 1982 and was actually lowered in 1984. This fee, as with others, should be indexed to CPI for inflation.

(NEW) Vehicle Registration Fee – All states impose annual vehicles registration and related fees, and at least half the states raise more than a quarter of their dedicated transportation revenues through this mechanism. The structure of the registration fee varies widely, from a flat per vehicle fee to a schedule of rates based on factors such as vehicle type, weight, age, horsepower, and value. This increase in would apply a federal surcharge to state registration fees. We propose that this and all other fees are indexed to CPI.

(EXISTING) Diesel Fuel Tax Increase – Increasing the tax on diesel only is modeled after the inland water ways trust fund proposals that were included in the House draft for tax reform, the president's budget and the Senate Finance committee extenders package. The barge operators have convinced members of congress to increase the fuel tax that they pay to fund infrastructure investment.

(NEW) Deemed Repatriation – Some members of Congress have proposed to tax the profits of U.S. corporations on earnings made outside of the United States. Several different ways have been suggested on how to accomplish this, including a "tax holiday." This proposal is for "deemed repatriation", taxing corporate profit made outside the U.S. at an 8.75 percent rate, regardless of whether the profits are returned to the U.S.

Association of Equipment Manufacturers
6737 West Washington Street
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June 17, 2015

Chairman Ryan and Ranking Member Levin:

On behalf of the Association of Equipment Manufacturers (AEM) and the almost 900 manufacturers of construction, agriculture, forestry and mining equipment we represent, I want to thank you for offering this opportunity to submit a statement for the record explaining our industry's thoughts on financing the Highway Trust Fund.

The Highway Trust Fund, the federal government's primary tool for supporting critical investments in our surface transportation infrastructure, has now endured years of uncertainty because Congress has been unable to address a chronic shortfall driven by both inflation and vehicles' increasing fuel efficiency. AEM strongly urges Congress to end the cycle of delays and borrowing and develop a long-term solution for the trust fund; we sincerely hope today's hearing will offer a productive opportunity to move toward that important goal.

However, I want to use this opportunity to explain the effects of uncertainty on equipment manufacturers, and outline our industry's perspective as it relates to financing a long-term highway bill.

The negative effects of repeated patchwork fixes to the Highway Trust Fund are reverberating throughout our economy, and would only be exacerbated if Congress adopts another short-term fix instead of a long-term solution.

The short-term bills adopted by Congress in recent years have sapped state government planners of their ability to make long-term capital investment plans. Beyond depriving states of their ability to improve their infrastructure, that means that jobs are being lost as states defer or cancel bids for projects.

What that means for our manufacturers is depressed demand for equipment that would otherwise be used to help rebuild our surface transportation infrastructure, the backbone of our economy. It also means that our roads and bridges continue to deteriorate, meaning that there's less ability for farmers to move their products to market, or for manufacturers to sell their products across the country, or overseas.

Though the manufacturing economy has recovered steadily from the depths of the Great Recession, the absence of a long-term highway bill continues to serve as a restraint on our industry from unleashing its full potential. To make matters worse, this is an avoidable problem, and Congress has available solutions to fix this matter.

The most obvious solution would be to modestly adjust the federal surtax on gasoline and diesel to make up for its diminished buying power when it was last adjusted in 1993. The gas tax is a straightforward user fee espoused by no less a conservative than President Ronald Reagan. It remains the most simple and straightforward way to assure that those who incur use of our roads pay for their maintenance.

But while we favor adjusting the gas tax, we also acknowledge the political difficulties associated with raising this tax and the fact that the chairman of this committee has all but ruled out such a solution.

AEM believes that it is too premature to rule out most solutions for addressing this vexing problem. A bipartisan duo on this committee, Reps. Jim Renacci (R-Ohio) and Bill Pascrell (D-N.J.), have put forward a creative proposal that would essentially force Congress to confront this problem and develop a long-term solution for the trust fund and impose automatic adjustments to the gas tax if lawmakers fail to reach a consensus.

One “solution” we would reject, though, would be any proposal to “devolve” the federal highway program to the states. These proposals ignore the original intent of the Highway Trust Fund: to promote interstate commerce and preserve a strong nationwide infrastructure for national security purposes. Put bluntly, no one outside of a few extreme, DC-based partisan interest groups favor devolution: Not mayors or governors or industry groups. Devolving the federal highway program would lead to inconsistent maintenance and repairs and limit the federal government’s ability to set long-term nationwide priorities for our surface transportation infrastructure.

AEM also recognizes that the debate over the Highway Trust Fund right now is deeply tied into congressional deliberations over whether to reform our nation’s tax code. AEM favors comprehensive tax reform that streamlines corporate taxes and helps manufacturers stay globally competitive. But we also ask that lawmakers be honest with themselves about the likelihood of advancing such difficult legislation during this Congress. Tax reform is an incredibly worthy goal, but it shouldn’t have to come at the expense of the Highway Trust Fund, which is already urgently in need of a solution.

As this debate moves forward, AEM would respectfully ask members of this committee and the whole Congress simply for their ideas. We can’t afford for lawmakers to hold forth any longer on their ideas for fixing the Highway Trust Fund. The time has come for members of Congress from both parties to come together and put forth their best and most innovative solutions for ensuring our nation’s infrastructure needs will be addressed for another generation.

Put forward proposals, and debate their merits. Inaction is simply no longer an acceptable solution for AEM and its members, which is why we urge this committee to move toward passing a long-term, sustainably-funded highway bill as soon as possible.

Sincerely,

Dennis Slater
President
Association of Equipment Manufacturers (AEM)



June 22, 2015

Honorable Rep. Paul Ryan
Chairman
U.S. House Ways & Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

RE: Long-Term Financing of the Highway Trust Fund

Dear Committee Members:

Hello, my name is Andrew Wells. I am a graduate student at the University of Delaware studying structural engineering and bridge design. Specifically, my graduate thesis deals with evaluating the structural capacity of in-service bridges. As I am sure you are aware, one in every 11 bridges in the United States is classified as structurally deficient. While this and other infrastructure deficiencies are a safety issue to some extent, I believe the overarching concerns with the current state of the nation's transportation network are economic in nature. Consequently, addressing revenue problems associated with the Highway Trust Fund (HTF) is of utmost importance for securing the country's long term economic success.

As I mentioned, I am currently performing research on the structural evaluation of bridges. In particular, I am attempting to show that a very specific type of bridge structure, known as a box culvert, has the capacity to carry more load than the bridge design code currently allows. The reason being that many of these structures require weight restrictions and would hinder the local economy in Delaware, should they be closed to heavy traffic. When looking at the national infrastructure, I am concerned that bridges of national economic significance (i.e. on critical freight corridors) will soon necessitate similar limitations. However, these structures are not in the same position as box culverts, where research would drastically change the loads they are allowed to carry. Should current conditions continue to deteriorate, the repercussions I am seeking to avoid in Delaware—namely the rerouting of trucking routes—will come to fruition on a national scale, costing businesses and consumers hard earned money. For that reason, I believe that transportation funding as well as spending must increase.

When examining transportation trust funds, such as the Harbor Maintenance Trust Fund and the Inland Waterways Trust Fund, they are alike in that they rely on user fees to support their maintenance and expansion. I believe this is an essential pillar of transportation funding because it draws revenue from the source of its damages. Currently, there are several ideas as to the most effective means of charging highway users, however in the current debate I support raising fuel taxes because insolvency is only weeks away. If revenue is to be raised in the immediate future, Congress must implement a system that has been proven. In my opinion, that system is taxing gasoline and diesel fuels.

In addition to raising fuel taxes, I also support adjusting them to the Consumer Price Index (CPI). According to the Congressional Budget Office, the buying power of fuel taxes has decreased by nearly 40 percent over the last twenty years due to inflation. That amounts to 14 billion dollars today and suggests that the current funding problems would not exist had fuel taxes been indexed beginning in 1995. Furthermore, I feel that the spirit of the law is to keep taxes the same in constant dollars over time. If Congress agrees today that infrastructure needs require a certain level of taxation, I feel that the effective rate of taxation should be the same next year and the year after, regardless of inflation.

Over the past two decades, Congress has averaged about one short term transportation funding extension per year. This pattern must stop so that transportation agencies around the country can adequately plan and execute complex transportation projects. Moving forward, I believe raising fuel taxes by 18 cents and indexing them to CPI will not only give agencies the ability to rely on the federal government, but will also help advance our economy into the next era of growth and prosperity. Thank you very much for your time and consideration.

Most Sincerely,



Andrew Wells
Private Citizen
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LUCETTA DUNN, Chair
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 SENATOR JIM BEALL, Ex Officio
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 Will Kempton, Executive Director

STATE OF CALIFORNIA

EDMUND G. BROWN Jr., Governor



CALIFORNIA TRANSPORTATION COMMISSION

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July 1, 2015

The Honorable Paul Ryan, Chairman
 Committee on Ways and Means
 U.S. House of Representatives

SENT VIA EMAIL

RE: Committee Hearing on Long-Term Financing of the Highway Trust Fund
 Wednesday, June 17, 2015, 10:00 AM

Dear Chairman Ryan,

As the state agency responsible for programming and allocating transportation dollars, the California Transportation Commission encourages Congress to take action to address a long-term funding solution for the Nation's transportation system. Federal funding for transportation is a crucial component in the process of maintaining our mobility and ensuring a robust national economy. As a result, Congressional consideration of the future of transportation funding is critical.

Investments to preserve our transportation system have not kept pace with demand, and the current method of funding the Highway Trust Fund through excise taxes is no longer keeping up with the cost of maintaining, operating, and expanding the Nation's vast transportation network. In real terms, funding has diminished while the demand and the cost to maintain and operate the transportation system have soared. To effectively address this pending transportation funding crisis, immediate and long-range sustainable solutions are required. A solution should be implemented in the near-term to stabilize transportation funding while a long-term mechanism is secured.

Excise taxes are paid based on fuel consumption, not direct usage of the transportation system. As fuel consumption continues to decline due to improved and more fuel-efficient vehicles, and as consumers turn to alternative fueled vehicles; the relationship between fuel consumption and costs imposed on the transportation system will continue to deteriorate. A road usage charge, also known as a mileage based user fee or a vehicle miles traveled fee, refers to a fee based on the number of miles a vehicle travels over a given time period. A road charge is considered to be a more effective option for funding transportation.

The Honorable Paul Ryan

July 1, 2015
Page 2

infrastructure than excise taxes since it directly charges users prices that reflect the full cost of the transportation services provided.

Along with several other states, California is taking an aggressive stance to address this chronic transportation funding shortfall by investigating the potential of a pay-as-you-go road charge in-lieu of the traditional fuel-based excise tax. In 2014, California legislation was enacted to establish a Road Charge Technical Advisory Committee to design a road charge demonstration program in our state. Development and implementation of a road charge pilot program requires a collaborative development and deployment process to address privacy, technology, administrative and other public concerns while ensuring the ultimate success of a new funding mechanism.

We strongly support efforts to develop a bipartisan plan to stabilize and enhance the Highway Trust Fund's current revenue stream this year and in subsequent years. We believe Congress must also consider the next generation of surface transportation revenue mechanisms now, to be in a stronger position in future surface transportation authorization debates. As such, we request the next Surface Transportation Reauthorization bill include provisions to help states undertake the research and development activities necessary to implement a new mechanism for collecting transportation revenues based on user fees reflective of the full cost of transportation services provided.

Sincerely,



LUCY DUNN
Chair
California Transportation Commission



ROBERT ALVARADO
Vice-Chair
California Transportation Commission

cc: Honorable Devin Nunes, U.S. House of Representatives
Honorable Xavier Becerra, U.S. House of Representatives
Honorable Mike Thompson, U.S. House of Representatives
Honorable Linda Sanchez, U.S. House of Representatives
Commissioners, California Transportation Commission
Jim Beall, Chair, Senate Committee on Transportation and Housing
Jim Frazier, Chair, Assembly Committee on Transportation
Brian Kelly, Secretary, California State Transportation Agency
Malcolm Dougherty, Director, California Dept. of Transportation

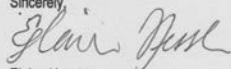


Coalition for America's Gateways and Trade Corridors

<p>AECOM Alameda Corridor-East Construction Authority Cascadia Center CenterPoint Properties Trust Chicago Metropolitan Agency for Planning City of Chicago City of Industry, A Municipality COMPASS – Community Planning Association of Southwest Idaho Dewberry Economic Development Coalition of Southwest Indiana Florida Department of Transportation Florida East Coast Railway Florida Ports Council Freight Mobility Strategic Investment Board (Washington State) Gateway Cities Council of Governments HELP, Inc. HERZOG Illinois Soybean Association Intermodal Association of North America Jacobs Engineering Kootenai Metropolitan Planning Organization Los Angeles County Metropolitan Transportation Authority Majestic Realty Co. Maricopa Association of Governments Maryland Department of Transportation Maryland Port Administration Memphis Chamber of Commerce Metropolitan Transportation Commission National Railroad Construction and Maintenance Association</p>	<p>June 15, 2015</p> <p>The Honorable Paul Ryan Chairman, House Committee on Ways and Means 1102 Longworth House Office Building Washington, D.C. 20515</p> <p>Dear Chairman Ryan:</p> <p>On behalf of the Coalition for America's Gateways and Trade Corridors (CAGTC), thank you for scheduling a hearing on surface transportation funding. CAGTC is comprised of over sixty organizations, including state DOT's, MPO's, ports and engineering firms, that have come together to improve national freight policy. Our organization is eager to see Congress pass a long-term and robustly-funded surface transportation bill and we look forward to your leadership in determining the best way to pay for such a bill.</p> <p>The Congressional Budget Office estimates that between 2015 and 2024, the Highway Trust Fund will need \$167 billion in additional revenues to maintain the insufficient level of current funding. Furthermore, as generally accepted by our members and other organizations, our country's freight transportation network needs an additional annual investment of at least \$2 billion per year, to support critical system-wide, multimodal, and multi-jurisdictional needs. It is also important to note that many freight projects are actually highway projects that greatly benefit all motorists.</p> <p>We urge you to utilize this hearing to capture the perspectives of knowledgeable witnesses representing a broad coalition from small and large private businesses, freight system users and providers, state and local governments, and organized labor, all of whom are in favor of a strong federal role in our nation's surface transportation that links our states and international trading partners.</p> <p>The last Ways and Means hearing on this issue was held in July 2009. Since then, our country's infrastructure has continued to decline, receiving a D+ from the American Society of Civil Engineers. Continued failure to adequately invest in our nation's freight corridors has led to snarled chokepoints and infrastructure deterioration, posing significant safety hazards throughout our communities and slowing the movement of commerce. Meanwhile, our economy is trying to grow, and an efficient transportation system is essential to its long term recovery.</p> <p>While it is critical to find a short-term solution, as you and your Committee Members have noted, a long-term bill containing a well-funded freight program as well as sustainable and dependable funding for surface transportation infrastructure must be the ultimate goal. There are many proposed funding solutions on the table. With your leadership, we are optimistic the Committee on Ways and Means can identify a funding package that supports a long-term surface transportation bill containing a robust freight investment program that is good for our economy, while at the same time brings the United States back to the forefront of international trade competitiveness.</p>	<p>National Railroad Construction and Maintenance Association NASCO – North American Strategy for Competitiveness Ohio Kentucky Indiana Regional Councils of Government Orange County Transportation Authority Oregon Department of Transportation Parsons Parsons Brinckerhoff Port of Hueneume Port of Long Beach Port of Los Angeles Port Miami Port of Oakland Port of Pittsburgh Port of Portland, OR Port of San Diego Port of Seattle Port of Stockton Port of Tacoma Port Tampa Bay Port of Vancouver USA Puget Sound Regional Council RAILCET SANDAG - San Diego Association of Governments Southern California Association of Governments Supply Chain Innovation Network of Chicago- SINC Tennessee Department of Transportation Virginia Port Authority Washington State Department of Transportation West Coast Corridor Coalition Will County Center for Economic Development Xerox State and Local Solutions</p>
<p>1120 20th Street, NW Suite 500 North Washington, DC 20036 202-828-9100 phone 202-797-0020 fax www.tradecorridors.org</p>		

Thank you, once again, for scheduling this hearing and we look forward to working with your committee on these issues.

Sincerely,



Elaine Nessel
Executive Director

CC: Members of the House Committee on Ways & Means



933 North Plum Grove Road | Schaumburg, IL 60173-4758 | Tel. 847.517.1200 | Fax 847.517.1206 | www.crsi.org

June 16, 2015

The Honorable Paul Ryan
Chairman
The Committee on Ways and Means
U.S. House of Representatives
Washington, D.C.

Re: Long-Term Financing of the Highway Trust Fund Hearing – Letter For The Record

Dear Chairman Ryan and Members of the Committee on Ways and Means:

I write on behalf of the Concrete Reinforcing Steel Institute, one of our nation's oldest technical institutes and a Standards Developing Organization (SDO). The CRSI is recognized as the authoritative resource for steel reinforced concrete construction. Members include some of the country's largest steel mills, fabricators, material suppliers and placers of steel reinforcing bars and related products. Our Professional members are involved in the research, design, and construction of structures and pavements. Together, they form the backbone of the steel reinforced concrete industry spanning our nation that relies heavily on surface transportation.

As Chairman of CRSI, I am responsible for the well being of the Institute, and to keep apprised of public policy impacts to our industry. Lack of a long-term transportation authorization at sufficient levels of funding impacts not only our industry, but also every business that relies on a well built and maintained transportation system, and disadvantages the country as a whole. As members of Congress, you have the responsibility of providing federal funding for our nation's surface transportation system.

We believe that the solution to funding is to maintain a user-fee-based Highway Trust Fund with increased levels of investment. We thank you for your attention and urge Congress to pass legislation on this model this year.

Finance and support for our surface transportation systems is based on a per-gallon tax unchanged since 1993. Few of us in the private sector are operating with 22 year old systems or funding mechanisms. No American business or a state Department of Transportation is working with the same W2 numbers from 1993; no business small or large is using the same trucks or machinery from 22 years ago. Our organization and practically every interest from the National Association of Manufacturers to the AFL-CIO recognize the need for an increase in infrastructure investment, and we are willing to pay for an increase in the federal gas fee. We know that you recognize that a safe, efficient system of transport and transit is essential to our economic strength. Tools, personnel and equipment used to make and deliver products require periodic investment – highways and transit are no different.





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The Honorable Paul Ryan
Page 2

The user fee assessed at the pump is paid by those who use fuel in proportion to that use. It is a sensible system. Granted, with the improvement in fuel efficiency and other contemporary developments, Congress will in the future need to address other funding mechanisms to meet our infrastructure spending needs. For now we believe the current system is fair and functional.

Many states have raised their fuel fees because they recognize their residents and industries are willing to support a higher level of investment. Leaders in these states have demonstrated they know that a vibrant economy requires investment. This has been the tradition of our federal transportation program since its founding - citizens willing to pay.

We have patched, extended, delayed and dallied for far too many months. The country needs a serious, six-year highway authorization bill with funding beyond the clearly inadequate current levels. We need a sustainable funding stream, not obscure "pay-fors" to offset spending or to take revenue from the General Treasury. Highways, transit and bridges take years to plan and build. We cannot do the work with short-term funding band-aids. Congress should not think that status quo is good enough; it's not.

We urge you to invest in and restore the infrastructure superiority of the United States. Delay will only be more costly and detrimental.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott D. Stevens".

Scott D. Stevens, PE
Chairman of the Board
Concrete Reinforcing Steel Institute



Hearing on Long-Term Financing of the Highway Trust Fund
June 17, 2015

The following is an exploration of some possible ways to fund transportation facilities, with my recommendations for federal funding at the end. Some of these should be considered extreme and undesirable, but are included here for illustration. Many may suit one jurisdiction well while be unadvisable to others. For the purposes of this article, Transportation District refers to any private, local, city, county, or state organizations with authority to build and maintain transportation. The advantages and disadvantages are intended to be illustrative and not exhaustive.

1) Property owners responsible for maintaining the right of way bordering their property.

Advantages: Property owners pay no taxes to the government for the upkeep and construction of transportation facilities but do pay for others to do the work or does the work themselves, no restrictions on the types of transportation, tends to reduce urban sprawl. Disadvantages: No economy of scale, undue burden on corner and other long frontage properties, pressure to allow property owners to toll the portion they are responsible for, possible differing standards and states of repair, no public mass transit, no public higher speed facilities, resistance to spending for heavier and higher capacity facilities especially in residential areas, limited freight movement. Government enforcement of minimum maintenance likely to be required and facilities are likely to deteriorate rapidly in hard times. Recommendation: Should not be used; while the apparent savings of taxes looks attractive, it is very possible more tax money, from a different tax, would be required to provide enforcement of the maintenance standards, not to mention the property owner is likely paying more for road work due to lack of economy of scale. Once neighbors agree to work together to keep the roads and how to pay for it, they have created something equivalent to a tax structure.

2) Neighborhood Associations

Advantages: Property owners pay no taxes to the government for the upkeep and construction of transportation facilities but do pay an association fee as agreed or/and perform the work themselves, no restrictions on the types of transportation, tends to reduce urban sprawl, better economy of scale, maintenance likely to be better, may support on-demand transit with association owned vehicle. Disadvantages: Pressure to allow associations to toll the roadways for which they are responsible, possible differing standards and states of repair, facilities may deteriorate rapidly in hard times, no public higher speed facilities, resistance to spending for heavier and higher capacity facilities especially in residential areas, likely limited freight movement, may be poor connections between associations. Recommendation: Could work very well for some residential neighborhoods, which would strengthen them; could work well within a commercial district with businesses of similar market reach. The businesses may want to partially provide the higher capacity travelways through the neighboring residential neighborhoods. Combining associations into cooperative districts could reduce some of the disadvantages and improve the advantages, funding for the cooperative district would come from the associations, not directly from the people.

3) Monthly Access (Utility) Fees (similar to those used by communications companies).

Advantages: Economy of scale, use for emergency services and for nonemergency medical transportation possible, burden to long frontage properties reduced, consistency of function and repair is better, does not treat one person as worth more than another, funds transportation more like a utility, which it is. Disadvantages: May be focused on access to the detriment of mobility, depending on the size of the transportation district, may be perceived as falling heavily on small properties and the poor, connections between transportation districts may be poor, may allow urban sprawl. Recommendation: Should not be used as a standalone funding system. Could be used to fund up to two lanes for each roadway, walkways, bikeways, and possibly, a fareless local bus like system with

stops a reasonable walking distance from every address. If adopted, vehicle registration fees should be rescinded, and property taxes for roadways and services should be reduced accordingly.

4) Tolls and Fares.

Advantages: Users pay the cost of the systems, does not treat one person as more important than another, provides for robust limited access transportation, tends to reduce urban sprawl.

Disadvantages: Difficult to apply to walkways, places with numerous access points, and residential neighborhoods; may be perceived as falling more heavily on the poor; connections to other transportation districts could be choke points; traffic on some portions may be insufficient to toll or fare at a reasonable rate. Recommendation: Should not be used as a standalone funding system. Works best if all limited access type systems are tolled or fared.

5) Property taxes (traditional method for funding local roadways).

Advantages: The collection of property taxes is well understood, distributes the tax burden fairly evenly based on property values, good transportation systems tend to increase property values.

Disadvantages: Property values can experience significant fluctuations, making forecasting the revenue less predictable than other taxes, poor people may own relatively high value properties and rich people may own relatively low value properties, does not account for traffic generation. Recommendation: Should continue to move away from using this tax in a standalone system. A property tax with limitations is still a viable method of funding transportation. In good years, a percentage of the increase in property tax revenue from one year to the next, due to valuation increases, could be set aside for transportation expansion to encourage continued growth and soften some downturns.

6) Fuel Excise Tax (used to primarily to fund higher mobility roadways).

Advantages: Well understood taxing system, user tax, can be used to discourage use of carbon based fuels. Disadvantages: Does not account for weight or gas mileage of the vehicle, not a true user tax; not easily justifiable for non-roadway use even when drivers are benefitted, induces urban sprawl, greenhouse concerns, some needed roads cannot be maintained based on traffic counts for that road. The history of this tax provides a lesson on how a seemingly progressive tax can become regressive. Recommendation: Excise taxes still have some value for funding transportation, but should be depended on less and less moving into the future. Nevertheless, since the trucking industry already supports a tax increase, the diesel tax could be immediately raised to an amount the trucking industry is agreeable to.

7) Vehicle Miles Traveled Fee (could be used for all roadways).

Advantages: Truer user fee that can account for the weight of the vehicle, can be discounted for older vehicle that the poorer are more likely to drive, applies evenly to alternately fueled vehicles, can be tracked by GPS, odometer reading at registration, or other method if available, can make use of the fuel tax or regular estimated billing to avoid yearly lump sum payments. Disadvantages: Privacy concerns with tracking, not easily justifiable for non-roadway use even when drivers are benefitted, may induce urban sprawl, may be political pressure to match the funding with the portion of roadway related to its collection, some needed roads cannot be maintained based on traffic counts for that road.

Recommendation: Should not be used as a standalone funding system. The VMT fee is a more accurate and fair system than the Fuel Excise Tax and could be implemented as soon as privacy issues can be resolved. However, many commercial vehicles already carry GPS systems and the privacy concerns are less. The development of VMT fees for commercial vehicles should fast track, with the lessons learned then being applied as VMT fees for private vehicles develop.

8) Commuter Miles Tax (Based on distance from primary home to work location).

Advantages: User tax, may be used for any type of transportation, fits easily with improving congestion and bottlenecks, uses well understood payroll deduction to assess, can be limited to a maximum amount for lower tax brackets, can be indexed at higher rates for greater miles to locations within defined urban areas, may reduce sprawl, can be used in combination with a Fuel Excise Tax decrease,

revenues increase as the number of jobs increase. Disadvantages: Little known concept with unknown resistance, payroll deduction may make the tax more noticeable even though not greater, would likely not provide adequate funding for many rural roads. Recommendation: Should not be used as a standalone tax; should be phased in until the amount collected is consistent with and covers the number of commuter miles traveled while the Fuel Excise Tax is reduced accordingly.

9) Commercial Income Tax (Transportation is necessary for business to do business).

Advantages: May be used for any type of transportation and can better provide for freight. Corporate Taxes are well understood. It is within the interests of the business community to draw people to their businesses and to reduce the costs of goods and services, which good transportation does. The tax could be considered more as an investment rather than a tax if done right. Disadvantages: Conflicting interests may affect project priority, especially when funding is down. Recommendation: Set aside a percentage of corporate income taxes for transportation use in keeping with the desire to grow the economy.

10) Repatriation

Advantages: Provides a large one-time source of funds with relatively little pain due to the current large amounts of money parked overseas. At a more normal level, repatriation could provide a steady source of funding for ports, airports, and border crossings, and their associated facilities. Recommendation: Use the large one-time funds to repair, rehabilitate, rebuild, and expand as necessary all bridges and tunnels, road or railroad, that cross state lines, and then to do the same with bridges or tunnels of longer than 2000 feet regardless of location. The remainder of this funding could then be used to make mass transit more competitive against automobile traffic, ideally, with automated vehicle-on-demand transit. Use the normal flow of repatriated funds to provide infrastructure and support for international trade.

The first five of these funding methods should not be used at the federal level, but there should be no law or regulation at the federal level to restrict or inhibit the use of these funding options at the local level.

According to the best figures I could find, commuter travel is about a third of all miles traveled. A rate of \$0.01 per mile will generate about \$10 billion per year and would be about \$1.60 per week for the average commuter. Transportation studies would require obtaining the most effective mix of transportation forms to fund for construction and operation.

The commercial and industrial community should be challenged through the Chamber of Commerce and other such organizations to consider how they would pay for transportation systems, like they were making an investment to improve their bottom line. They should be challenged to propose self-taxing funding options and amounts in such a way as to be reasonably fair to all the businesses, and that can be essentially rubber-stamped by Congress. They should be challenged with how to improve highways, waterways, railways, airways, and all their associated infrastructure and interconnections.

Final recommendations for federal level transportation funding:

- 1) Change and combine the differing trust funds to a Transportation Trust Fund, and require the best option for a transportation project among types as well as location and size for the preferred alternative.
- 2) Over a six year period, phase in a commuter distance tax to a rate of \$0.03 per mile, limited to a fixed amount per year for lower income people; phase in a commercial vehicle miles traveled tax at rates consistent with the weight of the vehicle; phase out the fuel excise tax; and phase out or reduce fares on mass transit systems, depending on amenities. Do not impose a VMT on personal vehicles. Also, increase the commuter distance tax rate for those who commute more than 20 miles and 30 miles to \$0.035 and \$0.04 respectively. Since a tax deduction is allowed for personal vehicles used for business, the regulations can be changed to allow the IRS to

subtract the commercial vehicle miles traveled tax from the normal deduction and place that amount in the trust fund. These changes will keep the present total collections about the same while providing future growth as the number of jobs increases. It will also be a more progressive tax structure. These taxes are more sustainable than what is done now and fit well with the types of projects funded with federal dollars.

- 3) Challenge business and industry to find \$20 billion in "self-taxing" to add to the trust fund at the federal level, and phasing that up to \$50 billion over six years. The regulations should allow this funding to continue to grow as the economy grows.
- 4) Use repatriation to fund certain "megaprojects" that will not be done without a very large source of funding. Reduce the overseas tax rate to something more reasonable so the money parked overseas comes back in a reasonable amount of time. Discount that rate by 5% to bring funds back more quickly for a short length of time. Let the tax be voluntary, but if it is to be more than a 5% discount, then it should be mandatory. In the future, use all the repatriation funding for infrastructure and services that support international trade.

All of these taxes are sustainable because they are used to build up the base from which they come, unlike the fuel excise tax.





June 16, 2015

The Honorable Paul D. Ryan
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Ryan:

The following statement of the Great Lakes Metro Chambers Coalition is provided for the record of the Committee's June 17, 2015 hearing on long-term financing of the Highway Trust Fund.

Transportation infrastructure is critically important to a thriving Great Lakes regional economy. Modern, effective, multi-modal, integrated transportation infrastructure systems create good jobs, support the unique needs of inland metropolitan regions, and facilitate international trade and exports. They are the platform for the highly-integrated regional supply chains which have made the Great Lakes and Midwest one of the world's top manufacturing centers. The critical connector in our supply chain systems – what gives them their great flexibility and adaptability – is our highway and bridge systems. Their continued maintenance and development are essential to the performance of our regional and national economy.

The future of Great Lakes manufacturing depends on resolving the long term surface transportation funding issue. American prosperity is closely linked to the ability to move goods and materials seamlessly within the Great Lakes region, which produces 35% of U.S. manufacturing output, provides 42% of U.S. manufacturing jobs, and accounts for 28% of U.S. exports. In the Midwest, the nation's industrial core, a single disruption in a "just in time" supply chain component due to inadequate infrastructure can impact results throughout the entire chain.

The Great Lakes Metro Chambers Coalition urges the House Ways and Means Committees to develop a sustainable funding solution that will provide adequate federal resources for the maintenance and development of our nation's surface transportation systems. The Coalition is deeply concerned about the rapidly approaching surface transportation reauthorization cliff, as well as the projected tremendous

shortfall in federal Highway Trust Fund revenues over the long haul as motor vehicles become far more efficient and motor fuel tax revenues become much less predictable. The need for significant progress on infrastructure is urgent.

Historically, increased user fees have been the prescription for projected revenue shortages in the Federal Highway Trust Fund. The Coalition believes that fees from users should remain the basis for funding our nation's transportation infrastructure. However, we recognize that to meet the funding challenges in the near term, the Congress may need to look to a broader range of revenue sources and that user fees may be just one of the options. The Coalition is therefore prepared to support other responsible options, such as repatriation of foreign taxes, which could provide significant near term and medium term relief.

As Congress grapples with this issue that is so important to our nation's future, we encourage legislators to also provide flexible options for the states that can supplement federal resources and help provide a greater impact in catching-up and keeping-up with our infrastructure needs. One of those options is tolling on interstate highway systems and Federal aid highways. Tolling can supplement motor fuel revenues in providing resources to maintain and develop heavily used corridors. It is already used on a number of key arteries in our region and has helped immeasurably in keeping them in good condition. Its technology is well-developed and now allows for efficient movement and minimal congestion.

The Great Lakes Metro Chambers Coalition urges the Congress to allow states the option to use tolling on interstate systems and Federal aid highways in heavily travelled corridors. Tolling can supplement the use of other funding streams, reduce some of the pressure on federal resources, and help states and localities address many of their serious problems with roads that feed into and support the interstate highway system. Tolling is also consistent with the Coalition's strongly-held belief that user fees are the best sources of sustainable funding resources for transportation corridors.

Congressional action is essential to secure the trade corridors that get the region's manufactured and agricultural goods and commodities to market. Providing adequate, stable and predictable resources will eliminate the barriers which have combined to delay rebuilding our nation's infrastructure. The Coalition will support your leadership on this vital issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Wolking, Jr.", with a stylized flourish at the end.

Ed Wolking, Jr.
Executive Director

Great Lakes Metro Chambers Coalition
Contributing Chambers of Commerce:

Ann Arbor/Ypsilanti Regional Chamber of Commerce
Allegheny Conference
Battle Creek Area Chamber of Commerce
Buffalo Niagara Partnership
Canton Regional Chamber of Commerce
Chicagoland Chamber of Commerce
Cincinnati USA Regional Chamber
Columbus Chamber of Commerce
Dayton Area Chamber of Commerce
Detroit Regional Chamber
Duluth Chamber of Commerce
Erie Regional Chamber and Growth Partnership
Fox Cities Chamber of Commerce and Industry
Grand Rapids Area Chamber of Commerce
Greater Akron Chamber of Commerce
Greater Cleveland Partnership
Greater Des Moines Partnership
Greater Indianapolis Chamber of Commerce
Greater Louisville Inc. – The Metro Chamber of Commerce
Greater Niagara Chamber of Commerce
Greater Pittsburgh Chamber of Commerce
Lancaster Chamber of Commerce & Industry
Lansing Regional Chamber of Commerce
Metropolitan Milwaukee Association of Commerce
Michigan West Coast Chamber of Commerce
Minneapolis Regional Chamber of Commerce
Muskegon Lakeshore Chamber of Commerce
Northern Kentucky Chamber of Commerce
Northern Michigan Chamber Alliance
Plattsburgh North Country Chamber of Commerce
Quad Cities Chamber
Rockford Chamber of Commerce
Saint Paul Area Chamber of Commerce
Southwest Michigan First
Toledo Regional Chamber of Commerce
Traverse City Area Chamber of Commerce
Youngstown/Warren Regional Chamber of Commerce





Comments for the Record

Submitted to the

Committee on Ways and Means

U.S. House of Representatives

“Long Term Financing of the Highway Trust Fund”

June 17, 2015

Dear Chairman Ryan, Ranking Member Levin, and esteemed members of the Ways and Means Committee :

On behalf of the Highway Materials Group, we submit the following statement. The Highway Materials Group is composed of nine organizations that provide the materials that are essential to road and highway construction and the equipment manufacturers and distributors that move those materials. The group includes the American Coal Ash Association, American Concrete Pavement Association; Associated Equipment Distributors; Association of Equipment Manufacturers; Concrete Reinforcing Steel Institute; National Asphalt Pavement Association; National Ready Mixed Concrete Association; National Stone, Sand & Gravel Association; and the Portland Cement Association. Together, these nine trade associations represent thousands of companies that provide hundreds of thousands of direct highway construction jobs.

We are united around the common issue of a long-term, Federal-aid Highway authorization bill that both increases highway investments, and addresses the Highway Trust Fund with durable solutions that both stabilize and increase highway investments now and for the long-term.

Since 2008, the mantra of “doing more with less” has had grave implications for the transportation-construction industry, State transportation agencies, and the system of highways and bridges that every citizen depends upon for personal mobility, commodity flows, safety, and security in times when our system is tested in natural disasters and other emergencies.

We recognize the vast number of issues Congress must address. Investing in America’s infrastructure should be a top priority for lawmakers. However, 33 extensions over the past 6 years and an unknown number of

delays in transportation funding are causing not only the nation's system of highways and bridges to fall further into disrepair, but is crippling the ability of our economy to grow and prosper.

The American Society of Civil Engineers (ASCE) rates our overall infrastructure between poor and mediocre. Within ASCE's analysis, they report 1 in 9 of the nation's bridges are structurally deficient and 42 percent of urban highways are congested and cost the economy \$101 billion in wasted time and fuel each year.

Our industries and our customers in the public sector have an extremely difficult time planning for the future, and there is great concern that without a firm commitment from Congress, backed by bold and decisive steps to fix the Highway Trust Fund and authorize a six-year transportation program, the nation's surface transportation infrastructure will fall further behind in terms of rehabilitation, repair, preservation and expansion.

The Highway Materials Group has four basic principles that we urge the Committee to consider. They include the following:

Transportation Infrastructure is the Backbone of America's Economic Prosperity—America's economic vitality and ability to compete in the global marketplace depends on an integrated national, intermodal surface transportation network that reliably moves goods and people to maximize global competitiveness, quality of life, and economic prosperity for all citizens. Unfortunately, the investments needed to maintain and expand the highway system have been inadequate. As a result, America is ill-prepared to meet the competitive demands of the global economy. To ensure economic prosperity and global competitiveness, the nation needs to invest in multi-modal transportation infrastructure systems that not only keep pace with today's businesses and industries, but also that will allow for the healthy expansion in the future.

The Federal Government Must Remain Committed and Involved—Maintaining a vital, national infrastructure has been a federal responsibility since the founding of the Republic. Congress is tasked with establishing "post roads", pre-cursors of today's national highway system, and regulating commerce among the states and with other nations. Commerce is the lifeblood of our nation's economy, and America's transportation infrastructure is its circulatory system. This network of roads and transportation structures – built by Americans employed in well-paying jobs that cannot be exported – is essential for the economic growth, safety, security, freedom of mobility, and quality of life benefiting every American. We oppose efforts to transfer this responsibility to the states as an unfunded federal mandate.

We Support User-Fee Based Funding Solution—In order to overcome the highway funding gap, we support the adoption of any user-fee based funding options and innovative finance tools to provide federal and state transportation departments with the funding they need to make critical investments in our transportation infrastructure. It is our contention that a user fee based funding approach, such as a motor fuel based user fee, is the most rational and easily implementable funding solution available in the short to medium term. Our position is consistent with that of President Ronald Reagan, who in 1982 noted: "Good tax policy decrees that wherever possible a fee for a service should be assigned against those who directly benefit from that service. Our highways were built largely with such a user fee – the gasoline tax. I think it makes sense to follow that principle in restoring them to the condition we all want them to be in." Moreover, we believe that continued extensions are not a solution, and is in fact the least fiscally conservative approach to address this challenge.

Timeliness and Long-term Authorization Are Essential—The longer Congress delays in making the investments necessary to our highways, roads and bridges, the more difficult and expensive it will be for our nation to finance this critical and necessary endeavor. At a time when cost is paramount, Congress must act now. Timely enactment of a six year authorization bill is critical for state transportation departments to plan and budget for projects and for our industry to make critical business decisions.

In closing, Congress should embrace the opportunity to invest in America's infrastructure. It is the only way our economy will be positioned for success in a vibrant and growing global economy. America has the strongest economy in the world thanks to the investments made by a previous generation of American leaders who understood the value of infrastructure, and recognized that investing in roads and bridges is the best path toward prosperity for our great Nation. Many of America's critical highways and bridges have reached the end of the design life and must be rebuilt. Every day we delay making the necessary investments in our infrastructure exacerbates an already critical situation.

We thank the Committee for holding this important hearing on the long term health of the Highway trust Fund. We urge Congress to address the critical highway needs of the country and enact the revenue necessary to fund a multi-year surface transportation authorization now.

#



A Conservative Vision for the Future of the Highway Trust Fund

Submitted to the House Committee on Ways and Means in response to its invitation for written comments in connection with the hearings on Long-Term Financing of the Highway Trust Fund, June 17, 2015

by Kenneth Orski, Editor/Publisher of Innovation NewsBriefs, a transportation newsletter

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Many states, facing repeated short-term program extensions and anticipating uncertain prospects for increased congressional funding, have taken steps to significantly increase their transportation budgets this year. Their intent is to place local transportation programs on a more stable and predictable footing that is less subject to the vagaries of congressional budgeting. Twenty-five states have taken steps to raise transportation revenue this year and another 16 states are currently in the process of doing so (for the latest summary of state funding initiatives see the attached appendix and the report of the American Road and Transportation Builders Association (ARTBA) at <http://www.transportationinvestment.org/wp-content/uploads/2015/05/May-2015-State-Transportation-Funding-Initiatives-Report.pdf>)

Collectively, these measures are generating billions of additional dollars, enabling states to assume greater responsibility for maintaining local infrastructure and paying for transportation improvements of local benefit, such as those involved in the "TIGER Grants," the "Transportation Alternatives" program and the "Surface Transportation Program" (STP). Shifting these activities and other expenditures of low federal priority out of the Highway Trust Fund could eventually bring Trust Fund spending into balance with incoming gas tax revenues—and fulfil one of the goals of the recently adopted joint congressional Budget Resolution (See, *Conference Report on Concurrent Resolution on the Budget for Fiscal Year 2016, April 29, 2015*). It also would restore the Trust Fund to its primary function of serving as a source of funds for programs that are clearly of federal concern or national significance—notably, maintaining and upgrading the Interstate Highway network and the National Highway System, fixing aging bridges and modernizing critical transit infrastructure.

Most importantly, aligning Trust Fund expenditures with incoming Trust Fund revenue would place the Highway Trust Fund once again on a self-sustaining basis. It would end the need for periodic transfers of general funds, do away with the awkward search for legitimate offsets (or "pay-fors") and put an end to the constant lurching from one funding crisis to another.

As Robert Poole pointed out in his June 17 testimony before the House Ways and Means Committee, a Government Accountability Office analysis of FY 2013 Highway Trust Fund spending found that of the entire \$50.7 billion total, only \$24 billion—less than half—was spent directly on roads and bridges, and only \$3 billion or six percent was devoted to actual construction, reconstruction or rehabilitation of major projects. "To me," Poole said, "this finding cries out for Congress to rethink and revamp how HTF monies are being used." (*Rethinking the Highway Trust Fund*, testimony by Robert W. Poole, June 17, 2015, quoting Report GAO-15-33, October 2014).

Restoring fiscal soundness to the Trust Fund is not "devolution," a concept that calls for phasing out the federal gas tax and transferring all authority over federal highway and transit programs to the states. "I call this a judicious rebalancing of federal-state responsibilities for funding transportation," a senior state Republican lawmaker told reporters. "States feel they have no choice but to assume more responsibility because they are not convinced they can rely on Congress for adequate and reliable funding. But the federal transportation program continues and the federal gas tax remains an integral part of the highway funding system. The Democrats' talk of devolution is just a straw man."

And indeed, the Congressional Budget Office projects a steady and predictable stream of federal gas tax receipts of \$40 billion per year well into the future (\$35 billion is credited to the Highway Account, \$5 billion to the Transit Account, see *Baseline Projections of Highway Trust Fund Accounts, March 2015*). This should put to rest the misleading notion that the Highway Trust Fund is about to "go broke," become "insolvent" or "run out of money."

A self-sustaining, stable annual \$40 billion federal-aid transportation budget extending over a period of six to ten years would go a long way toward restoring and improving the nation's core surface transportation infrastructure. As proposed in a recent paper by Steven Lockwood, an annual \$35 billion highway budget would allow to address "unique federal interest responsibilities" such as maintaining and upgrading a national interconnected system of "Highways of National Significance" and funding federal responsibilities for highway safety, R&D and federal lands roads. A \$5 billion transit account would continue to provide funds for a program of transit investment (*A Constrained Federal-Aid Highway Program*, by Steven Lockwood, Eno Center Newsletter, January 2015). The "constrained" \$40 billion program would still be able to provide states with certainty and continuity to pursue large capital intensive infrastructure projects of national significance that require funding over multiple years.

(However, because of prior obligations that have not yet been liquidated, the transition to a self-sustaining program would need to be gradual. As reported by CBO's Joseph Kile at the June 18 Senate hearing, at the end of FY 2014, \$65 billion in contract authority had been obligated but not spent and another \$26 billion was still available but not yet obligated, for a total of \$91 billion in contract authority. These unliquidated obligations represent more than two years' worth of tax receipts. (*The Status of the Highway Trust Fund*, testimony by Joseph Kile, June 18, 2015).

###

The June 17-18 hearings of the House Ways and Means Committee and the Senate Finance Committee revealed an absence of a political consensus on how to pay for a long-term bill with its projected \$85-90 billion shortfall. The majority in Congress are firmly opposed to raising the gas tax —most recently reaffirmed by Chairman Paul Ryan at the June 17 hearing. ("We are not raising gas taxes, plain and simple"). At the same time, the Senate Republican leadership is opposed to a tax on the accumulated overseas corporate earnings ("...It is not a serious proposal to pay for a long-term highway bill," said Finance Committee chairman Orrin Hatch in his opening remarks at the June 18 hearing.) Another potential solution, a practical mileage-based road user fee, is "a decade away" Robert Poole told the committee.

There remains the option of gradually bringing spending into balance with incoming fuel tax revenue. This would require progressively shifting funding responsibility for local transportation from the Highway Trust Fund to the States and localities and limiting Trust Fund revenues to projects and programs that are truly federal in nature. Such a rebalancing of the federal-state relationship would require us to accept a narrower concept of the federal role in transportation—but it would offer probably the only lasting solution to the transportation funding crisis.

###

Kenneth Orski is the Editor and Publisher of Innovation NewsBriefs, a transportation newsletter now in its 26th year of publication This submission is in his own behalf.

Appendix

2015 State Transportation Funding Initiatives

The following states have taken steps to raise transportation revenue this year:

New York: Gov. Andrew Cuomo proposed \$4.2 billion for transportation investments as he began his second term; **Florida:** Gov. Rick Scott proposed \$9.9 billion for transportation (over \$4 billion for roads and bridges) in his 2015 budget request to the state legislature; **North Dakota:** Gov. Jack Dalrymple signed into law a bill that will provide \$450 million for state highway improvements. Another bill, known as the Surge Funding Bill will dedicate \$1.1 billion from the state's Strategic Investment and Improvement Fund for critical infrastructure projects; **Iowa:** Iowa legislature approved a 10-cent per gallon gas tax increase. The increase will allow \$700 million in spending on state highway projects and \$200 million in local projects annually. The Iowa House passed a \$365.2 million transportation bill. **Utah:** The state legislature passed a bill that will increase the gas tax by 5 cents-per-gallon, add a 12 percent tax on the wholesale price of gasoline and permit counties to seek voter approval for a local sales tax for local transportation projects. **South Dakota:** The state legislature approved a fuel tax increase of 6 cents per gallon; the bill also raises vehicle license fees and gives local governments authority to levy their own

road improvement fees. The measure is expected to generate over \$80 million/year for state and local programs. **Montana:** a bipartisan group of state senators introduced a bill that calls for spending \$50 million in cash and \$50 million in bond proceeds over two years on infrastructure. If state revenue receipts exceeded a certain trigger, the authorized amounts could rise as high as \$100 million in cash and \$100 million in bond proceeds. **Ohio:** The House-Senate conference committee approved a \$7 billion transportation budget for the next two years and sent the bill to the Governor. **Nebraska:** The Nebraska legislature approved a 6-cent/gallon gas tax increase over the next four years, eventually expected to generate \$76 million annually. **Tennessee:** Gov. Bill Haslam released a three-year transportation program featuring \$1.2 billion in infrastructure investments. The program reflects the state's commitment to remain debt-free, Haslam said. The budget ensures that projects already underway won't be negatively impacted by decisions out of Washington, he added. **Mississippi:** The state legislature voted to raise \$200 million in bond financing to pay for transportation improvements, most of them targeted at structurally deficient bridges. The measure takes effect July 1. DOT Secretary Melinda McGrath linked the legislature's action to lack of action by Congress. **Idaho:** the Idaho legislature passed a compromise \$94.1 million transportation bill funded with a 7-cent increase in the fuel tax and vehicle registration fees. **Minnesota:** The Minnesota legislature passed a \$5.5 billion, two-year bill. **Georgia:** Georgia Governor Nathan Deal signed into law a bill that will increase transportation funding by \$900 million per year through increases in fuel taxes and vehicle fees. Georgia thus joins Idaho, Iowa, South Dakota and Utah to have increased their gas tax to generate recurring transportation revenue. The measure also allows local governments to increase transportation-related taxes. Atlanta voters approved a \$188 million transportation infrastructure bond. **Louisiana:** The House Ways and Means Committee approved a Democratic-sponsored one-cent sales tax increase and a 10-cent gasoline tax increase that "could pour billions into transportation improvements over the next decade," according to press reports. **Kansas:** A gas tax hike, possibly of five to ten cents, is under discussion in the House committee, according to press reports. **South Carolina:** The South Carolina House approved a 10 cent/gallon (or 60 percent) gas tax increase that will provide at least \$370 million for transportation projects. A competing Senate bill would generate \$800 million. **Pennsylvania:** The state House passed a measure that will provide up to \$2.3 billion in annual transportation funding for highways (\$1.3 billion) transit (500 million) and local road maintenance. The measure raises revenue mainly by removing a cap on the franchise tax paid by fuel distributors. The Senate is expected to take up the measure next. **Vermont:** Gov. Peter Shumlin signed a \$616 million transportation bill authorizing funds for FY 2016. The bill includes \$116 million for bridges and \$100 million for road resurfacing. **California:** California's Senate is considering a bill that would raise the state gas tax by 10 cents/gallon and increase vehicle sales and registration taxes. The bill is projected to generate more than \$4 billion annually. In the lower house, Assembly Speaker Toni Atkins proposes to create a road user fee to raise \$2 billion over five years. A compromise state budget plan is yet to emerge. **Washington:** The state legislature approved and sent to the governor a \$7.6 billion transportation budget to keep existing transportation programs going. Another measure, to pay for new projects, is still being negotiated in the legislature. "The current plan is the most positive movement that we've seen on transportation in this state for many, many years," said Sen. Joe Fain, Vice chairman of the Senate Transportation Committee. **Texas:** Gov. Greg Abbott signed three transportation-related bills that, in his words, provide "a historic amount of funding" to build roads. The bills include a measure that ends about \$1.3 billion in diversions of gas tax money for non highway items and a provision for a November referendum to approve amending the state constitution to dedicate \$2.5 billion of the general sales tax and a portion of future motor vehicle sales taxes to the highway fund. The combined pieces of legislation provide more than \$4 billion a year for transportation. **Oregon:** June is the launch of the state's new voluntary road usage charge program (OReGO) that proponents view as a potential transportation funding model for the nation, replacing the motor fuel tax. **Connecticut:** The state legislature and Gov. Dannel Malloy have reached agreement to provide \$10 billion over the next five years for transportation, a \$2.8 billion increase from last year, partially funded by redirecting one-half cent from the state's sales tax. This would be the largest investment in transportation in the state's history, the Governor announced. **North Carolina:** Gov. Pat McCrory has proposed a \$2.85 billion bond initiative (Connect NC) to finance his 25-year statewide multimodal "Vision for Transportation." The proposal includes a \$1.37 billion highway bond that would fund 27 highway construction projects and 176 paving projects in 64 counties throughout the state. If approved by the General Assembly, the bond proposal will be placed on the ballot in November. **Massachusetts:** Gov. Charlie Baker signed a \$200 million road bond bill in April 2015. State transportation officials proposed roughly \$3 billion in capital transportation projects in fiscal year

2016 for highways, small airports and transit according to press reports. **Michigan:** The state House of Representatives approved a series of measures that would generate an extra \$555 million in the fiscal 2015-16 budget year and rise to an estimated \$1.16 billion when fully phased in during the 2018-19 budget year. The measures include a hike of 4 cents a gallon in the state diesel fuel tax, indexing all motor fuel taxes to inflation starting in 2016 and revenue diversion from the state's general fund by dedicating portions of state income and sales taxes to transportation. A final road funding plan still awaits Senate action. **New Mexico:** Gov. Susana Martinez signed a \$294 million infrastructure construction bill largely paid for with bonds and cash reserves. The measure includes more than \$70 million for highways and \$45 million for major critical road projects according to local press reports.

Sources: ARTBA's *Transportation Investment Advocacy Center*; AASHTO *Daily Transportation Update*; T4America's survey "State Legislation to Raise Additional Transportation Revenue;" NCSL *State Bill Database*.

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Before the

**Committee on Ways and Means
United States House of Representatives**

**Statement for the Record
International Brotherhood of Teamsters**

Hearing on

Long-Term Financing of the Highway Trust Fund

June 17, 2015

International Brotherhood of Teamsters
25 Louisiana Avenue, NW
Washington, DC 20001

Statement for the Record
International Brotherhood of Teamsters

Mr. Chairman, Ranking Member Levin, and Members of the Committee, the International Brotherhood of Teamsters (IBT) is pleased to submit this statement for the record on this very timely and important issue. The IBT is North America's largest transportation union, with more than 600,000 of our 1.4 million members using our nation's roads and highways as their workplace and they have a front seat view of the problem of the continuing deterioration of our infrastructure. The IBT applauds the Committee for holding this hearing and taking this step in examining long-term financing options for the Highway Trust Fund (HTF).

Since the expiration of the last multi-year highway bill in 2009, Congress has passed over 30 short-term extensions to keep surface transportation programs funded. Congress must act now to close America's widening transportation infrastructure funding gap with stable, long-term solutions to ensure the certainty of a funding stream to the states, some of which have already put construction projects on hold. In addition, we risk compromising public safety, losing our ability to compete in the global economy, and losing productivity as congestion consumes more commuting time and adds to freight delivery schedules. We are clearly missing an opportunity to save money and create good jobs in the process.

The American Society of Civil Engineers' gives the nation's overall infrastructure a grade of D+. Sixty-five percent of the roads we drive on are in less than good condition; one out of four bridges we cross needs to be replaced; and 45% of Americans lack access to basic transit services. [ASCE, DOT] Highways and bridges face an \$808.2 billion backlog of investment needs, including \$479.1 billion in critical repair work. The United States needs \$3.6 trillion in infrastructure investment by 2020 to bring infrastructure to a safe and reliable state of "good repair." [DOT, ASCE] The U.S. transportation system moves more than 54 million tons of

goods worth nearly \$48 billion each day. Freight tonnage is expected to increase by 45 percent by 2040, requiring additional capacity to our highways, airports, railroads, and ports, and improvements to multi-modal connections that move freight efficiently. [DOT]

The seriousness of this inaction by Congress to pass a multi-year bill cannot be understated. Already 19 states have expressed concerns about moving forward with transportation projects, with 7 states already cancelling or delaying projects because of a potential disruption in federal funding. Prior to authorizing the current surface extension, the American Association of State Highway and Transportation Officials cautioned that more than 660,000 jobs and at least 6,000 state DOT construction projects were at risk had Congress failed to act in time to ensure the solvency of the Highway Trust Fund. [AASHTO]

The impacts of not resolving this funding issue go far beyond repairing, maintaining, and building out our infrastructure to address deficiencies. Americans spend 5.5 billion hours in traffic each year, costing families more than \$120 billion in extra fuel and lost time. American businesses pay \$27 billion a year in extra freight transportation costs, increasing shipping delays and raising costs on every day prices. [WHITE HOUSE 7/14 report] And further delay can have deadly consequences. Last year, there were more than 33,000 highway traffic fatalities. Roadway conditions were a significant factor in approximately one-third of those accidents. [DOT, ASCE]

According to a study by Duke University, expanding Federal Funding consistent with U.S. DOT's request would result in over 2.47 million jobs, or 58% more jobs than current funding levels, and over \$404 billion in total economic output. Further, for every dollar invested in infrastructure, the economy grows by \$1.15 to \$1.25. [CBO, 2/14; Alliance for American Manufacturing, Duke University]

The Teamsters Union is open to supporting multiple revenue sources that will provide long-term stability to the HTF. While a fuel tax increase would appear to be a likely solution, improvements in fuel efficiency and the need to meet additional CAFE standards makes it less of a viable option in closing the funding gap. It also lacks the support of key Congressional leaders and in the end may not have the support of a majority of the Congress.

A Vehicle-Miles-Traveled (VMT) tax in slightly different configurations has undergone testing through pilot programs in several states, with Oregon's program being the furthest along. Several issues need to be addressed before this tax receives the public acceptance it would need to advance to a permanent nationwide program. The scope and size of collecting a VMT tax from individual drivers and their vehicles and the costs involved in administering such a program may be difficult to overcome. Other issues relating to privacy of location and how wear and tear on infrastructure can be assessed to heavier vehicles remain as additional challenges to overcome.

In any case, Congress should not revert to methods that place additional burdens on taxpayers to close the funding gap. Giving states the authority to toll their existing interstate highways is asking taxpayers to pay twice for the privilege of using that highway, once at the pump when they paid for their fuel and again at the toll booth. Motorists find alternative routes on secondary roads to evade tolls, which can lead to safety issues and degradation of highways not meant for the volume or weight of interstate traffic.

Given the expanding shortfall in the HTF, the political and logistical issues with other revenue sources, and the necessity of finding significant funding to advance a multi-year surface transportation reauthorization in the immediate future, the Teamsters Union believes that a tax on the repatriation of corporate profits from overseas is the preferred solution to filling the gap and funding a long term bill. It's estimated that there are over \$2.1 trillion in foreign profits held by U.S. corporations. While some may argue about what rate those profits should be taxed (the Administration has proposed a rate of 14%), a rather small portion of those revenues would be needed to provide stable funding for a six-year reauthorization.

It's clear that investing in infrastructure is good for the economy and will keep us competitive in the global marketplace. And so it is vitally important that the shortfall of HTF revenue be solved sooner rather than later. Congress has subsidized the HTF with approximately \$64 billion over the past seven years. These short-term patches have left state and local governments with a great deal of uncertainty in project planning, causing delays and cancellations. This stop-and-go approach increases construction costs and continues to put the nation behind in meeting its infrastructure needs. We urge the Committee to act swiftly to provide a long-term solution to the HTF shortfall.





Adding Sustainability to the Highway Trust Fund

Testimony for the House Committee on Ways and Means
Hearing on Long-Term Financing of the Highway Trust Fund

Carl Davis, Research Director
Institute on Taxation and Economic Policy (ITEP)

June 17, 2015

The federal Highway Trust Fund (HTF) is the single most important mechanism for funding maintenance and improvements to the nation's transportation infrastructure. Absent Congressional action, however, the HTF will face insolvency at the end of July. Unfortunately, despite the critical importance of infrastructure to the U.S. economy, the condition of the HTF has been allowed to deteriorate to the point that imminent insolvency has become entirely normal.

Since 2008, Congress has dealt with recurring shortfalls in the HTF through a series of short-term patches that have collectively transferred \$65 billion in outside funding to the account. While these transfers have played an important role in funding the nation's transportation network, they also represent a failure to deal with the root cause of these recurring shortfalls: an outdated and poorly designed gasoline tax.

Increasing and reforming the gas tax could adequately and sustainably fund the HTF for decades to come. New funding sources such as a vehicle miles traveled tax (VMT tax), on the other hand, hold some long-term promise but cannot address the fund's current shortfall and are not necessarily a panacea for the HTF's revenue sustainability problem. Finally, other high profile funding options such as a repatriation holiday or deemed repatriation of corporate profits are problematic from a tax policy perspective, and entirely unsustainable as revenue raising options.

Gas Tax Design is Flawed but Fixable

The HTF is currently facing insolvency because the federal gas tax is poorly designed. On October 1st, the nation's 18.4 cent per gallon federal gas tax rate will become 22 years old. As a result, drivers have been paying roughly \$3 in federal gas taxes on every tank of gas they have bought over the last two decades. But as drivers' contributions have stagnated, the cost of asphalt, steel, and machinery has risen by roughly 60 percent.¹ This growing disconnect between the cost of the roads that drivers use, and the price they pay to use them, has played a large role in causing HTF revenues to consistently fall short of infrastructure needs.

Simply put, the 18.4 cent federal gas tax rate is outdated. Federal funding for the nation's transportation infrastructure would be on a much more sustainable course if the rate had been allowed to rise alongside inflation in the same manner that numerous income tax provisions did over this time period (e.g., personal exemptions, standard deductions, tax brackets, and the Earned Income Tax Credit).

But a lack of planning for inflation is not the only challenge facing the federal gas tax. According to the Federal Highway Administration, the average fuel-efficiency of a passenger vehicle on America's roadways has increased by roughly 12 percent over the last two decades—from 19.3 to 21.6 miles per gallon.² For a vehicle with a 15 gallon gas tank, this means that the average driver is able to wear down the roadways with 35 extra miles of driving before they have to stop, refuel, and pay anything in gas taxes. The result has been reduced gas tax collections, and less revenue with which to maintain and improve the nation's transportation network.

In late 2013, ITEP examined the impact of both inflation and fuel-efficiency growth in significant detail and concluded that inflation has, by far, played the larger role in contributing to the HTF funding shortfalls of recent years:

Over three-fourths (78 percent) of the current gasoline tax revenue shortfall is a result of Congress' failure to plan for inevitable growth in the cost of building and maintaining the nation's infrastructure. The remainder (22 percent) is due to improvements in vehicle fuel-efficiency.³

This does not need to be the case. Immediately increasing the gas tax and allowing the rate to rise each year alongside a formula that considers both inflation and fuel-efficiency gains would

¹ This covers the 1993-2013 period in order to be consistent with the fuel-efficiency figures cited below. To be clear, this does not suggest that construction costs have grown in an unprecedented or unexpected way. Prices in the broader economy, as measured by the Consumer Price Index, rose by 61 percent over this same period.

² See Table VM-1 from the Federal Highway Administration's *Highway Statistics* series. 1993 data for "passenger cars" and "2-axle, 4-tire trucks" are available at: <http://www.fhwa.dot.gov/ohim/1994/section5/vm-1.pdf> and 2013 data for "all light duty vehicles" are available at <http://www.fhwa.dot.gov/policyinformation/statistics/2013/vml.cfm>.

³ Institute on Taxation and Economic Policy. "A Federal Gas Tax for the Future." September 22, 2013. Available at: http://itep.org/itep_reports/2013/09/a-federal-gas-tax-for-the-future.php.

put the HIF on a sustainable course for decades to come. Had this reform been implemented in the late 1990s, there would be no question as to the HIF's solvency as the fund would have ran a surplus in every subsequent year, thereby facilitating as much as \$215 billion in additional transportation investments. Today, the cost to drivers associated with this reform would be roughly 11 cents per gallon in additional gas taxes—an amount equal to less than \$5 per month for the average driver.⁴

Diverse Group of States Show the Way Forward

While federal gas tax increases and reforms have long been viewed as politically impossible, the progress being made in the states shows that there is a practical way forward. Since February 2013, sixteen politically and geographically diverse states stretching from Idaho to Massachusetts have enacted meaningful gas tax increases or reforms.⁵

Partially as a result of these changes, there are now nineteen states that levy a reformed, variable-rate gas tax where the tax rate can automatically grow over time alongside factors such as inflation, gas prices, or fuel-efficiency.⁶ Some states, such as Florida and North Carolina, have used these smarter, variable-rate structures for a number of years. Others, such as Pennsylvania and Utah, are more recent additions to this group.

But of all the states with variable-rate gas taxes, Georgia is arguably the leader. In May 2015, Governor Nathan Deal signed a reform that addresses both of the major challenges to the sustainability of the state's gas tax. In addition to a flat, one-time increase in the tax, Georgia's gas tax rate will now be allowed to rise each year to keep pace with both inflation and vehicle fuel-efficiency gains. While the inflation component of this formula is not unusual (similar formulas exist in Florida, Maryland, Rhode Island, and Utah), the fuel-efficiency inflator is the first of its kind.

Issues with Vehicle Miles Traveled Taxes

As electric and highly efficient vehicles have grown in popularity, increased attention has been paid to proposals that would transition the nation's system of transportation finance away from taxes on motor fuel and toward taxes directly on the number of miles driven. On July 1, Oregon will take a significant first step in this direction by allowing 5,000 volunteer drivers to permanently exempt themselves from the state's gasoline tax in exchange for paying a 1.5 cent

⁴ Ibid.

⁵ Davis, Carl. "Sweet Sixteen: States Continue to Take On Gas Tax Reform." Tax Justice Blog. May 20, 2015. Available at: http://www.taxjusticeblog.org/archive/2015/05/sweet_sixteen_states_continue.php.

⁶ Institute on Taxation and Economic Policy. "Most Americans Live in States with Variable-Rate Gasoline Taxes." May 20, 2015. Available at: http://itep.org/itep_reports/2015/02/most-americans-live-in-states-with-variable-rate-gas-taxes-1.php.

tax on each mile that they drive.⁷ While this experiment is a welcome example of forward thinking, there are at least three important caveats to keep in mind.

First, VMT taxes are not a solution to the immediate funding challenges facing the HTF, or to the broader infrastructure funding needs that exist right now. Recent opinion polling shows that VMT taxes are unpopular among the American people, though this may change as people become more familiar with these types of taxes.⁸ Moreover, installing the devices needed to track and report vehicle mileage is a costly and time consuming endeavor that could take years or even decades to fully implement, depending on whether efforts are made to retrofit current vehicles with the technology.

Second, even if a VMT tax could be implemented immediately, these types of taxes are not inherently better than gas taxes at weathering the gradual effects of inflation on their purchasing power. Oregon's flat VMT tax of 1.5 cents per mile, for example, is exactly as vulnerable to inflation as the state's flat gas tax of 30 cents per gallon. As we explained in a recent report on this subject:

Transitioning from a pay-per-gallon gas tax to a pay-per-mile VMT tax will not necessarily put federal and state transportation revenues on a sustainable course. If the tax rate levied under a VMT tax is not allowed to grow alongside the inflation rate, revenues will quickly begin to lag behind the cost of building and maintaining the nation's infrastructure—much as gas tax revenues have for decades. Lawmakers interested in adequately funding transportation on an ongoing basis should immediately index their gas tax rates to inflation, and should be aware that such indexing will also be needed under any VMT tax they might enact.⁹

Third and finally, many VMT tax proposals come with worrisome environmental implications. Oregon's upcoming experiment, for example, is expected to be very popular among owners of fuel-inefficient cars who purchase larger volumes of gasoline (and pay higher gas taxes) relative to their neighbors. Paying by the mile, rather than by the gallon, will be of such great benefit to these drivers that lawmakers put a firm cap on the number of inefficient cars allowed into the experiment (only 1,500 slots are reserved for vehicles rated at 17 miles per gallon or less). Hybrid and electric vehicle owners, by contrast, will fare quite poorly under this program. The Oregon Department of Transportation calculates that a Toyota Prius owner could see their taxes rise by as much as \$117 per year under this tax.¹⁰ While some of this disparity could be alleviated by reducing the tax rate for vehicles that get better gas mileage, this option has not been a central part of most VMT tax discussions thus far.

⁷ See Senate Bill 810 of Oregon's 2013 Regular Session. Additional information on the program is available at <http://www.myorego.org/>.

⁸ Agrawal, Asha Weinstein and Hilary Nixon. "How Do Americans Feel About Taxes and Fees to Fund Transportation?" Mineta Transportation Institute. April 2015. Available at: <http://transweb.sjsu.edu/PDFs/research/1428-tax-survey-2015-top-line-results.pdf>

⁹ Institute on Taxation and Economic Policy. "Pay-Per-Mile Tax is Only a Partial Fix" May 28, 2014. Available at: http://itep.org/itep_reports/2014/05/pay-per-mile-tax-is-only-a-partial-fix.php.

¹⁰ Oregon Department of Transportation. "How does the road usage charge compare with paying the fuel tax?" May 2015. Available at: http://www.myorego.org/wp-content/uploads/2015/05/orego_odot_cost_comparison.png.

Repatriation: An Ineffective Band-Aid

Rather than deal with the gas tax flaws at the heart of the HTF's current shortfall, some lawmakers have proposed patching the HTF with either a voluntary or mandatory tax on profits held offshore by corporations. These proposals would reward and encourage offshore tax avoidance, while at best only providing a temporary fix to the gap in funding.

The most problematic proposal in this category is known as a repatriation holiday. Under a repatriation holiday, multinational corporations could voluntarily bring back profits held offshore by paying tax on those profits at a rate much lower than the 35 percent rate they would normally owe (one such proposal would set the repatriation rate as low as 6.5 percent).

But repatriation holidays are not a sustainable funding source for the HTF because they would actually lose revenue in the medium- and long-term. In fact, the Joint Committee on Taxation (JCT) found that a repatriation holiday could cost as much as \$96 billion in just 10 years.¹¹ This is because the holiday would encourage companies to hoard even more of their future profits in offshore tax havens in anticipation of another holiday, and because much of the money repatriated under a holiday would have been eventually repatriated at a higher tax rate if the holiday were not enacted.

Aside from a voluntary repatriation holiday, consideration has also been given to enacting a mandatory, or deemed, repatriation tax on corporate profits held offshore. For example, President Barack Obama has proposed paying for infrastructure with a 14 percent mandatory tax on unrepatriated profits as part of a broad corporate tax reform that would include a 19 percent minimum tax on foreign profits moving forward.

As with a voluntary repatriation holiday, however, this form of mandatory repatriation would reward companies for their current offshore tax dodging with a special lower rate, and would incentivize companies to shift more of their operations offshore in order to enjoy the lower rate.

In addition, while both proposals would raise revenue in the short-term, they are not sustainable solutions. If the HTF is simply patched with a repatriation tax, the fund will inevitably face insolvency yet again in the very near future. The result would be a quick return to the same debate that has been rehashed repeatedly from at least 2008 to the present, and a continued lack of certainty for the agencies responsible for maintaining and enhancing the nation's infrastructure.

Conclusion

The root cause of the Highway Trust Fund's looming insolvency is that its primary revenue source—the federal gas tax—is poorly designed. Specifically, the tax's stagnant and outdated

¹¹ Barthold, Thomas A. Letter to Senator Orrin Hatch. Joint Committee on Taxation. June 6, 2014. Available at: http://www.hatch.senate.gov/public/_cache/files/1b24e4cf-6005-4a4e-bab7-3d9e3820c509/JCT%206-6-14.pdf.

rate contains no mechanism for growing with inflation, or for dealing with the more recent rise in vehicle fuel-efficiency.

In an effort to address these same flaws in their own gas taxes, state-level lawmakers have increasingly been moving forward with gas tax increases and reforms that could serve as models for federal action on this issue. Rather than focusing on short-term solutions, a growing group of states have transitioned toward a reformed, variable-rate gas tax that can finance economically vital transportation investments in both the short- and long-terms.

Unlike the gas tax, a new tax on the number of miles that drivers travel is not a realistic funding option in the short-term. Moreover, this type of vehicle miles traveled tax (VMT tax) will be unsustainable in the long-term as well if its tax rate is calculated as a flat amount per mile, regardless of changes in inflation.

Of all the proposals under consideration, repatriation is among the most problematic. A repatriation holiday could offer a short-term revenue boost but would provide no funding for transportation in medium- or long-term, and would actually reduce federal revenues overall. Additionally, any repatriation plan comes with the added downside of encouraging corporations to conduct more of their operations offshore (either on paper or in reality).

The gas tax has been the cornerstone of transportation finance for nearly sixty years. As the states have shown, this tax could continue to play this valuable role for decades to come if its rate is simply updated and reformed. Done correctly, the result could be an end to the HTF's perpetual funding crises for decades to come, and the beginning of hugely valuable investments in the nation's transportation infrastructure.





Metro

Los Angeles County
Metropolitan Transportation Authority

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Los Angeles, CA 90012-2952

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June 16, 2015

Hon. Paul Ryan
Chairman
House Committee on Ways
& Means
1106 LHOB
Washington, DC 20515

Hon. Sander Levin
Ranking Member
House Committee on Ways
& Means
1106 LHOB
Washington, DC 20515

Dear Chairman Ryan and Ranking Member Levin:

I am writing on behalf of the Los Angeles County Metropolitan Transportation Authority (Metro) to express our appreciation for the hearing you have scheduled on June 17, 2015 to discuss issues related to the long-term financing of the federal Highway Trust Fund. Metro strongly supports efforts by the U.S. Congress to ensure the solvency of the federal Highway Trust Fund in order to permit the adoption of a fully funded long-term surface transportation authorization bill in the 114th Congress.

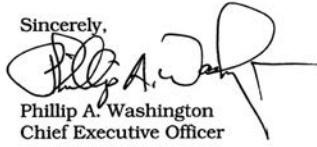
Working in partnership with the U.S. Department of Transportation and with funding from the federal Highway Trust Fund, Metro is working on an ambitious program of improving the environment, building a vibrant economy, and reducing congestion for the residents of Los Angeles County, the country's most populous county. By utilizing a mix of federal, state and local funds, our agency has five major rail projects under construction, dozens of freeway improvements underway, among other alternative transportation initiatives. To continue building our projects, which employ thousands of public and private sector employees, Metro will need a fully funded federal Highway Trust Fund. Like many Members of Congress and transportation stakeholders across the nation, we are concerned that our positive efforts to improve mobility for the ten million residents of Los Angeles County will be compromised should the federal Highway Trust Fund, as highlighted by the Congressional Budget Office, face significant funding shortfalls.

In 2008, the voters of Los Angeles County passed Measure R, a half-cent sales tax, to fund an unprecedented number of transportation projects. Many of these projects, which depend on resources from the federal Highway Trust Fund, are well underway and represent some of the largest public works projects in the country. Because our agency is determined to continue building our Measure R projects without delay, we are encouraged by your decision to hold a hearing on the long-term solvency of the federal Highway Trust Fund.

*Letter to the Chairman and Ranking Member
House Committee on Ways and Means
Page - 2*

Thank you in advance for considering Metro's strong support for maintaining the federal government's commitment to investing in transportation programs and projects. Please do not hesitate to contact me at (213) 922-7555 with any comments on this correspondence or on any other matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip A. Washington". The signature is stylized with a large, looped initial "P" and a long horizontal stroke extending to the right.

Phillip A. Washington
Chief Executive Officer



Robyn Boerstling
 Director, Transportation & Infrastructure Policy
 Infrastructure, Legal and Regulatory Policy

June 17, 2015

The Honorable Paul Ryan
 U.S. House of Representatives
 Washington, DC 20515

The Honorable Sander Levin
 U.S. House of Representatives
 Washington, DC 20515

Dear Chairman Ryan and Ranking Member Levin:

The National Association of Manufacturers (NAM) believes increased funding for the nation's transportation infrastructure is a critical priority which will help keep manufacturing competitive and grow the nation's economy. Manufacturers appreciate your commitment and interest in securing the financial health of the Highway Trust Fund (HTF), the main funding mechanism for the nation's highway and transit systems.

While competitor nations continue to ramp up investments in transportation infrastructure, the United States risks a continued slide in the opposite direction. The level of real capital investment in highways and roads declined 20 percent from 2003 to 2012.

A long-term approach to funding infrastructure is needed to avoid uncertainty and ensure states have the ability to undertake multi-year and complex transportation investments such as new bridge replacements, improved interchanges, transit upgrades and additional capacity to relieve congestion that chokes our roads. Because many states do not have the resources or ability to keep up with the demands of aging or deteriorating infrastructure, the federal and state partnership is critical to maintain. No state in our Union would be better off on its own.

Transportation funding is a productive investment but manufacturers urge caution when considering tax proposals that promise to provide the resources for transportation investments over the next several years. For example, stand-alone proposals to tax overseas earnings outside of comprehensive tax reform represent a massive retroactive tax on manufacturers and would impose an additional cost burden on U.S. companies at a time when they already face significant challenges in the global marketplace.

The federal government has a fundamental role to play in investing in the nation's highways and transit systems to serve passenger travel, interstate commerce and national defense. Unlike most other government programs, the HTF was designed to be funded by federal fuel taxes and truck excise fees paid by those who use and benefit from access to our transportation networks. We encourage Congress to recognize the importance of user fees in developing a solution to the current HTF funding crisis in addition to the other potential funding mechanisms, but also begin to develop future pathways that will lead to new approaches that will ensure appropriate funding levels in the years to come.

Leading Innovation. Creating Opportunity. Pursuing Progress.

733 10th Street, NW • Suite 700 • Washington, DC 20001 • ☎ 202.637.3178 • ✉ 202.637.3182 • www.nam.org

Manufacturers welcome the Administration and Members of Congress in both parties working together to take decisive action on a multi-year funding solution for the HTF. We look forward to working with you and appreciate your consideration of this important issue.

Sincerely,

Robert M. Givens





NATIONAL CONFERENCE of STATE LEGISLATURES

The Forum for America's Ideas

STATEMENT FOR THE RECORD BY
DELEGATE SALLY JAMESON,
MARYLAND HOUSE OF DELEGATES
AND
SENATOR CAM WARD,
ALABAMA SENATE

Co-Chairs of the Natural Resources and Infrastructure Committee,
National Conference of State Legislatures

ON BEHALF OF THE
NATIONAL CONFERENCE OF STATE LEGISLATURES

LONG TERM FINANCING OF THE HIGHWAY TRUST FUND

TO THE
COMMITTEE ON WAYS AND MEANS,
UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 17, 2015

444 North Capitol Street, N.W., Suite 515, Washington, D.C. 20001
Tel: 202-624-5400 | Fax: 202-737-1069

On behalf of the National Conference of State Legislatures (NCSL), a bipartisan organization representing the 50 state legislatures and the legislatures of our nation's commonwealths, territories, possessions and the District of Columbia, we applaud Chairman Ryan, Ranking Member Levin, and the other distinguished members of the House Ways and Means Committee for making this hearing a priority. It represents a key step in examining the need for federal transportation infrastructure investments. It is important that all parties, including state legislatures, work together to ensure a safe and reliable surface transportation system throughout the country.

As you know, on August 1 the highway account of the Highway Trust Fund (HTF) is forecast to fall below the critical \$4 billion funding level. This will likely result in the U.S. Secretary of Transportation employing certain cash management strategies that could both delay or reduce reimbursements to states for critical surface transportation infrastructure projects. NCSL urges Congress to ensure the continued solvency of the Highway Trust Fund (HTF), while committing to adopt a long-term agreement on surface transportation funding as part of a multi-year reauthorization of the Moving Ahead for Progress in the 21st Century Act (MAP-21).

Although the enactment of MAP-21 in 2012 put a brief end to the numerous short-term extensions that followed the expiration of the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) in 2009, it unfortunately appears that Congress is returning to this pattern. The uncertainty that pervades short-term extensions makes it extremely challenging for states to adequately plan and achieve their performance targets especially because many transportation infrastructure projects require a multi-year commitment. This uncertainty has already caused some states to defer projects. These delays have a harmful impact on a state's economy. It is difficult to overstate the negative state impacts this uncertainty creates.

Despite federal inaction, over the past two and half years, state legislators in more than a quarter of states, from Maryland and Virginia to Iowa and South Dakota, have stepped forward and invested billions of dollars to repair and upgrade our nation's surface transportation assets to ensure their continued safety and viability. However, the significant steps taken by many states must not be misconstrued. NCSL is a strong supporter of the federal government's role in a national surface transportation system that facilitates interstate commerce, addresses fairly and equally the mobility needs of all Americans and meets our national defense needs. We would also stress that NCSL supports the continuation and preservation of a federal-aid surface transportation program that directs spending to national priorities while providing flexibility for states to address regional variations. The federal program should provide states maximum flexibility in deciding how to generate and leverage transportation revenues and how to use state and federal dollars. The ability of states to maintain flexibility in decision making and comply with environmental and other mandates depends on regulatory flexibility as well as adequate and reliable federal funding.

Revenues for our transportation system continue to decline as vehicles become more fuel efficient and travel patterns change nationwide. The American Society of Civil Engineers has estimated America's surface transportation infrastructure faces a funding gap of about \$94 billion a year based on current spending levels.¹ Taking all of this into account, NCSL urges Congress to work closely with states to develop a new shared, long-term vision for financing and funding our nation's surface transportation systems, one that will enhance the nation's prosperity, the quality of life of all Americans and guide it beyond the Interstate Highway era into the 21st century. NCSL believes that Congress must:

- Provide a short term increase in federal highway transportation funding, based on the current status of the Highway Trust fund, so that sufficient funds are available for the next authorization until a new, more stable long-term funding mechanism for surface transportation can be put in place.

- Examine innovative funding systems that capture all system users and encourages pilot programs in states for experimentation with approaches, methods and mechanisms. Any system must ensure both the privacy of users and provide maximum flexibility for states in the use of funds they receive from the HTF.
- Approve the creation of a \$20 million program, with no more than \$2 million available for allocation to any one state, to support state-level pilot programs that explore transportation funding alternatives to fuel taxes.
- Migrate the Highway Trust Fund (HTF) from a gas tax to a new national funding stream. A federal trust fund financed by user fees, should be retained as the primary method of funding federal-aid surface transportation programs. It must provide states a sustained, reliable source of transportation funding.
- Make all funding and financing options available to state legislatures for state and federal-aid surface transportation programs. Statutory and regulatory barriers to state and locally-generated revenues should be removed, including all current federal restrictions on states' authorities to toll, to allow states to optimize resources for capacity expansion, operations and maintenance, while ensuring free flow of goods and people.
- Encourage and expand incentive-based programs in order to spur local and regional transportation innovation in full coordination with state authorities. A comprehensive approach would promote the use of tolling, congestion pricing, public transit, telecommuting, real-time traffic and other advanced technologies (also known as intelligent transportation systems), and other strategies to achieve interstate mobility goals through urban congestion reduction.

- Ensure states have continued flexibility to create legislative and programmatic frameworks for Public Private Partnerships (PPPs) and full authority to select and engage in PPP projects. While the level of private sector participation is best determined by state and local authorities, federal guidelines should be designed to accommodate private sector support, although private participation should not be a prerequisite for receiving federal funds.
- Continue credit-based and loan guarantee programs, including the Transportation Infrastructure Finance and Innovation Act (TIFIA), Grant Anticipation Revenue Vehicles (GARVEE), private activity bond, and State Infrastructure Bank (SIB) programs, in order to incentivize private sector investment—particularly for freight mobility by rail, highway and waterway—in projects sponsored by the public sector.
- Provide incentives and adequate funding for mass transit.
- Avoid the expansion of federal-local funding streams without appropriate coordination with state legislatures as these complicate state-local relationships, financial arrangements, and state match expectations for transportation programs.

NCSL appreciates the opportunity to submit testimony on this important issue before the Committee. We respectfully request it be submitted for the record along with NCSL policies on surface transportation.

Appendices:

NCSL Surface Transportation Federalism Policy Directive

NCSL Solving America's Long Term Funding Crisis Policy Resolution

¹ American Society of Civil Engineers. "2013 Report Card for America's Infrastructure." May 2013. <http://www.infrastructurereportcard.org/>



**STATEMENT FOR THE RECORD
BY
THE NATIONAL STONE, SAND & GRAVEL
ASSOCIATION**

**SUBMITTED TO THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
“LONG TERM FINANCING OF THE HIGHWAY TRUST FUND”
JUNE 17, 2015**

Chairman Ryan, Ranking Member Levin, and other members of the Ways and Means Committee:

The National Stone, Sand and Gravel Association (NSSGA) appreciates the opportunity to submit a statement for the record of this full Ways and Means Committee hearing and to address the importance of the nation's surface transportation system and finding a sustainable, long term funding solution.

NSSGA is the leading voice and advocate for the aggregates industry. Its members – stone, sand and gravel producers and the equipment manufacturers and service providers who support them – produce the essential raw materials found in homes, buildings, roads, bridges and public works projects. During 2014, NSSGA member companies represented more than 90 percent of the crushed stone and 70 percent of the sand and gravel consumed annually in the U.S., and there are more than 10,000 aggregates operations across the United States. Nearly every congressional district is home to an aggregate facility. Production of aggregates in the U.S. in 2014 totaled 2.39 billion tons at a value of \$20.3 billion.

Aggregates and the Economy

Aggregates are the foundation of our business and an essential American industry that serves as a barometer for the rest of the U.S. economy. Stone, sand and gravel are essential to any construction project – public and private. When the demand for our products is high, the nation is growing, jobs are being created and essential national assets are being built. If the aggregates industry is doing well, America is doing well.

Aggregates are used in nearly all residential, commercial, and industrial building construction. They are also used for many environmental purposes, including pervious pavements and other LEED building practices, the treatment of drinking water and sewage, erosion control on construction sites, and the treatment of air emissions from power plants. While Americans take for granted this essential natural material, it is imperative for the construction of our infrastructure and homes and for positive growth in our communities.

Sales of natural aggregates generate over \$40 billion annually for the U.S. economy. When combined with related industries, such as cement, concrete, asphalt and construction equipment and supplies, the transportation construction industry generates more than \$200 billion in economic activity every year and employs more than two million people. The aggregates industry alone employs approximately 100,000 highly-skilled men and women. At its core, surface transportation reauthorization is a jobs bill that results in long-term national assets.

Through its economic, social and environmental contributions, aggregates production helps to create sustainable communities and is essential to the quality of life Americans enjoy. Aggregates are a high-volume, low-cost product. Due to high product transportation costs, proximity to market is critical; unlike many other businesses, we cannot simply choose where we operate. Our members are limited to where natural

forces have deposited the materials we mine. Generally, once aggregates are transported outside a 25-mile limit, the cost of the material can increase 30 to 100 percent. Because so much of our material is used in public projects, any cost increases are ultimately borne by the taxpayer. Since our members operate near areas of limited quality reserves we ship up to 200 miles via truck and rail to meet the demand where quality aggregates are not locally available. This is only possible using adequately maintained highways and railways.

Over the past eight years, the aggregates industry, like many others, has experienced the most severe recession in its history with the federal regulatory tsunami causing further harm to an industry that has seen production drop by 39 percent since 2006. During that time, when the commercial and residential construction markets slowed to a crawl, we were forced to scuttle expansions, lay off employees and alter our business plans.

Our highway system infrastructure continues to deteriorate at a rate much faster than we are making repairs. Our local towns, counties and state DOTs struggle to maintain adequate conditions, to say nothing of reconstructing roads that have exceeded design life or design capacity. With federal funding in a continual state of limbo, states are unable to adequately plan for long term infrastructure repair and maintenance. Businesses struggle to strategically allocate resources due to ongoing uncertainty. Our equipment is extremely expensive, so making huge capital equipment investments without a clear vision is difficult at best. Many things need to fall into place to do a project in the shortened construction seasons of parts of the U.S. While it may not seem like long time, a four-week delay in funding or awarding contracts can cause a project to lose a complete construction season and add to its cost. This has a ripple effect, impacting businesses along the supply chain resulting in a great deal of economic distress.

Solve the Funding Nightmare

The business of successfully building and maintaining our national surface transportation infrastructure depends in large measure on funding stability and year-over-year predictability provided by the surface transportation authorization. The extension of the current law, MAP-21, expired on May 31.

Congress passed a two-month extension of the program to July 31, which continues authorization of the program and allows continued expenditures from the Highway Trust Fund. It was the 33rd short-term extension of the program over the past six years. At the end of July, the Highway Trust Fund is expected have a balance of \$3.5 billion.

Congress needs to do what they were elected to do and stop kicking the can down the road by addressing the long-term funding of our nation's surface transportation infrastructure. No more short-term extensions. Reauthorization is critical to NSSGA's many small and large aggregates producers.

Last increased in 1993, the transportation user fee has outgrown its current buying power. The cost of materials and labor has gone up dramatically since then, as well as increased fuel efficiency. In order to keep up with the twenty-first century, two commissions, created by the last multi-year surface transportation reauthorization law, recommended a simple, straightforward, effective solution -- to increase the motor fuel user fee coupled with indexing it to inflation. The commissions' reports suggested other potential revenue sources; so, too, have reports from a host of organizations. Revenue options are not the problem.

In order to overcome the highway funding gap, NSSGA supports the adoption of any user-fee based funding options and innovative finance tools to provide federal and state transportation departments with the funding they need to make critical investments in our transportation infrastructure. It is our contention that a user fee based funding approach, such as a motor fuel based user fee, is the most rational and easily implementable funding solution available in the short to medium term.

Long-Term Certainty

Continued patches and temporary fixes hurt future and existing projects as states and localities are hesitant to move forward out of fear the federal government will not meet its funding obligations.

In the absence of a long-term plan, our members' customers are telling them they are not sure what the next years are going to bring to them, thereby causing our members to withhold investment in plants and new machinery for the foreseeable future. It is increasingly difficult to do long range workforce planning due to uncertain demand.

Multi-year surface transportation reauthorizations are particularly vital for the funding confidence they instill in state departments of transportation. When they know that the Federal Highway Administration will apportion their funding year after year, in the amount authorized, they have confidence that their state expenditures will be reimbursed. The states then award contracts, and the process of building and maintaining our transportation infrastructure can proceed smoothly. Confidence in the stability of the program is a critical factor in ensuring success, particularly for small businesses.

When there are doubts, as there are today, awards for construction slow. Already Arkansas, Georgia, Tennessee, Wyoming Montana, Nevada, Utah, Colorado, Nebraska, Mississippi, Pennsylvania, West Virginia, Connecticut, Vermont and Maryland have either delayed or cancelled highway, bridge or transit capital projects this year or are considering doing so because of uncertainty over future federal funding. Congressional highway program extensions have affected \$1.3 billion in transportation improvement projects.

There are those that say we should devolve the program to the states in order to return maximum discretionary authority and fiscal responsibility to them for all elements of the national surface transportation systems. It is critical to remember that the federal

government's role in maintaining the national road network, which carries more than 73 percent of the 48 million tons of goods transportation across the country daily, is a constitutional one. Article 1, Section 8, directs the federal government "To establish Post Offices and post Roads," or the forerunner of our national highway system. Devolution of the program would saddle the states with 90 percent of the fiscal responsibility for supporting highways that the federal government has an obligation to establish. In order to make up lost federal monies, Wisconsin would have to raise both the gas user fee and the diesel fuel user fee 20.6 cents just to flat fund their program.

A better approach is to reform the system, not risk the nation's economic future by disinvesting in a highway system that is already under-funded.

Conclusion

We recognize the difficulty in finding long-term funding for the highway program. NSSGA supports an all-the-above approach to fund our nation's infrastructure projects. We also understand that no one funding mechanism is a panacea. In the absence of action, the costs to maintain and improve our nation's vascular system only increase. Meanwhile, Americans are becoming more and more frustrated with the growing number of potholes, cracked roads and traffic jams plaguing our roads, highways, and bridges. According to the Texas Transportation Institute Americans spend 38 hours and \$121 billion in wasted fuel sitting in the congestion plague our urban areas. Extra vehicle repairs and operating costs are costing \$94 billion a year billion -- \$444 per motorist.

President Eisenhower signed the law creating the National Interstate Highway System nearly sixty years ago. It was designed to last 25 years. We are 34 years beyond its useful life. Is it any wonder that it is deteriorating?

The least expensive way not to waste fuel and to improve air quality is to increase the capacity of our roads and bridges and alleviate congestion. The Federal Highway Administration estimates that each dollar spent on road, highway and bridge improvements results in an average benefit of \$5.20 in the form of reduced vehicle maintenance costs, reduced delays, reduced fuel consumption, improved safety, reduced road and bridge maintenance costs and reduced emissions as a result of improved traffic flow.

Improved safety is another important reason to pass a multiyear highway reauthorization bill now. There were 32,719 traffic fatalities in 2013 in the U.S. A total of 165,340 people died on U.S. highways from 2009 through 2013. The fatality rate on the nation's rural roads is disproportionately higher than that on all other roads.

Mr. Chairman, NSSGA thanks you for holding this very important hearing. Congressional action on a multi-year surface transportation reauthorization, one that increases investment in the nation's roads, bridges, and highways, is of utmost importance to the aggregates industry. Our industry, like most businesses, requires certainty to make sound capital investment decisions. Reverting to short-term

extensions will only create havoc in resource development decisions and construction projects.


Attached to this statement are two infographics that NSSGA put together. "Small Change" calculates the real costs to the average American of the Corker-Murphy proposal to increase the fuel user fee \$12 cents. The second infographic shows visually the costs of doing nothing.

NSSGA looks forward to continuing to work with the committee in doing what is right for America. If we ignore the maintenance and improvement of our nation's road and highway network – the circulatory system of America, it is at our own peril, we risk the loss of economic growth, improved safety, cleaner air, and jeopardize the freedom of mobility we all take for granted.

Attachments

SMALL CHANGE

American drivers pay an average \$94 a year to access over 11,618 miles of highways, roads and bridges. These funds come from a modest 18.4¢ per gallon tax on each gallon of gasoline. Since the gas tax hasn't changed since 1993 and the cost of building and maintaining roads has risen, the Highway Trust fund is slowly going in the red. With a growing number of potholes, cracked roads and traffic jams plaguing America, we need a common-sense and responsible way to pay for improving our infrastructure.



AVERAGE ANNUAL FUEL TAXES PAID BY PASSENGER VEHICLES

Vehicle Type	Annual Fuel Tax	Equivalent Item
Hybrid @ 40MPG	\$53*	One 20 ounce half-caf soy latte per month
Sedan @ 22MPG	\$96*	One hamburger and cola per month
SUV @ 16MPG	\$132*	Half of a porterhouse per month

HOW WILL A 12¢ INCREASE IN THE GAS TAX IMPACT DRIVERS?

Vehicle Type	Additional Annual Cost	Equivalent Item
Hybrids	\$35	16 ounce bag of tortilla chips per month
Sedans	\$63	Four AA batteries per month
SUVs	\$87	One movie ticket per month

The Murphy-Corker Proposal:
an effective and responsible way to save the Highway Trust Fund

NSSGA
NATIONAL STONE, SAND & GRAVEL ASSOCIATION

*Source: Government Accountability Office (GAO)

ROUGH ROAD AHEAD

THE ECONOMIC IMPACT OF AMERICA'S FAILING TRANSPORTATION INFRASTRUCTURE BY 2020

Families have a
**LOWER STANDARD
OF LIVING.**

American families would earn
\$700 less each year.

+

And spend **\$360 more**
each year.

=

Total impact on each family's budget:
\$1,060 per year.

American businesses
and workers
PAY A HEAVY PRICE.

America would lose
877,000 jobs.

Another **234,000** jobs exist only if
many more workers agree to paycuts.

Between now and 2020
transportation costs
increase \$430B.

**AMERICA LOSES GROUND
in the global economy.**

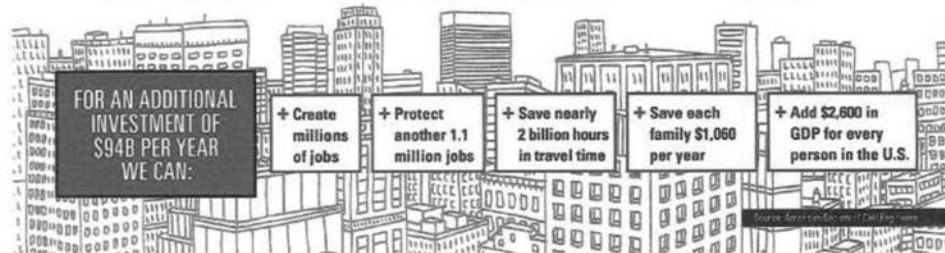
U.S. exports would drop by
\$28 billion.

+

Exports drop in
79 of 93 different
tradable commodities.

=

America's gross domestic
product underperforms by
\$897B.



Gas Taxes and MPG

Some people say that the gasoline tax is no longer a viable source of revenue for the highway trust fund because cars are getting better gas mileage. What is the evidence?

Let's play around with statistics on historic gas mileage trends from the EPA:

<http://www.epa.gov/otaq/fetrends-complete.htm>

Appendix B

Car mileage changes over the decade from 1975 to 1985:

1975 13.5 MPG

1985 23.0 MPG

For a 70% increase in MPG

Car mileage changes over the decade from 2003 to 2013:

2003 23.0 MPG

2013 27.4 MPG

For a 19% increase in MPG

Things to note:

The 1990s were the lost decade for MPG improvement. Cars in 2003 had the same 23.0 MPG as cars in 1985.

The increase of 17% in the most recent decade was substantially smaller than the increase of 70% in the earlier decade.

So why is it that the gas tax will no longer work because of recent increases in MPG, but the gas tax was still able to work after the much larger increases in MPG from 1975-1985?

Repeating the exercise for Light Trucks:

Light truck mileage changes over the decade from 1975 to 1985:

1975 11.6 MPG

1985 17.5 MPG

For a 51% increase in MPG

Light truck mileage changes over the decade from 2003 to 2013:

2003 16.7 MPG

2013 19.7 MPG

For an 18% increase in MPG

Light truck MPG actually fell over the last decade of the 1990s.

An increase of 18% in the recent decade, vs. a much larger increase of 51% in the earlier decade.

Once again, the problem is not the technical feasibility of the gas tax after the relatively modest increases in gas mileage over the last two decades compared to the 1975-1985 period. The problem is political will.

Finally, since the last time the Federal gas tax was increased in 1993, inflation has had 3 times the impact on the purchasing power of gas tax revenue as changes in mileage have had. Any revenue source will fail over time if it is not adjusted (automatically or manually) to keep up with inflation.

Consumer Price Index:

1993 144

2013 233

An increase of 62%





215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • www.citizen.org

June 23, 2015

United States House of Representatives
Committee on Ways & Means
1102 Longworth House Office Building
Washington, DC 20515
Via email to: waysandmeans.submissions@mail.house.gov

Re: funding for infrastructure investments

Dear Chairman Ryan and Honorable Committee Members,

On behalf of Public Citizen's more than 400,000 members and supporters, we appreciate the opportunity to submit this statement for the record outlining our recommendations for securing long-term funding for transportation and infrastructure funding.

Public Citizen strongly urges the committee to consider funding options that both maximize the benefit for taxpayers and that are sustainable over the long term. For these reasons, we recommend that you avoid short-term fixes such as a repatriation tax holiday for multinational corporations' profits stashed overseas and concentrate instead long-term funding sources that would also create an incentive to reduce harmful emissions from vehicles such as increasing the gas tax or implementing a tax on carbon.

It's clear that America has an infrastructure crisis: bridges are crumbling, roads are in desperate need of repair and mass transit options are too few and far between. The American Society of Civil Engineers 2014 "Report Card for America's Infrastructure" estimates that \$3.6 trillion in investments are needed to modernize and repair U.S. infrastructure.

The short-term funding for the Highway Trust Fund will run out again this summer, and it is encouraging that this committee is searching for long-term funding solutions instead of continuing to move from patch to patch as has been done in recent past. However, as you weigh your options, it is important to not choose solutions that would be a losing proposition for American taxpayers.

One such losing proposition is a repatriation “holiday” for taxes owed on profits listed as being earned by foreign subsidiaries of American corporations. Because of the current system of deferral, where taxes may be indefinitely put off until profits are repatriated or “brought back” to the U.S. in the form of dividends or other shareholder payments, multinational corporations are able to play games with their accounting books and transfer profits between entities, usually to companies located in low or no tax jurisdictions (or “tax havens.”)

This type of corporate tax haven abuse costs the federal government \$90 billion in lost revenue every year. In total, more than \$2 trillion in profits are booked offshore. It’s true that without changes to our tax code, those monies will continue to be stashed in offshore accounts. But, it is not a good solution to allow corporations to voluntarily repatriate those profits at much lower tax rates than would have otherwise been due, using a tactic that is known as a “repatriation holiday.” This experiment was tried and failed in 2004, and as a country we must learn our lesson and not repeat the same mistake.

A 2011 Senate report analyzing the tax repatriation holiday in 2004 found that much of the profits that multinational corporations were supposedly holding offshore were actually sitting in U.S. bank accounts and other assets, undercutting the concept of “bringing the money back.” And, the repatriated taxes came from a small number of corporations that used the money to pay dividends instead of reinvesting in the economy and at the same time ended up cutting their workforces.

Proposals like the one offered by U.S. Sens. Barbara Boxer (D-Calif.) and Rand Paul (R-Ky.) would allow companies to choose to repatriate offshore taxes at the bargain-basement rate of only 6.5 percent, slightly more than 1 percent higher than the rate used in the 2004 tax holiday. The Joint Committee on Taxation scored the Boxer-Paul bill as costing \$118 billion over 10 years. In addition to losing money in the long run, as a funding option, a repatriation holiday would only be a one-time source of money that would do nothing to fix the long-term funding shortfall for infrastructure investments. Additionally, allowing another repatriation holiday would reward corporations that have for years avoided paying taxes by using accounting gimmicks to shift profits to the books of related foreign corporations.

Mandatory “deemed repatriation” proposals, such as the 14 percent rate put forward by President Barack Obama in his FY 2016 budget proposal, are still not a good deal for taxpayers. This is because corporations are given a break on the tax rate, forcing the U.S. to give up the other 21 percent of taxes that could have been assessed if loopholes like deferral were ended and companies were forced to pay the full 35 percent statutory rate on offshore profits (after receiving a credit for foreign taxes paid.) Research by the Institute for Policy Studies and the Center for Effective Government in their April 2015 “Burning our Bridges” report examines the myriad of infrastructure investments that could be made if loopholes were closed and offshore profits were taxed at the full statutory rate.

Though the President’s budget proposal was encouraging in that it proposed to require a minimum tax on offshore profits of 19 percent moving forward, meaning it could be used for a long-term funding source, given the difference between that rate and the normal statutory rate, it would continue the incentive for companies to play accounting games and shift profits to overseas subsidiaries.

A better alternative would be to instead fund transportation and other infrastructure investments with long-term funding pots that are not only sustainable, but that are tied to the use of highways and would incentivize positive behavioral shifts to reduce emissions that contribute to climate change. Examples include increasing the gas tax and instituting a carbon tax.

The gas tax has not been raised for more than two decades and because of inflation, the value of the 18.4 cent tax continues to fall. The gas tax provides a disincentive for fuel use, and it makes sense to raise the tax since it has not been changed since 1993. It should also be tied to inflation in order to ensure its value holds steady.

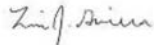
Another great option for long-term funding for infrastructure investments (among other things) would be to implement a tax on carbon dioxide pollution, with a refund given to U.S. consumers on a per capita basis as a way to balance out the regressive nature of the tax. Since transportation produces around a third of our nation's CO2 pollution, which causes climate change, it makes sense to tie a portion of the proceeds from a carbon tax to fund improvements to highways and mass transit.

Either way, both the gas tax and a carbon tax would be directly tied to the use of our highways and provide long-term solutions to funding infrastructure investments, as opposed to a one-time option like a corporate tax repatriation holiday.

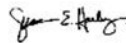
The American people should not have to settle for a repatriation holiday's discounted tax revenue at the expense of further incentivizing activities by multinational corporations that disadvantage responsible small business owners and ordinary taxpayers. Instead, the incentive we should be creating is to reduce carbon pollution and limit the harmful impacts of climate change.

Thank you again for the opportunity to submit our thoughts on this important topic.

Sincerely,



Lisa Gilbert
Director
Public Citizen's Congress Watch division



Susan Harley
Deputy Director
Public Citizen's Congress Watch division



Tyson Slocum
Director
Public Citizen's Energy program



Hon. Rick Nolan
Testimony – House Ways & Means Committee re Highway Trust Fund
June 16, 2015

Mr. Chairman and Members of the Committee:

Our infrastructure is facing a crisis of epic proportion. It is imperative for the security of our nation, the safety of our people and the health of our job-creating economy that Congress move ahead with a long term bipartisan funding plan for the Highway Trust Fund without further delay.

The facts could not be more clear. Delay after delay in establishing a clear, long-term path to finance the Highway Trust Fund have moved beyond national embarrassment to a point just short of national emergency.

Our highways are falling apart – 65 percent of them are in poor condition – and the Highway Trust Fund is facing a 40 percent shortfall. Without action from Congress, six weeks from now, the Highway Trust Fund will be broke. If that were allowed to happen, 6000 of the largest and most necessary national highway projects would be stopped in their tracks – and 600,000 construction jobs would be in jeopardy.

Our bridges are collapsing. We know all about that in Minnesota, where the I-35 Bridge in Minneapolis fell into the Mississippi River in 2007, killing 13 and injuring many more. Today, one in four bridges across America are in need of significant repair.

Just a few weeks ago in my District, an old wooden railroad trestle bridge collapsed and caught fire as a train loaded with fertilizer was crossing the Rat Root River near the Canadian border. If that train had been loaded with a portion of the 21 million barrels of oil that come across that route every year, we would have experienced an environmental catastrophe.

Moreover, it is imperative for the Speaker of the House to stop impeding the Committee process, and allow the Transportation Committee to work in parallel to write a long-term surface transportation bill. As we all know, it is through the Committee process that we find common ground and achieve the bipartisanship necessary to solve the problems we face and get things done.

In doing so, we must reject the arguments of those who would abdicate our federal responsibilities. The federal government has a critical role to play in highway and transportation funding in partnership with local and state governments. Just as we all benefit from national defense, education, environmental protections and a host of other things that require close cooperation, we all travel the highways, enjoying that freedom to safely travel, and to live and work where we choose.

The good news is that is clearly strong bipartisan support for highway and transportation funding here in Congress and throughout our nation. Now we need to get moving.

We need creative new solutions and good ideas that come through the committee process – where we discuss and debate and bring in the best experts for advice and counsel – and then reach some common ground.

We can talk about raising the gas tax – but that’s not going to be enough.

The President has proposed a six-year transportation bill calling for about \$470 billion in new investments – and many of us on the Transportation Committee have signed on.

About \$260 billion of that funding would come from a one-time, 13 percent tax on \$2 trillion dollars multi-national corporations are keeping overseas – coupling that measure with tax reform to lower the corporate tax rate and encourage those companies to repatriate their funds back here to promote more investment and create more jobs.

The Highway Trust Fund will take in enough to supply the rest of the money in the President’s proposal with a little left over.

Remember, this is not a tax increase – just money those multi-nationals rightfully owe the United States.

However, \$470 billion is still not enough to do what needs to be done for transportation in this country.

The experts tell us we should be investing at least ONE TRILLION dollars to rebuild our highways – roads – bridges – ports – pipelines – airports – railroads and mass transit systems.

An investment like that would create about 13 million new jobs – for about one third of the \$3 trillion dollars we’ve spent over the past 13 years on the war in Iraq.

We have the money and the resources.

The question is – do we have the political will to reorder our priorities to put a stop to nation building abroad and wars of choice – and use those resources to begin to rebuild America, beginning with our highways and our infrastructure.

The answer is – we have no choice but to muster that will – and do what needs to be done.

Our safety depends on it.

Our jobs depend on it.

Our ability to compete in the world depends on it.

And our future depends on it.

I thank the Committee for holding this hearing, and I look forward to working with my colleagues to find bipartisan solutions to our highway and transportation crisis and get our great nation moving again.





South West Transit Association ● PO Box 153157 ● Austin, TX 78715

June 18, 2015

The Honorable Paul Ryan
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington D. C. 20515

The Honorable Sander Levin
Ranking Member
House Committee on Ways and Means
1236 Longworth House Office Building
Washington, DC 20515

Dear Chairman Ryan and Ranking Member Levin:

This letter is being sent on behalf of the 182 public transportation providers, businesses and members of the South West Transit Association, from the states of Arizona, Arkansas, Colorado, Kansas, Louisiana, New Mexico, Oklahoma and Texas.

I am writing to encourage the passage of a long-term transportation bill that will sustain growth and opportunity for people in communities across our eight state region and the Nation.

The basic facts are:

- Americans took 10.8 billion trips on public transportation in 2014, which is the highest annual public transit ridership number in 58 years. This growth occurred in rural, small and large urban communities and across all modes. (source: American Public Transportation Association)
- The Highway Trust Fund cannot keep pace with growing demand from both the highway and transit programs. The current federal fuel tax level (18.4 cents per gallon), which has not been raised since 1993, is not enough. This is the key impediment to reauthorizing federal transportation legislation.
- Since 2009, Congress has funded transportation through a dozen short-term measures, ranging from one week to two years. This method of crisis management cripples our transit Agencies' ability to provide adequate community services, disrupts plans for long term growth projects and halts economic progress due to poorly maintained equipment, roads and bridges.

Often the facts alone don't allow you to see the full picture. To put a face with the data, local transit agencies have provided basic facts about how public transportation impacts the communities they serve.

Public transportation supports communities on a personal level by providing the way to jobs, healthcare and life events. Transit options increase economic health and save tax payers money.

Kibois Area Transit (KATS) in Stigler, Oklahoma serves an eleven county area that includes partnerships with tribal groups. From January 1, 2014 to December 31, 2014, KATS drove a total of 5,598,226.7 miles, completing 738,101 passenger trips. 65,725 of those trips took people to work. That means **292 people are able to go to work each day** because of the consistent job KATS is doing. That's 292 people are off welfare rolls in rural, eastern Oklahoma, living productive, tax paying lives because of their ride to work.

Colorado transit agencies are connecting people to what is important in life.

80% of **ECO, the Eagle County, Colorado** transit system trips get people to work.

59% of the **Mountain Metro** transit riders in Colorado Springs are going to work or school.

60% of workers in downtown **Denver ride the RTD** bus, train, carpool, walk, or ride a bike; they do not drive.

Public transportation supports communities by creating economic activity through public-private transit oriented development and by providing jobs to build and maintain services.

Investment in the **Dallas Area Rapid Transit (DART)** rail capital projects between 2003 and 2013 has generated a return of \$7.4 billion in regional economic activity, creating more than 54,000 jobs that paid more than \$3.3 billion in wages, salaries and benefits. In addition, more than \$5.3 billion in private-capital transit-oriented development projects have been built, are under construction, or are currently planned near light rail stations since the debut of DART Rail in 1996.

Public transportation provides a way for America to be energy responsible, strong and independent.

Ozark Regional Transit Authority in Springdale, Arkansas just received four compressed natural gas vehicles into its' fleet. The authority's new vehicles cost \$101,968 each for a total of \$407,872. Roughly \$345,000 came from the Surface Transportation Program under the Federal Highway Administration, while \$60,000 was funded by a matching grant from the Northwest Arkansas Economic Development District and approximately \$19,000 of the Authority's own money. The four new buses will be used for routes in Springdale and for paratransit, which is door-to-door transportation for people with disabilities.

In addition to reduced emissions, CNG provides significant savings compared to gasoline. Fuel costs average between \$0.75 to \$0.80 less per gallon resulting in a savings of at least \$6,900 per year, per bus.

Public transportation reduces congestion dramatically in and around metro areas, produces few carbon emissions and makes a safer community for all, providing additional benefits even to people not using transit. It makes the entire transportation system work more efficiently. For every ten people on a bus or train during rush hour equals nine fewer cars on the roads.

Out of 250,000 daily trips taken on **Valley Metro, Phoenix, Arizona** bus and light rail, one-third are work trips saving 3,300 pounds of pollution and reducing approximately 7,750 vehicles from the freeways and streets. Four hundred Valley Metro vanpools also help save five million drive-alone miles and 182,000 gallons of fuel each month.

The bottom line regarding congestion is economics: Time spent stuck in traffic can be converted to non-productivity. Increased productivity improves economic vitality and ultimately generates more money for individuals and the community.

A strong investment in capital projects for small and rural fleets allows public transportation providers to give safe and reliable service on a consistent basis. Currently, the following small systems are living with the choice-making reality of the cost of keeping older vehicles on the road versus cutting service.

Citibus, Lubbock, Texas Sixty-one percent (61%) of this system's fleet is past its useful life. They currently operate fixed route, university service with 70 buses and paratransit service with 32 vans. The majority of both the university buses and the paratransit vans are beyond their useful life. In order to keep up with the demand for service, Citibus is forced to procure buses beyond useful life from neighboring DART. Parts are scavenged from the older DART vehicles and placed on the current Citibus fleet because some parts are no longer produced.

Fort Smith Transit, Fort Smith Arkansas Sixty-five percent (65%) of the vehicles in this system have met their useful life. They maintain 17 revenue vehicles in the fleet and operate 12 vehicles daily. Twenty-five percent (25%) of trips served are to or from medical appointments. Thirty-five percent (35%) are to or from employment destinations. The elderly and disabled residents comprise more than twenty-five percent (25%) of all passenger trips combined. Their average annual bus replacement needs equal three buses per year.

Santa Fe Trails, Santa Fe, New Mexico, currently has 36 full-size buses in the fleet, and 18 of those vehicles are past their useful life (by some three years and 150,000 miles). The latter bus model is no longer manufactured, and parts are all but impossible to find. They are only able to replace twelve of these buses at this time, which will reduce the fleet to 30 buses, thus reducing service. This causes Santa Fe Trails to maintain a perilously low spare ratio. Furthermore, since Federal funding has all but disappeared, seven of these twelve replacement buses are being purchased entirely with local funds, through a public project revolving fund loan from the New Mexico Finance Authority.

Sportran, Shreveport, Louisiana, reports 58% of their fleet is beyond its useful life. With 55 Fixed Route Buses, 20 - Paratransit Cutaways and 10 - Service Vehicles in their fleet, they find it difficult to keep up the demand for vehicle replacement. In addition to fleet replacement needs, Sportran has major capital investment needs for their CNG station maintenance.

The clock is ticking. By July 31, the Highway Trust Fund and Mass Transit Account will hit dangerously low levels which will require the Department of Transportation (DOT) to slow down reimbursements. We need a comprehensive, long-term solution for infrastructure that includes roads, bridges, and public transportation.

There are many difficult choices you must make in order to sufficiently invest in the nation's surface transportation infrastructure, which includes public transportation, but these are choices that must be made. The current stopgap approach of generating revenue to support surface transportation programs only succeeds in costing more money to continue the same limited outcomes. These resources could be better spent in addressing our nation's unmet transportation and infrastructure needs if long-term plans and solutions were developed and implemented.

We respectfully request that you keep all options for funding on the table and find solutions that will move our Nation forward.

Congress must act this year to restore, maintain and increase the purchasing power of the federal motor fuels user fee to support increased federal investment for the public transportation program. While the federal motor fuel user fee remains a viable funding source, Congress should adopt a bipartisan mechanism that provides predictable funding for investment in public transportation.

Funding for aging buses and vans in smaller communities is not on the radar of TIFIA, which is too complex for rural and small-urban communities with smaller projects. To remedy this, SWTA supports CTAA's proposal to establish a qualified intermediary lending program for rural and small-urban infrastructure projects eligible under TIFIA.

We ask that Congress continue to reward excellence and commitment to small urban transit efficiency and effectiveness by growing STIC's Section 5307 set-aside to three percent.

In closing, SWTA can deliver further vivid examples from our region and nation, of those providing vital life-enhancing transportation services to the people you represent. Thank you for working to find the best solutions for all.

Sincerely,



Kristen Joyner
Executive Director
South West Transit Association (SWTA)
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kjoyner@swta.org



Statement for the Record

Hearing on Long-Term Financing of the Highway Trust Fund

Committee on Ways and Means
U.S. House of Representatives

June 17, 2015

As the House Committee on Ways and Means meets to consider the feasibility of various ideas to provide a sustainable, long-term solution to the shortfall in the Highway Trust Fund, the undersigned organizations urge the Committee to consider a simple, cost-effective proposal that would galvanize billions in new private capital for investment in U.S. transportation and infrastructure. Specifically, any long-term highway bill should include reforms to the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA), such as those proposed in H.R. 2128, legislation introduced by Ways and Means Members Kevin Brady (R-TX) and Joseph Crowley (D-NY).

FIRPTA is a major obstacle to mobilizing private sector capital for infrastructure projects. The punitive FIRPTA law subjects foreign investment in U.S. real estate or infrastructure to a much higher tax burden than applies to a foreign investor purchasing a U.S. stock or bond, or an investment in any other asset class. FIRPTA imposes U.S. tax on gain realized by a foreign investor on the disposition of an “interest” in U.S. real property, which includes infrastructure assets. In some cases, FIRPTA can generate a tax burden as high as 54.5 percent. The FIRPTA regime is an anti-competitive outlier that deters and deflects capital to other markets. FIRPTA reform would serve as a strong, market-driven catalyst for the financing of much-needed infrastructure improvements, including upgrades to our transportation system.

Meeting our infrastructure needs will require a combination of public and private investment, and passive foreign investors could play a significant role in financing public-private partnerships involving: ports, bridges, airports, tunnels, toll roads, light rail, freight rail, and other income-producing infrastructure assets. Pooled and syndicated capital is already being deployed in infrastructure projects through infrastructure funds organized as partnerships. REITs are another model that has been used with some success for infrastructure investment.¹ Nonetheless, the United States is far behind other regions of the world in harnessing private investment for infrastructure development.²

¹ Deloitte, *REITs and Infrastructure Projects* (2010), available at: http://www2.deloitte.com/content/dam/Deloitte/mx/Documents/bienes-raices/REITs_infrastructure_projects.pdf

² OECD, *Pension Funds Investment in Infrastructure: A Survey* (2011), available at: <http://www.oecd.org/sti/futures/infrastructureto2030/48634596.pdf>.

Foreign institutional investors—pension funds, life insurance companies, etc.—are ideal partners for U.S. infrastructure projects because they have the capital needed for large-scale projects and the time horizon necessary for the long-term returns associated with the upfront investment. Infrastructure investments are attractive to foreign institutional investors because they offer: stable and predictable income streams that exceed fixed income markets, diversification benefits, and a hedge against inflation. Because the public-private infrastructure model is more developed in other countries, foreign institutional investors are often more comfortable and experienced investing in infrastructure assets than are their U.S. counterparts.

FIRPTA is a major hurdle for the foreign investor seeking to invest in US infrastructure projects. Under current law, FIRPTA applies when at least 50 percent of a company's balance sheet is attributable to the value of real property. In 2008, the IRS issued an announcement in which it indicated that many of the governmental licenses and permits being issued in connection with the leasing of transportation assets, such as toll bridges, should be treated as inseparable from the underlying real property, and thus as US real property interests subject to FIRPTA.³ In 2014, the IRS issued proposed regulations in the REIT area confirming that, among other things, certain inherently permanent structures such as microwave transmission, cell, broadcast, and electrical transmission towers; bridges; tunnels; roadbeds; and railroad tracks are real property for REIT purposes.⁴

The fear of triggering FIRPTA liability is blocking inbound infrastructure investment. In a 2013 report, one of the big four accounting firms noted how FIRPTA obstructs infrastructure investment in the United States:

The FIRPTA rules may be of significant relevance to non-US persons investing in infrastructure projects because such investments often provide investors various rights in the underlying infrastructure asset. As a result of these interests or rights in the asset, a further issue is raised as to whether the investor has obtained beneficial ownership of real property rights to which the FIRPTA rules could apply.⁵

The Joint Committee on Taxation has also acknowledged the effect of FIRPTA on foreign investors in U.S. infrastructure, “the special U.S. tax rules applicable to foreign investment in U.S. real estate . . . may affect the U.S. tax treatment of foreign [infrastructure] investors. Some advisors have taken the position that the intangible franchise right is an interest in real property for purposes of section 897.”⁶

Large private investors in transportation infrastructure cite FIRPTA as a principal obstacle to attracting greater foreign capital for infrastructure projects. According to Christopher Lee, founder and managing partner of Highstar Capital, an infrastructure investment firm “[t]here are many billions of dollars in overseas capital sitting on the sidelines because those investors are wary of the burden

³ Internal Revenue Service, Announcement 2008-115 (Dec. 1, 2008), available at: http://www.irs.gov/irb/2008-48_IRB/ar18.html.

⁴ Treas. Prop. Reg. §§ 1.856-3; 1.856-10. The proposed rules were published in the Federal Register on May 14, 2014 and are available at: <http://www.gpo.gov/fdsys/pkg/FR-2014-05-14/pdf/2014-11115.pdf>.

⁵ PWC, *Infrastructure Investing: Global Trends and Tax Considerations, Part 2* (2013), available at: <http://www.pwc.com/us/en/capital-projects-infrastructure/publications/assets/infrastructure-investing-part2.pdf>.

⁶ Joint Committee on Taxation, *Overview of Selected Tax Provisions Relating to the Financing of Surface Transportation Infrastructure*, JCX-49-14 (May 5, 2014).

FIRPTA will have on their investments.⁷ Highstar Capital has invested more than \$7.8 billion in infrastructure since its inception.

Because of the close connection between FIRPTA and infrastructure investment, the Administration has included a FIRPTA reform proposal in its *Rebuild America* infrastructure initiative and its last three budget submissions.

Moreover, transportation improvements, infrastructure build-outs, and thousands of new jobs would flow from the commercial real estate investment generated by FIRPTA reform. Real estate development and infrastructure upgrades are inextricably linked. For example, in just the last month, a prominent property owner in the Northeast agreed to invest \$220 million in improvements to Grand Central Station, one of the country's most important transit hubs, as part of a larger commercial real estate project in New York.⁸ Similar examples, on a smaller scale, can be found throughout the country.

Last year, the Urban Land Institute (ULI) released its annual report on infrastructure trends and issues.⁹ According to ULI's survey of 250 public sector leaders in local/regional government and over 200 senior-level private developers, the most promising source of infrastructure funding over the next decade will be joint development or cooperation between local governments and developers. Also high on the list was "negotiated exactions," which refers to tying development rights to infrastructure improvements. The report concluded that "contributions from real estate are often essential components of the funding package for infrastructure projects."¹⁰

The infrastructure build-outs that accompany new development are a major component of real estate investment. Real estate projects finance transportation and other improvements through mandatory state and local impact fees. A 2012 study found that nationally, for a typical multi-family development, impact fees in excess of 6.7 percent of the project's value will be paid to the local government to finance the community's surrounding infrastructure.¹¹ The same study found that the average developer of a 100,000 square foot retail shopping center in the United States will pay a local government \$568,500 to improve nearby roads, \$244,000 to improve the water and sewer system, and \$83,700 to build up surrounding parks.

The Real Estate Investment and Jobs Act of 2015 (H.R. 2128), introduced by Representatives Brady and Crowley, includes two critical provisions to mobilize foreign capital for real estate and infrastructure investment in the United States. First, it would increase the ownership stake that a foreign investor can take in a publicly traded U.S. real estate investment trust without triggering FIRPTA liability and extend the provision to certain collective investment vehicles. Second, it would remove the

⁷ See Christopher Lee, *Let's at Least Have a Sensible Tax Structure When It Comes to Infrastructure*, The Huffington Post, available at: <http://www.huffingtonpost.com/christopher-l-lee/lets-at-least-have-a-sens-b-3112325.html>.

⁸ Associated Press, *NYC approves skyscraper in exchange for transit hub work* (May 27, 2015), available at: <http://finance.yahoo.com/news/nyc-approves-skyscraper-exchange-transit-201204047.html>.

⁹ Urban Land Institute, *Infrastructure 2014: Shaping the Competitive City* (2014), available at: <http://uli.org/wp-content/uploads/ULI-Documents/Infrastructure-2014.pdf>.

¹⁰ *Id.* at 4.

¹¹ Duncan Associates, *2012 National Impact Fee Survey* (2012), available at: http://www.impactfees.com/publications%20pdf/2012_survey.pdf.

tax penalty that FIRPTA imposes on foreign pension funds that invest in U.S. real estate and infrastructure. Together, these two bipartisan and noncontroversial changes would unlock billions of foreign capital for job-creating investment here at home.

In less than two months, H.R. 2128 has already attracted the co-sponsorship of 31 of the 39 members of the Ways and Means Committee. In February, the Senate Finance Committee unanimously passed a version of the Real Estate Investment and Jobs Act (S. 915). The full House passed a similar bill in 2010 by a vote of 402-11.

Over the long run, by mobilizing capital and increasing investment, FIRPTA reform will have a positive impact on the economy, job growth, and tax revenue. However, any short-term effect on the federal budget, as estimated by the Joint Committee on Taxation, can be fully offset with noncontroversial, related revenue provisions. At the time of mark-up, S. 915 was financed with provisions aimed at improving tax compliance.

Congress should reform outdated tax regimes such as FIRPTA and pave the way for market-based, privately financed infrastructure investment. Thank you for the Committee's consideration of our submission. If Ways and Means Committee staff would like to discuss this issue in greater detail, please contact Ryan McCormick, Vice President and Counsel of The Real Estate Roundtable, at (202) 639-8400 or rmccormick@rer.org.

We look forward to working with the Committee to advance meaningful FIRPTA reform.

Alternative & Direct Investment Securities Association
American Hotel & Lodging Association
American Resort Development Association
American Society of Interior Designers
Building Owners and Managers Association International
CCIM Institute
Institute of Real Estate Management
International Council of Shopping Centers
International Union of Painters and Allied Trades
Investment Program Association
NAIOP, Commercial Real Estate Development Association
National Apartment Association
National Association of REALTORS®
National Association of Real Estate Investment Trusts
National Multifamily Housing Council
The Real Estate Roundtable

Testimony

Dr. Roy Littlefield
Executive Vice President

Tire Industry Association
1532 Pointer Ride Place, Suite G
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Ways and Means Committee
U.S. House of Representatives

June 17, 2015

TIRE INDUSTRY ASSOCIATION
www.tireindustry.org

Mr. Chairman and members of the Ways and Means Committee, I appreciate this opportunity to submit comments on funding options for long term infrastructure funding. My name is Roy Littlefield, and I serve as the Executive Vice President of the Tire Industry Association (TIA), TIA is a national trade association representing close to 8,000 small business members (who operate over 20,000 small business retail outlets), engaged in the retail, retreading, importing, and distributing of all varieties of tires. TIA members have been involved in the collection of Federal tire excise taxes since 1918. Our industry is dependent on a sound highway system.

TIA supports a long-term Federal Aid Highway bill. It is time for Congress to look beyond short-term patchwork funding proposals. If Congress tries to continue funding at current levels, it will have to choose among several unsavory options. While we support a long-term bill, we are opposed to many proposals being circulated.

The Federal Excise Tax on tires was first levied in 1918 mainly because of revenue needs brought about by World War I. The Revenue Act of 1918 imposed a tax on both tires and tubes at the rate of 5% of the retail price.

The tax was reduced after the war, and then later repealed in 1926.

The levy was reintroduced during the Great Depression, and was increased in 1941 to help finance World War II.

In 1956, the rate of the tax was raised in response to legislation enacted to build the interstate highway system and to create the Highway Trust Fund.

The Federal-Aid Highway Act of 1956 provided for a significant expansion of the federal-aid highway program and authorized federal funding over a longer period of time so as to permit long-range planning. It was considered necessary to authorize the entire Interstate Highway program to assure orderly planning and completion of this network of highways throughout the United States as efficiently and as economically as possible. In the case of tire taxes, the act raised certain rates and expanded the rate structure by prescribing different rates for different tire types. Tires for highway vehicles were taxed at 8 cents per pound, other tires at 5 cents per pound, inner tubes at 9 cents per pound, and tread rubber at 3 cents per pound. Later, of course, that was raised to 5 cents per pound.

In an effort to stimulate job creation, the Congress passed the Surface Transportation Assistance Act of 1982. The tire tax was actually hammered out late on a Friday night during a conference committee session.

One of its goals (besides) increased revenues for construction and maintenance of the Nation's highways) was a redistribution of highway costs between car and truck users. Accordingly, the act changed several of the excise taxes that fund the Highway Trust Fund. For example, the excise taxes on tread rubber and inner tubes were repealed as were the taxes on



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non-highway and laminated tires. A new tax structure for heavy tires with graduated excise tax rates dependent on tire weight was established. Tires which weigh less than 40 pounds were exempted from the excise tax so that tires for most passenger cars are no longer taxable. The excise tax rates on heavy tires ranged from 15 to 90 cents a pound according to the weight of the tire. These rates are shown in the following table.

Excise Tax Rates on Tires Under the Surface Transportation Assistance Act of 1982

Weight of Tire	Tax
0-40 lbs.	No tax
40-70 lbs.	15 cents per lb. over 40 lbs.
70-90 lbs.	\$4.50 plus 30 cents per lb. over 70 lbs.
90 lbs. – up	\$10.50 plus 50 cents per lb. over 90 lbs.

Following the merger, we quickly met with RMA and worked out language to end the dispute.

The American Jobs Creation Act of 2004 changed the method of taxing tires from the graduated weight structure of prior law to a tax based on the load capacity of the tire. The tax is set at the rate of 9.45 cents for each 10 pounds of tire load capacity in excess of 3,500 pounds. In the case of super single or bias ply tires the tax rate is set at 4.725 cents for each 10 pounds tire load capacity in excess of 3,500 pounds.

A provision included in the Energy Tax Incentives Act of 2005 clarifies the definition of super single.

The following chart shows the current tax rate which funds the Highway Trust Fund.

Federal Highway-User Tax Rates-Current in Cents	Tax Rate (per gallon)	Distribution of Taxes to the HTF		Non-HTF
		Highwa y Accoun t	Mass Transit Accoun t	Leaking Underground Storage Tank Trust Fund
Fuel				



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Gasoline	18.4	15.44	2.86	0.1
Gasohol	18.4	45.44	2.86	0.1
Diesel Fuel	24.4	21.44	2.86	0.1
Liquefied Petroleum Gas	18.3	16.17	2.13	0
Liquefied Natural Gas	24.3	22.44	1.86	0
M85 (85 percent methanol)	9.25	7.72	1.43	0.1
Compressed Natural Gas (cents per thousand cubic feet)	48.54	38.83	9.71	0

Nonfuel Taxes (All proceeds to Highway Account)	
Tires	Maximum rated load capacity over 3,500 pounds – 9.45 cents per each 10 pounds in excess of 3,500.
Truck and Trailer Sales	12 percent of retailer's sales price for tractors and trucks over 33,000 pounds gross vehicle weight (GVW) and trailers over 26,000 GVW.
Heavy Vehicle Use	Annual tax: Trucks 55,000-75,000 pounds GVW, \$100 plus \$22 for each 1,000 pounds (or fraction thereof) in excess of 55,000 pounds. Trucks over 75,000 pounds GVW, \$550

Without Congressional action, the Highway Trust Fund will soon run out of money. Will Congress pass another short-term bill, or will they fund the infrastructure at a level deemed necessary to sustain the system for the foreseeable future? Let's look at the range of some of the options being considered.

Option #1

Significantly raise the fuel tax. This would be the easiest option to administer, and would be supported by environmentalists. It would be opposed by most in the auto and truck industries.

This option would not require any changes to nonfuel taxes.

Option #2

Moderately raise the fuel tax, reinstate the FET on passenger tires and retread rubber (5 cents a pound).

Option #3

Raise the fuel tax by a lesser amount, reinstate FET on passenger tires and retread rubber (5-15 cents a pound), and increase existing nonfuel taxes by 10% (including heavy tires).

Option #4



Consider:

- 1) Increased tolling
- 2) Congestion fees
- 3) Vehicle Miles Traveled (VMT) charges
- 4) National Weight-Distance Tax on Truckers
- 5) Increase private sector investment (i.e. privatization of highways)
- 6) National Infrastructure Bank
- 7) Sales tax on oil producers at the wholesale level

Today, revenues from the excise tax on tires provide less than 2% of the Highway Trust Fund receipts.

We are taking 2 strong positions:

1. Eliminate diversion. We are approaching 30% of the funds collected for the Highway Trust Fund diverted for non-highway purposes.
2. Engage creatively in future highway funding. We were an early supporter of legislation introduced by Congressman John Delany (D-MD) "The Partnership to Build America Act" (H.R. 2084).

The Partnership to Build America Act is a bipartisan effort to find new funding for roads, bridges, and transit. The Act finances \$750 billion in infrastructure investment using no appropriated funds and has 50 co-sponsors (25 Republicans and 25 Democrats). On January 17, 2014, two Senators—a Republican and a Democrat, introduced a companion bill. Within a week, 5 Republican Senators and 3 Democratic Senators came out in support of the bill.

The bill is an attempt to address two problems: how to fund transportation and how to entice U.S. corporations, which have stashed an estimated \$1.45 trillion abroad, to bring that money home. Delaney's plan would create a \$50 billion federal fund to bankroll loans and leverage private investment for transportation and other infrastructure. The money would come from bonds bought by companies who want a tax break if they bring cash earned abroad back to the U.S.

TIA's position is very clear: eliminate diversion, oppose tax increases, engage in creative funding and tax reform, address our infrastructure crisis and pass a long-term infrastructure funding bill. TIA, along with the highway, transit, trucking, and motorist communities, is committed to supporting your efforts.





**Transportation Transformation Group
Statement for the Record
U.S. House Committee on Ways and Means
Long-Term Financing of the Highway Trust Fund
Wednesday, June 17, 2015**

The Transportation Transformation Group is an unprecedented alliance of state government, finance, academic and private industry leaders who aspire to transform American transportation policy into a goal-based arrangement that maximizes flexibility to enhance the roles of the state and local public sectors and their private partners to solve the growing problems of congestion and mobility. This statement is submitted by William Moore on behalf of the Transportation Transformation Group.

Private activity bonds (PABs) allow private parties to issue tax-exempt debt based on the investment purpose of the bond proceeds and subject to a series of limitations.

Federal law generally prohibits debt issuers from financing highway and transit programs by combining tax-exempt debt or its proceeds with long-term private management contracts or private equity investment. This prohibition, written into the 1986 Tax Reform Act, includes exceptions for airports, solid waste facilities, and high-speed rail because those infrastructure classes were expected to attract private-sector investment and management.

Given the potential application of PABs to surface transportation, Congress created a limited PABs demonstration program for highway/intermodal projects in SAFETEA-LU. The program permits USDOT to allocate up to \$15 billion in PABs between qualified highway and surface freight transfer facilities. To be eligible, the project has to include a Federal aid highway project in its scope and the private entity must have a public conduit to issue the debt, such as a state or local government.

PAB designation allows the bonds to retain tax-exempt status despite a greater level of private involvement than is ordinarily allowed. This allows projects with private-sector financial participation to obtain lower financing rates, eliminating one barrier to private sector participation in transportation investment. PABs are intended to make private infrastructure investment eligible for the same federal tax exemption that state and local governments enjoy if they assume debt directly.

Like virtually all other private activity bonds, the interest on highway/intermodal PABs has been subject to the Alternative Minimum Tax (AMT), which increases borrowing costs and narrows the market of potential investors. Under the American Recovery and Reinvestment

Act, PABs that were issued in 2009 and 2010 are exempt from the AMT, encouraging greater investment in user backed infrastructure projects that benefit the public.

Only 25 percent of PAB proceeds can be used to acquire land. Qualified highway or surface transportation facilities may require significant right-of-way (ROW) acquisition for project construction. ROW acquisition typically accounts for about 10-25 percent of total project costs and can be necessary far in advance of construction.

Many start-up facilities do not generate sufficient revenue during the ramp-up period to fully cover the interest expense on borrowed funds. Tax regulation prohibits the accretion of interest on PABs, which limits the usefulness of PABs in project financings that require back-loaded repayments, where interest is deferred to accommodate the revenue profile and increase the amount of proceeds available for construction.

To enhance the ability of PABs to solve the current financing shortfall confronted by our national highway program, T2 recommends:

- Double the \$15 billion ceiling on surface transportation PABs.
- Relax restrictions on purchases of land and other infrastructure and expand the types of projects that qualify for PAB financing.
- Allow deferred interest on Highway PABs.

T2 believes that an enhanced and expanded Private Activity Bond program is an essential element in meeting the nation's transportation needs within a severely restrictive budgetary environment.

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**WageWorks Statement to the House Ways & Means Committee Hearing
on The Long-Term Financing of the Highway Trust Fund
June 18, 2015**

The following statement is being submitted by WageWorks, a leading national third party provider of commuter benefits. WageWorks applauds the House Ways and Means Committee for holding a hearing on the long-term financing of the Highway Trust Fund. As the Committee considers ideas to improve the economics of the Highway Trust Fund, we urge inclusion in the Highway Bill of the employer provided mass transit benefit and, in particular, consideration of The Commuter Parity Act of 2015 (H.R. 990) introduced by Rep. Peter King (R-NY) and co-sponsored by 30 other Members of the House. The Bill would achieve permanent parity between the tax treatment provided for parking and commuter benefits by setting both parking and transit benefits at \$235. Restoration of the commuter benefit parity will immediately help millions of working Americans and their employers. It is also important to note that parity can be attained without increasing the deficit and can potentially help finance the Highway Trust Fund. The Joint Committee on Taxation (JCT) has noted that a permanent provision setting both parking and transit benefits at \$235 and indexing them for inflation would raise net revenues of \$130 million over ten years.

Federal tax and transportation policy has long recognized the unique role of the federal government in encouraging commerce and the transport of Americans by car or mass transit to their place of employment. Parity between the tax treatment provided for parking and mass transit has accompanied prior Highway Trust Fund legislation.

Many employers turn to firms such as WageWorks to administer commuter benefit programs at low cost to the company. Employers have a vested interest in helping their employees get to work in a timely and efficient manner, which the transit benefit facilitates. These programs are broad based, middle class benefits that are designed to enhance workforce productivity. They pose no substantial drain on the Treasury and the mass transit benefit is likely a net saver to the government as it reduces congestion, pollution, and the need for costly expansion of roads. Commuter benefits also prevent dips in mass transit ridership that can further strain municipal, state and federal coffers. By encouraging use of mass transit, commuter benefits reduce the need for government to provide direct financial support to public transit operators.

Due to inclusion of commuter benefit parity in tax extender legislation, until the end of December 2013, the maximum allowable pre-tax deduction for transit and parking was equal at \$245 per month. Because Congress did not act to extend parity, commuters who travel to work using mass transit are now limited to a monthly pre-tax deduction of \$130 per month while the maximum allowable parking benefit has risen to \$250 per month. Congress retroactively extended benefit parity at the end of 2014, but as a result of the month-to-month nature of the benefit, it is difficult to reinstate this benefit retroactively.

This inequitable tax code anomaly encourages commuters to drive to work rather than use public transportation or van pools. While a debate can be had over the preferred form of transportation, it is evident that, at a minimum, mass transit provides a clear benefit to employers and to the community as a whole especially in congested urban areas. Both public policy and the tax code should not penalize commuters for use of public transit versus driving to commute to work.

Further, in an era of continued wage stagnation and increased urbanization, both parity and inflation adjustments remain sound policy and should not just be extended annually, but made permanent. For the millions of working Americans who continue to rely on mass transit, Congress' failure to permanently extend these important tax policies constitutes an increase in taxes every time they expire. In addition, uncertainty in the monthly deduction level for the transit benefit from year-to-year creates administrative burdens for both employers and users of the benefit that makes the program difficult to manage. Lastly, instability in the benefit also hurts public transportation systems and municipalities directly with fluctuations in ridership and decreases in overall demand.

We urge the Committee to consider The Commuter Parity Act of 2015 (H.R. 990) and permanently set a monthly cap on the transit commuter benefit at a level on par with the parking commuter benefit as part of the Highway bill. Again, WageWorks commends the Committee's substantive engagement on the long-term future of the Highway Trust Fund and remains hopeful that this process will lead to meaningful policies. Please do not hesitate to contact us should you need any additional information or have questions.

Submitted by WageWorks

