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DEAD END, NO TURN AROUND, DANGER AHEAD: CHALLENGES TO THE FUTURE OF HIGHWAY FUNDING

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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CONTENTS

OPENING STATEMENTS

	Page
Hatch, Hon. Orrin G., a U.S. Senator from Utah, chairman, Committee on Finance	1
Wyden, Hon. Ron, a U.S. Senator from Oregon	4

WITNESSES

Kile, Joseph, Ph.D., Assistant Director for Microeconomic Studies, Congressional Budget Office, Washington, DC	6
LaHood, Hon. Ray, senior policy adviser, DLA Piper, Washington, DC	7
Moore, Stephen, visiting fellow in economics, The Heritage Foundation, Washington, DC	9

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Hatch, Hon. Orrin G.:	
Opening statement	1
Prepared statement	39
Letter to Hon. Max Baucus from Senator Hatch et al., December 2, 2011	41
"Democrats Steer Towards Highway Funding Cliff," by Burgess Everett and Heather Caygle, *Politico,* June 3, 2015	43
"The Road to Sustainable Highway Spending," Committee for a Responsible Federal Budget, May 13, 2015	45
Kile, Joseph, Ph.D.:	
Testimony	6
Prepared statement	53
Response to a question from Senator Hatch	73
LaHood, Hon. Ray:	
Testimony	7
Prepared statement	74
Responses to questions from committee members	78
Moore, Stephen:	
Testimony	9
Prepared statement	79
Wyden, Hon. Ron:	
Opening statement	4
Prepared statement	82

COMMUNICATIONS

American Association of Port Authorities (AAPA)	85
American Association of State Highway and Transportation Officials	94
American Council of Engineering Companies (ACEC)	102
Associated General Contractors of America	103
American Highway Users Alliance	109
American Public Transportation Association (APTA)	110
American Society of Civil Engineers (ASCE)	114
California Transportation Commission	118
Concrete Reinforcing Steel Institute (CRSI)	120
Fry, Dean	121
Great Lakes Metro Chambers Coalition	124
Highway Materials Group	126
Institute on Taxation and Economic Policy (ITEP)	128

Page

Mileage-Based User Fee Alliance (MBUFA) 131
National Association of Manufacturers 132
National Automobile Dealers Association 133
National Conference of State Legislatures 135
Orski, Kenneth 137
PeopleForBikes Business Network 141
The Real Estate Roundtable 142
Tire Industry Association 145
Transportation Equity Caucus 147

DEAD END, NO TURN AROUND, DANGER AHEAD: CHALLENGES TO THE FUTURE OF HIGHWAY FUNDING

THURSDAY, JUNE 18, 2015

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:03 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Orrin G. Hatch (chairman of the committee) presiding.

Present: Senators Grassley, Crapo, Enzi, Thune, Isakson, Toomey, Coats, Heller, Wyden, Schumer, Stabenow, Cantwell, Nelson, Menendez, Carper, Cardin, Brown, Bennet, Casey, and Warner.

Also present: Republican Staff: Chris Campbell, Staff Director; Mark Prater, Deputy Staff Director and Chief Tax Counsel; and Nicholas Wyatt, Tax and Nominations Professional Staff Member. Democratic Staff: Ryan Abraham, Senior Tax Counsel; Robert Andres, Research Assistant; and Jocelyn Moore, Deputy Staff Director.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order. Before we begin the hearing, I just want to take a moment to express my sorrow for the horrific events that took place last night in Charleston, SC. I am sure that those sentiments are shared by everyone on the committee and everyone here. I have no words to express that would adequately address the senseless violence and loss of life. I simply ask that everyone join me in a moment of silence so that we can offer our thoughts and prayers to the victims and their loved ones.

[Moment of silence.]

The CHAIRMAN. Thank you.

Well, good morning, everyone. Today we will be discussing the challenges Congress faces as we work to provide funding for the Federal Highway Trust Fund. Right now, when it comes to highways, we find ourselves caught in a familiar dilemma between raising taxes or cutting back on the highway program. As always, a long-term, bipartisan solution to this dilemma will be difficult to achieve, and, some days, it almost seems out of reach. However, in the past, this committee has consistently stepped up to the plate

to find ways to keep the Highway Trust Fund solvent. I am confident that we can do so again.

I want to make it clear at the outset that my goal as chairman of this committee is to find a way to fund a long-term infrastructure bill. Chairman Ryan over in the House said much the same thing in yesterday's Ways and Means Committee hearing. And, while some friends on the other side of the aisle have suggested that it would be politically advantageous to force votes on a series of very short-term extensions, virtually everyone in Congress agrees that we need to get to the point where we are no longer facing a highway cliff every few months.

We have all heard that the gold standard for a long-term highway bill is 6 years. That is what everyone apparently wants to see happen. Of course, according to CBO, a 6-year highway bill that maintains the current spending baseline will cost roughly $92 to $94 billion. You do not find that kind of money by sifting through the cushions on your couch. It is going to take hard work and real policy changes to get us anywhere near that level of funding. And, once again, that is if we maintain current spending levels. I know that some of my colleagues believe we should raise the spending baseline at the same time, which would put even more pressure on highway funding and require us to find even more offsets to keep the trust fund solvent.

Long story short, a 6-year highway bill is a great goal. I am committed to working to get us as close to that goal as possible.

Earlier this week, some of the leaders in the Senate Democratic Caucus sent a letter to the Senate Majority Leader spelling out a list of demands for enacting a long-term surface transportation reauthorization bill. The letter purported to dictate to Senate Republicans precisely when hearings should occur in the various committees, when those committees should hold their markups, and when the final bill should come to the floor.

Of course, any specific proposals or ideas on how to fund a long-term highway bill were noticeably absent from the letter. Instead, we were treated to a discourse on how previous Congresses had dealt with highway funding and how the current Senate leadership is, in the eyes of some of the Senate Democrats, falling short.

I do not want to spend too much time deconstructing this letter, but I would like to point out a few simple facts. First of all, neither party should point fingers and try to lay blame when it comes to the now-common practice of passing short-term highway extensions. Between the 110th and 113th Congresses, when the Democrats controlled the Senate, we enacted 11 short-term highway extensions. That does not include the 2012 MAP–21 legislation, which, according to the Senate Democrats' letter, was the paragon for how Congress should consider and pass a long-term extension of highway funding. Of course, MAP–21 extended highway funding for only 2 years, far short of the goals that are being cited in Congress these days.

As I recall, during that same period, when Republicans were in the minority, we did not turn the struggles over highway funding into a political football. In fact, we approached these negotiations in a spirit of cooperation as much as possible. We came to the table

with specific and concrete proposals that included both revenue and spending options.

Now, I ask unanimous consent that a letter dated December 2, 2011, from Finance Committee Republicans to then-Chairman Baucus be inserted in the record, and I will do that.

[The letter appears in the appendix on p. 41.]

The CHAIRMAN. This letter did not dictate a path forward to Chairman Baucus. Instead, it spelled out in detail policy proposals that Republicans could support to address an imminent shortfall in highway funding. This was a constructive contribution to the debate over legislation that eventually became MAP–21, which was, once again, recently cited by our friends on the other side of the aisle as important. MAP–21 was the product of bipartisan work on the Finance Committee and was evenly split between taxpayer-friendly revenue raisers and spending reductions.

For example, it was Republicans who first advanced the idea of transferring unobligated funds from the Leaking Underground Storage Tank Trust to help pay for highways. Now, whatever one may think of this particular pay-for, it has become a go-to revenue source in recent highway bills, including the last two highway bills enacted under the Democrat-controlled Senate. And, by contrast, one of the very few specific highway funding proposals I have seen from any of the signatories of this week's letter is the so-called repatriation holiday, which, according to the Joint Committee on Taxation, actually loses nearly $120 billion over 10 years. In other words, it is not a serious proposal to pay for a long-term highway bill.

Put simply, the rhetoric we are hearing from many of my friends on the other side of the aisle—which was exemplified by the letter they sent earlier this week—is not really helpful. It is not constructive. It is, I suspect, intended to have a political impact, not to actually lead to good policy. Now, to this point, I will request that an article from the June 3, 2015, edition of *Politico* be entered into the record.

[The article appears in the appendix on p. 43.]

The CHAIRMAN. This article, titled "Democrats Steer Towards Highway Funding Cliff," basically spells out the political strategy being employed here and even quotes members of the Senate Democratic leadership saying that they plan to force frequent votes on highway funding to make the process as politically difficult as possible.

Now, if we are going to address these challenges, we need people to set aside the politics. We need people to do more than just talk about a long-term highway bill. We need people to bring actual ideas to the table and to come together to work toward a real, lasting solution. I hope that is what we can talk about during today's hearing. I hope we can have a productive conversation about what solutions are out there, which ones can work, and what ideas need to be put to bed. Once again, my hope is that we can focus on solutions that can actually work, that can actually be enacted into law to pay for highways.

For example, while I know the idea has some support, I do not think a massive increase in the gas tax could be enacted into law. Of course, anyone who believes otherwise is free to publicly correct

me and to try to make their case. That is the type of discussion I want to have here today—one that will actually lead to solutions. To facilitate this discussion, we have assembled a distinguished panel of witnesses who I think will all bring a unique perspective to these issues. I look forward to hearing from all of you at the table here on today's panel.*

With that, I will turn to Senator Wyden for his opening statement.

[The prepared statement of Chairman Hatch appears in the appendix.]

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

Senator WYDEN. Thank you very much, Mr. Chairman.

Mr. Chairman and colleagues, America's transportation arteries—our roads, our highways, our ports, our bridges, our railways—give life to America's economy. Now those arteries need major surgery, but instead the patient is bleeding out. And short-term funding Band-Aids will not help without a solid long-term plan in place to solve this challenge.

My belief is, you cannot have Big League economic growth with Little League infrastructure. The way Congress has limped from one short-term funding patch to the next more than 30 times unquestionably reflects a Little League strategy. The stop-and-go approach without a viable long-term funding source lowers America's sights in terms of what our transportation system can do. It forces States and Federal agencies into making little plans—barely keeping up with the potholes and falling far behind on new railways, ports, and highways.

Oregonians are now driving across bridges that are structurally deficient or functionally obsolete. They are swerving around ruts on mountain passes that threaten to cause dangerous accidents. And Oregonians sit in traffic jams, burning through gas and wasting time, and these traffic jams, not just in my State but across the country, are being seen in places nobody could have even imagined a traffic jam even a few years ago.

The infrastructure crisis hurts our businesses and discourages investments in Oregon and across America. China invests more than four times the amount our country does in infrastructure. Europe invests twice as much as we do. The fact is, the costs associated with transportation and infrastructure are always a part of the calculus when a company is deciding where to invest and who to hire.

A recent report from the American Society of Civil Engineers said that the United States needs to invest $3.7 trillion in infrastructure by 2020—and $1.7 trillion in transportation infrastructure alone—just to reach what they have termed "good condition." Another series of short-term patches is not going to meet the bar. In the meantime, the same report found that Oregonians spend more than $650 million a year on auto repairs and other costs because our highways and roads are crumbling.

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*For more information, *see also,* "Overview of Selected Tax Provisions Relating to the Highway Trust Fund and Related Excise Taxes," Joint Committee on Taxation staff report, June 16, 2015 (JCX–93–15), *https://www.jct.gov/publications.html?func=startdown&id=4791.*

It is my view that funding a transportation network is right up there with maintaining a fair judicial system and a strong national defense among the most basic and necessary functions of government. There is a bipartisan understanding that our transportation system needs major investments, and you hear this from members of both parties. So Congress and this committee have a responsibility to now find a pathway that leads to long-term funding sources, and I hope today's hearing reinforces the enormous need to accomplish this goal and help us move closer to a solution.

Next week, the committee is going to continue its consideration of this crucial topic of how to get private-sector dollars off the sidelines and into funding American infrastructure. Several weeks ago, Senator Hoeven and I introduced a bipartisan proposal, the Move America Act, to kick-start the use of effective financing tools to solve this crisis. The Move America Act would unlock $200 billion of private-sector investment and could be a big part of getting America's infrastructure back up to the big leagues.

So I say to our witnesses, our guests, and our colleagues, today we are going to focus on funding transportation. In a week, a week from today, we will focus on financing approaches to pay for infrastructure. Both of them are extremely important. I look forward to our witnesses. It is always good to see Ray LaHood here. He has distinguished himself by always trying to bring people together with particularly innovative thinking on transportation. So I welcome all of our guests, and I have had a chance to talk with several of them. I usually talk with Mr. Moore about something like tax reform, but we are happy to have all of you here today, and thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you, Senator.

[The prepared statement of Senator Wyden appears in the appendix.]

The CHAIRMAN. Today we have an excellent group of witnesses, people whom all of us respect.

Our first witness will be Dr. Joseph Kile, Assistant Director of Microeconomic Studies at the Congressional Budget Office. Dr. Kile came to CBO in 2005 following 16 years at the Government Accountability Office. And while at GAO, Dr. Kile led the Center for Economics within the Applied Research and Methods team. Before that, he was a Senior Economist and Assistant Director within GAO's Office of the Chief Economist. His analyses focused in particular on the issues of transportation, energy, natural resources and the environment, and the pharmaceutical industry. He has both a master's degree and a doctorate from the University of Wisconsin, Madison, and a bachelor's degree from St. Olaf College.

We are really happy to welcome you here today, Doctor, and we look forward to hearing your testimony.

Our second witness is a man we all respect and have a great deal of love and respect for: Secretary Ray LaHood. He served as Secretary of Transportation for the Obama administration from 2009 to 2013. Before heading the U.S. Department of Transportation, Secretary LaHood served from 1995 to 2009 in the U.S. House of Representatives, representing the 18th Congressional District of Illinois. Today he is here as a co-chair of Building America's Future, a bipartisan coalition of elected officials working to advance infra-

structure investment. Secretary LaHood has a bachelor's degree from Bradley University.

And last, we are going to hear from the wonderful economist, Stephen Moore. From 2005 to 2014, Mr. Moore served as the senior economics writer for the *Wall Street Journal* editorial page and as a member of the *Journal*'s editorial board, and he continues to be a regular contributor at the *Wall Street Journal* and other media outlets like Fox News, CNN, and CNBC. Before that, he served as founder and president of the Club for Growth and served as Grover M. Hermann Fellow in Budgetary Affairs at the Heritage Foundation. Mr. Moore has a bachelor's degree from the University of Illinois at Urbana-Champaign and a master's degree from George Mason University.

I want to personally thank all three of you for making time in your busy schedules to be with us today, and we will have you proceed, Dr. Kile, and then go right down the line.

STATEMENT OF JOSEPH KILE, Ph.D., ASSISTANT DIRECTOR FOR MICROECONOMIC STUDIES, CONGRESSIONAL BUDGET OFFICE, WASHINGTON, DC

Dr. KILE. Thank you, Chairman Hatch, Senator Wyden, and members of the committee. I appreciate the very warm welcome and the opportunity to testify today about the status of the Highway Trust Fund and about options for paying for highways.

Let me first turn to the trust fund. In 2014, the Federal Government and State and local governments spent about $165 billion to build, operate, and maintain highways. Those same governments spent another $65 billion on mass transit systems. About three-quarters of that total came from State and local governments; the other one-quarter came from the Federal Government, and most of that was through the Highway Trust Fund.

For decades, the trust fund's balances were stable or growing. However, more recently, the amount of money collected from taxes on gasoline, diesel fuel, and other transportation-related activities has been less than spending. To address that shortfall, lawmakers have transferred $65 billion from the general fund of 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 in the highway account will be about $2 billion, and the balance in the transit account will be 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 current fiscal year, and, beyond that, the shortfall in the trust fund would steadily accumulate in the future.

Turning to options to pay for highways and transit, lawmakers have three broad options. One option would be to reduce Federal spending on highways and transit projects. If lawmakers choose to eliminate the shortfall entirely by cutting spending, all of the money credited to the fund next year would be needed for obligations that were made this year and in previous years. Beyond that, the authority to make new obligations from the highway account would decrease by about one-third over the next decade, and the

authority to make new obligations from the transit account would decline by about two-thirds compared with CBO's baseline.

A second broad option would be to increase revenues credited to the trust fund, and that could be done in several ways. For instance, one way to increase revenue would be to raise existing taxes on gasoline and diesel fuel. JCT has estimated that a 1-cent increase in those taxes would raise about $1.7 billion next year, but that amount would decline to about $1.5 billion by 2025. Increasing those taxes by roughly 10 cents per gallon would eliminate the projected shortfall over the next decade. Another 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 to increase revenues would be to impose taxes on activities that are unrelated to transportation.

A third broad option for addressing the shortfall would be to continue to transfer money from the general fund to the trust fund. Unless spending were cut or revenues were increased, that would require a transfer of about $3 billion before the end of this fiscal year. After that, the amounts needed each year would start at $11 billion next year and grow to $22 billion by 2025.

In addition to those approaches to paying for highways, the shortfall in the trust fund has generated interest in borrowing by State and local governments and by private companies. The Federal Government encourages such borrowing through tax preferences, loans, and loan guarantees that provide a subsidy for financing highway projects. Through those channels, the Federal Government bears some of the costs of such financing.

Despite prominent examples, the experience with private financing in the United States is fairly limited. In particular, highway projects that have used private financing have accounted for less than 1 percent of all spending for highways over the last 25 years. Some of those projects have failed financially because the revenues for the projects were overestimated. 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. That reduces the risk to the private partner that it will not be repaid, but as a result, the risk of lower-than-expected revenues remains with the public sector.

Finally, borrowing is only a mechanism for making future tax revenues or user fees available to pay for transportation projects today. It is not a new source of revenues. In the future, money used to repay borrowed funds will be unavailable for new transportation projects or other government priorities.

Again, Chairman Hatch, Senator Wyden, thank you for the invitation, and I would be delighted to answer any questions you might have.

[The prepared statement of Dr. Kile appears in the appendix.]

The CHAIRMAN. Thank you.

Now, Mr. LaHood?

STATEMENT OF HON. RAY LaHOOD, SENIOR POLICY ADVISER, DLA PIPER, WASHINGTON, DC

Mr. LAHOOD. Mr. Chairman, thank you, and thank you for your leadership in holding this hearing and inviting people like myself

and others who have been speaking out on the crisis that we have in America, which every member of this committee and really every member of Congress knows about, because all of you come from States and cities that have crumbling roads and bridges that are in a very bad state of repair, the worst that we have seen ever in America. I have described our country as "one big pothole."

I come from Illinois. We have had some brutal winters, and those of you who come from States that have had brutal winters know that our roads are crumbling and our bridges are in a very, very bad state of repair. Fifty-year-old transit systems need replacement of cars and infrastructure.

The other part of the crisis is not just in infrastructure but in funding. How are we going to pay for all the things that America needs? And in coming up with proposals, I am certainly one who has been very open-minded about the idea that you need a variety of ways to pay for infrastructure, just like we have done for years in America. America used to be number one in infrastructure. We are the country that built the Golden Gate Bridge, the Hoover Dam, the Erie Canal, and the Interstate System.

Those days are gone. When can any of you remember, except for maybe Senator Bennet, the last time we built an airport? The last time we built an airport in America was when the Denver airport was built. Now, there have been some modernizations but—and all of you have traveled around the world, and what has happened around the world? Every time you go to China, you see a new road, a new bridge, a new airport, a new high-speed rail. And what does that do? That attracts economic development. It attracts companies that need the infrastructure to be able to locate their businesses there.

When you build infrastructure, you build economic opportunities for cities and States all along the corridors, whether it is a rail corridor, a roadway, a bridge. And we have come to a crisis in our country because we have run out of money. The Highway Trust Fund is broke. Our transportation system is broke. And America is looking to Congress for leadership, the same kind of leadership that they are finding in cities and in States. The cities are the incubators for innovative, creative approaches to transportation. The Mayors are the innovators. The States where you have Governors who are willing to go to their legislatures and ask for increases in revenues, particularly in the gas tax, are making huge amounts of opportunities to put friends and neighbors to work.

Look, the revenue that comes in from the gas tax goes back to the States. It helps hire friends and neighbors. When people see the orange cones, what do they see? They see their friends and neighbors building roads and building economic opportunities. That money does not stay here in Washington. It goes back to Governors and State DOTs and Mayors.

So what I am suggesting is, we should look for many options, but, if you want to create an opportunity to rebuild America, we need a big pot of money—the same big pot of money that built America over the last 50 years—and that is the Highway Trust Fund. We have to come to grips with the idea that we have to raise the gas tax. It has not been raised in 20 years. None of you can think of anything that has not been raised in 20 years. Think of

the cost of a stamp, the cost of an automobile, the cost of a gallon of milk, the cost of a dozen eggs. Everything has gone up—except the gas tax, except the pot of money that funds our infrastructure.

So I am for tolling. We did a bunch of tolling projects, some in Virginia, some in other States, while I was DOT Secretary. I am for public-private partnerships. The Silver Line, which will connect downtown Washington with Dulles Airport, is a great example of a public-private partnership. We helped fund that, with the help of Senator Warner and others.

The Tappan Zee Bridge in New York is a great public-private partnership, funded through the Transportation Infrastructure Finance and Innovation Act loan program. I am for all of that. But if you want to get back to rebuilding America, you have to have a big pot of money. And the Highway Trust Fund is broke. Come to grips with it. Fourteen States, including yours, Mr. Chairman, which—I do not need to tell you this—is a very conservative State, all Republican, Senator Enzi's State, a very conservative State, they raised the gas tax. They did it, with all Republicans in conservative States.

Wyoming, Virginia, New Hampshire, Maryland, Pennsylvania, Vermont, Massachusetts, Rhode Island, Georgia, Iowa, Idaho, Nebraska, South Dakota, and Utah all have raised the gas tax. Why? Because they are getting no activity, no action here in Washington. And they need the money to fix up their infrastructure.

So what I say to people in Washington—and I was an elected official. I served in the House for 14 years. Do not be afraid to raise the gas tax. Make it a part of the funding formula. Do not just discount it. It is the big pot of money that will get us back in the game again. It will get us back to being number one in infrastructure and being able to attract businesses to our communities.

Thank you, Mr. Chairman. I am sorry to get a little overreactive here, but I just feel so strongly about this, and I look forward to your questions.

The CHAIRMAN. Well, we allow for that. This is the committee where everybody gets overreactive from time to time, on both sides. So we are happy to have you here and happy to listen to you.

[The prepared statement of Mr. LaHood appears in the appendix.]

The CHAIRMAN. Mr. Moore, we are looking forward to your testimony too.

STATEMENT OF STEPHEN MOORE, VISITING FELLOW IN ECONOMICS, THE HERITAGE FOUNDATION, WASHINGTON, DC

Mr. MOORE. Thank you, Mr. Chairman. I was heartened by your comment about tax reform. I have believed for a long time that if we could just lock the two of you in a room for about 2 or 3 hours, I mean, seriously, you could come up with a tax plan that would be so much more pro-growth and productive for our economy than what we have right now. And, by the way, that is relevant to this discussion. I believe if we had the right kind of tax system, we could add 1 percentage point of GDP.

The CHAIRMAN. Well, you are absolutely right. We could do that. Too bad we have 98 others to deal with.

Mr. MOORE. So why is it not happening? It could be one of the great bipartisan reforms that we have seen in 30 years.

I am pro-roads. I agree with you: we need more roads in this country. But I am firmly against raising the gas tax at the Federal level to pay for it. So "yes" to more infrastructure, but "no" to a Federal tax increase. And one of the reasons for that is simply that it is not fair to the middle class. If you look at who gets hit hardest by a gas tax increase, there is no question that the middle class is the group that gets hammered by this. So I did some statistics. For every 1-penny increase in the Federal gasoline tax, you are going to pull about $1.5 billion out of the hands and pocketbooks of middle-class workers, and everyone in this room knows that the middle class is financially strained right now. If you were to raise the gas tax by, say, 10 cents a gallon, you are talking about taking $15 billion out of the pockets of people who need that money. And I think it is an unfair way to finance this situation. By the way, it would be a negative stimulus to the economy to raise the Federal gas tax at this time.

Now, Federal funding peaked, as the Congressman said, in the late 1980s, but there is a reason for that, and that is, we have built a 42,000-mile interstate highway system, one of the great Federal achievements of all time, but the Federal interstate highway system is built; it is done. It is like saying, you know, we should continue to spend money on the Apollo system to send someone to the Moon. We did it. No one talks about continuing to fund NASA for something that has happened.

What I believe we ought to do as a strategy going forward is allow the States to do exactly what Mr. LaHood said. If they want to finance their local and State road projects and infrastructure projects, they ought to do it. And one of the ways you can facilitate that happening, by the way, is not only not raising the Federal gasoline tax but talking about judiciously lowering the Federal gas tax and allowing the States to fund these projects.

Now, why is that a better system? Because we believe in federalism. Because we believe that the people in the State of Oregon and the people in the State of Utah can make much, much, much better decisions about what road projects and bridge projects should be funded in Oregon and Utah than people here in Washington, DC. It is that simple.

By the way, there is a second reason for this. We believe, I think we all believe, that a fundamental principle of a good transportation project is that the user pays. The person who benefits from the project pays for it. And, when you make it more locally and State-financed, you move closer to that kind of funding system.

Now, what could we do at the Federal level to make these dollars that come in through the Federal system—which is close to $40 billion a year—stretch further? And I would argue that a couple of things need to be done.

One is, I believe that it is high time we stop stealing money from motorists, people who drive their car to work in the morning like I do, taking my Federal gasoline tax money and using it to fund transit projects that I do not use. People who use the highways should pay a gas tax for the roads. People who use transit systems should pay fares or other kinds of charges for that. Right now you

are diverting, I think—I may not be exactly right about this—about 15 percent of Federal gasoline tax money for transit projects that people who use the roads do not use. And we have a great example of that here in the State of Virginia, where people like myself are going to have to pay for the Silver Line system, which, I am sorry, Congressman, I think is one of the biggest wastes of money in history, and I do use the toll road, and our tolls are going to go up, up, up, up, up to pay for a Silver Line system that very few people are going to use.

Second of all, let us take a very serious look at repealing the Davis-Bacon law. This is a law that was passed 60 years ago specifically to keep minorities off of Federal road projects. It is discriminatory in effect, and it was discriminatory in its intention, and it is high time we repeal this law. And, if we do that, for every four bridges and roads that you build across the country, you get a fifth one for free. You get a fifth one for free. So, if we want to solve the infrastructure problem, let us do that.

One other thing that I will bring up for you all to consider is that, you know, we have this whole discussion about how to finance roads, and no one is talking about efficiency and productivity gains, and how do we make sure we are getting the most roads and the most transportation projects for the money that is going to Washington? Now, the reason this is important is, my friend Art Laffer and I did a book that came out about a year ago where we looked at what States are spending on highway projects, and it is amazing. I just want to give you a statistic about the difference between two States—Texas and California.

California spends about $250,000 per mile of road projects—$250,000. Texas spends $100,000 per mile of roads. What explains the difference there? The explanation is, Texas is much, much, much more efficient in the way it spends its money. There are ways we can rebuild our infrastructure in a much more efficient way and a much more productive way without sucking more money out of the pockets of taxpayers.

Thank you.

[The prepared statement of Mr. Moore appears in the appendix.]

The CHAIRMAN. Thanks to all three of you. We appreciate your being here and appreciate listening to you.

Secretary LaHood, the bipartisan deficit reduction think tank, the Committee for a Responsible Federal Budget, or CRFB, on May 13, 2015, issued a pamphlet entitled, "The Road to Sustainable Highway Spending." Now, the pamphlet provides a menu of trust fund solvency options, big, medium, and small, drawing on revenue raisers and spending cuts. I ask unanimous consent to insert a copy of the pamphlet in the record, and I will.

[The pamphlet appears in the appendix on p. 45.]

The CHAIRMAN. I am assuming you are familiar with that particular pamphlet.

Mr. LAHOOD. Yes, sir.

The CHAIRMAN. Okay. Now, Mr. Secretary, it is clear from your testimony and that of Mr. Moore that the two of you do not agree on a gas tax increase. Your testimony is clear that you do not believe we should reduce current trust fund spending to line up with current trust fund receipts. I am going to ask you whether we

should look to proposals that score as outlay reductions to offset the deficit impact of a general fund transfer.

Now, here is one of the many examples from CRFB's report. The proposal is to "allow for drilling in ANWR and the Outer Continental Shelf." Now that proposal, which is divisible between ANWR and OCS pieces, CRFB scores at $5 billion in savings—as $1.5 billion in savings from the OCS piece, and the ANWR piece scores at roughly $2.5 billion. Now, CRFB indicates adopting both pieces would mean 4 months of solvency.

Now, Mr. Secretary, if it is not politically feasible to raise the gas tax, would you agree that policymakers should consider spending reduction proposals like the ones listed by the bipartisan think tank as part of an interim or long-term resolution of the Highway Trust Fund deficit?

Mr. LAHOOD. Senator, I think that almost every member of this committee has a good deal of experience—or they would not be here—in terms of budgeting and finances. I think you have to look at all alternatives. I do not think anything should be off the table. I really do not. I am sorry, and I am disappointed that some people have taken raising the gas tax off the table. I do not think it should be taken off the table, just as I do not think this proposal should be. We have to find new ways, creative ways, to fund our roads and bridges. This is an example of it. I think it should be on the table.

The CHAIRMAN. All right. I appreciate that.

Now, Mr. Moore, as a gas tax opponent, I am going to ask you the flip side of the question I just asked Secretary LaHood. If Secretary LaHood's view that restricting current spending to current highway receipts is not politically possible is valid, would you agree that policymakers should consider compliance revenue-raising proposals like the ones listed by the bipartisan think tank as part of an interim or long-term resolution of the Highway Trust Fund deficit? And let me just provide one example from the bipartisan CRFB report.

The proposal is to "increase mortgage reporting." That——

Mr. MOORE. I am sorry. Increase what?

The CHAIRMAN. "Increase mortgage reporting." That proposal would yield $2 billion, which would mean 2 months of trust fund solvency. What do you think?

Mr. MOORE. I cannot speak to that proposal. I have not really thought about it. But let me simply say this. On your question to Secretary LaHood, this is a huge pot of money that we are talking about, and it is not just drilling in ANWR, sir. We could be drilling all over this country, and we have been doing some analysis of this at Heritage. I mean, the Federal Government, if we drill everywhere, you know—and I am not talking about Yosemite and Yellowstone, but on Federal lands that are not environmentally sensitive—over the next 20 years we could raise somewhere in the neighborhood of $2 to $3 trillion—$2 to $3 trillion—in Federal money that would come in through royalty payments and other fees that we could charge these energy companies. Now, my God, that is gigantic. I mean, we could use a huge percentage of that to reduce our national debt. We could use some of that money to build the kind of infrastructure that the Secretary is talking about. So we have a gigantic opportunity here.

And I forgot to mention one other quick thing. You know, we keep hearing all of this talk in Washington about how we need infrastructure. We need infrastructure. We need to spend more on infrastructure. There is one area that we need infrastructure desperately on, even more than we need roads. What we need in this country is an interstate system of pipelines so we can get the natural gas resources and the oil resources that are so abundant in this country. I mean, the shale oil and gas revolution is big, and we are just hitting the beginning stages of it. We have to build pipelines all over this country so we can get it to the market and we can sell it abroad. And I bring that up because—I mean, we have an infrastructure project that would create 15,000 jobs, that would be free. It would not cost the Federal taxpayer one penny, and it would be good for our national security and our energy policy, and that is the Keystone Pipeline. And that is just one of these—you know, there are about 20 major pipelines that are being held up at the Federal level.

Yes, we need more infrastructure. Let us start with the easy ones that do not cost taxpayers a penny. Let us start with Keystone.

The CHAIRMAN. Thank you. My time is up. Senator Wyden?

Senator WYDEN. Thank you very much.

Secretary LaHood, let me start with a proposal that has been advanced in the Senate and has elicited a fair amount of discussion in the transportation area called "devolution." This is a proposal, Secretary LaHood, that would not only eliminate the Federal highway program, but would also significantly reduce funds for the States. And I do not know how they would proceed, but I assume they would just raise their taxes. What do you think of this? It has been introduced in——

Mr. LAHOOD. I think it is a very, very, very, very, very bad idea. We would—look, if devolution had been in existence, we would not have an interstate system, because if you look back on the history of the interstate system, there were some Governors, when President Eisenhower signed the interstate bill, who said, "There will never be a road through my State." Fifty years later, we have an interstate system. Our country is connected with the best road system in the world, bar none. Devolution would never allow that to happen.

And, if we want to fix up our interstates—every one of you has an interstate running through your State, and you all know what they look like. They are crumbling. They need some Federal resources to fix them up, and we owe it to the States, to the Governors, to the communities to do that. That is what a national program does. Devolution would destroy that kind of opportunity.

Senator WYDEN. Let me see if I can capture your philosophy, which I think is very attractive on this point. What you are saying is, this committee needs to get funding right. That is our first assignment.

Mr. LAHOOD. Correct.

Senator WYDEN. But you are also saying that we ought to be looking at the whole toolbox, and finance ought to be part of it. And because I have you here and I respect your views, let me ask you: were you surprised that $188 billion worth of Build America bonds were sold in less than a year and a half?

Mr. LAHOOD. Of course not. It is a great program, not just because you were one of the authors of the legislation, but because it worked. And that should be part of the solution. Put that in the highway bill. That ought to be a part of it, ought to be a part of the funding.

Senator WYDEN. Good. A question for you, Dr. Kile, if I might. On the question of budget issues, what I think people really are interested in is, as it relates to the budget—and this is in your bailiwick—what is your best analysis there about the economic effects of public investment in infrastructure? From the seat of my pants, I always say, if there is a town hall meeting, that investing in infrastructure is a big economic multiplier. You see it with people working. You see it with people buying equipment. You know, restaurants have to make sandwiches for the folks who are doing the work. There is clothing, cleaning. It is a big economic multiplier. But what is important is that we have really thoughtful analysis like you all do in terms of the economic effects of public investment in infrastructure, and I would just like to wrap up with your thoughts on that topic.

Dr. KILE. Thank you, Senator. Yes, in the past we have analyzed the work of the Federal Highway Administration and concluded that, to maintain current levels of highway services, spending would need to be raised from the current level. Also, just yesterday, CBO issued its long-term budget outlook, and, in that outlook, we talked about the importance of infrastructure spending and how that contributes to economic growth and how that is included in our models.

Senator WYDEN. So, can you give us a little bit of the highlights?

Dr. KILE. In the report that was issued yesterday, we talked about the returns to Federal investment in infrastructure spending being about half as productive as similar investment spending by the private sector. But, of course, there are things that the public sector will invest in that the private sector might not choose to.

Senator WYDEN. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Mr. Chairman, instead of asking questions, I prefer to use my time just to make a short statement.

The CHAIRMAN. Okay.

Senator GRASSLEY. Congress is once again faced with the task of reauthorizing our Nation's surface and transportation laws. The Finance Committee, as always, will play a vital role in this process, as we have to make the important decisions about the future of the Highway Trust Fund.

Transportation is essential to the economy, trade, and vitality of all of our States. In Iowa, it is fundamental to moving our agricultural products, manufactured goods, and people. We do not have a lot of inner-city transportation otherwise. Iowa also has a large number of trucking companies, and truck traffic through our State is very high. Therefore, Congress must be in pursuit of sound, sustainable highway policies that provide certainty to businesses, States, and the transportation community.

I am a former chairman of this committee, so I know how hard it is for Senator Hatch and Senator Wyden to find a consensus on both sides of the aisle and in both chambers on this issue. How-

ever, I urge all those involved in these negotiations to come to the table, including this Senator, to give and take, including all three aspects—and most often we talk about spending and the revenue side, but I follow along what our witness Mr. Moore says. We also have a regulation side of this that ought to be dealt with, and we ought to do the negotiations to have a timely solution.

I am dedicated to continuing to work with the chairman and my colleagues on both sides of the aisle to get this done. However, it is also important that Congress hold up our end of current law and keep the Highway Trust Fund funded in the short term so that we can focus on the long-term policy and financing solutions.

So, I would like to be very clear. Everyone wants to get a long-term reauthorization bill. However, there are serious discussions and negotiations that need to take place within this committee on how to raise at least $90 billion if we are to maintain current law. But, as I just indicated on regulations, some of that $90 billion can surely be made up by having less Federal Government dictation to the States on how that Federal dollar can be spent.

Now, this $90 billion is not an insignificant amount of money. A short-term extension should not be used as a pawn in the political gamesmanship when States like Iowa are in the middle of a construction season. The unrest that multiple stop-gap measures create, as well as the uncertainty, causes havoc for State Departments of Transportation. It is imperative that there be some continuity throughout the rest of the year.

So I thank all the witnesses—even though I do not have questions, that does not mean your testimony is not important—and the chairman for having this hearing to highlight and provide the facts of the current financing situation.

Thanks to all my colleagues and the witnesses for listening.

The CHAIRMAN. Well, thank you, Senator.

Senator Thune is next.

Senator THUNE. Thank you, Mr. Chairman.

I would like to just ask the panel what the impact is on the economy—we talk about economic impacts of these various alternatives that always get discussed. What is the impact on the economy of borrowing, of additional debt? We already have a very high debt-to-GDP ratio, whether you compute that using just publicly held debt or total debt—historically high levels. And, if you look at the 10-year outlook, according to the CBO, it gets increasingly worse over time.

So if we were to, as you pointed out, Dr. Kile, borrow, as we have, $65 billion since 2008—I mean, it is a general fund transfer, but it is in effect debt, right? I mean we are passing it on to the next generation. We are just borrowing the money.

Dr. KILE. The general fund is paid for with a mix of current revenue and borrowing, yes.

Senator THUNE. Okay. So tell me, what is the economic impact of just continuing to do what we are doing today, which is add these things to the debt through general fund transfers?

Dr. KILE. The long-term effect of increased debt is something that CBO has written about, and I am not terribly familiar with that work. But as a general statement, it is something that is not

sustainable in the long term, and it will impose an eventual drag on the economy.

Senator THUNE. All right. Well, here is the thing. To me there are really three options. You can spend at the current level of receipts coming into the Highway Trust Fund, which would represent about a 30-percent reduction over existing commitments that we have in the Highway Trust Fund. You can find savings, which we all ought to do, through reforms, and look for ways to do things more efficiently. And I would love to get rid of some of the things that we spend out of the Highway Trust Fund today, for example, transit, but that was tried a couple years ago in the Republican-controlled House, and they could not pass it. There are certain things that are just politically realistic, that are practical in light of where we are, and I do not think reducing spending by 30 percent is one of those. I think people are going to want to make sure that we are taking care of our infrastructure and highways.

So you can spend at that lower level. You can figure out a way to find the revenues to pay for the $92 to $94 billion that we would need just to keep funding at the current level. Or you can borrow it, which is what we have been doing. And to me, that is unacceptable. We cannot just keep, as a matter of practice, borrowing money from the general fund and handing the bill to our children and grandchildren. If we are going to have things in this country, we ought to pay for them.

Now, it gets very complicated, I know, on how to do that, but our State of South Dakota has to balance its budget every year. I mean, here in Washington, we do not labor under that uncomfortable proposition. We can just borrow it and continue to add it to the debt. But our State of South Dakota is one of those that did this year raise the gas tax, and they did it because they felt that they had obligations that they had to meet. They were trying to plan for the future.

And so I guess I am sitting here left with, what do we have in terms of alternatives, because nobody around here wants to make the hard decisions, and politicians generally follow the path of least resistance, and the path of least resistance, at least in the recent years, has been to borrow it, because that is the easiest thing to do. And that is just not right. We cannot keep doing that.

So I guess, as I look at this issue and you all look at this issue, we have had a user fee-based program for a lot of years, and it seems to have worked pretty well, but it is inadequate to the job today for what we have in terms of demands. And so, if we could figure out a combination of spending reforms, we ought to start there, figure out how we can spend less, but—I guess I would just put it all out there for you. Secretary LaHood, you have suggested an increase in the gas tax. Mr. Moore says no gas tax. Dr. Kile, you have talked about a vehicle-miles-traveled approach. But there has to be a user fee-based way of making this work, and it has to be a national system. I do not think you can back out and say we are just going to devolve all this to the States. I mean, certainly that does not work if you are going to have a national transportation system.

So, as you look at all these options and all these alternatives and you think of a vehicle-miles-traveled or some sort of approach like

that, what would you think about that, Secretary LaHood? If you had some sort of different approach——

Mr. LAHOOD. I think that there is at least one State, the State of Oregon, that has put that into a demonstration program to see how it works. The demonstration is for 5,000 vehicles to see how it works.

But, Senator, number one, this is truly a user fee. That is why it does not cause that much irritation when you say to taxpayers, "We are going to raise the gas tax, which has not been raised in 20 years, and we are going to give it back to the States. We are going to give it back to Americans. We are going to give the money to State DOTs and to Governors, who then transfer it back to contractors and road builders and bridge builders." And what do they do? They pay middle-income people to reconstruct, to rebuild our interstates and our bridges.

This money is invested in America. It does not stay here in Washington. It does not go into some pot somewhere where nobody ever sees it. It is reinvested in our friends and neighbors, and reinvested in infrastructure. This infrastructure becomes the economic engine that attracts businesses. The first thing a business looks for when it goes to a State is, what kind of roads do you have? What kind of sewers and water do you have? How are my people going to get back and forth to work? And that is why Texas is one of the fastest-growing States in the country, because they have great infrastructure. That is why China is attracting so much business, because every day they are building a new road, a new bridge, a new high-speed rail. When the national government invests in its people, it is a winner.

The CHAIRMAN. Okay. Senator Cantwell?

Senator CANTWELL. "LaHood for President." [Laughter.]

I wish you would jump in the race of multiple people on the other side of the aisle and express that, because I certainly agree with you. And I am sorry I missed your testimony earlier, but I wanted to ask you, Mr. Secretary, about the freight activity that your administration led, when you were Secretary, and how important is it that, if we move forward on infrastructure financing, that freight and multimodal investments be made so we can be competitive in how we move products, given the infrastructure investments being made in other parts of the world that are going to challenge our delivery system?

Mr. LAHOOD. Well, first of all, Senator, thank you for your leadership on freight. Freight really is multimodal. Obviously, a couple years ago you really got that, tried to get it included in the MAP–21 bill, and, for whatever reasons, money reasons primarily, people around here thought it probably could not get done.

But I think what you were able to do is get a commitment from the leadership and from our administration to create a Freight Council at DOT. You have put together, I think, a very comprehensive program, and, because it is multimodal, it means it includes all modes of transportation. Freight capacity is the next generation of transportation. It is where the country is going. And with the new channel opening at the Panama Canal, we know we are going to have to—right now there are only two ports in America that can handle the Panamax ships that are going to be coming through.

Now, that is a disgrace in our country. With all the ports that we have, only two can accept these Panamax ships?

But because of the kind of very comprehensive freight policy that you have developed, what I encourage you to do, Senator, is see if you can get your bill into the next transportation bill. It needs to be there. If we are going to take advantage of the Panama Canal adding a new channel and all the multimodalism that goes with that, whether it is trucks or rail or ports, we need a program. And we cannot use the excuse that we cannot afford it. We cannot afford not to do it. That is the answer, particularly with what is going on at the Panama Canal. And every one of you who has a port needs to be thinking about this. We need a multimodal, strong freight policy. It ought to be included in the next transportation bill, and I hope you will keep pushing for it and keep pushing Secretary Foxx, my successor, to make it a part of the administration's priorities.

Senator CANTWELL. Well, I appreciate that, and "Ports Are Us" when it comes to the Pacific Northwest. I guarantee you, we get it, and we see incredible competition from Vancouver, British Columbia, and other ports on the west coast all the time. So if we lost that freight business, obviously it would hurt our economy immensely.

But I think it was best said by one of our local providers in Vancouver, WA. The second largest grain elevator in the entire world is right there at Vancouver. And I said, "Why is the second largest grain elevator in the entire world right here?" And he said, "Because the rising middle class in Asia wants to eat beef, and we have to sell them grain." And that says it all. There is a rising middle class around the globe. The U.S. has a tremendous economic opportunity to ship product to them, a new customer base, if you will. But if our infrastructure chokeholds them and they can get product from South America or someplace else easier, we are going to lose critical business. And I already see, because we have this complexity of moving so much oil product now and other products, basically we are pushing good agricultural products off the rails.

So we have to get an infrastructure solution here that helps us move forward, so thank you for your leadership.

Mr. LAHOOD. Thank you.

The CHAIRMAN. Okay. Senator Coats?

Senator COATS. Thank you, Mr. Chairman.

Just to follow up on the presidential aspirations here, since my colleagues said there might be some, we have all we need on our side and more. [Laughter.] It appears that the other side is looking for an alternative. You have served both as a Republican Congressman but in a Democratic administration as Secretary of Transportation. Without being too pun-ish here, you could be the bridge that gets us on the road to the presidency.

The CHAIRMAN. There you go. [Laughter.]

Mr. LAHOOD. Here is the bottom line for me. My oldest son is running in a special election for Congress in the 18th District. The last thing he wants is his father talking about running for something.

Senator COATS. Okay. Mr. Chairman, thank you. I did not mean to start with that, but there it is.

First of all, I want to thank you and the ranking member for the selection of witnesses. I have sat through a lot of boring hearings, but this one is really dynamic, because everybody is speaking their mind straight out, giving us the alternatives. They are passionate about it. It is a project that has the reality to it that we need to get something done. To me, it is a lot more than just finding the cost to pay for the gap, but there really needs to be some policy changes here if we are going to really address this larger program.

Now, economic growth was mentioned, and my colleague here, Ron Wyden, left, but I know both the chairman and the ranking member are intent on moving us to comprehensive tax reform. That, combined with regulatory reform and some fiscal reform—and by that, I mean finally getting to the point here with our Federal revenues where we separate the essential from the, "Yeah, we would like to do that, but we cannot afford it right now," from the, "Why are we doing that in the first place?" That is how I kind of evaluate fiscal reform here, and, clearly, infrastructure falls in the top line. And maybe we could pay for this through fiscal reform combined with tax reform and regulatory reform, but those are long-term issues that we fight over, and we cannot seem to get there. But economic growth can solve an awful lot of problems here, whether it is medical research or whether it is paving roads and building bridges and everything else in between.

The shift to the States—I would like your responses relative to how much we could shift to the States. My State tells me, the Department of Transportation tells me, that they could save up to 25 percent if they had more flexibility relative to what they now have to comply with at the Federal level, giving them more flexibility on this. On MAP–21, I had several amendments. They all went down in flames relative to giving States more flexibility. But you have all mentioned that; you have all talked about that. But how essential is it that, as a policy reform, we give some flexibility and devolution to the States in terms of how—I can go through all the statistics, but I think that you know what they are. And if we did that, what are the top priorities? Where would you start? I had an amendment on separating mass transit, and that was mentioned here. For building roads, you pay the gas tax to build roads. For mass transit, you pay a tax because you jump on the mass transit. And separating those two would make a big difference.

But anyway, let's have the three of you give a quick answer—my time is running out—to that question as to if we did that, given the political realities, what would be the top two or three things you think we could accomplish. Just go down the line here.

Mr. MOORE. Well, this is something I very strongly endorse. I am not talking about total repeal of the Federal gas tax. There is no question—I think Secretary LaHood and I agree that there are certain elements of the Interstate Highway System that are properly federally funded. And what I am saying is that, when we are talking about funding of local roads and local transit projects and local bridges and things like that that are totally contained in one State, why in the world do we want to have the Federal Government collect the money and tell the States what they should build?

The one thing I find that I disagree with the Secretary on, as he said, look, we are going to collect all this Federal money from the

gas tax, and we are going to give it back to the States. Well, why? Why does the Federal Government have to be in that role at all? Why not have the Federal Government fund the portions of the road system that are truly interstate, and, for local roads, let States build them and fund them themselves? And you are exactly right, Senator, that you are going to see efficiency gains, no question about it.

I mean, the biggest boondoggle, in my opinion, in the history of the United States, the biggest, biggest waste of money—you know, and that is saying a lot—is probably this high-speed rail project in California, $70 billion. And there is nobody who is going to ride this thing. You are talking about a State that is completely virtually bankrupt with pension problems, and they are going to spend $70 billion on a high-speed rail system that nobody is going to ride.

Then you ask the question: why? Why would the people in California build such an absurd project? And the answer is very simple, Senator. The reason they are building this is that the Federal Government, people in Wyoming, people in my home State of Illinois, people in Florida, are going to fund this project. And, if California had to fund it themselves, I guarantee you this big white elephant project would never be funded. And that kind of thing happens all the time in our transportation sector.

What I would do—and this gets to what Senator Thune was talking about. We have a massive debt problem. You are right about this, Senator. We ought to take, you know, five areas—transportation, education, health care, job training, labor—and just create five giant block grants and just give those Governors the money. They can save 20 percent right off the top. And you know what? I will bet you, because I have talked to the Governors, and I have asked them: if we said we would give you the money with more flexibility, would you take 80 cents on the dollar? And almost all of them have said "yes."

The CHAIRMAN. Senator, your time is up.

Mr. LAHOOD. Senator, I just need to say one word about high-speed rail. I think it is a little funny here that Mr. Moore is suggesting that we ought to give more responsibility to Governors. The reason that California wants high-speed rail is because the Governor wanted it. A Republican Governor, Governor Schwarzenegger, started that program. You cannot have it both ways here, Mr. Moore. You cannot say, well, let us give the Governors all this responsibility and give them the money back, and then when they decide they want to use it on high-speed rail, well, you do not like that idea, so it is a bad idea.

Hey, it does not work that way. If you want the Governors to have it, let them choose. What did Schwarzenegger choose? What did Governor Brown choose? High-speed rail. Why? Because you think they ought to have the responsibility to do it, except when you do not like their idea.

Mr. MOORE. No, but the reason they are building it is because the Californians are not paying for it. People from all of the other States are paying for it.

Mr. LAHOOD. The California Assembly has passed millions of dollars of California taxpayer money to fund this project. That is how it is getting funded.

Senator COATS. Like I said, Mr. Chairman, this is a great hearing. [Laughter.]

The CHAIRMAN. Ray, I want you to keep your health here now. [Laughter.] All of us get worked up on this issue.

Senator Menendez is next.

Senator MENENDEZ. Thank you, Mr. Chairman.

Look, I would like to say that if I followed Mr. Moore's thinking, Eisenhower would not have opened up a national highway system; we would not have been at the point when we were the envy of the world in infrastructure, in ports, in rail connections to get people to work, to get product to market, to get product shipped internationally. That is just not going to be done by the private sector.

And I will tell you, as a person representing the highest per capita income in the Nation, we send a lot of our money to a lot of other places, including your State, Mr. Moore. So the reality is, that is not a particularly compelling argument to me.

Let me just say we have heard today a lot about the focus on highway programs, which are important, but our Nation's transit programs are equally, in my view, if not even more critical to our mobility and economic competitiveness.

Now, there are some interesting assertions in today's testimony, including a comment that transit should not be funded by motorists who, by definition, do not use the trains, subways, and buses. Well, let me make it clear. I am a motorist who uses mass transit. And given the fact that, under a conservative estimate, there are more than 860,000 park-and-ride spaces at transit stations, I do not think I am the only one.

In fact, 82 percent of U.S. transit riders live in a household with a car, and, of the transit riders with access to a car, 87 percent use the vehicle more than three times a week. These people are all paying into the Highway Trust Fund, and they all rely on more than roads just to get around.

A modern transportation system cannot be about highways alone. We need a system with safe and efficient roads and rails and transit lines and ports, and we need to think about it holistically, with each mode of transportation working together in concert to increase efficiency and synergism. And we have a long way to go to get there. I saw the House debating about $1 billion for Amtrak versus $1.3 billion. China spent $121 billion in 1 year on their rail and transit systems, and their economy is going pretty strong.

So I would like to ask—and before I do, I would like to recognize somebody who I think is very prescient in today's debate that we are having. It is a quote that says, "Anyone who has driven the family car lately knows what it is like to hit a pothole: a frustration, an expense, a danger caused by poor road maintenance. Our cities need new buses, new and rebuilt rail cars, and track improvements. Common sense tells us that it will cost a lot less to keep the system we have in good repair than to let it disintegrate and have to start over from scratch. Clearly, this program is an investment in tomorrow that we must make today."

Now, that quote did not come from some radical liberal or even a moderate Democrat. It came from a Republican, and not just any Republican: Ronald Reagan at the presidential signing ceremony for the 1982 transportation bill, a bill that both raised the gas tax and created the mass transit account of the Federal Highway Trust Fund. So, despite the passage of time, we find ourselves today facing many of the challenges that he acknowledged nearly 3 decades ago. And I hope we can do it in a bipartisan way.

Secretary LaHood, I would like you to get to two points, if you can, in the time I have left. There is this myth that transit is only used in urban, Democratic areas of the country. You served as a Republican member of Congress—I was pleased to serve with you—representing an area that included Peoria, which has had a transit system for decades. Can you speak to the importance of Federal investment in transit services for communities of all sizes? And can you also speak to the fact that your testimony notes that, in the three transportation bills prior to MAP–21, Congress increased investment levels in the range of 40 to 45 percent, but in MAP–21 we only did a small increase to keep up with inflation? What are the real-world impacts of the economic consequences of doing that? Because I see that half of our entire Nation's GDP is generated in 23 metropolitan areas, between the realities of rural America and suburban America that very often need rail, and the realities of so much GDP generated in these more metropolitan areas, this is an economic imperative, isn't it?

Mr. LAHOOD. People who are middle-income people or certainly people below middle income, people who are working people, many of these folks cannot afford a car. They rely on mass transit. They rely on buses, light rail—and mass transit is their lifeline to their job, to their doctor's appointments, to the grocery store. This is how they get around. And not just in places like Chicago or New York or other big cities. In places like Peoria, IL, where I still have a home, we have a great mass transit system. It is all buses. But people rely on it every day because it is cost-efficient. They do not have to have a car, they do not have to pay insurance for a car, and, frankly, they cannot afford it.

So, for all of the talk about how we are going to help people raise their ability to have a good income and to live the American dream, part of that is making sure that they have the kind of transportation they need. A lot of people cannot afford a car, and particularly people who are just coming out of college, who are moving to cities like Chicago or Washington, DC. They are going to rely on mass transit. They are going to rely on buses or Metro systems or the CTA, or whatever it is. And certainly in the State you come from, Senator, I do not have to tell you how many people use mass transit. Thousands. What happened during Sandy? Thousands of people could not get to work. And how did they do it? Buses were rented so they could get to work.

This is an important part of our transportation system. We are not going to give up on it, and we should not—for the people, not for us. We all own cars. But for the people, the working people——

The CHAIRMAN. Senator, your time is up.

Senator Cardin, you are next.

Senator CARDIN. Thank you, Mr. Chairman. I want to thank our witnesses, and I want to thank you for holding this hearing, because it is particularly important that we deal with the 6-year reauthorization of the transportation program, and it has to be done by the current deadline of the end of next month. It is critically important. If we do not get it done now, then we know we are going to be punting again, and it is going to have an incredible impact on my State, on Utah, and every State in this country.

The CHAIRMAN. If I could just interrupt, I will give you some additional time. One of our problems, Mr. LaHood—and I have great respect for you, as you know. One of our problems is that we do not believe we can get a tax increase through, and the House is not going to take it. They made it very clear to us. And frankly, a lot of the Senators do not want to do it that way either. So we are going to have to come up with a way of solving this problem, hopefully to all of your satisfaction, really in the next number of weeks, it seems to me.

Sorry to interrupt you. I will give you——

Senator CARDIN. That is all right. I appreciate it, Mr. Chairman, and we understand the political realities, and I am going to talk a little bit about that, and hopefully have time for some questions.

But I really want to underscore—I was out in western Maryland on Saturday. Mr. LaHood, as you point out, on the economic development, that north-south highway in western Maryland is critically important to the economic future of the western part of my State. If they do not complete the Appalachian Highway, it is going to be very difficult to attract the type of industry they need. So a 6-year reauthorization is the only way they are going to accomplish the completion of the Appalachian Highway.

Or I could go to the Eastern Shore of Maryland, where we have 301, an incredibly important road with real safety issues that have to be addressed. We cannot do it under just the State funds or a short-term patch. You need to have a multi-year commitment as a Federal partner in order to be able to move forward in those programs.

I could talk about our two urban areas, Baltimore and Washington. I was with Senator Warner yesterday as we got a briefing from the FTA as to the safety issues on the Metro system here, and they need to be held accountable. They must make safety a priority. This is a 40-year-old system. It costs money to replace cars to make them more safe. It costs money to put in the communications systems they need. They need resources. There is no question. They need accountability also. We understand that. The expansion of the Metro system here, the Purple Line, is critically important for the congestion, or the Red Line in Baltimore—all the transit programs.

I commute back and forth from Baltimore. This region is the second most congested region in the Nation outside of New York. So if we cannot get a 6-year reauthorization, we are putting our communities at risk. There is no question about it. I want to start with the fact that there is no option but to pass a 6-year reauthorization if we want to deal with the safety issues, if we want to deal with the economic issues, if we want to deal with the quality of life issues that we are confronting.

So let me deal with the chairman's comment. If we just hold our own, it is going to cost about $100 billion. If we pass a bill that represents the current needs—and you can use the President's budget as a recommendation—then we are about $250 billion short. And we need to find the money to go into the transportation system that provides the permanent way to deal with it. And I must tell you, there have been many suggestions made by my colleagues that I am prepared to support, but I am mindful of what the chairman said, that we have to find a common way to move this forward.

So, Mr. Chairman, let us look at some of the recommendations that have been made by both Democrats and Republicans. We have international tax reform that has been put on the table. We know that our corporate tax rates are not competitive, and we have money trapped overseas, and we have to deal with how that money is going to be brought back to this country.

The President has made a recommendation in this area that will provide some permanent revenues as well as one-time-only revenues. I want to make sure that we have enough permanent revenues in the Transportation Trust Fund so that we can have a 6-year reauthorization without another cliff.

The CHAIRMAN. Well, as you know, that is going to have a very rough time flying, especially with the Joint Tax report that says really it will lose $120 billion over 10 years. So, you know, we are going to go through every possible way of funding this, and we have gone through that as well. And I just—this is not an easy job, I am telling you. But we are going to solve this problem.

Senator CARDIN. And I agree with the chairman that it is not an easy job. I would suggest that some of our colleagues working across party lines, Democrats and Republicans, have come up with recommendations that overcome some of the scoring problems that have been raised.

I agree, bottom line, we have to find the revenue so that we have a 6-year reauthorization that does not create another cliff at the end of the 6 years. That is absolutely essential. And I understand the chairman's concerns as to the political realities here. If it were up to me, I am prepared to use some pretty direct ways to get the money into the trust fund. I think that is what we should do. But I want to make sure that we accomplish, by the end of next month, a 6-year reauthorization that not only allows us to maintain the Federal partnership, but to meet the needs that are out there.

And I would just urge us to take a look at some of these numbers that Joint Tax has come back with on the international tax side. They are well beyond the revenues necessary to accomplish these goals. The monies are there. And, by the way, we unleash additional activity here in the United States. We will not get credit for that in the scoring. I understand that. But when we bring the money from foreign corporations back into the United States, that is going to generate more economic activity here, which is going to also produce more revenues for this country.

So I think there are ways that we can work together, Democrats and Republicans, to do it, but we must be committed to this goal. We cannot let this July date go without a 6-year reauthorization, and the level has to be adequate to deal with the growing transpor-

tation needs in this country—enough permanent revenues so we do not create a cliff and creative uses of one-time-only revenues. And my colleague Senator Warner has recommendations on how we can use one-time-only seed money to supplement the transportation program.

That is the creative way that we can get Democrats and Republicans together, but I would just urge all of us—and I serve on the Environment and Public Works Committee, and we are working in a bipartisan way for a 6-year reauthorization, and I know the Banking Committee is also working on this area. We cannot let next month go without accomplishing those goals. And I understand the political realities. Let us, though, not lose this opportunity, because if we do, you are putting the citizens of Maryland at risk on the safety projects that are not being done. You are putting the people of Maryland at risk for the economic opportunities in western Maryland that will not be done. And you are putting us at risk every time we spend 2 hours trying to go 2 miles in this region in order to be able to get from our home to work. We can do better for the American people.

The CHAIRMAN. Thank you, Senator. Let me just say this: I am for a multiyear resolution here, whether it is 2, 3, 4, 5, or 6. We are going to have to live with reality. But I am for getting this done, and we will see what we can do.

Senator Warner, you are next.

Senator WARNER. Thank you, Mr. Chairman. I have been chomping at the bit.

First of all, I want to say, Secretary LaHood, when you mentioned ports, you said only two ports in America are ready, post-Panamax, one of them in Virginia.

Secondly, Mr. Moore, you and I have had lots of back and forth over the years, Governor and Senator, but I do find—and Senator Menendez has already raised this. You know, we might have never built an Interstate Highway System because there was massive wealth transfer from certain States to less populous States over 40 years, and suddenly to say now that it is built we are going to go to devolution, I think is not an appropriate approach.

Number three, I very much appreciate what you are doing, Mr. Chairman, and next week I know we are going to have a financing issue. I simply want to indicate that we have, I think, a very business-focused financing vehicle that we reintroduced yesterday called The BRIDGE Act. We have 11 original cosponsors—5 Republicans, 6 Democrats. It would generate $300 billion-plus in financing. Financing is not a silver bullet, but it has a business background, unlike some of the other proposals that have been put forward. And I hope it gets serious consideration because—let us bear in mind, vis-à-vis our competition, China is putting together a $100-billion infrastructure bank. The fact that we have in our government right now an office in the United States Treasury that advises American pension funds on how to invest in European and foreign infrastructure, because there is no ability for American pension funds to invest in a broad way in American infrastructure, is ludicrous. And at record-low interest rates, we, I think, do not take up that option at our peril.

I wish Senator Thune was still here, because I support repatriation, but I do believe that we are going to have a hard time saying to our domestic companies that we have just given multinationals whatever blended rate, and they are still paying 35 percent. And where I have, Mr. Chairman, enormous, enormous respect for you, I do not think we can start with the premise that we cannot generate new revenues.

Senator Thune, I think, was open to this. Senator Thune mentioned the fact that we are borrowing. We are having a debate right now about, you know, the funny money around Overseas Contingency Operations. If we had not had to transfer $56 billion from the general fund into the Highway Trust Fund, we would have a sufficient amount to plus-up on defense or on the domestic side without such borrowing techniques. But remember, this is robbing Peter to pay Paul in our current approach.

I do think there are some ideas that a number of us, in a bipartisan way, are looking at that maybe have not been in the full debate yet that would look, Mr. Chairman, at revenues, but in a way that would be phased in over a period of time, that would not be disruptive to the economy or, frankly, disruptive to any of us who have to run in 2016.

So again, I just ask you, because I know you are always, I think, willing to take a broad-based look. Let us not take things off the table before we start this discussion. We are all willing to give some, but revenues—I have not met anyone, echoing Secretary LaHood and all the folks involved in the business side, who thinks that we can borrow our way one time into fixing our infrastructure needs without an ongoing, permanent revenue source.

And that will bring me to my question, and I am going to actually go to Dr. Kile, since you seem to have been left out of a lot of these questions. Your projections over the next 10 years, I think, are good and sobering, but the irony, of course, here is that we have two policy constraints contradicting each other. We have a gas tax, but we have increasing fuel efficiency standards. Have you looked beyond the 10-year window in terms of how much further the existing revenue source of the gas tax decreases as fuel efficiency continues to improve? And I support electric vehicles or natural gas vehicles. But the fact is, as our fleet becomes more distributed, what that completely does is further hollow out the Highway Trust Fund.

Dr. KILE. Senator, we have a report on that that I do not have on the tip of my tongue that I will be happy to send to you. Over time, the increase in vehicle efficiency does erode the revenues into the trust fund, both within the window and beyond it.

Senator WARNER. I will close up with this and not go over my time, but to my Republican colleagues, we also have in our financing approach—and, again, financing does not solve the window. You have to still pay it back. It often translates to tolls. But one of the things that we also include is—time is money—and we put in a provision for an expedited National Environmental Policy Act process, one of the things that actually Mr. Moore and I would agree on. As a former Governor, you know, it should not take 7 years to do a NEPA review before you build any project. And I would be anxious to talk with all of my Republican colleagues to

join the five or so other Republicans who have already joined in this effort.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Brown, you are next.

Senator BROWN. Thank you, Mr. Chairman. Thank you all for joining us.

Secretary LaHood, I would like to address my comments, brief comments, and questions to you. You know, when we look at sort of the post-World War II history of our country, we know that in the 1940s, 1950s, 1960s, 1970s, and into the 1980s we had the greatest infrastructure the world had ever seen. Yet today, when we think about what our parents and grandparents bequeathed to us, this incredible infrastructure, we have failed to modernize it, we have failed to upgrade it, and we have really failed to maintain it. We have problems in States where—in my State, as an example, but other States too—State government has cut funding to local communities. So, we see the condition of our infrastructure and what it means to everything. We know that the Brent Spence Bridge, a huge infrastructure project, mostly in the State of Kentucky technically, but across the Ohio River, carries 4 percent of GDP every day across that bridge because it is I–75 going from Detroit south.

But it seems we are making this whole—and I have watched some of the questions and comments. It seems we are making this more complicated than it has to be. There is a bipartisan proposal you know about, Mr. Secretary. We can fund a 6-year bill at the level that a 21st-century infrastructure system demands without raising taxes on small business owners and working families. We can reform our international corporate tax system to make it more competitive, shut down tax havens, grow investment in the United States. We can use a one-time mandatory tax on those overseas earnings. Not to, again, as we do it, encourage more companies to go overseas, but do a deemed repatriation with a lower tax rate that would be ongoing so companies would act differently.

Talk about that, why we should move to something like that. We have seen some support in both parties. We have seen administration support. Does that make sense to get us where we need to go?

Mr. LAHOOD. You are all very, very astute lawmakers, and I think you are going to have an awful lot of heartburn from the business community to move in that direction. They are the ones who are putting this money offshore. They have their own ideas how they want to use their money, and I do not know if every one of these companies is going to want to use their money to pay for infrastructure. They have lots of other ideas. And so I think you are going to get a lot of pushback.

But I will say what I said earlier to the chairman. Put it on the table. See how much revenue you can get from it. See how much pushback you get, and if you can include it, do it, because it is a good pot of money.

But I would also urge you—and I heard what the chairman said, and I know there are people on the other side of the Rotunda who have said absolutely no increase in the gas tax. That has to be on the table. That is the pot of money that built America, and that

is the pot of money that can rebuild America again. Why should we turn a blind eye to the pot of money that built our country? Ronald Reagan raised the gas tax. George Herbert Walker Bush under reconciliation raised the gas tax. Bill Clinton raised the gas tax. It has not been raised in 20 years. Stamps have gone up, eggs have gone up, milk has gone up, cars have gone up. Everything in America has gone up except the gas tax. If it had been indexed in 1993, we would not be having this debate. So think about indexing it.

So my answer is, if you can get some repatriated funds, take a look at it. I do not think the business community is going to be all that gung-ho about it, but, you know, maybe you do not take it all. Maybe you give them some kind of a tax break. But do not take the gas tax off the table, Mr. Chairman. Please do not.

Senator BROWN. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Isakson, you are next.

Senator ISAKSON. Thank you, Mr. Chairman.

Mr. Chairman, I was just thinking, I think you and I are the only two people in the room old enough to remember before there was an interstate highway system. I was born in 1944, and we have all talked about the interstate highway system. But the reason Eisenhower proposed it was to evacuate the major population centers in the event of a nuclear attack because of Nagasaki and Hiroshima. It became the greatest economic catalyst for growth, and it created the new South. Atlanta would not be Atlanta and Florida certainly would not be Florida if it was not for the interstate highway system, because nobody could get there. All those Yankees moved south, and we made a lot of money. [Laughter.] We gave them a way to do that.

But my point is this—and Mr. Moore made the point about the pro-growth tax policy. Transportation improvements are pro-growth, and, if you expand prosperity, you raise revenue, not by raising rates but by raising economic activity. And I think Mr. Moore referred to that and recognized that there is a role for a gas tax at the Federal level, but not as the sole answer, not as the sole solution.

I agree with Secretary LaHood, and I agree with you, Mr. Chairman. We have to put everything on the table and stop talking at each other and by each other and start talking to each other.

At one point in time in this room today, in this hearing—and Senator Coats is right: every potential solution in collection has been mentioned. All we have to do is pull the trigger. And, if we pull the trigger, not by picking them off one at a time like ducks in a shooting gallery, but instead putting all the ducks in the tub and saying, okay, what is the best formula to make transportation work in the 21st century, to raise prosperity, to make ease of transit easier, and to expand our opportunities, we have the chance to do it. But if we try to find one place to do it, we are going to make a serious mistake.

Now, Secretary LaHood, it was a privilege and pleasure for me to serve with you in Congress and on the Transportation Committee. I have one loaded question for you. You are the only former Secretary of Transportation in the room and a former member of Congress. In talking about economic growth and opportunity, there

is a lot to be said about fast-tracking road construction in the United States and breaking away the labyrinth of time-consuming regulations of the Federal Government. As a former Secretary of Transportation and as a former member of Congress—and as one advocating road improvements—do you not think part of this reform that gets us revenue ought to be less cost of Federal regulations and Federal delays in building roads in our States?

Mr. LAHOOD. Absolutely. And it can be done at the Department; it can be done at the Secretary's office. I met with every Governor in the country. We knew every Secretary of Transportation in the country. We worked with them day in and day out. They were our best partners. And when they brought egregious regulations and rules to us that did not make any sense, we tried to get them changed to speed up the process so people could go to work and roads could be built. And it is possible and should be done.

Senator ISAKSON. And, if we do put everything on the table to solve the crisis—and it is a crisis that we are facing right now in terms of our Highway Trust Fund—should that not be one of the things we consider to contribute to the solution?

Mr. LAHOOD. Absolutely. It should be a part of the bill. Find the things that are egregious and get rid of them.

Senator ISAKSON. I rest my case, Mr. Chairman. Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Stabenow?

Senator STABENOW. Well, thank you very much, Mr. Chairman. I think this has actually been a very, very good discussion, and I thank you. And I think the majority of us are saying that we want to get something done. We have 43 days, and in legislative time that is a long time, if people really want to get things done.

Let me start out by saying, Mr. Moore, I am really glad that, when I was doing the farm bill, our colleagues in urban States did not share your view about not caring what happens in other States, because the western States were huge beneficiaries. Our livestock disaster assistance program is absolutely critical, and on the transportation front, short rail for agriculture is absolutely critical but does not go through every State. And so we really are in this together as a country, and there are things that certainly we do better at the State and local level. But we are in this as a country, and in Agriculture, I sure saw that, with a lot of my colleagues saying, "I do not have a lot of farmers. Why should I care?" But you eat, and so you should care. So we all are connected in some way, and I think we have to keep that in mind.

Mr. Chairman, I also think that we are coming to terms with what has been years now of trying to pretend we do not have to pay our bills and do not have to pay for things. And I am all for streamlining and looking for better ways to do things. Again, I have to say, going back to the farm bill, we cut 100 different programs that were duplications or did not work and actually saved $23 billion in total, and then we increased the things that were working. So I am all for doing that. But it does not take the place of paying our bills. And it does not matter whether it was President Eisenhower talking about national defense and transportation equaling economic defense, bringing that together, or whether it is the chairman of the EPW Committee, Senator Inhofe, whom I

greatly respect on this issue, who has said that both the Department of Defense and infrastructure are absolutely critical responsibilities of the Federal Government. And I appreciate what he and Senator Boxer are doing to bring forth a robust 6-year bill, which it is our responsibility to figure out how to fund.

And I do not in any way pretend this is not challenging. But I also know there are multiple ways to do it and that, if we all decide that this is important for jobs and economic growth and all the other things that have been talked about today, as well as just saying to people that they are not going to have to pay for their roads by a realignment of their car—I talked to one constituent of mine who had to buy seven new tires last year. He said, "Please, there has to be a cheaper way to fund what is happening here in terms of highways than my continuing to buy new tires or get my car realigned," which I had to do just by taking the vehicle I have here back to Michigan for a month last fall. I had to pay for an entire realignment. So, please, there are certainly cheaper ways to pay for that than what constituents, all of us, are doing right now.

So, Mr. Chairman, I think, while we are talking about the big push on trade, not to understand the infrastructure needs that relate to effectively exporting our products makes no sense. I would love to see the same focused, bipartisan push on infrastructure, on jobs, roads, bridges, rail, airports, ports, and so on, that we have seen in this major push on trade. And maybe we ought to put them together. Maybe we ought to actually say we are going to make sure that we have the millions of jobs, American jobs, that come from that and the infrastructure to be able to actually do this.

I want to share one other thing with colleagues. As a northern State that has the largest border crossing in the north, which is through Detroit to Windsor, we saw what happened after 9/11 when we temporarily had to shut that down. Over $1 billion—I think it is $1.3 billion in goods that cross every single day back and forth, not counting people who are working going back and forth. And we realized that we needed to have a second bridge, both for national security as well as for economic reasons. And, Secretary LaHood, thank you for being such a wonderful partner with us, a terrific, important partner for us in Detroit and in Michigan and in doing a whole range of things, but certainly the bridge.

What is still terribly embarrassing to me is that the only way we could get the bridge done is for the Canadians to completely finance it. Now, they have something called a "P3," a public-private partnership, and they are financing the bridge, because America could not come up with part of it to finance a bridge that we desperately need to have. And then on top of that, we could not even produce the money for the Customs plaza on our side, because we do not have the bipartisan will to fund infrastructure in our country. So the Canadians are doing that too, Mr. Chairman.

And so I would hope that we could take this moment of opportunities—we have 43 days, and, Mr. Chairman, we are willing to work night and day with you on a bipartisan basis to step up and decide we are really going to invest in the future, we are going to take that next step, we are going to decide to truly pay our bills, not send it on to our kids in the form of deficits, but actually step up and do something that everybody tells their kids they ought to

do, which is work hard and pay your bills and make good decisions. And we can do that, and we have 43 days to do it, and I certainly hope that we are going to be able to get it done.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

We will turn to Senator Casey now.

Senator CASEY. Mr. Chairman, thank you very much, and I appreciate you having this hearing, and I appreciate the focus you have brought on this issue to get a bipartisan solution. I think it is good we have some passion here.

The chairman exhibits passion on some things. He is from Pittsburgh, so he has Pennsylvania in him, and we appreciate that. We need more than just talk in this. We need to get folks together in a bipartisan fashion.

One area that is of particular concern to me as a Pennsylvanian—and I think it is true of a number of States, and maybe unfortunately is most emblematic of the challenges we have—is our bridges and the number of structurally deficient bridges. We have in our State over 5,000 at last count. I am just looking at some other States, and these are not east coast States. Oklahoma has, at last count—these are December 2014 numbers from the Federal Highway Administration—4,216; Missouri, 3,310; Iowa is similar to Pennsylvania, over 5,000. So it is a huge issue. I know, Mr. Moore, in your testimony you said the number had come down, and we are at about 10 percent nationally. It is right around that percentage. But it is very high in some States, and we have a major challenge.

So I guess, Secretary LaHood, I would start with you, and, in addition to your testimony today and your passion, we appreciate the work you have put into this as a public official, as Secretary, and now as a citizen. And I want to ask you about just that challenge alone: the challenge of our bridges.

And then, second, to reference a part of your testimony, I think it was on the top of page 4, you cite there the impact on a family budget would be a little more than $1,000. Talk about that in terms of the impact on families, the overall transportation challenge, but specifically the——

Mr. LAHOOD. Well, first of all, Senator, thanks for all your leadership in Pennsylvania. During our time, we were able to get a lot of really good things done for the people of Pennsylvania.

I think that the reality is that every one of these bridges that is deficient and in a state of bad repair was built under the interstate system. So we owe it to the Commonwealth of Pennsylvania and every other State to have a national program to fix up our bridges. And we are not going to do it with the resources we have now because they are not there.

So, again, I know you all have the tough job of finding the money, but we need to find the money so that people are not fearful of crossing bridges in the Commonwealth or in any other State in our country. And some people are fearful of crossing bridges. People have seen the "60 Minutes" report where former Governor Rendell is standing under a bridge with Steve Kroft, and it is falling down. The bridge that connects Arlington Cemetery to the District of Columbia, it is in a terrible state of repair. Underneath, the

girders are crumbling. Where is the money to fix it? That is what we need to do.

With respect to revenue-raising opportunities, you know, I mentioned what happens with the gas tax. It does not stay here in Washington. It goes back to the Governors and the State DOTs, and they spend it, and they put it back into the American worker, the ones who are fixing the roads and bridges. And that helps them. The highest segment of unemployment in America today is in the building trades, people who build roads and bridges. And they are middle-income people, and they are out of work. They are waiting for Congress to take action.

We need to have some leadership here and some vision and some courage to say, this is what we have to do to help the American people, to help our country. So I do not see the increase in the gas tax as an impingement on middle-income people. I see it helping a lot of middle-income people who are building the roads and bridges.

Senator CASEY. I would also say, in reference to just the terminology here, when you talk about structurally deficient, part of that definition is "significant defect." So in some places it may mean that they are a long way from something actually collapsing, but in your experience as Secretary, I guess there is also a segment of that which would be much more grave.

Mr. LAHOOD. That is right, and we work with the State DOTs, and they actually have to do—you know, they have closed some bridges because people cannot travel on them.

The CHAIRMAN. Senator, your time is up. Senator Carper, you are next.

Senator CARPER. Thanks, Mr. Chairman. To our witnesses, welcome one and all. Great to see you. And, Mr. Secretary, I am especially happy to see you again.

Mr. Chairman, I would like to cite a statement by the American Road and Transportation Builders Association. The group study in 2014 looked at reelection rates of State legislators who voted for increases in user fees to fund transportation projects in their States, and they found that, surprisingly to a lot of folks, 95 percent of the Republicans who voted to do that in their States won their primaries. They won their general elections. They were reelected. That is a higher percentage than those who voted not to raise those user fees. On the Democratic side, it turns out, in the last year in those half-dozen or so States, 90 percent of the Democrats who voted to raise the user fees for transportation projects were reelected. That is more than the percent who voted against them.

I was Governor for 8 years, and three times during those 8 years I called for raising user fees. We created a transportation trust fund. We did not just finance it, we did not just borrow money. We actually leveraged that money to fund our improvements. But three times during my time as Governor, I said, let us raise the user fees—not by a dollar, not by half a dollar or 25 cents, but let us raise them. And I ran for reelection, and I won. I only won by 70 percent, so it did not hurt me too badly. And then in 2000, I ran for the U.S. Senate against a fellow who was the chairman of this committee, and I won there too. But when the Bowles-Simpson Commission was formed, George Voinovich and I suggested that

the Bowles-Simpson Commission—the Commission reached out and they said, give us ideas for reducing our deficits, and Voinovich and I put together a letter that said, "Why don't we raise the gas and diesel tax by a penny a month for 25 months?" A penny a month for 25 months, with 10 cents for deficit reduction, 15 cents for infrastructure.

The very next day—the very next day—it leaked. This letter leaked, and it was a news story. And one of my Republican colleagues said to me, he said, "You have just written your first 30-second commercial to be used against you when you run for reelection next time." You know what? He was right. And I won by 70 percent.

I mean, you can make these tough decisions. People want us to do stuff, and actually they are looking to us to provide, as you say, Mr. Secretary, some leadership and some courage. And if you do, you do not get punished for it. You get rewarded. You get rewarded.

And this idea that the States want us to devolve this stuff back to them—I was chairman of the National Governors Association for a while. I was a leader at the NGA for the better part of 8 years. I loved doing that job—loved doing that job. But we never came to the Congress and said, "Get out of our way. We can handle all this." We never did that.

In fact, I got a letter last month from the NGA that said just the opposite. I do not think I have the actual quote here, but maybe I do. Here is what the NGA said to us last month: "We believe that a commitment to surface transportation at all levels of government is necessary and that each level, including the Federal Government, has a crucial role to play to achieve overall success and keep America competitive in the 21st-century economy."

I live in a little State. We have New Jersey to the east, Pennsylvania to the north, and Maryland to the west. We do not just build transportation systems to meet our needs in our State. We are a region, and we are part of a country. I had a meeting this morning with a manufacturing group, and they said, "Please do something on transportation. For God's sake, do something on transportation." I said, "Give me a good example of why you need it." And we were talking about trade in that meeting, and I am a big advocate of the President's proposal, the Trans-Pacific Partnership. But this one fellow said, "We export a lot of what we make, and we have a window of time when we can get our goods or products to a port when a ship is there. We have a short window. They are in and they are out, and if we do not meet that window, then we lose out." And he said, "For God's sake, give us a chance, a fighting chance to get our goods, our products, to that port so that we can make the window."

Here is my question—enough proselytizing from me. Dr. Kile, for you, some people think that we can finance our way out of this and we do not have to fund our way out of this. And I think funding has to be part of it. And financing obviously makes some sense. People get confused when we talk about how we will just finance our way out of this. What do you think? And in the Navy, we used to talk about the straight skinny. Give us the straight skinny. Is this something we can do just by financing our way out of it?

Dr. KILE. Well, Senator, ultimately that is a choice for you and your colleagues. The way I think of funding is coming up with a set of revenues to pay for a set of highway spending that would be desirable. And the amount of that is a choice for you and your colleagues. And then financing is a way of encouraging borrowing by State and local governments or others, or the Federal Government if it is Federal spending, to pay for highways. But those are ultimately not sources of revenues and would be a call ultimately on future taxpayers or future users of the system.

Senator CARPER. All right. Mr. Chairman, could I have 30 more seconds?

The CHAIRMAN. Sure.

Senator CARPER. I just want 30 more seconds, if I could. I do not think we are going to raise the gas tax by a penny a month for 25 months. We are not going to raise it a penny a quarter for 25 quarters or even 15 quarters. At the end of the day, we may do something that the President is calling for, which is international tax reform, and out of that deem some of the money that is held overseas to be brought back and used for infrastructure. If that happens, that is terrific. But if it does not happen, we need to do something. And if someone was going to suggest a way to do something, to do it gradually over a period of time, that would include indexing the gas and diesel tax. I think at the very least we can do that, and we should do that. And the key is leadership. We need leadership here, and that includes all of us here in this room.

Thank you.

The CHAIRMAN. Thank you, Senator.

One last Senator, and then maybe I will have a question. Senator Heller?

Senator HELLER. All right. Saving the best for last, Mr. Chairman. Thanks for having this hearing, and thanks for all your hard work. I know this is not an easy topic. We have heard some great ideas here, and we have some great witnesses here also. Thanks for taking the time. I know it has been a long day for you, and I will try to finish this up on a positive note.

Myself and Senator Bennet from Colorado have been working on the chairman's subcommittee, the working group on infrastructure, and these are the conversations we have had for the last 3 months, Mr. Chairman. You can imagine the conversations going on once a week similar to this, and as hard as Senator Bennet and I and the members of that working group have worked on this, I know our staffs have worked just as hard, if not harder, to try to solve this problem.

Last month, we had Transportation Secretary Foxx in the office, also with Treasury Secretary Jack Lew, having this very conversation that we are having today. And I guess one topic that we are not talking about, quite to the fullest extent anyway, is: what are the needs? What do we actually need? We are talking, Mr. Chairman, in most discussions about maybe $10 to $12 billion a year for the next 5 or 6 years. But if you sit down with the Treasury Secretary and Secretary Foxx—and I assume the former Secretary of Transportation could give us some insight on this—what are the needs?

Let me tell you why I say that. The two largest urban areas in America that do not have a freeway between them are Las Vegas and Phoenix. Now, you can imagine the impact economically that would have for those two communities if we had enough money to put a new freeway between those two cities. The problem is, we have not added a new highway in this country for 25 years—25 years. So are the needs $10 to $12 billion a year so that we are talking $60, $70, $80 billion over 6 years? Or are the real needs $100 billion, $200 billion, or $300 billion so that we can actually solve the problems?

If we are going to go $10, $12 billion a year, all we are doing is keeping our head above water. That is it: head above water. Fix the potholes, you know, and it would do good work. It would help with some of these roads. It would help with these bridges, and I am all for it. But if we want to expand, and if we want to expand economic growth—and, Secretary LaHood, you said short-term jobs, long-term economic growth. Short-term jobs, long-term economic growth. What we need is a good transportation program here in the State.

Now, I believe that there are three things the Federal Government does, and one is defense. You know, we are going to work on defense today; I think we are going to pass out of the United States Senate our NDAA budget. There we go. We have hit national defense. But number two is infrastructure. So here we are, national defense, infrastructure, and, frankly, I would add a third, and that is a safety net for those who need it.

But we have an opportunity here in the next 45 days to make a real difference—a real difference here for this country; again, short-term jobs, long-term growth.

So I guess the question I have is: what are the real needs? Is it $10, $12 billion a year? Is it closer to $200 billion? If you talk to the administration, they say it is closer to $300 billion if you really want to expand the infrastructure we have. I will start with the CBO on this.

Dr. KILE. Thank you. Several years back, CBO did an analysis of some work by FHWA, and we found at the time that in order to maintain current surfaces, spending would need to rise by a few tens of billions of dollars per year from the current level, and that the number of projects that would be justifiable on a benefit-cost basis would be somewhat higher than that. That was based on a several-years-old analysis, but I think the sign of that answer would be the same.

Senator HELLER. Okay. I want to hear from the former Transportation Secretary.

Mr. LAHOOD. The answer is $300 to $500 billion to get us back to being number one in infrastructure, to get the road between Las Vegas and Phoenix, to do some of the other things that need to be done on the interstate system, to fix up the thousands of bridges that are in a state of bad repair, to really make progress. We just need a lot of money, and, you know, we are talking sort of around the edges here in terms of, as you put it, just keeping our head above water. It is still a lot of money.

Senator HELLER. It is. It is.

Mr. LAHOOD. But to get back to being number one, it is an enormous amount of money, $300 to $500 billion.

Senator HELLER. Okay. Mr. Moore, is it my understanding that in your testimony you said funding the Federal highway system is done? Did I understand that correctly?

Mr. MOORE. I am glad you asked this question, because there has been some misunderstanding about what I have said about the Federal interstate highway system.

First of all, I am a huge fan of what Eisenhower did in the 1950s. The Secretary is exactly right. It was a huge, huge economic boon to the country that connected us through a transportation infrastructure that was second to none in the world. So let there be no misunderstanding about that. It was an incredibly important economic development project that has paid dividends for a century.

What I am saying is, there is a big difference between the Federal Government funding interstate transportation and inner-State transportation. It is extremely inefficient for the United States Federal Government to determine what inner-State, within-State transportation projects should be funded. Those should be funded by the people who are going to use them.

With all due respect to the Secretary——

Senator HELLER. I am out of time. Mr. Moore, are you arguing against a freeway between Las Vegas and Phoenix?

Mr. MOORE. No, look, I think—I do not know——

Senator HELLER. Who would then pay for that? Who would pay for that?

Mr. MOORE. Who would pay for it? I think that—if it is something that is needed in our interstate highway system, it should be paid by Federal taxpayers. I do not know the specifics about that particular road, but I think the one disagreement that the Secretary and I have is, I do not believe we need to spend more money on infrastructure. What we need to do is spend more wisely on infrastructure, because we are wasting tens of billions of dollars a year on projects that never should have been funded and that are only funded because States are getting money from people out of State to finance them. And Virginia is a perfect example. The Silver Line, which is a huge waste of money, I am going to have to pay for that now through the tolls that I pay on the toll road. That never would have been funded except for the fact that the people out of the State of Virginia, around the country, and in your State of Nevada have to pay taxes for that. That is not fair. We have to move back to a—and, in fact, Mr. Chairman, as you determine what is the best way to fund these important infrastructure projects over the next 6 years, I hope you will keep this in mind. User pays. The single best way to make sure we are efficient with our transportation infrastructure is to make sure the user who is going to make use of these projects is the one who pays for them.

Senator HELLER. Mr. Chairman, thank you. My time has run out, but thank you for all you are doing on this particular topic.

The CHAIRMAN. Well, thank you.

Let me just end this hearing. I am very appreciative of all three of you being here. Mr. LaHood, for a while there I thought you

were going to have a heart attack. [Laughter.] I was worried about it. We need you too badly.

But let me just say this: one thing that bothers me a little bit is the administration's view of the gas tax as a source of revenue. The Obama administration has never included a gas tax increase in any of their budgets, and their current pay-for for infrastructure is essentially international tax reform, which has all kinds of problems. I am looking at it with everything I've got, but there are all kinds of problems, and it just bothers me that the administration has not sought to increase the gas tax if it is that important. But I do not want to waste your time today on that.

All I can say is this: as chairman of this committee, I intend to solve this problem. It is almost insoluble under current circumstances. All of my Democrat friends want to spend any amount of money, increase taxes and so forth, and all at the same time that we are totally out of money and are in such debt that now Joint Tax and CBO are both saying that we cannot continue the way we are going. It is a very, very serious set of problems for me, and I think it should be for everybody. I would like to solve this problem, and I am going to solve it one way or the other, if it is only on a multiyear basis. And if I can solve it on a long-term basis, I will see what I can do, though I am not the sole person who has to work on this, and I appreciate the colleagues who are helping me and continue to help me in a bipartisan way on this committee.

So, having said that, let me just once again thank the three of you for being here, for appearing here today, and all of our colleagues who have participated. As you can see, this is a very participatory committee. It drives me nuts sometimes. [Laughter.]

I think we have had an informative discussion that will give us a lot to think about as we tackle these very, very essential and important problems.

I would ask that any written questions anybody on the committee wants to give for the record be submitted by Monday, June 22nd. And with that, I want to thank you again, and——

Senator CARPER. Mr. Chairman? Could I have maybe one more minute? Would you mind?

The CHAIRMAN. I will give you another minute.

Senator CARPER. That would be great. Thanks so much.

The CHAIRMAN. I just want to let you know that I appreciate you.

Senator CARPER. Thanks, Mr. Chairman.

Thomas Jefferson used to say, "If the people know the truth, they will not make a mistake."

The CHAIRMAN. That is right.

Senator CARPER. The truth is our roads, highways, bridges, our transit systems are in bad shape and getting worse.

Another truth is, if things are worth having, they are worth paying for. Historically, we have paid for transportation through user fees. I am happy to support that. If somebody can come up with a better idea, I am happy to support that as well. At the end of the day, we need to do something.

Leadership has been described as having the courage to stay out of step when everybody else is marching to the wrong tune. The wrong tune is to do nothing. The wrong tune is to kick the can down the road like we have done 12 times over the last 5 years.

The wrong thing to do is to have stop-and-go funding for these projects. And I can tell you, as an old Governor, that if you do not know for certain the money is going to be there, we waste a huge amount of money.

And I would just say to you, Mr. Moore, when I was Governor, I vetoed a Davis-Bacon law, and I also called for increases in user fees to pay for these things. I am willing to make some tough choices to get this done. We have to get this done.

Thank you.

The CHAIRMAN. Well, thank you, Senator. I appreciate you very much. I really do appreciate having this hearing. We are going to try to solve this problem. Right now it looks almost insoluble with both Houses, but we will see what we can do.

Thanks again for being here. With that, we will recess until further notice.

[Whereupon, at 12:09 p.m., the committee was adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH

WASHINGTON—Senate Finance Committee Chairman Orrin Hatch (R–Utah) today delivered the following opening statement at a Committee hearing examining responsible and sustainable funding options for the Highway Trust Fund:

Good morning, everyone. Today, we will be discussing the challenges Congress faces as we work to provide funding for the federal Highway Trust Fund.

Right now, when it comes to highways, we find ourselves caught in a familiar dilemma, between raising taxes or cutting back on the highway program. As always, a long-term, bipartisan solution to this dilemma will be difficult to achieve and, some days, it almost seems out of reach.

However, in the past, this committee has consistently stepped up to the plate to find ways to keep the Highway Trust Fund solvent. I am confident that we can do so again.

I want to make it clear at the outset that my goal as chairman of this committee to find a way to fund a long-term infrastructure bill. Chairman Ryan over in the House said much the same thing in yesterday's Ways and Means Committee hearing.

While some friends on the other side of the aisle have suggested that it would be politically advantageous to force votes on a series of very short-term extensions, virtually everyone in Congress agrees that we need to get to the point where we are no longer facing a highway cliff every few months.

We've all heard that the gold-standard for a long-term highway bill is 6 years. That's what everyone apparently wants to see happen. Of course, according to CBO, a 6-year highway bill that maintains the current spending baseline will cost roughly $92 billion.

You don't find that kind of money by sifting through the cushions of your couch. It's going to take hard work and real policy changes to get us anywhere near that level of funding.

And, once again, that's if we maintain current spending levels. I know that some of my colleagues believe we should raise the spending baseline at the same time, which would put even more pressure on highway funding and require us to find even more offsets to keep the trust fund solvent.

Long story short, a 6-year highway bill is a great goal. I'm committed to working to get us as close to that goal as possible.

Earlier this week, some of the leaders in the Senate Democratic Caucus sent a letter to the Senate Majority Leader spelling out a list of demands for enacting a long-term surface transportation reauthorization bill. The letter purported to dictate to Senate Republicans precisely when hearings should occur in the various committees, when those committees should hold their markups, and when the final bill should come to the floor.

Of course, any specific proposals or ideas on how to fund a long-term highway bill were noticeably absent from the letter. Instead, we were treated to a discourse on how previous Congresses had dealt with highway funding and how the current Senate leadership is, in the eyes of Senate Democrats, falling short.

I don't want to spend too much time deconstructing this letter. But, I would like to point out a few simple facts.

First of all, neither party should point fingers and try to lay blame when it comes to the now-common practice of passing short-term highway extensions.

Between the 110th and 113th Congresses, when the Democrats controlled the Senate, we enacted 11 short-term highway extensions. That doesn't include the 2012 MAP–21 legislation, which, according to the Senate Democrats' letter, was the paragon for how Congress should consider and pass a long-term extension of highway funding. Of course, MAP–21 extended highway funding for only 2 years, far short of the goals that are being cited in Congress these days.

As I recall, during that same period, when Republicans were in the minority, we didn't turn the struggles over highway funding into a political football. In fact, we approached these negotiations in a spirit of cooperation as much as possible. We came to the table with specific and concrete proposals that included both revenue and spending options.

I ask unanimous consent that a letter dated December 11, 2011, from Finance Committee Republicans to then-Chairman Baucus be inserted in the record. This letter didn't dictate a path forward to Chairman Baucus. Instead, it spelled out, in detail, policy proposals that Republicans could support to address an imminent shortfall in highway funding.

This was a constructive contribution to the debate over legislation that eventually became MAP–21, which was, once again, recently cited by our friends on the other side. MAP–21 was the product of bipartisan work on the Finance Committee and was evenly split between taxpayer-friendly revenue raisers and spending reductions.

For example, it was Republicans who first advanced the idea of transferring unobligated funds from the Leaking Underground Storage Tank Trust to help pay for highways. Whatever one may think of this particular pay-for, it has become a go-to revenue source in recent highway bills, including the last two highway bills enacted under the Democrat-controlled Senate.

By contrast, one of the very few specific highway funding proposals I've seen from any of the signatories of this week's letter is the so-called repatriation holiday, which, according to the Joint Committee on Taxation, actually loses nearly $120 billion over 10 years. In other words, it is a not a serious proposal to pay for a long-term highway bill.

Put simply, the rhetoric we're hearing from many of my friends on the other side of the aisle—which was exemplified by the letter they sent earlier this week—is not helpful.

It is not constructive. It is, I suspect, intended to have a political impact, not to actually lead to good policy.

To this point, I ask unanimous consent that an article from the June 3, 2015 edition of *Politico* be entered into the record. This article, titled "Democrats Steer Towards Highway Funding Cliff," basically spells out the political strategy being employed here and even quotes members of the Senate Democratic Leadership saying that they plan to force frequent votes on highway funding to make the process as politically difficult as possible.

If we're going to address these challenges, we need people to set aside the politics. We need people to do more than just talk about a long-term highway bill. We need people to bring actual ideas to the table and to come together to work toward a real, lasting solution.

I hope that's what we can talk about during this hearing. I hope we can have a productive conversation about what solutions are out there, which ones can work, and what ideas need to be put to bed.

Once again, my hope is that we can focus on solutions that can actually work—that can actually be enacted into law to pay for highways.

For example, while I know the idea has some support, I don't think a massive increase in the gas tax could be enacted into law. Of course, anyone who believes otherwise is free to publicly correct me and to try to make their case. That's the type of discussion I want to have here today—one that will actually lead to solutions. To facilitate this discussion, we've assembled a distinguished panel of witnesses who I think will all bring a unique perspective to these issues. I look forward to hearing from all of the witnesses on today's panel.

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

December 2, 2011

The Honorable Max Baucus
Chairman
U.S. Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20515

Dear Mr. Chairman:

On Wednesday, November 9th, the Senate Committee on Environment and Public Works (EPW) reported the "Moving Ahead for Progress in the 21st Century Act of 2011," or "MAP–21." According to Chairman Boxer and Ranking Member Inhofe, this legislation would authorize the Federal-aid highway program at the Congressional Budget Office's baseline level, plus inflation, through September 2013. EPW has made it known that they expect the Senate Committee on Finance to produce $12 billion in revenues above and beyond estimates of Highway Trust Fund (HTF) receipts. The Congressional Budget Offices (CBO) month-to-month estimates of revenues generated from current fuel taxes have often provided projections of future revenue that exceed actual revenues, and outlays from the trust fund are uneven and difficult to estimate on a year-to-year basis. Though we have serious concerns as to the accuracy of current estimates of HTF revenues and outlays, we believe it is in the best interest of the nation for states to be provided the certainty guaranteed by a surface transportation reauthorization bill. In addition, we think it would be a mistake to raise fuel or other taxes given the fragile economic climate the country is currently afflicted with. We suggest the following proposals as possibilities for closing the estimated $12 billion hole in the EPW bill by a more efficient allocation of federal resources.

Rescission of funds provided for the Advanced Technology Vehicle Manufacturing Loan Program. The "Energy Independence and Security Act of 2007" established this program to support the development of advanced technology vehicles. The FY 2009 Continuing Resolution, enacted on September 30, 2008, appropriated $7.5 billion to support a maximum of $25 billion in loans. We understand that up to $3.5 billion could be rescinded for outlay savings. Given the continuing concern regarding the administration of federal loan programs, we think it is appropriate to consider this program for HTF funding.

Transfer of funds from the Leaking Underground Storage Tank Trust Fund. Funded primarily by a 0.1 cent-per-gallon tax on motor fuels, the Leaking Underground Storage Tank (LUST) Trust Fund was established in 1986 to support states and the Environmental Protection Agency in efforts to remediate leaks from underground storage tanks. Due to the fact that revenues to the LUST Fund have consistently been greater than outlays, the fund has accumulated a balance of more than $3.5 billion as of the end of fiscal year 2011, according to a report released by the Treasury Office of Inspector General. A Joint Committee on Taxation report titled "Present Law and Background Information on Federal Excise Taxes," which was released this past January, utilizes the latest CBO estimates available to show that the LUST Fund is estimated to hold cash balances that increase year-by-year through 2020, and that estimated revenues attributable only to tax revenue, as opposed to interest, are projected to be greater than estimated outlays every year. Given this information we encourage the Committee to consider a transfer of up to $3 billion from the LUST Fund to the HTF. This option is not suggested to signal a lack of support for the purpose of the LUST Fund, but rather to make the most efficient use of available resources to avoid the impending insolvency of the HTF. Additionally, for the long-term the Finance Committee should consider altering the 0.1 cent-per-gallon tax on motor fuels so that the LUST Fund is able to fulfill its intended purpose without diverting money from other important programs, such as those funded by the HTF.

Reclamation of HTF funds transferred to the Land and Water Conservation Fund (LWCF) and redirection of Outer Continental Shelf receipts. Created by the "Land and Water Conservation Fund Act" in 1964, the LWCF has received more than $573 million from the HTF since then. Though the LWCF is authorized at $900 million a year, historically less than half of that has been appropriated in

a given year. Given that the LWCF is a federal fund, as opposed to a trust fund, a transfer should be offset. Additionally, the LWCF received most of its revenues from oil and gas leasing in the Outer Continental Shelf (OCS). Given that the full $900 million annually authorized has never been appropriated, and that the unappropriated receipts balance of the LWCF is greater than $17 billion, we encourage the consideration of a diversion of a portion of future OCS revenues to the HTF. We think oil and gas revenues are an appropriate source of highway funding given that current highway funding is largely derived from excise taxes on fuels. If $250 million were to be diverted annually from the LWCF, it would be unlikely to affect current appropriations from the LWCF, provided they remain consistent with past history. A diversion of $250 million a year from the LWCF to the HTF would deposit an additional $2.5 billion in the HTF over 10 years.

Expanded oil and gas exploration in Alaska and the Outer Continental Shelf (OCS). Currently our nation is not fully utilizing available energy resources. Based on past Congressional Budget Office estimates, an expansion of oil and gas exploration and development could result in up to $5.2 billion in revenue to the federal government within a 10-year budget window. Allowing for increased oil and gas exploration would actually create new jobs, and provide additional revenues that are badly needed.

Rescission of unspent federal funds. Though we recognize that this option has not been popular with the current Senate majority and the White House, we include it as an option in order to emphasize our conviction that we do not, and should not, need to raise taxes to fund transportation infrastructure, but instead more efficiently utilize current federal resources. Informally the Congressional Budget Office has indicated that a rescission of $30 billion would be required to produce $12 billion in outlay savings over a 10-year period. Though in the past criticism of variants of this proposal have been based on the dollar amount of budget authority rescinded, the actual amount of outlays, or real spending impacted is much lower. Assuming the administration is less than enthusiastic about other ideas for filling the $12 billion hole in the EPW bill, this proposal would allow the administration to determine what federal spending it prioritizes as less or more important than surface transportation funding. A rescission of unspent federal funds was used earlier this year as an offset for an amendment agreed to by unanimous consent that repealed an expansion of information reporting enacted into law as part of health care reform. Before adoption of the amendment, a vote on a motion to waive budgetary discipline with respect to the amendment passed 81 to 17.

We also want to note that there are many ways current funding for highways could be spent more efficiently. This would allow a given amount of money to do more. Specifically, repeal or relaxation of Davis-Bacon requirements could drastically increase the efficiency of highway spending. "The Davis-Bacon Act" requires that all federally funded projects worth more than $2,000 must pay workers the "prevailing wage," which, according to a study released by the Republican staff of the Joint Economic Committee, has resulted in wages being 22 percent higher, on average, than prevailing market rates. Though modifications to Davis-Bacon requirements would not produce new revenue to be spent on infrastructure projects, modifications such as an increase in the project cost threshold, or a temporary suspension, would reduce the cost of individual projects while promoting job creation.

Mr. Chairman, we offer the suggestions in this letter as a commitment to you of our willingness to work together to provide for the creation and maintenance of transportation infrastructure that enhances our economy. However, we also note that at best, a fully funded "MAP–21" would only give us up to 2 more years to address the disparity between current transportation funding levels and revenues deposited into the HTF. It is doubtful that "MAP–21" will even be sufficient to fund surface transportation programs through the end of fiscal year 2013, as is currently promised. Our efforts now are, at best, a down payment on a necessary rethinking of infrastructure funding and financing that circumstances will demand, whether we are prepared for it or not. Finance Committee Republicans are prepared to engage in this process, and this letter represents the beginning of a long-term plan, and not the conclusion of a 2-year extension.

Sincerely,

Orrin G. Hatch
Ranking Member

Chuck Grassley

Olympia J. Snowe

Pat Roberts

John Cornyn Tom Coburn

John Thune

DEMOCRATS STEER TOWARDS HIGHWAY FUNDING CLIFF

(By Burgess Everett and Heather Caygle)

From *Politico,* June 3, 2015

Democrats are threatening an aggressive confrontation with Republicans over federal highway money, foreshadowing yet another round of brinkmanship with the GOP and raising the specter of a temporary shutdown of transportation construction sites nationwide.

House and Senate Democrats are weighing a hard-line strategy that would force Republicans to stumble through a series of painful short-term highway extensions if they don't fix the program's long-term funding woes, with the Highway Trust Fund slated to run out of money after July 31st.

Democrats have long insisted that Congress needs to put the highway fund on firm financial footing for years to come, but bipartisan antipathy to new taxes has produced a series of stopgaps and patches under the leadership of both parties.

"I think it's horrible that they're even thinking about the short-term extension," said Senate Minority Leader Harry Reid in an interview. "I think it's ridiculous."

Unless Republicans can come up with tens of billions of dollars in new tax money or spending cuts, the GOP could be forced to acquiesce to Democratic demands or risk a shutdown of infrastructure projects in the middle of the summer construction season. Still, the strategy could also blow up in Democrats' faces, as the GOP is sure to paint them as obstructionists, particularly if a shutdown comes to pass in July.

The goal, Democratic sources said, is to expose the GOP's lack of planning ahead of the July deadline and pressure them to come up with as much as $90 billion for a 6-year transportation bill, a near impossibility without politically painful tax increases. The most aggressive tactic, raised by Senate Minority Whip Dick Durbin at a private bicameral leadership meeting on Tuesday, would have Democrats filibuster any transportation funding extension lasting longer than 30 days.

Democratic leaders are now shopping the idea to their chairmen and the rank and file to test just how far the party is willing to press Republicans on an issue that's sharply divided the GOP: Finding tens of billions of dollars in spending savings or new taxes to pass a long-term highway bill.

The early returns inside the Democratic leadership meeting were positive, sources said, suggesting Democrats will force a showdown over the looming transportation cliff.

"They're nothing but trouble," said Senate Majority Whip John Cornyn. "They're just feeling a bit feisty and cantankerous."

"They're going to try to jam us on everything," added Senator John Thune of South Dakota, the No. 3 GOP leader.

Democrats have not yet settled on how much rope they are willing to give Republicans, but they believe they can score political points hammering the GOP over legislation that supports thousands of American jobs. Senator Chuck Schumer (D–NY) is expected to take the lead in the campaign, and he hopes to eventually enlist influential transportation lobbying groups to join Democrats' push.

But it's Durbin who's suggesting the toughest tack: requiring Republicans to come up with either tens of billions for a long-term bill or approximately $2 billion every month to avoid a construction shutdown. Durbin reasons Democrats can hit Republicans for running up against deadlines right after the Senate GOP allowed key surveillance laws to go dark for 2 days this week.

"We're serious about it," Durbin said. It "really keeps reminding them you can't put this off for 6 months or a year and expect us to just stand by and let you get away with it."

But Republicans may have a trump card to play if they pursue a 5-month transportation extension, the most popular length among GOP leaders. They could dangle a vote to attach the Export-Import Bank to a highway patch and dare Democrats

to block the legislation after making such a show of support for Ex-Im in last month's divisive debate over fast-track trade bills.

Democratic senators acknowledged in interviews this could complicate their plans to uniformly stand against any short-term highway bills, but attaching Ex-Im could also deplete support for a transportation bill among conservative Republicans.

Key Republicans on transportation acknowledged their party is vulnerable on the issue, and they're racing to come up with a counter-strategy. Senate Republican chairmen agreed on Tuesday in a private meeting to prioritize a long-term highway bill, which could cost $90 billion for a 6-year piece of legislation that only keeps current project funding levels going without making any increases that Democrats will also demand.

But that complicates the job of Senate Finance Chairman Orrin Hatch (R–UT) and House Ways and Means Chairman Paul Ryan (R–WI), who have to find $11 billion in new revenue just to get to the end of the year. There's a major division on Capitol Hill between Republicans who write transportation policy and those like Hatch and Ryan that actually have to come up with the money, which is very unlikely to come through new tax revenues.

Instead, Republicans suggest they can cut spending across the government to come up with the $15 billion per year that the federal highway program would need for a meaty bill.

"The shortfall is $15 billion," said Senator Ron Johnson of Wisconsin, a belt-tightening Republican up for reelection next year. "Are you telling me you can't find $15 billion of lower-priority spending?"

Johnson may be disappointed given what lawmakers have been able to accomplish. So far; it's been difficult to find enough money just to pay for the short-term patches Congress has been using.

Democrats and Republicans on the two tax-writing committees appeared close to a deal on an $11 billion extension in mid-May with the GOP even agreeing to some tax compliance measures they'd previously opposed. But that fell apart after Democrats blamed Republicans for trying to force spending cuts into the deal and lawmakers punted the fight until July.

Now, with highway funding set to dry up in less than 2 months, lawmakers seem no closer to a deal than they were in May. Several Ways and Means Republicans said highways didn't even come up during their weekly Wednesday luncheon.

Leaders of the House and Senate transportation committees have already started laying the groundwork for a year-end extension. Hatch has a "significant" amount of money squirreled away for the path, Senators said, but is keeping it close while some of his colleagues talk tough about no longer kicking the can.

"There's nothing that we'll know at the end of the year that we don't know right now. And I'll be really disappointed if we go beyond the end of July without a long-term highway bill," said Senator Roy Blunt of Missouri, a GOP leader. "My view is we should engage."

Hopping from extension to extension also seems to be taking its toll on rank-and-file members. Representative Reid Ribble (R–WI)—one of 12 House Republicans to vote no on the most recent patch—said he's lobbying his colleagues to oppose any more short-term deals that allow lawmakers to avoid solving the fundamental imbalance between revenue shortfalls from the gas tax and the more than $50 billion Congress seeks to spend on transportation annually.

"This is not rocket science, it's mathematics," Ribble said.

Those divisions and the lack of a public strategy for dealing with infrastructure have Democrats thinking they have Republicans right where they want them.

"They have to govern," Durbin said of Republicans' highway plans.

"It's a good issue for [Democrats]," conceded one Republican intimately involved in transportation planning.

The impact of Capitol Hill inaction on the highway program has already started to ripple across the country. Seven state DOTs have canceled or delayed construction projects worth more than $1.6 billion this year according to a tally kept by the American Road and Transportation Builders Association. A further 12 states have warned they might be forced to take similar action.

With Republicans overseeing highway funding in both chambers of Congress for the first time in more than 8 years, their vows to govern responsibly are about to be tested. And no one expects the Democrats to be particularly helpful.

John Bresnahan contributed to this report.

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The Road to Sustainable Highway Spending

May 13, 2015

Introduction

The current legislation authorizing highway and mass transit spending is scheduled to expire at the end of May, and only a few months later the Highway Trust Fund will run out of reserves. Extending the life of the trust fund through the end of the year will require $11 billion, and extending it for a decade will require nearly $175 billion.

For over 50 years, federal highway spending had been financed with dedicated revenue, mainly from the gas tax. Since 2008, however, dedicated revenues have fallen short of spending, and policymakers have covered the difference with about $65 billion of general revenue transfers—often without truly paying for the cost. Those transfers are projected to run out before the end of the year, disrupting infrastructure spending across the county.

To maintain important infrastructure investments and avoid adding an additional $175 billion to the debt, Congress must identify responsible solutions to close the shortfall in the Highway Trust Fund. Fortunately, Congress has many options at its disposal to do so (see the appendix).

One solution that has recently gained popularity would rely on revenue generated from business tax reform to close some of the $175 billion gap. While this would be a sensible solution, tax reform will not pass before the current highway bill expires, and there is a risk it will not pass at all this year.

CRFB's plan, *The Road to Sustainable Highway Spending,* would encourage the passage of tax reform while also ensuring the Highway Trust Fund remains adequately funded regardless of tax reform's fate. The plan would:

1. **Get the Trust Fund Up to Speed ($25 billion)** by paying the "legacy costs" of pre-2015 obligations with savings elsewhere in the budget.

2. **Bridge the Financing Gap ($150 billion)** with a default policy to raise the gas tax by 9 cents after a year and limit annual spending to income.

3. **Create a Fast Lane to Tax Reform** to help Congress identify alternative financing before the gas tax increase and spending limits take effect.

The Road to Sustainable Highway Spending would ensure the Highway Trust Fund remains solvent while giving policymakers flexibility to decide the level of highway spending and how it would be paid for. Our plan represents just one of many possible solutions. Importantly, any solution must responsibly address the gap between spending and revenue without resorting to gimmicks or deficit-financed transfers.

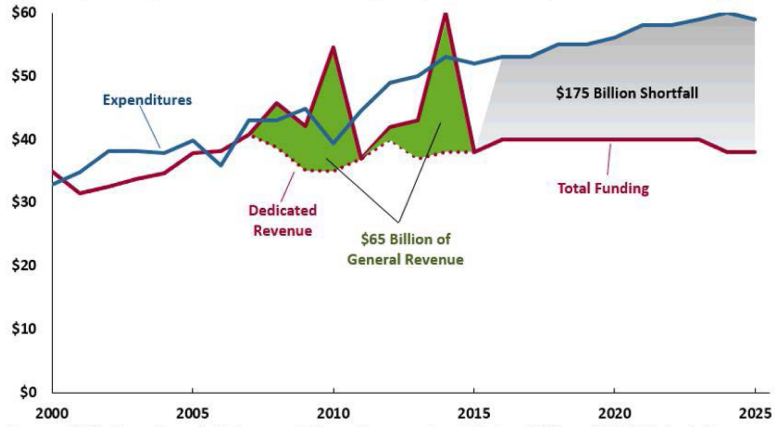
Background

Since 1956, most federal transportation infrastructure has been paid for out of the Highway Trust Fund.[1] Transportation is financed from an 18.4 cent per gallon gasoline tax, 24.4 cent diesel tax, and several smaller revenue sources. Since 2008, highway spending has continuously exceeded dedicated revenue. Nominal outlays have continued to rise modestly faster than inflation, while revenue has remained largely

[1] The Highway Trust Fund has two separate accounts: one for highways and one for mass transit. Technically, they have separate but related and intertwined financing.

flat due to fuel efficiency improvements and the lack of inflation adjustment for the gas and diesel taxes.

Fig. 1: Spending and Revenue in the Highway Trust Fund (Billions of Dollars)



Source: U.S. Department of Transportation, Congressional Budget Office, CRFB Calculations

This year, for example, federal highway spending will total $52 billion while dedicated revenue will equal only $39 billion—leaving a $13 billion deficit. That annual shortfall will grow to $23 billion by 2025. While general revenue has helped cover this deficit since 2008, the funds from these transfers are projected to run low by this summer, disrupting reimbursements for existing projects and putting new projects on hold.

Policymakers must identify $11 billion to ensure adequate funding through the end of this year and **roughly $175 billion to maintain highway spending at current levels over the next decade.**

This is the equivalent of a 14 cent gas and diesel tax increase,[2] a 37 percent spending reduction, or a 3-year delay of new projects. Time for action is running short. We explain many of the issues surrounding the Highway Trust Fund in more detail in our 2014 report, *"Trust or Bust: Fixing the Highway Trust Fund."*

Existing Plans to Fund Highway Spending

Fortunately, lawmakers have plenty of options to deal with the trust fund shortfall. In *Trust or Bust,* we identified four different types of options: reductions in federal highway spending, increases in existing revenue sources, new revenue sources, and general tax increases or spending cuts to offset general revenue transfers.

Since that report, a number of policymakers and outside groups have proposed to increase or index for inflation the federal gas tax. A bipartisan proposal introduced in the House this April, for example, would index the gas tax to inflation and put in place automatic tax increases in 2017 and 2020 to close the shortfall if lawmakers do not otherwise act.

An alternative proposal that appears to have growing traction would use revenue from business tax reform to close some of the funding gap. Both President Obama and former House Ways and Means Committee Chairman Dave Camp (RMI) suggested using a deemed repatriation tax to finance a general revenue transfer. Current House Ways and Means Committee Chairman Paul Ryan (R–WI) and Senate Finance Committee Chairman Orrin Hatch (R–UT) have also suggested tax reform as a vehicle for highway funding.

Within tax reform, there are alternatives to funding highway spending, including "deemed repatriation," the use of temporary revenues from changing cost-recovery schedules, or more permanent changes to dedicated revenue sources such as the gas

[2] This paper often describes the federal taxes on gasoline and diesel fuel together as "the gas tax." It also describes the "net revenue" raised, subtracting potential payroll and income tax losses.

tax. With the right design, such reform would allow for continued infrastructure investment while also promoting economic growth by creating a more competitive tax code.

However, tax reform is not far enough along to pass in Congress before the highway bill expires at the end of May, is highly unlikely to be enacted before additional highway funding needs arise this summer, and might not pass at all this year due to the political challenges associated with designing and enacting major tax reform legislation. Relying solely on tax reform to fund the Highway Trust Fund could put its finances at risk.

Principles for Reform

Although lawmakers have many options to address the Highway Trust Fund shortfall, any responsible solution should abide by three principles:

1. **Act quickly to ensure adequate funding.** Congress must extend the highway bill this month and provide sufficient funding to avoid disruptions this summer.

2. **Offset any general revenue transfers with real savings.** While at least a short-term general revenue transfer is likely, it would be irresponsible to enact a transfer without equal-sized spending cuts or revenue increases to offset the cost. Using gimmicks such as pension smoothing undermine the trust fund's credibility.

3. **Close the structural imbalance.** Lawmakers cannot rely on general revenue transfers in perpetuity and must ultimately bring highway spending and dedicated revenue in line. Plans should close this gap, and any that fail to do so should acknowledge that further action will need to be taken in the future.

The Road to Sustainable Highway Spending

The Road to Sustainable Highway Spending acknowledges interest in using tax reform as a vehicle to fund the highway program, and facilitates efforts to do so. But rather than relying on tax reform as the only strategy, the plan ensures the Highway Trust Fund remains permanently solvent regardless of tax reform's ultimate fate. It also gives future Congresses both the authority and responsibility to decide how much the federal government should spend on infrastructure and how it will pay for such costs.

The Road to Sustainable Highway Spending has three parts. First, it would enact a fully-offset general revenue transfer to pay off "legacy costs" from past obligations made in 2014 and earlier. Second, it would ensure highway spending and revenue remain in line by extending the current highway bill for 2 years, scheduling a 9-cent gas tax increase at the end of the first year, and limiting future highway spending to trust fund income. Finally, the plan would create a "fast lane" process for tax reform, allowing Congress to identify alternatives or supplements to the scheduled gas tax increase before it takes effect.

Fig. 2: Summary of *The Road to Sustainable Highway Spending*

Policy	2015-2025 Savings
Get the Trust Fund Up To Speed	**$25 billion**
Reduce and reform agricultural subsidies	*$15 billion*
Extend mandatory sequester and existing aviation security fees through 2025	*$10 billion*
Bridge the Financing Gap	**$150 billion**
Schedule a 9-cent gas tax increase after one year	*$100 billion*
Continue highway bill for two years at current levels, then limit future annual contract authority to prior-year revenue plus interest collection	*$50 billion*
Create a Fast Lane to Tax and Transportation Reform	**n/a**
Encourage tax reform to replace or supplement gas tax increase	*
Encourage future highway bills to make tax and spending decisions together	*
Total, New Highway Trust Fund Financing	**$175 billion**

*Decisions may change timing and level of revenue and spending, but should have little overall impact on trust fund shortfall since new revenue would either pay for higher spending, lower taxes, or both.
Source: CBO, CRFB calculations

Get the Trust Fund Up To Speed—$25 billion

The Highway Trust Fund has about $25 billion of "legacy costs" from underfunded spending authorized prior to this year that is scheduled to be spent in future years. Under the current funding mechanism, future gas taxes (and other dedicated

sources) would be required not only to pay for recent and new infrastructure projects, but also the projects established by prior Congresses.

The Road to Sustainable Highway Spending would fund legacy costs out of general revenue in hopefully the final transfer to the Highway TrustFund. The plan would offset this transfer over 10 years with $15 billion from reducing and reforming agricultural subsidies and $10 billion from extending the mandatory sequester and mandatory designation of aviation security fees through 2025. Other offsets could also be used.

Bridge the Financing Gap—$150 billion

Enact a Two-Year Highway Bill at Current Levels. The current highway bill expires at the end of May. *The Road to Sustainable Highway Spending* would continue the bill for 2 additional years, keeping nominal spending at that level over this time period. Alternatively, a 2-year highway bill could adjust spending levels in various areas, keeping top-line number the same. Savings could be achieved by expanding the use of tolls, reducing spending in lower priority areas like hiking trails, reforming contracting rules, leveraging private and state funding to reduce direct federal costs, or other changes.

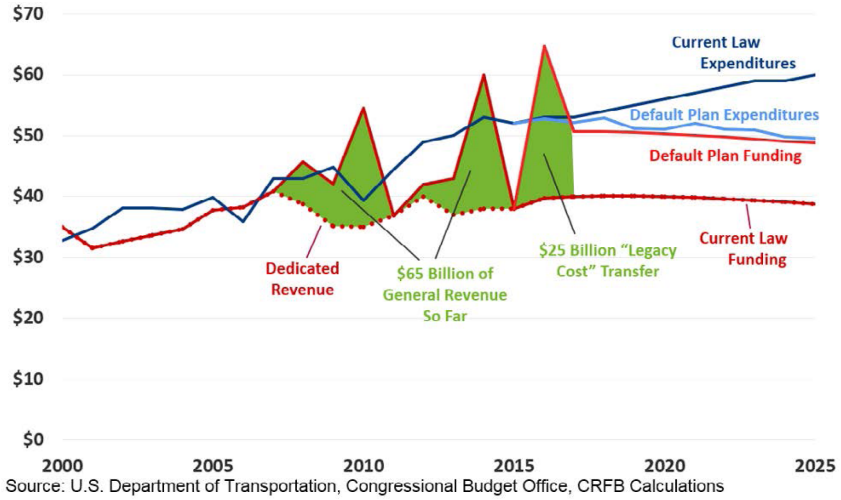
Schedule a 9-Cent Gas Tax Increase After 1 Year. Since 1993, the federal gas tax has totaled 18.4 cents per gallon (24.4 cents for diesel fuel) and has not been adjusted for inflation. Although *The Road to Sustainable Highway Spending* would give Congress the opportunity to identify a funding source of its choice, it would schedule a 9-cent gas tax increase by default—about adjusting the tax for past inflation—to take effect in June 2016. This would bring revenue up to current spending and raise $100 billion through 2025.[3]

Limit Future Highway Spending to Income. Although a 9-cent gas tax increase would bring revenue up to current spending, revenue would still fail to keep pace with inflation. To ensure future highway spending does not grow faster than gas tax revenue, *The Road to Sustainable Highway Spending* would limit future annual spending levels—as measured by contract authority—to revenue plus interest collection in the prior year. The plan would also change the budgetary treatment of highway spending so it is accounted for entirely on the mandatory side (for more details, see Box 1 of *Trust or Bust*). These two changes would prevent future trust fund shortfalls by requiring Congress to live within its means and would greatly reduce the likelihood of another general revenue transfer.

Technically, this change would hold spending to current revenue, roughly approximating a spending freeze that would require policymakers to either forego inflation adjustments or else cut lower priority spending. As a practical matter, it would require and empower future lawmakers to either increase revenue, reduce spending (relative to an inflation adjustment), identify alternative sources of financing, or some combination. In concert with the 2-year freeze of highway spending described above, this policy would save about $50 billion over 10 years.

[3] Note that this policy would generate about $100 billion over 10 years net of income and payroll tax losses. Actual revenue to the trust fund would be significantly higher. This excess revenue could be used to schedule "reverse general revenue transfers" to repay past un-offset transfers from general revenue.

Fig. 3: Spending and Revenue Under *The Road to Sustainable Highway Spending*, Assuming Default Tax and Spending Policies Remain in Effect (Billions of Dollars)



Source: U.S. Department of Transportation, Congressional Budget Office, CRFB Calculations

Create a Fast Lane to Tax and Transportation Reform

Encourage Tax Reform. Although *The Road to Sustainable Highway Spending* would schedule a future gas tax increase and constrain spending, it would give policymakers ample time and opportunity to identify an alternative revenue source to replace some or all of the gas tax increase and/or allow for increased spending up what whatever level of infrastructure investment policymakers believe appropriate. Specifically, the plan would create a special process for the passage of legislation that both reforms the tax code and provides funds for the Highway Trust Fund, so long as that plan doesn't double-count the highway money and otherwise abides by statutory pay-as-you-go (PAYGO) rules.

One option which appears to be gaining support would be to dedicate one-time revenue from tax reform—either from "deemed repatriation" or the temporary transition revenue from certain accounting or cost-recovery changes—to the Highway Trust Fund. Such a transfer could temporarily reduce or replace the scheduled gas tax increase, pay for increases in infrastructure spending, or both. ***Importantly, though, when the scheduled transfer ran out, the gas tax increase would go into effect without further legislation.***

A better alternative would be for tax reform to permanently increase dedicated revenue going toward the Highway Trust Fund—for example by reforming the gas tax[4] or creating a new source of revenue—in order to permanently replace the scheduled 9-cent gas tax increase and/or increase spending levels. Making such changes as part of a broader tax reform would make it easier for policymakers to address distributional concerns and provide transition relief if necessary.

Encourage Future Highway Bills to Make Tax and Spending Decisions Together. Currently, lawmakers determine highway funding in a disjointed and haphazard way by settling on spending levels and then providing ad hoc general revenue transfers. Instead, revenue and spending decisions should be made together. New highway bills should either set spending based on projected revenue levels or increase revenue levels to align with desired spending. By bringing revenue up to current spending levels and then setting strict caps to limit future spending to income, *The Road to Sustainable Highway Spending* would encourage such decision making. Further changes in the legislative process could reinforce this practice.

[4] Among the options, the gas tax could be increased, indexed to inflation, replaced with a percentage tax, or replaced with a variable tax to add stability to the price of gasoline.

Conclusion

A lasting solution to the Highway Trust Fund's financing issue has evaded lawmakers for several years now, and the series of short-term patches often financed by gimmicks have not been helpful for transportation policy or the budget. However, recent developments such as lower gas prices and a number of proposals involving transition revenue from tax reform suggest that a bipartisan highway solution may be possible this year.

The Road to Sustainable Highway Spending combines a one-time general revenue transfer, a 2-year highway bill, a future scheduled gas tax increase, and a requirement that highway spending remain at or below income in order to ensure the short- and long-term solvency of the Highway Trust Fund. At the same time, it creates a "fast lane" to tax and transportation reform to give Congress and the President the authority and responsibility to decide how highway spending will ultimately be paid for and at what level.

Importantly, this plan represents one of many different possibilities, as can be seen in the appendix, to solve the Highway Trust Fund's structural imbalance. Regardless of how it is done, it is important for lawmakers to come up with a real solution rather than continue to paper over the shortfall with budget gimmicks and deficit spending. A real solution will provide much more certainty for surface transportation projects across the country and improve the budget outlook.

Appendix

The policies contained in *The Road to Sustainable Highway Spending* are certainly not the only policies available to fund surface transportation spending. In this appendix, we provide several other options to close the Highway Trust Fund shortfall. Broadly speaking, we divide the options into four categories: reductions in federal highway spending, increases in existing revenue sources, new revenue sources, and general tax increases or spending cuts to offset general revenue transfers. As this appendix and the body of the report show, there is no shortage of options to make the Highway Trust Fund solvent.

Table 1: Options to Reduce Surface Transportation Spending

Policy	10-Year Savings	Percent of Shortfall Closed		
		4-Year	6-Year	10-Year
Freeze spending at 2015 levels for 10 years	$45 billion	10%	15%	25%
Freeze spending at 2015 levels for 2 years	$15 billion	8%	8%	9%
Reduce spending to 2008 levels	$90 billion	50%	55%	55%
Reduce spending by 37 percent	$175 billion	95%	105%	100%
Limit spending to prior year's revenue	$155 billion	70%	80%	85%
Eliminate new commitments for 1 year	$50 billion	85%	60%	30%
Eliminate new commitments for 2 years	$105 billion	165%	115%	60%
Eliminate funding for capital investment grants	$15 billion	7%	9%	10%
Reduce Highway Safety Improvement funding to 2012 levels	$10 billion	6%	6%	7%
Reduce CMAQ program by 50%	$10 billion	5%	6%	6%
Eliminate funding for alternative transportation	$10 billion	5%	5%	5%
Return TIFIA program funding to 2012 levels	$10 billion	4%	4%	5%
Repeal Davis-Bacon Act for highway projects	$5 billion	3%	4%	4%
Eliminate funding for federal lands transportation	$5 billion	1%	2%	2%
Improve grants to focus on high-priority spending	N/A	N/A	N/A	N/A

Table 1: Options to Reduce Surface Transportation Spending—Continued

Policy	10-Year Savings	Percent of Shortfall Closed		
		4-Year	6-Year	10-Year
Leverage state. local, and private spending	N/A	N/A	N/A	N/A

Sources: CBO, Federal Highway Administration, CRFB calculations.
All numbers are rounded and calculated very roughly by CRFB based on data from a variety of sources.
Percentages represent average effect over the time period and do not address timing issues.

Table 2: Options to Increase Current Sources of Highway Revenues

Policy	10-Year Savings	Percent of Shortfall Closed		
		4-Year	6-Year	10-Year
Index gas and diesel fuel taxes to inflation	$40 billion	12%	17%	24%
Raise gas and diesel fuel taxes by 14 cents	$175 billion	134%	124%	100%
Raise fuel taxes by 11 cents and index to inflation	$175 billion	128%	120%	101%
Raise gas tax to match diesel tax	$55 billion	45%	40%	32%
Eliminate special exemptions from the gas tax	$15 billion	11%	10%	9%
Increase truck and trailer tax from 12% to 20%	$25 billion	17%	16%	13%
Double heavy vehicle use tax	$10 billion	7%	7%	6%
Double truck tire tax	$5 billion	4%	3%	2%
Repeal special tax rates on certain fuels	$20 billion	13%	12%	10%

Sources: CBO, National Surface Transportation Infrastructure Financing Commission, and CRFB calculations.

Table 3: Options for New Sources of Revenue

Policy	10-Year Savings	Percent of Shortfall Closed		
		4-Year	6-Year	10-Year
Institute 1% motor fuel sales tax	$55 billion	40%	37%	32%
Impose $1 per barrel tax on oil	$45 billion	30%	30%	30%
Impose $10 per-tire tax on car tires	$30 billion	15%	15%	15%
Impose 2% vehicle sales tax	$15 billion	12%	11%	10%
Institute $20 fee on containers in U.S. ports	$10 billion	5%	5%	5%
Institute 0.05 cent per ton-mile tax on freight	$20 billion	12%	12%	12%
Apply 3.5% surcharge to customs duties	$10 billion	7%	7%	6%
Impose vehicle registration fee of $10 on light vehicles and $20 on trucks	$35 billion	20%	20%	20%
Institute $10 driver's license surcharge	$20 billion	12%	12%	12%
Impose 0.5 cent-per-mile VMT fee	$150 billion	85%	85%	85%
Replace current taxes with 1.9 cent-per-mile VMT fee	$175 billion	100%	100%	100%
Replace current taxes with carbon tax (rebate ~50%)	$175 billion	100%	100%	100%
Replace gas tax with a percentage tax	Dialable	N/A	N/A	N/A

Table 3: Options for New Sources of Revenue—Continued

Policy	10-Year Savings	Percent of Shortfall Closed		
		4-Year	6-Year	10-Year
Replace gas tax with flexible tax to help stabilize gas prices	Dialable	N/A	N/A	N/A

Sources: National Surface Transportation Infrastructure Financing Commission and CRFB calculations.
Numbers are rounded and calculated very roughly by CRFB.
Estimates are intended to include the effect of income and payroll tax offsets under the assumption that revenue losses are compensated with reverse revenue transfers.
Percentages represent average effect over the time period and do not address timing issues.

Table 4: Options to Offset a Transfer of General Revenue

Policy	10-Year Savings	Trust Fund Extension
Dedicate one-time ''deemed repatriation'' tax to the HTF	$125+ billion	8+ years
Dedicate temporary transition revenue from repealing LIFO to the HTF	$90 billion	6 years
Repeal certain oil and gas tax preferences †	$35 billion	30 months
Eliminate tax exclusion for new private activity bonds	$30 billion	24 months
Require filers to have a SSN to file for a refundable child tax credit	$20 billion	16 months
Eliminate Amtrak subsidies *	$15 billion	12 months
Eliminate ''Capital Investment Grants'' for the rail system *	$15 billion	12 months
Reduce farm subsidies	$15 billion	12 months
Close Section 179 ''luxury SUV loophole''	$10 billion	8 months
Reduce Strategic Petroleum Reserve by 15 percent	$10 billion	8 months
Increase sequestration by $1 billion/year	$10 billion	8 months
Repeal tax deduction for moving expenses	$10 billion	8 months
Clarify worker classification	$10 billion	8 months
Prevent ''double dipping'' between unemployment and Social Security Disability	$5 billion	4 months
Allow drilling in ANWR and the Outer Continental Shelf	$5 billion	4 months
Reduce federal research funding for fossil fuels and nuclear energy *	$5 billion	4 months
Repeal or phase-out tax credit for plug-in electric vehicles	$1.5–$5 billion	1–4 months
Require inherited IRAs to be paid out within 5 years	$5 billion	4 months
Extend current Fannie/Freddie fees after 2021	$4 billion/year	3 months/year
Extend customs fees through 2025	$4 billion	3 months
Deny biofuels credit for black liquor (retroactively)	$3 billion	3 months
Increased mortgage reporting	$2 billion	~2 months
Require the IRS to hire private debt collectors	$2 billion	~2 months
Make coal excise tax permanent	$1.5 billion	~1 month
Clarification of statute of limitations on overstatement of basis	$1.5 billion	~1 month
Make Travel Promotion Surcharge permanent	$1 billion	~1 month

Table 4: Options to Offset a Transfer of General Revenue—Continued

Policy	10-Year Savings	Trust Fund Extension
Close the ″gas guzzler″ loophole	$1 billion	~1 month
Enact federal oil and gas management reforms in the President's Budget	$1 billion	~1 month
Revoke passports for seriously delinquent taxpayers	<$0.5 billion	<1 month

Sources: CBO, OMB, JCT, and CRFB calculations.
All numbers are rounded and calculated by CRFB based on a variety of sources.
*These discretionary changes would need to be accompanied by reductions in the discretionary spending caps.
†Includes expensing for exploration and development as well as the ''percentage depletion allowance.''

PREPARED STATEMENT OF JOSEPH KILE, PH.D., ASSISTANT DIRECTOR FOR MICROECONOMIC STUDIES, CONGRESSIONAL BUDGET OFFICE

Chairman Hatch, Senator Wyden, 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 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.

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 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.

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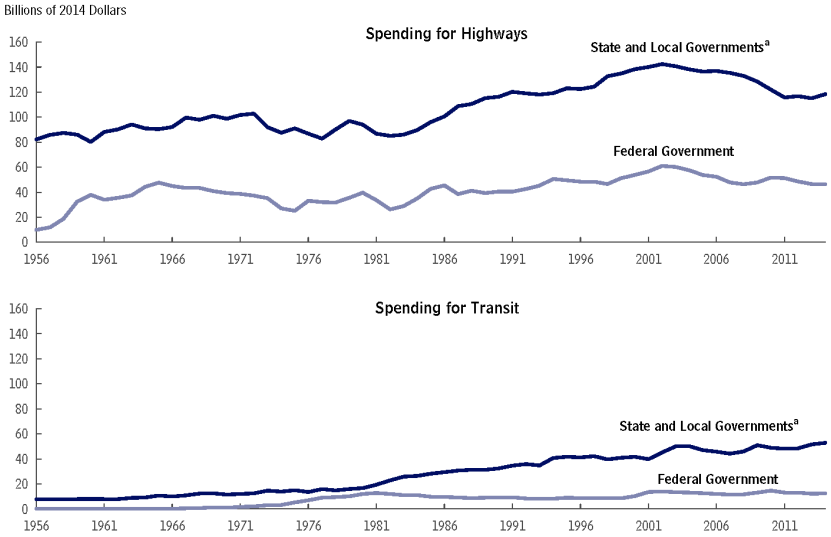
[1] For more information on infrastructure spending, see Congressional Budget Office, Public Spending on Transportation and Water Infrastructure, 1956 to 2014 (March 2015), *www.cbo.gov/publication/49910.*

[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.)

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.

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.

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.

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 SAFETE–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 intragovernmental 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.

[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.

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.

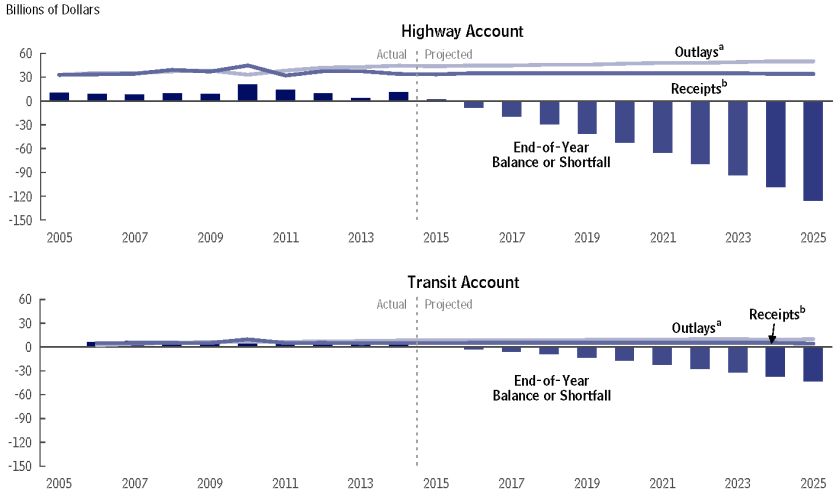
[c] The Moving Ahead for Progress in the 21st Century Act and the Highway and Transportation Funding Act of 2014 required certain intragovernmental transfers, mostly from the U.S. Treasury's general fund, to the Highway Trust Fund in 2014. Those amounts totaled about $22 billion. CBO's baseline reflects 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 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.

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.

[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, *https://www.oig.dot.gov/library-item/29434.*

[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.

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 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 3 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 3 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 5 years' worth of taxes, at about $5 billion per year, would 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.

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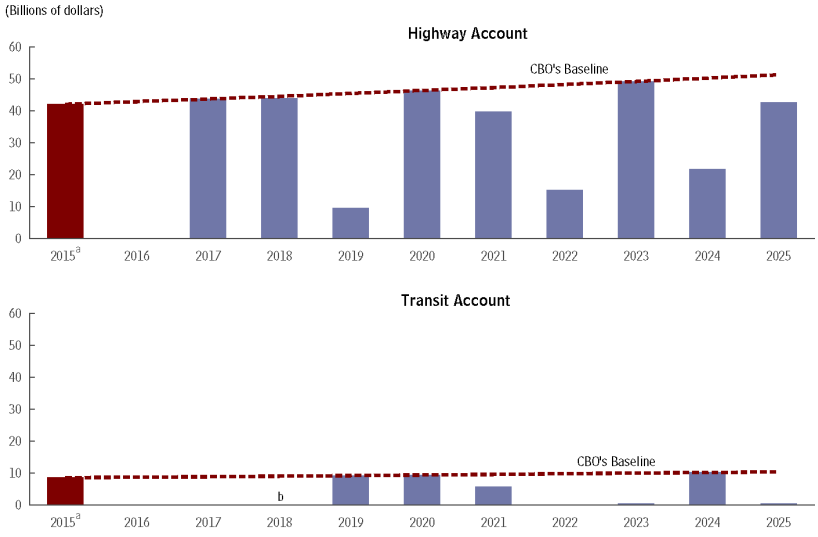
[6] For more information, see Congressional Budget Office, *How Would Proposed Fuel Economy Standards Affect the Highway Trust Fund?* (May 2012), *www.cbo.gov/publication/43198.*

[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.

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 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.

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.

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 peo-

ple'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.

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

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[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/22059.*

[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.

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 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.

[12] For more information, see Congressional Budget Office, letter to Hon. 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.*

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.

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

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

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 4 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.

[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.*

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]

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 receiveda 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 polices (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

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[15] See Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2014–2018,* JCX–97–14 (August 2014), p. 33, *https://www.jct.gov/publications.html?func=startdown&id=4663*; Internal Revenue Service, Statistics of Income, "Table 2. Long-Term Tax-Exempt Governmental Bonds, by Bond Purpose and Type of Issue," *www.irs.gov/uac/SOI-Tax-Stats-Tax-Exempt-Bond-Statistics;* and Thomson Reuters, "Transportation Highlights," The Bond Buyer Yearbook (various issues).

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 claimingthe 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,

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[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*.

[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.

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 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

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[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://www.fhwa.dot.gov/legsregs/directives/notices/n4510783.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.

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 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 pro-

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[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.*

gram 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 5 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 5 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 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 re-

[25] Randall Jensen, "Tollway Exits Chapter 11: TIFIA Ends Up Taking a Haircut," Bond Buyer (May 6, 2011), *http://tinyurl.com/3fn8nvj.*

sulting 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 "border-line 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.

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[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		Public			
					Debt	Equity	TIFIA Program	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
Port 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		Public			
			Debt	Equity	TIFIA Program	Qualified Private Activity Bonds [a]	Other [b]	
I–635 LBJ 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.

Question Submitted for the Record to Joseph Kile

Question Submitted by Hon. Orrin G. Hatch

Question. Dr. Kile, as funding from the Highway Trust Fund has become more unstable and authorizations have been for shorter periods of time, there has been more interest from States, localities, and many Members of Congress in financing mechanisms. I am talking about things like tax-exempt bonds, and infrastructure banks, and other instruments where the intention is to get private money invested in public infrastructure. Dr. Kile, to what extent, if at all, can financing options be thought of as substitutes for money from the Highway Trust Fund? Does relying more on financing reduce the need of the federal government, or any government, to come up with the money to produce infrastructure?

Answer. The money in the Highway Trust Fund comes from taxes on gasoline, ethanol-blended fuels, and diesel fuel; other transportation-related taxes; and a very small amount of interest that is credited to the fund. In recent years, the Highway Trust Fund has also received transfers from the general fund of the Treasury. But other sources of revenues, such as state taxes and user fees, also pay for transportation projects; and if financing options increased theextent to which those revenues paid for transportation projects, those options could be considered substitutes for money from the Highway Trust Fund. Many of those financing options—such as loans that are made or guaranteed by the federal government and tax-preferred borrowing by state and local governments or the private sector—impose some costs on the federal government but do not necessarily draw upon the resources of the Highway Trust Fund.

For example, tax-exempt bonds (which pay interest that is not subject to federal income tax) can be issued to finance the functions of state and local governments or, in the case of qualified private activity bonds, certain types of projects undertaken by the private sector. Another, more recently developed type of tax preference for infrastructure financing is associated with tax credit bonds. Most of the costs of paying off tax-exempt and tax credit bonds are borne by state and local governments or the private sector, but some of them are transferred to the federal government, in the form of either forgone Federal tax revenues or, in the case of direct-pay tax credit bonds, a federal outlay. But those costs are not attributed to the Highway Trust Fund. The support offered for surface transportation by most proposed infrastructure banks would not differ substantially from the loans and loan guarantees already offered by the Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. 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. Depending on how the program was structured, the resulting costs might not be attributable to the Highway Trust Fund.

Financing is a mechanism for making future tax or user fee revenues available to pay for projects sooner; it is not a new source of revenues. Ultimately, money that is borrowed has to be repaid with some future source of revenues. So borrowing to finance highway projects can augment the funds available for such projects in the short term, 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.

PREPARED STATEMENT OF HON. RAY LAHOOD,
SENIOR POLICY ADVISER, DLA PIPER

Chairman Hatch, Ranking Member Wyden, and members of the committee, thank you for the opportunity to testify before you on the challenges facing the nation's Highway Trust Fund. This hearing is quite timely as the Highway Trust Fund is again facing insolvency sometime in August.

I am here today as a co-chair of Building America's Future, an organization that was co-founded by former Pennsylvania Governor Ed Rendell, former New York Mayor Mike Bloomberg and former Governor Arnold Schwarzenegger. Building America's Future represents a diverse and bipartisan coalition of state and local elected officials working to advance infrastructure investment to promote economic growth, global competitiveness and better quality of life for all Americans.

Whether it's on our roads, in the air, in our ports or on our rails—our nation's infrastructure is falling apart. That is causing us to lose our economic competitiveness and to negatively impact our quality of life.

The nation's roads are essentially one big pothole, and the tens of thousands of bridges that millions of Americans drive across every day are in dire need of repair.

Forty-two percent of our major roadways are congested causing delays and inefficiencies for commerce and the average driver. The Texas Transportation Institute's 2012 Urban Mobility Report states that traffic congestion had Americans wasting time and 2.9 billion gallons of fuel at a cost of $121 billion—that equates to $818 per commuter. And it's no wonder. From 2000 to 2012 the nation's population grew by 11.6 percent and the vehicle fleet increased by 10.7 percent but the road system has grown by 4 percent.

When it comes to air travel our skies are approaching gridlock and our World War II-era air traffic control system can't keep pace with the demand. According to the U.S. Travel Association, within the next decade, 25 of the nation's top 30 airports will suffer the same level of congestion as the day before Thanksgiving at least 2 days each week.

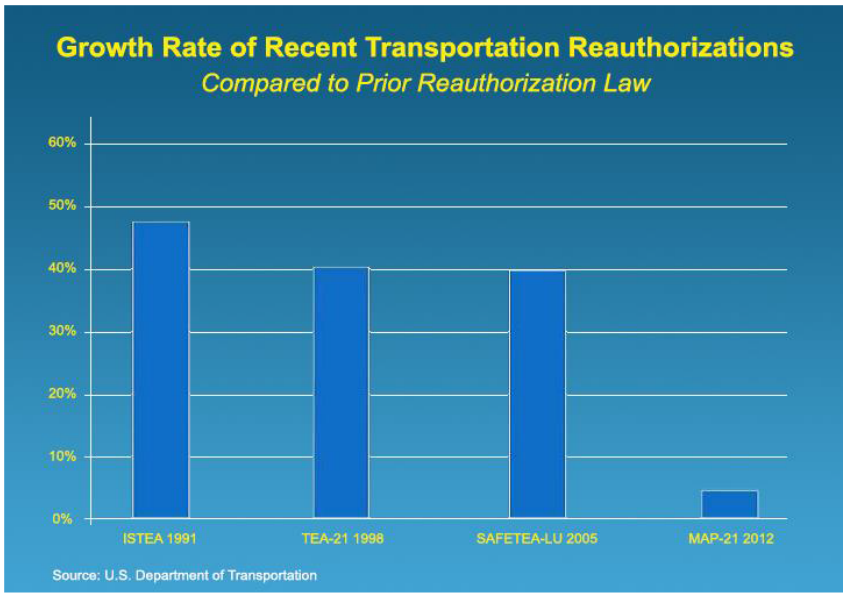
Despite a large surplus in the Harbor Maintenance Trust Fund, the busiest U.S. harbors are under-maintained. The U.S. Army Corps of Engineers estimates that full channel dimensions of the nation's busiest 59 ports are available less than 35 percent of the time. And only two of our East Coast ports are deep enough to accommodate the post-Panamax ships that will become the norm when the newly widened Panama Canal opens.

Although we still don't have all of the answers to the cause of the horrific derailment of the Amtrak train near Philadelphia last month, it serves as a wake-up call

on the critical importance of properly maintaining our infrastructure—whether it be rails, roads or bridges. The safety of all Americans depends upon it.

These challenges are immense but not impossible. Building America's Future is calling on Congress to pass a long term and sustainable bill that does much more than provide small inflationary increases in funding. To do that it's going to take all of us working together—Republicans with Democrats; the House and the Senate; and both ends of Pennsylvania Avenue. It's also going to take vision and courage. Vision to craft a long-term strategic plan that is based on measurable economic results and courage to make the tough choices to pay for it.

The next bill must include a growth rate more aligned to ISTEA, TEA–21 and SAFETEA–LU. The growth rate in each of these bills was on average 40 percent higher than what was in MAP–21. This chart prepared by the U.S. Department of Transportation clearly demonstrates the growth rate from these reauthorizations:



According to the American Society of Civil Engineers, failing to provide funding levels above the baseline by 2020 would have dire consequences. The impact on a family's budget would be $1,060 and American businesses and workers would pay a heavy price in that 877,000 jobs would be lost and transportation costs would increase by $430 billion.

It is past time for Washington to step up and produce a long term transportation plan that is robust and sustainable. To do otherwise would amount to putting a Band-Aid on a gunshot wound. America needs a strategic plan with a vision—not another short term bill that isn't even enough to keep filling the potholes.

A level-funded bill will not have what it takes to maintain and modernize our roads, bridges and transit systems. In short, we won't be able to build—or rebuild—to keep Americans moving safely and reliably around the country.

For examples of what has been working I would encourage the committee to take a look at what has been happening in the States. Governors, mayors and State legislators have been watching the gridlock in Congress with growing alarm. They are concerned that the level of funding they have traditionally received from Washington has been shrinking and will continue to do so without a change in vision and courage in Washington.

As a result, many of them have made the hard choices to propose legislation to increase the fuel tax, replace the gas tax with a sales tax on fuels, or referenda allowing voters to increase local sales taxes.

This has been occurring in red, blue and purple states alike.

Over the past 3 years 14 states have successfully increased either their fuel or sales taxes including Wyoming, Virginia, New Hampshire, Maryland, Pennsylvania, Vermont, Massachusetts, Rhode Island, Georgia, Iowa, Idaho, Nebraska, South Dakota and Utah.

In 2013, Oregon approved legislation to undertake a pilot program with 5,000 volunteers to test the feasibility of transitioning to a system where motorists are charged by miles driven instead of paying a gas tax. This program will be getting underway next month. Other states that have adopted mileage-based user fee-related legislation include California, Indiana and Washington. And states that considered such legislation this year include Arkansas, Florida and Massachusetts.

Governors and mayors have also used the private sector to leverage their dollars, and as a result, more than 30 states have passed laws to authorize partnerships with the private sector.

The public has also endorsed many of these revenue increases by consistently approving well-constructed ballot measures to increase investment in transportation. In last November's elections, 72 percent of ballot measures were approved and in 2013 the success rate was 91 percent. One of the critical reasons why these measures were successful is that a clear and coherent case was made about which projects would be built in exchange for approval of the revenue increase.

Examples of some recent success include: the approval of $250 million in bonds to fix aging roads, bridges, sidewalks and buildings in Atlanta in March of this year. In order for citizens to track the projects and their progress, the city has set up a special webpage. In November of 2014 voters in Arlington, VA approved four bond referenda totaling more than $218 million to fund Metro and transportation as well as local parks, recreation, community infrastructure and schools. And in 2008 voters in Los Angeles approved Measure R to hike the sales tax by half a cent and generate up to $40 billion over 30 years to fund various transit and highways projects.

But it is important to understand that these local and statewide efforts can not replace the federal government's responsibility. Devolution is not the answer. The role of the federal government in promoting interstate commerce is clearly stated in the Constitution.

Legislation such as the Transportation Empowerment Act (TEA) would reduce funding for the federal-aid highway program by more than 80 percent by 2019, from $45 billion to less than $8 billion. A recent study by the Transportation Construction Coalition showed that under the TEA Act states would need to increase their gas tax by an average of nearly 24 cents—just to achieve level funding. Specifically, Utah would need to raise its gas tax by 18.7 cents; Oregon by 24.1 cents; Idaho by 25.5 cents; Ohio by 15.9 cents; and North Carolina by 16.4 cents.

FEDERAL OPTIONS

The nation's surface transportation program has traditionally been funded through the most pure and direct of all sources—a fee paid by the users of the system. But with better fuel economy and an increasing number of hybrids and vehicles that use little or no gasoline at all, spending from the Highway Trust Fund has outpaced revenues since 2008. In order to prevent the Highway Trust Fund from becoming insolvent, Congress acted in a bipartisan fashion and transferred $8 billion from the General Fund to the Highway Trust Fund. Since 2008, approximately $63 billion has been transferred to the Highway Trust Fund. But all of these transfers have done nothing to increase the amount of revenue needed to address the nation's vast transportation challenges.

The most straightforward way to generate the needed revenue for a long term transportation bill is to increase the gas tax which has not seen a raise since 1993. The cost of everything has gone up since 1993—except for the gas tax. In 1993 the cost of a First Class stamp was 29 cents—today it is 49 cents. A dozen eggs cost 87 cents in 1993 and today the average cost is $2. The cost of the average car was $12,750 in 1993 and today the average cost is $31,252.

Yet the gas tax has remained at 18.4 cents for 21 years. And since that time it has lost over a third of its purchasing power.

In order to begin generating sorely needed revenue, Building America's Future is calling on Congress to immediately increase the gasoline user fee by 10 cents and index it to inflation. According to the Congressional Budget Office, a one cent in-

crease in the gas tax generates $1.5 billion annually so a 10 cent increase would generate $15 billion. While this would not be enough to fund a robust long term bill, it would be enough to keep the Highway Trust Fund solvent while Congress considers other sustainable and longer term solutions.

As a former elected official I fully understand the difficult politics of raising revenue. Voting to increase the gas tax is a tough vote. But leadership takes vision to see the big picture and courage to do the right thing.

Your colleagues in the states have stepped up and their actions did not result in defeat at the ballot box. To the contrary. A political analysis by the American Road and Transportation Builders Association showed that 95 percent of all Republican state legislators who voted to increase their state gas tax in 2013 and 2014 and ran for re-election in last November's elections won their races. For Democrats there was an 88 percent re-election rate.

Prior to 1993, votes to increase the gas tax in Congress were a bipartisan affair. In 1982 Congress approved a four cent hike by a vote of 54 to 33 in the Senate and 180 to 87 in the House. The legislation was signed into law by President Ronald Reagan. Another five cent increase was included in the Omnibus Reconciliation Act of 1990 that passed the Senate 54 to 45, the House by 228 to 200 and was signed by President George H.W. Bush.

It wasn't until the Omnibus Reconciliation Act of 1993 when the politics of increasing gas tax revenue began to turn more partisan. The final package contained a 4.3 cent increase that ended up being devoted to deficit reduction—not the Highway Trust Fund. The package passed the House with no Republican votes and although there were a handful of Republican votes in the Senate, Vice President Gore had to cast the 51st vote to break the tie. President Clinton signed the package into law.

The Taxpayer Relief Act of 1997 ultimately re-allocated the 4.3 cent increase from 1993 away from deficit reduction and to the Highway Trust Fund.

It is time to get serious and increase the gas tax. Proposals to do so have been offered by Democrats and Republicans alike in Congress. In particular I want to commend Senators Corker and Murphy as well as Representatives Blumenauer and Renacci for their vision and courage in offering such proposals.

We must also look at a variety of other options such as establishing a National Infrastructure Bank, raising the cap on Private Activity Bonds, creating a new kind of tax-exempt municipal bond called Qualified Public Infrastructure Bonds, consider other user based funding mechanisms such as road user charges, and lift Federal restrictions on tolling so that states may take greater advantage of partnering with the private sector.

There has been much discussion in recent months about using repatriated funds to fund a 6 year transportation bill. While I am much more supportive of continuing the tradition of relying on a true user fee to fund our transportation system, I can see the merit of tapping into repatriated funds to give Congress more time to come up with a more long term and sustainable funding source.

If America wants to maintain its global economic competitiveness we must reverse course. We must reject the Band-Aid and duct tape approach and go big and bold.

This committee has an opportunity to work together to do the right thing to put America back on the right path. We can no longer sit on the sidelines as our infrastructure continues to deteriorate and we as a nation fall behind our global economic competitors. In just 10 years the economic competitiveness of our infrastructure has gone from being number one in the world to number 12 according to the World Economic Forum.

There is no better time to invest in our infrastructure. Interest rates are at record lows and putting our friends and neighbors to work repairing and modernizing our roads and bridges is an economic plus for everyone. Let's get to it.

Thank you, Chairman Hatch. I look forward to answering the Committee's questions.

QUESTIONS SUBMITTED FOR THE RECORD TO HON. RAY LAHOOD

QUESTIONS SUBMITTED BY HON. ORRIN G. HATCH

Question. Secretary LaHood, in your testimony you discuss the recent history of the federal excise tax on gasoline, and recommend increasing it by 10 cents per gallon immediately. As an elected official yourself, and a senior member of the Obama administration, I am interested in your perspective in how the administration view the gas tax as a source of revenue. The Obama administration has never included a gas tax increase in any of their budgets, and their current pay-for for infrastructure is essentially international tax reform. As a former member of the administration, why hasn't the administration sought to increase the gas tax?

Answer. While the administration has been consistent in its opposition to raising the gas tax as a way to fund transportation infrastructure, administration officials have also said that they are open to working with Congress on various options. For current insight into the administration's position I would encourage you to speak directly with Secretary Foxx.

Question. With the emergence of fuel efficient cars, many believe a fuel per gallon tax system is steadily becoming obsolete and an ineffective means of collecting revenue. A different system would therefore eventually be necessary in order to ensure collection of revenue. Secretary LaHood, you cite in your testimony that in 2013, Oregon approved legislation to undertake a pilot program with 5,000 volunteers to test the feasibility of transitioning to a system where motorists are charged by miles driven instead of paying a gas tax. What types of steps would be involved in adopting such a system, and what would the time frame be to transition from a fuel per gallon system to a different system, potentially like the system with which Oregon is experimenting?

Answer. I applaud the leadership that Oregon has demonstrated with its latest pilot program. They clearly understand that a sustainable revenue source to fund transportation infrastructure must be identified. With regard to how a program similar to Oregon's can be implemented at the federal level, I would encourage you to talk directly with experts on road user charge programs at the Federal Highway Administration or with the appropriate officials at the Oregon Department of Transportation.

QUESTIONS SUBMITTED BY HON. DEAN HELLER

VMT PILOT PROGRAM

Question. Does the Department of Transportation have the capacity to implement a similar volunteer pilot VMT program to replace the federal gas tax?

Answer. I encourage you to direct this question to the experts at the Federal Highway Administration.

Question. If so, how many drivers would be needed nationwide to collect enough data to adequately evaluate the benefits and concerns of VMT?

Answer. I encourage you to direct this question to the experts at the Federal Highway Administration.

Question. Being a member of the Commerce Committee, I also understand concerns about privacy in implementing such a program. What safeguards would need to be put in place so that constituents can feel comfortable with this system? Can you also speak to Oregon's second pilot program and what safeguards to protect privacy were put into place?

Answer. On July 1st Oregon's road user fee pilot program—OreGO—got underway. The pilot is limited to 5,000 participants who will be charged 1.5 cents per mile while driving in Oregon and receive a credit for the state gas tax they paid at the pump. According to the official OreGO website, the Oregon Department of Transportation has set in place strict policies and procedures to ensure security and privacy for those participating in the pilot program. You may review this information directly at: *http://www.myorego.org/*.

VEHICLE REGISTRATION FEE

Question. In addressing a solution for the Highway Trust Fund, our working group analyzed a number of options, including but not limited to, a national vehicle

registration fee. The Joint Committee on Taxation estimated for our working group that an annual registration fee of between $200–$300 would be necessary to cover Highway Trust Fund outlays if all present-law Highway Trust Fund taxes were repealed and replaced with this fee.

What are your views on this fee?

Answer. I believe that all options should be on the table.

VMT

Question. Secretary LaHood, you have been a vocal advocate of raising the federal gas tax as a means to build a funding bridge that will carry us until a sustainable replacement is ready. I am closely following developments in the West whereas some states are beginning to pursue a fee based on charging by distance, not on a gas tax. This type of "road usage charge" or "mileage based user fee" gives motorists a choice of what type of technology is used, and in fact even if a driver chooses a GPS option it never tracks location, only distance.

Could you please speak to the importance of finding a short-term revenue source to keep America competitive while simultaneously seeking out and investing in user-fee based alternatives for the long-term?

Answer. The Highway Trust Fund will become insolvent sometime in August and the authorization for surface transportation programs expires on July 31st. It is critical that Congress act to ensure that the Trust Fund remains solvent. The consequences of inaction would mean that thousands of projects all over America would be at risk of shutting down and thousands of jobs in jeopardy as federal funding dries up.

The easiest and most direct way to provide the needed revenue to boost the Trust Fund is to raise the gas tax and index it to inflation. In theory, this can be done immediately. However, having been an elected official I understand the challenging politics of raising revenue.

As the long term sustainability of the gas tax is an issue, it is imperative that other long-term options such as a mileage based user fee be further examined. As you noted, several states are exploring the feasibility of this option and the lessons learned will further inform policy makers at the federal level of the viability of implementing such a system nationally.

Make no mistake, in order to remain competitive America needs a long-term infrastructure investment strategy.

Prepared Statement of Stephen Moore, Visiting Fellow in Economics, The Heritage Foundation

My name is Stephen Moore. I am a Visiting Fellow in Economics at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Mr. Chairman, with gas prices having fallen by roughly $1 a gallon over the past year, many policymakers are advocating a rise in the federal gas tax. Earlier this year House minority leader Nancy Pelosi argued that motorists might not even notice the hike. "If there's ever going to be an opportunity to raise the gas tax, the time when gas prices are so low—oil prices are so low—is the time to do it," she stated.

This seems to be the argument that if OPEC can't keep prices high, the Feds will. But there's a good reason why polling stands overwhelming against raising the 18.3 cents a gallon federal gas tax. It hurts the finances of the middle class. The best rule of thumb is that every penny rise in gas prices at the pump takes about $1.5 billion out of the wallets of consumers. So a 10 or 20 cent gas tax will take about $15 to $30 billion from consumers. That's a massive negative stimulus to the economy at a time of stagnant wages for a decade in America.

By the way, the fall in the gas price increases federal revenues because people drive more when the price is lower, and the per gallon federal gas tax collects more funds. So if anything, a fall in gas prices should be coupled with a fall, not a rise in the federal gas tax.

Proponents of higher gas taxes point to the fact that the federal gas tax hasn't been raised since 1993 and hasn't kept pace with inflation. That's true, but the federal funding peaked at just about the time the 42,000 national interstate highway system was just being completed. So the feds need less money now than 30 years ago. No one argues that we should be spending today what we did in the 1960s on the Apollo moon landing mission.

Moreover, States have raised their gas taxes and funding for roads in most areas is not inadequate. From 1984–2012, across the country, the pace of increase for capital expended on roads and bridges has been nearly triple the inflation during this period (330 percent vs. 121 percent). And this occurred during a stretch where the Nation's population grew by only one-third. The common refrain from the road builders and civil engineers is that the infrastructure is crumbling and that we need to spend hundreds of billions more. Actually, as my Heritage colleagues have noted in recent reports:

While the common perception is that America's infrastructure is "crumbling" and thus requires more federal expenditures, the reality is not nearly as bleak. Some infrastructure certainly requires maintenance and updating, as congestion is a major concern in many metropolitan areas. Indeed, the federal government provides perverse incentives for States to spend billions on new, unneeded projects instead of maintaining existing systems.

Taken as a whole, the Nation's infrastructure performs well and is improving. The percentage of bridges that are structurally deficient—meaning that they require extensive maintenance, but are not necessarily unsafe—has declined from 22 percent in 1992 to 10 percent in 2014. Highways and roads have also improved: The Federal Highway Administration notes that the percentage of vehicle miles traveled on the National Highway System with "good" ride quality rose from 48 percent in 2000 to 60 percent in 2010, while the share with "acceptable" ride quality increased from 91 percent to 93 percent.

What is true is that America needs more roads because congestion is getting worse over time and this is a clear economic drain on the United States. By some estimates the average American worker must work the equivalent of an extra week a year (37 hours stuck in traffic congestion) due to crowded roads and highways. But that problem can also be solved through smart tolling and other market incentives to properly price use of the infrastructure during peak commuter hours to reduce overcrowding.

In 21st century America, tolls are the most efficient form of user pays and Uber-type technologies make tolling highly efficient in terms of adjusting prices during peak hours to reduce congestion. By the way as we move into the new era of cheap, reliable, safe, and smart Google Cars on the roads, time delays due to congestion will be much less of a problem in the future.

But the reason roads aren't being built is not that the money is insufficient. It is that so little of the gas tax dollars actually go to building and maintaining roads.

Consider the highway spending dollars for 2015. The gas tax is expected to raise roughly $39 billion in 2015. Is this enough to build and repair needed federal roads? Yes, but it is not enough to fund transit projects—most of which are hugely inefficient and should never be funded with federal dollars and certainly shouldn't be funded by motorists, who, by definition, don't use the trains, and subways and buses.

Under current law, the Highway Trust Fund consistently spends more on road and transit projects than it receives in fuel tax revenues and is expected to run a cumulative deficit of $180 billion over the next 10 years if current trends continue.

The Highway Trust Fund is divided into two accounts. The Highway Account is slated to disburse about 85 percent of combined spending on roadway infrastructure and other projects in 2015. The Mass Transit Account expends about 15 percent of spending (about $8 billion a year) and funds transit projects, such as rail, buses, and streetcars. This is not based on fairness or good transportation policy. It is based on the political clout of urban politicians in Congress who have come up with funding formulas that benefit their districts.

Overall, about 25 percent of fuel tax funding is diverted to non-highway projects—including bike paths, trails, museums, and so on. These may be very worthwhile projects, but why should gas and diesel tax revenues fund them?

Congress should begin addressing the highway funding shortage by insuring that every dollar of gas tax paid by motorists goes to building the roads that they make use of. That is what a "user fee" is intended to do.

The argument is made by transit advocates that transit projects help reduce congestion on roads and therefore benefit motorists. In very few cities is that the case, because outside of cities like Chicago, New York, Washington, DC, and San Francisco, so few Americans use mass transit. Moreover, often times building an extra lane of highway would reduce traffic congestion in rubber neck areas at one-tenth the cost of massive white elephant transit projects.

Moreover, there is another massive inefficiency in the transit program. States and cities are paid a much higher reimbursement rate for capital expenditures than operations. So the incentive is to build gold-plated rail services with multi-billion construction costs than to operate buses and other van shuttle services at a fraction of the cost. This explains why two of the greatest rail flops of all time are being built today: the $70 billion high speed rail project in California and the Dulles Airport "silver line" in Virginia that is only being constructed because the Feds are giving billions to the State of Virginia. If people in the metro area had to pay for this boondoggle, they never would have allowed their tax dollars be so misallocated. By they way the project has already had four cost overruns.

These two examples, and multiples more, explain why transportation funding and planning needs to be turned back to the States. Again, this comports with the user pays principle of transportation which we have strayed so far from and has encouraged wasteful spending.

We know, by the way, that States differ dramatically in how efficiently they spend on roads and highways. In my book with Arthur Laffer, et al, called *The Wealth of States,* we document that California spends about twice as much per mile of highways built than Texas (about $250,000 in CA versus less than $100,000 in TX). Despite the spending discrepancy, Texas road conditions are ranked 23rd in the Nation and California's are ranked dead last. What does California get for all that spending? Not much. This gap between Texas and California is due to environmental and labor rules, among other things. States can get away with being inefficient if they are being subsidized by the Feds. They will have to get lean and efficient if they are paying for their own fiscal folly.

There is another way to reduce highway construction labor costs by as much as 20 percent, and this is by repealing the federal Davis Bacon Act, which requires effectively a union "prevailing wage" be paid on federal construction projects.

NO TO A FEDERAL INFRASTRUCTURE BANK

One idea kicking up steam is the notion of an infrastructure bank to fund road, transit, green energy and other brick-and-mortar "shovel-ready projects." The idea is that over time this could raise about $150 billion for federal infrastructure projects.

One typical plan, sponsored by Rep. John Delaney of Maryland, would create an infrastructure bank funded with $50 billion, leveraged to backstop 50-year bonds that would finance billions in new transportation projects.

The Obama administration has a similar plan to create a bank funded by $150 billion of repatriated taxes on overseas profits of U.S. multinationals. The $150 billion would collateralize tens of billions of dollars of long-term loans from private investors that would fund up to $100 billion of new projects each year.

The White House says that this plan could nearly double funding for highway and transit projects with this magical stash of funds. The supposed selling point: After the initial funding, taxpayers wouldn't have to put up a dime; it would all be paid for with private dollars collected.

Except for the fine print. The full faith and credit of the U.S. Government would back these loans. If the bank experiences financial stress, the government would be on the hook to repay the loans. As Ronald Reagan would say: "Well, there they go again."

This was exactly the financing mechanism that propped up Fannie Mae with its scam arrangement of 100 percent taxpayer guarantees on subprime mortgages. Obama's budget chief once wrote that the chances of a Fannie Mae default were close to one in a million. It was supposed to be free money for housing—until it wasn't.

Now, $150 billion in losses later, we know that Fannie and its sister organization Freddie Mac required one of the most expensive taxpayer bailouts in American history. This is anything but a model worth imitating.

A close inspection of many of these infrastructure bank proposals indicates that rather than investments being based on sound financial justifications, politics will play a major role.

The infrastructure bank is to take into account factors including reduction in carbon emissions and income inequality, job training for low-income workers, energy efficiency, expanded renewable energy and requirements that iron, steel and other inputs be produced in the United States.

The feds already provide a giant subsidy for local infrastructure projects via the tax exemption on municipal bonds. It lowers the interest rates that cities and States must pay on their infrastructure bonds. Rates in the muni market have fallen sharply, from 5.41 percent in 2011 to 3.6 percent last month—the lowest borrowing costs in nearly half a century.

A BETTER WAY FORWARD

Rather than raise the federal gas tax, a better policy would be to phase down the federal tax and let states pay for their own road projects. The interstate highway system was completed 30 years ago and there is no more need for a national tax at 18.34 cents a gallon to fund bridges and high speed rail projects to nowhere. Turning back transportation projects to the states will ensure that gas tax money is used for the highest value added projects.

Under one current proposal, over the course of 5 years, the federal fuel tax rates would decrease, from 18.3 cents per gallon to 3.7 cents per gallon (gasoline) and from 24.3 cents per gallon to 5.0 cents per gallon (diesel). At the same time, federal programs more appropriately run by states and cities, such as subway, bus, and bicycle programs, would end. Authority and accountability would return to states and localities, giving them incentives to fund projects according to local priorities, not those of Washington.

States would decide whether to increase state fuel taxes by the amount the federal fuel taxes decreased, such that motorists would see no change at the gas pump. Or they could raise additional funds or pursue other revenue-generating mechanisms—user fees or taxes—to meet the level of transportation revenue they deem necessary to carry out their priorities. In general, states should maintain the "user pays, user benefits" concept and should not raise unrelated taxes, such as a generic sales tax, to fund transportation projects.

One last point when it comes to our "infrastructure crisis." I can't help noting that it is many of the same politicians, starting with President Barack Obama, who keep clamoring for more infrastructure spending to create jobs and make America economically sounder, who also oppose the Keystone XL pipeline. This is a project that could create well more than 10,000 jobs, that would increase American energy exports, and would increase U.S. National security—and would not cost taxpayers a dime—and many in Congress and in the White House oppose it. We ought to do the cheap and easy infrastructure projects first.

PREPARED STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

America's transportation arteries give life to America's economy. Now, they need major surgery, but instead, the patient is bleeding out. And short-term funding Band-Aids won't help without a solid long-term plan in place to solve the crisis.

My bottom line is that you can't have a big-league economy with little-league infrastructure. But the way Congress has limped from one short-term funding patch to the next more than 30 times is unquestionably a little-league strategy.

The stop-and-go approach without a viable long-term funding source lowers our sights in terms of what our transportation system can do. It forces states and federal agencies into making little plans—barely keeping up with the potholes and falling far behind on new railways, ports, and highways.

Oregonians are driving across bridges that are structurally deficient or functionally obsolete. They're swerving around ruts on mountain passes that threaten to

cause dangerous accidents. They're sitting in traffic jams, burning through gas and wasting time.

The infrastructure crisis hurts our businesses and discourages investment in Oregon and across the land. China invests more than four times the amount the U.S. does in infrastructure. Europe invests twice as much as the U.S. The fact is, the costs associated with transportation and infrastructure are always a part of the calculus when a company is deciding where to invest and who to hire.

One recent report from the American Society of Civil Engineers said that the U.S. needs to invest $3.7 trillion in infrastructure by 2020—and $1.7 trillion in transportation infrastructure alone—just to reach "good condition." Another series of short-term patches won't meet that bar. And in the meantime, the same report found that Oregonians spend more than $650 million a year on auto repairs and other costs because roads and highways are crumbling.

It's my view that funding a transportation network is right up there with maintaining a fair judicial system and a strong national defense among the most basic and necessary functions of government. There is a bipartisan understanding that our transportation system needs major investments—you hear the same messages from Democrats and Republicans on this issue.

So Congress and this committee have a responsibility to find a pathway that leads to a long-term funding source. I hope today's hearing reinforces the enormous need to accomplish that goal and helps us move closer to a solution.

Next week, the committee is going to continue its consideration of this crucial topic in a hearing on how to get private dollars off the sidelines and into the game on infrastructure. Several weeks ago, Senator Hoeven and I introduced the Move America Act to kick-start the use of effective financing tools to help solve this crisis. I strongly believe Move America is going to be a big part of what gets our infrastructure back up to the big-leagues, and I look forward to continuing the discussion next week.

COMMUNICATIONS

Testimony by Kurt Nagle
President and CEO
American Association of Port Authorities (AAPA)

Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding

Senate Finance Committee
Thursday, June 18, 2015

Chairman Hatch and Ranking Member Wyden, 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 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 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 eligi-

ble for the Surface Transportation Program (STP) and the Projects of National and Regional Significance (PNRS) program which address large choke points on our freight network.

Earlier this year, AAPA asked our members to look ahead 10 years and identify the key landside 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 percent of U.S. member ports participated in the development of its statewide freight plan.
- 63 percent 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 percent (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 percent 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 percent 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 percent 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 Senate Finance Committee finding increased, sustainable funding sources for the highway trust fund and other mechanisms to fund multi modal 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.

American Association of Port Authorities (AAPA)

Port Surface Transportation Infrastructure Survey

The State of Freight

April 21, 2015

Version 1.2

1 IN 3 U.S. PORTS NEEDS 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 porteconomic impacts update study shows the benefits 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 percent 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 percent of the Nation's GDP at the time.

> "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

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 percent 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'sregional 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 percent to $4.6 trillion in total U.S. economic value
- 74 percent to 23.1 million U.S. jobs
- 51 percent to $321.1 billion in Federal, State and local tax revenue
- 100 percent to $1.5 billion in personal wages and 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 6 months leading up to the publication of this report. With a 95 percent 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 percent, from 30.4 million to 44.6 million 20-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 percent) 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 percent 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 percent 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 United States. 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 percent 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 percent said their port has applied for STP funds during the last 2 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 5 years tomaintain 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 6 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:

Sixty-three percent 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.

Seventy-one percent 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.

Sixty-four percent 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 and 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:

Eight percent 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.

Thirty-three percent reported using, or planning to use, P3s; 13 percent identified using or planning to use Private Activity Bonds (PABs); and 62 percent 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 January 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:

Seventy-three percent 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 percent 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 socioeconomic 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:

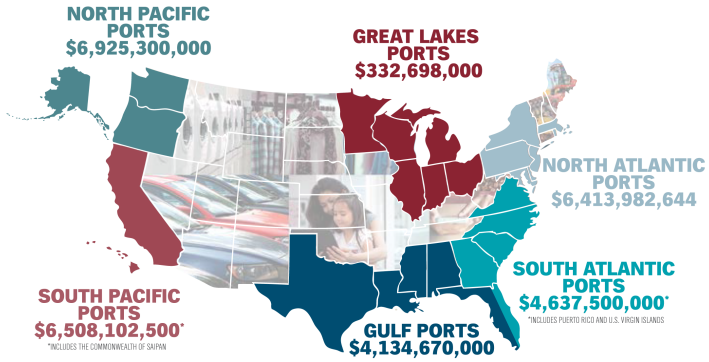
Fifty-seven percent of the AAPA U.S. member ports surveyed have applied through the U.S. Environmental Protection Agency for DERA funding, and 43 percent have applied for CMAQ funding to pay for reducing emissions and congestion while improving air quality in and around their ports.

Forty-five percent 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 percent 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.

American Association of Port Authorities (AAPA)

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American Association of State Highway and Transportation Officials (AASHTO)

The Voice of Transportation

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

DEAD END, NO TURN AROUND, DANGER AHEAD: CHALLENGES TO THE FUTURE OF HIGHWAY FUNDING

BEFORE THE

Committee on Finance of the United States Senate

ON

June 18, 2015

American Association of State Highway and Transportation Officials
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INTRODUCTION

Chairman Hatch, Ranking Member Wyden, 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 7 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 main-

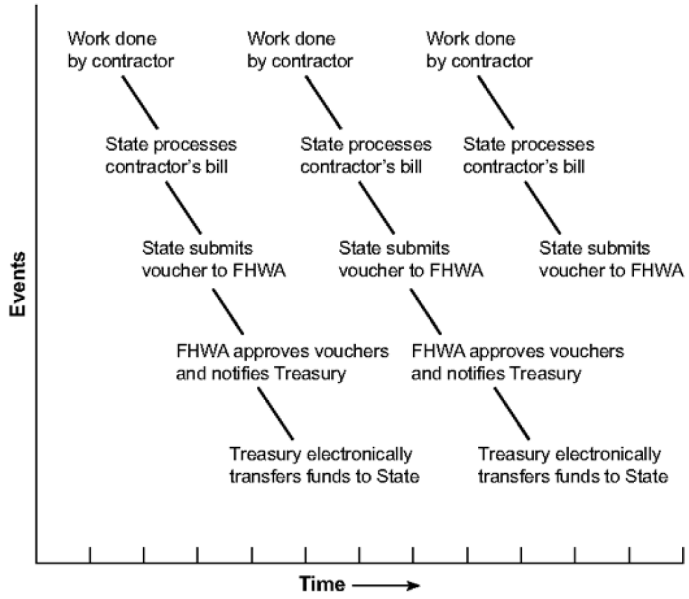
taining the national transportation network on which our economy relies to be competitive in the global marketplace.

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

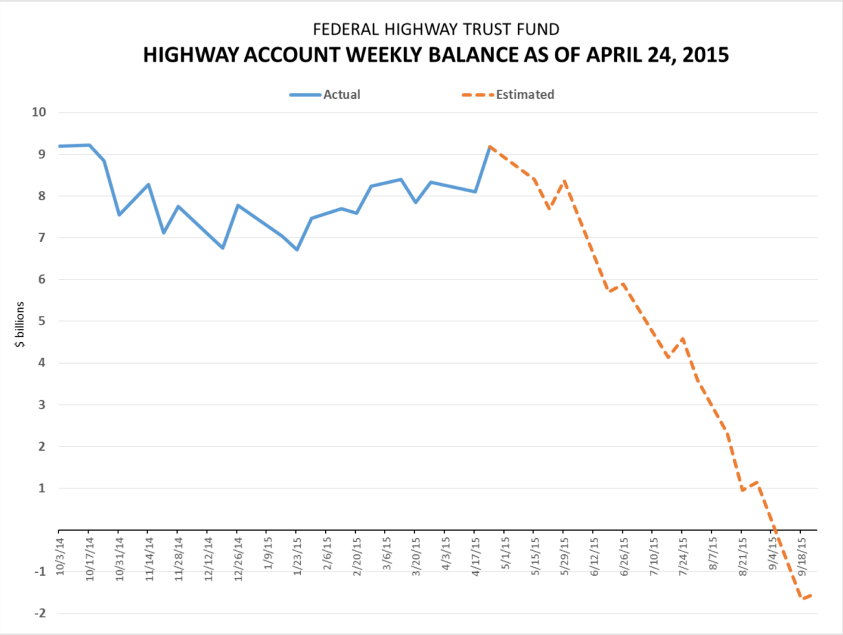
It is currently estimated by the USDOT and Department of the Treasury that the Highway Account of the HTF is likely to run out of cash by early September of this year. Prior to reaching this point of insolvency, FHWA will be forced to institute emergency cash management procedures in order to slow down 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 situ-

ation, 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.

EXHIBIT 2. PROJECTED ESTIMATES FOR HTF HIGHWAY ACCOUNT'S END-OF-MONTH CASH BALANCE AS OF APRIL 24, 2015

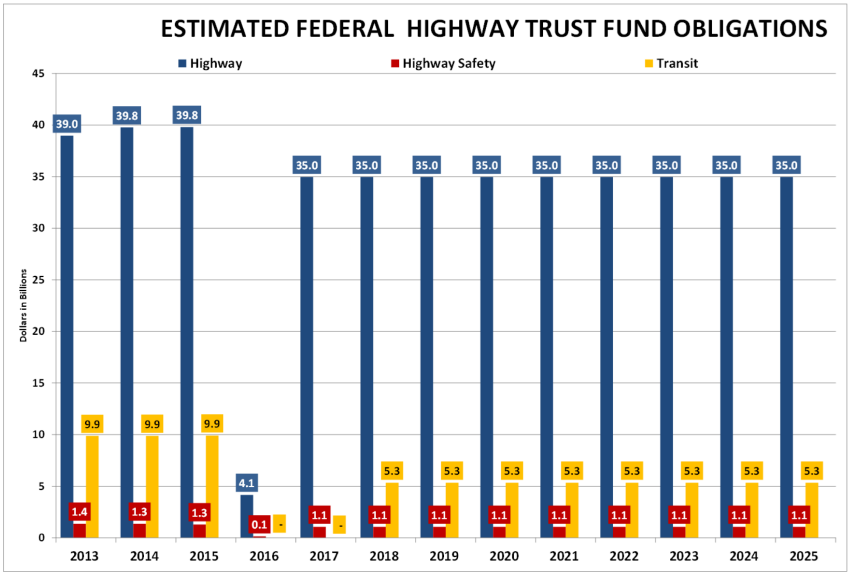


Source: US Department of Transportation; US Department of the Treasury

DEVASTATING IMPACT TO STATES OF A HIGHWAY TRUST FUND SHORTFALL 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 10 years (FY 2016–2025). In order to keep the HTF solven beyond this fiscal year, AASHTO estimates that States will have to significantly reduce new Federal highway funding in fiscal year 2016—going from $40 billion to $4 billion. Even with virtually no new highway funding in fiscal year 2016, there remains a possibility that FHWA will still have to alter its reimbursement procedures in fiscal year 2016 to be able to pay for prior-year obligations.

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.

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 50 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 fiscal year 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 fiscal year 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.

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 fiscal year 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 Michanisms	**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
Customes 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	$19.90

Potential Highway Trust Fund Revenue Michanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	Assumed 2014 Yield *	Total Escalated Yield 2015–2020 *
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

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	$4.68	$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	7.6%	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 tire	$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	$175.58
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

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 se-

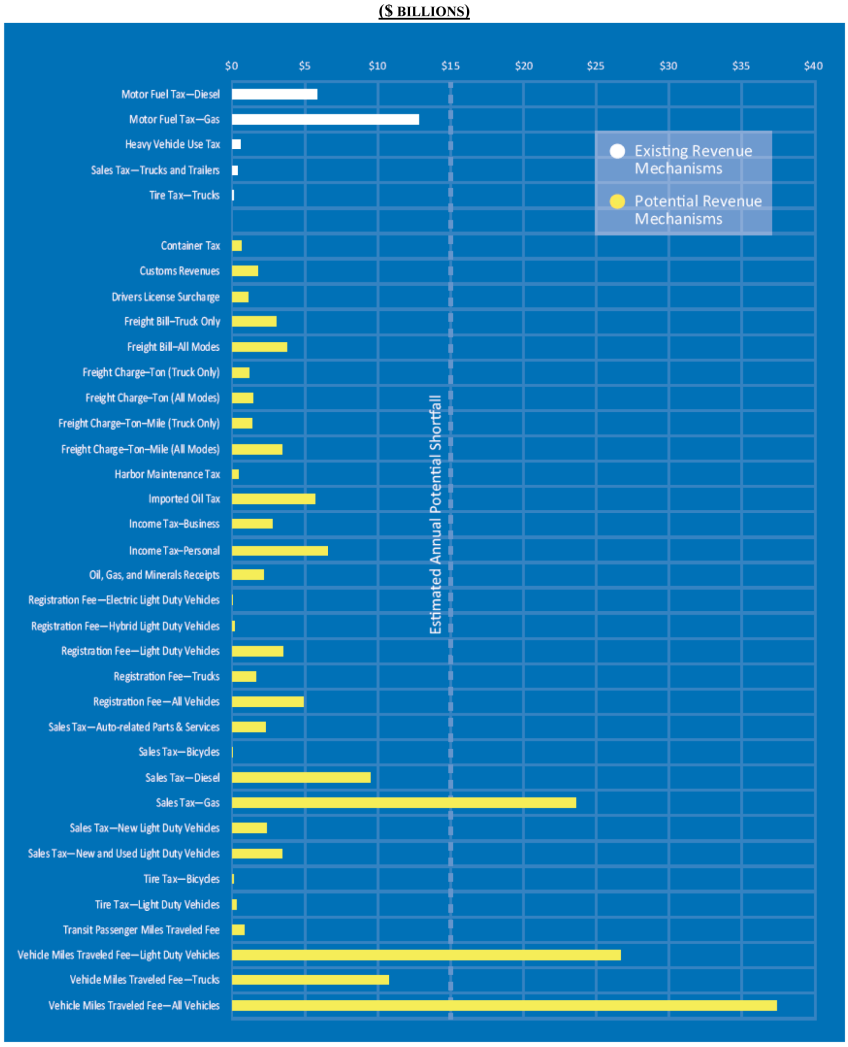
verely undermine much-needed transportation investments throughout the nation: potentially significant delays on Federal reimbursements owed to States for costs already incurred, and a virtual elimination of new Federal funding commitments in fiscal year 2016.

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 fiscal year 2016 can have on the economy and construction industry employment, we look forward to assisting you and the rest of your Senate 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.

EXHIBIT 7. SURFACE TRANSPORTATION REVENUE OPTIONS: ILLUSTRATIVE ANNUAL ESTIMATED YIELDS ($ BILLIONS)



*Based on the illustrative rate or percentage increase assumed in the summary matrix.

American Council of Engineering Companies (ACEC)

100 Years of Excellence

Statement for the Record

U.S. Senate Committee on Finance

Hearing on Challenges to the Future of Highway Funding

Thursday, June 18, 2015

Chairman Hatch, Ranking Member Wyden, 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.

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 6-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 rep-

resenting 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.

AGC of America

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

Quality People. Quality Projects.

Statement of

The Associated General Contractors of America

Presented to the

Senate Committee on Finance

on the topic of

The Challenges to the Future of Highway Funding

June 18, 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
2300 Wilson Boulevard, Suite 300 • Arlington, VA 22201 • Phone: (703) 548–3118 • FAX: (703) 837–5407

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 20 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 theirstate 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). Leg-

islative 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.

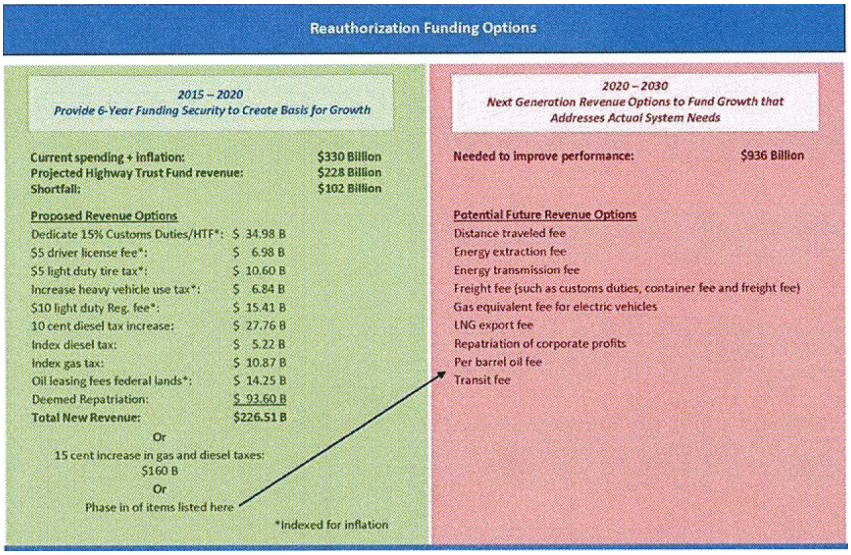
In 2011, the Simpson Bowles Commission recommended a 15-cent per gallon gas and diesel tax increase plus inflation. In addition to Simpson-Bowles, Congressman Early Blumenauer (D–OR) has introduced legislation (H.R. 680) that would increase the gas tax by 15 cents over 3 years (it currently has 32 cosponsors) , while Congressman Jim Renacci (R–OH) and Congressman Bill Pascrell (D–NJ) have a bill (H.R. 846) 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 finding 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 pro-

vide the next generation of revenue options to fund growth that addresses the needs of our transportation network.



The proposed revenue options include:

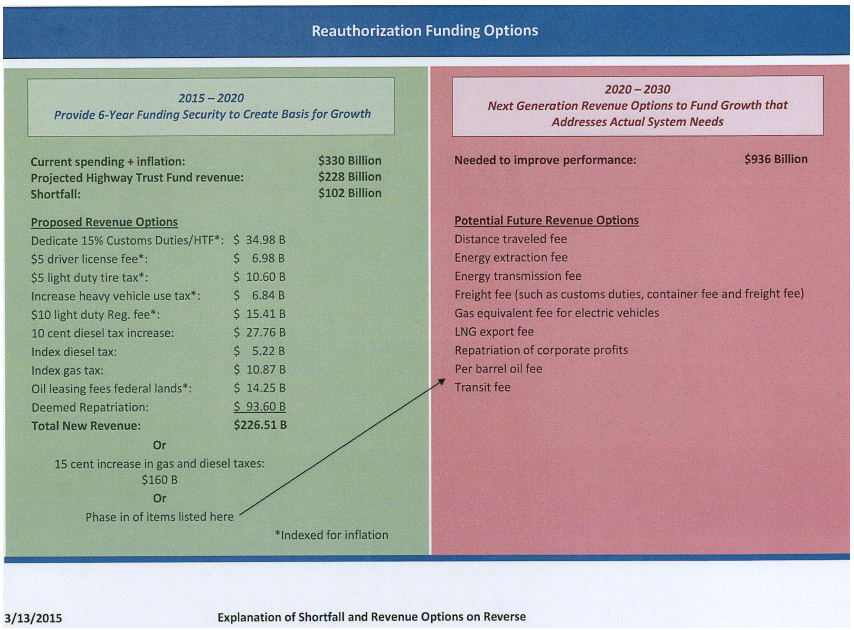
- **Dedicating 15 percent of Custom Duties currently collected to the Highway Trust Fund**—The U.S. has recognized the connection between infrastructure investment and international commerce since the Lighthouse Act of 1789 during the first Congress. Customs duties are imposed at varying rates on various imported goods passing through U.S. international gateways and currently go to the General Fund of the U.S. 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 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 and 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 50 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.



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, MO, MN, MO, MT, NE, NV, NJ, NM, NY, NC, NO, SO, UT, VA, VT, WV

Explanation of Revenue Options

(EXISTING) Customs Duties—Customs duties are imposed at varying rates on various imported goods passing through U.S. international gateways and currently go to the General Fund of the U.S. 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 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 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.

American Highway Users Alliance

Testimony for the Record by Gregory Cohen, P.E., President and CEO

Hearing on the Highway Trust Fund

Committee on Finance

United States Senate

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 6-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 Congress 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 commissioned 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.

AMERICAN PUBLIC TRANSPORTATION ASSOCIATION (APTA)
MICHAEL P. MELANIPHY
PRESIDENT AND CEO
STATEMENT SUBMITTED TO
THE SENATE COMMITTEE ON FINANCE
Hearing titled "Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding"
June 18, 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 90 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 4 years authorization under SAFETEA–LU, and a bit more than 2 years under MAP–21. More recently, federal transit funding has grown only minimally, from $10.231 billion in fiscal year 2009 to $10.692 billion in fiscal year 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 tothe 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 6 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 6-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 6-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.

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Statement for the Record

On

"Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding"

United States Senate

Committee on Finance

June 18, 2015

Introduction

The American Society of Civil Engineers (ASCE)[1] commends the Senate Finance Committee for holding this hearing on the importance of transportation infrastructure as a priority and the urgency surrounding the need to fix the Federal Highway Trust Fund (HTF) and enact a multi-year, robust surface transportation authorization bill. The current surface transportation law, Moving Ahead for Progress in the 21st Century Act (MAP–21), expired on September 30, 2014 and the program is now operating under a second temporary extension which expires on July 31, 2015. Due to the limited funds available in the HTF, any program authorization beyond July must be accompanied with additional revenue for the fund. ASCE believes that a

[1] ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 146,000 civil engineers individually in private practice, government, industry, and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a non-profit educational and professional society organized under Part 1.501(c)(3) of the Internal Revenue Code. *www.asce.org.*

more permanent, long-term fix for the HTF is in order—one that provides dedicated, sustainable revenue that can grow the program and not add to the nation's deficit.

Multi-month program extensions hurt the ability of states and local agencies to shape long-term transportation plans and deliver large multi-year projects. Extensions and funding patches also create instability for designers and builders who cannot properly anticipate their contracting schedules or hiring needs. In 2015, Arkansas, Georgia, Tennessee, Utah and Wyoming have indicated that federal uncertainty is affecting their ability to deliver projects on their state priority list. Congress should act by July 31, 2015 to secure a long-term funding solution. Hopefully today's hearing will further underscore this need to act and highlight what the impact of federal inaction truly means to users of the system.

An Aging Infrastructure System

Our infrastructure is the foundation on which the national economy depends, yet it is taken for granted by most Americans. While the Interstate Highway System is a shining example of a focused national vision for the state's infrastructure, an expanding population and a growing economy requires these aging infrastructure systems to keep pace. Deteriorating and aging infrastructure is not only an inconvenience, it financially impacts our families, local communities, and our National economy.

While revenue for the HTF continues to fall short of authorized spending levels, the current lack of infrastructure investment has also weakened our state's surface transportation system with a documented loss to the economy. Our inability to keep our infrastructure efficient undermines the U.S. competitiveness and economic strength.

ASCE's *2013 Report Card for America's Infrastructure*[2] graded the state's infrastructure a "D+" based on 16 categories and found that the state needs to invest approximately $3.6 trillion by 2020 to maintain the national infrastructure in good condition. The $3.6 trillion figure is the total needs funding amount across all infrastructure sectors, with federal, state and local transportation shortfall being $1.7 trillion. The following are the grades and the investment needs by 2020 for the surface transportation area:

- Bridges received a grade of C+;
- Transit received a D; and
- Roads received a grade of D.

Establishing a sound financial foundation for future surface transportation preservation and improvement must be an essential part of a reauthorization package. The current spending of $91 billion per year, from all levels of government, for highway capital improvements is well below the estimated $170 billion needed annually to improve conditions.

The Federal Transit Administration (FTA) estimates a maintenance backlog of nearly $78 billion needed to bring all transit systems up to a state of good repair. With funding as the cornerstone of any attempt to authorize the state's surface transportation programs, it is imperative that a variety of funding issues be advanced as part of an overall strategy.

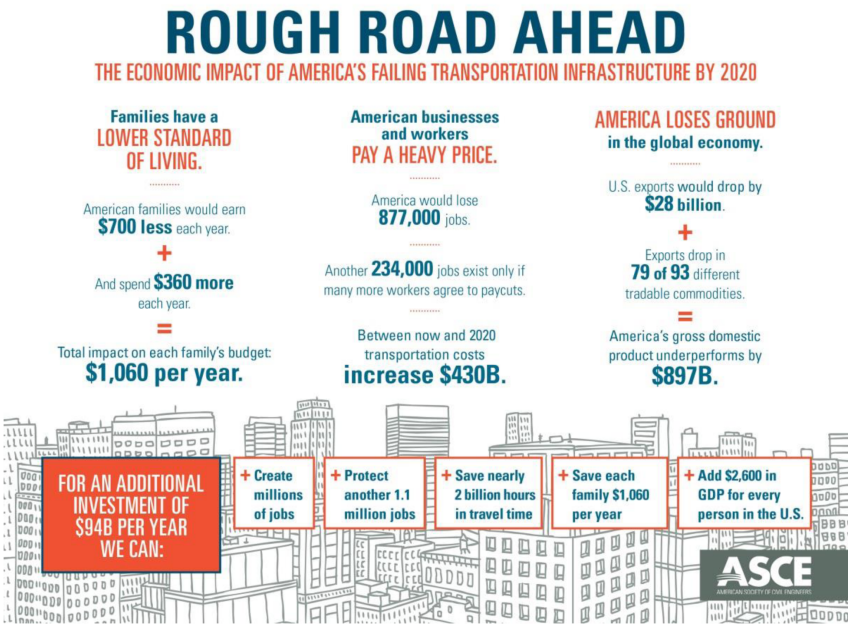
The Cost of Inaction

In an effort to demonstrate the importance of infrastructure investment to the state's economy, ASCE released a series of economic studies that aimed to answer a critical question: What does a "D+" infrastructure grade mean for America's economy and what is the return on investment we can expect to see with increased funding? In 2011, ASCE released a study that measured the potential impacts to the economy in 2020 and 2040 if the nation merely maintained current levels of surface transportation investments. It is important to note that should Congress produce a multi-year authorization bill that fails to increase funding levels, the year 2020 economic impact results of this study will become reality.

The study, *Failure to Act: the Economic Impact of Current Investment Trends in Surface Transportation Infrastructure,*[3] found that if investments in surface transportation are not made, families will have a lower standard of living, businesses will be paying more and producing less, and our state will lose ground in a global economy. The state's deteriorating surface transportation system will cost the American

[2] *www.infrastructurereportcard.org.*
[3] *www.asce.org/failuretoact.*

economy more than 876,000 jobs in 2020, and suppress the growth of the country's GDP by $897 billion by 2020 and ultimately, Americans will also get paid less. While the economy will lose jobs overall, those who are able to find work will find their paychecks cut because of the ripple effects that will occur through the economy.



Failure to Act also shows that failing infrastructure will drive the cost of doing business up by adding $430 billion to transportation costs by 2020. Firms will spend more to ship goods, and the raw materials they buy will cost more due to increased transportation costs. Productivity costs will also fall, with businesses underperforming by $240 billion by 2020; this in turn will drive up the costs of goods. As a result, U.S. exports will fall by $28 billion, including 79 of 93 tradable commodities. Ten sectors of the U.S. economy account for more than half of this unprecedented loss in export value—among them key manufacturing sectors like machinery, medical devices, and communications equipment. As a contrast, most of America's major economic competitors in Europe and Asia have already invested in and are reaping the benefits of improved competitiveness from their infrastructure systems.

Therefore, by improving the state's deteriorating surface transportation infrastructure systems both economic and job creation opportunities will be enhanced.

A Federal Responsibility

After General George Washington and his troops defeated the British in 1783, the nation was faced with a dilemma: The current governing document, the Articles of Confederation was not equipped to outline the rules that would govern the new United States. In order to better provide for the general welfare of the country by fostering trade, commerce and goods movement, the founding fathers made a strong commitment that there was to be a clear federal role in infrastructure development and transportation mobility. They underscored this, in part, by adding to Article 1, Section 8 the language that, "The Congress shall have power . . . to . . . establish . . . post roads."

In addition to the historical and constitutional context, there remains a practical reality to continued support for the federal surface transportation programs. Imagine what would happen if the federal government were to relinquish its responsibility in the blink of an eye. That action would represent one of the single largest unfunded mandates—nearly $50 billion a year that the federal government has ever

placed on states and localities. This would seem to go against the Unfunded Mandates Reform Act passed in 1995 that aimed to curb the practice of imposing unfunded federal mandates on states and local governments.

Absent a federal partner the National Highway System would still need to be preserved; roads, bridges and new transit systems built. Every state would have to work quickly to enact, on average, an immediate 24 cent per gallon gasoline tax increase or else risk having their entire transportation network fall further into disrepair. ASCE strongly opposes efforts to devolve the federal surface transportation program. That's an unnecessary risk that our economy, the public, and States and localities should not have to entertain. A robust, multi-year surface transportation bill is necessary to improve the system and deliver projects that require budget certainty.

Need for Robust, Long-Term Funding

Since the creation of the Interstate Highway System in 1956, the HTF has been supported by revenue collected from road users. This "pay-as-you-go" system has served the nation well over the past half a century, allowing states to plan, construct, and improve the surface transportation network. Additionally, the reliable stream of user-supplied revenue has been critical to the legislative process, because it has enabled Congress to guarantee the availability of multi-year funding to states.

The federal gas tax was last changed in 1993—over 20 years, creating a revenue shortfall in the HTF that increases each year. Currently, the HTF is allocating more than the revenues it receives, with the trust fund allocating $15 billion more than raised in 2014 alone. The Congressional Budget Office recently projected that the 6-year cumulative gap in the HTF will grow to approximately $90 billion by 2020.

The traditional basis of HTF funding, motor fuel user fees, have not been raised since 1993, yet every year demands on the system grow and the purchasing power of those 1993-dollars further degrades. As a result, current levels of highway and transit investment cannot be maintained solely with HTF resources. Over the last 6 years, Congress has had to dedicate approximately $60 billion from general fund revenues to shore-up the HTF. When the choices are either to cut funding, raid the general fund, or raise additional revenue, there are no easy options. It's time for Congress to lead the way on a solution to fix the HTF.

ASCE supports a reliable, long-term, sustained user fee approach to building, maintaining and improving the state's highways and transit systems and believes that all funding and financing options should be considered by Congress. We recently endorsed House legislation that would raise the federal fuels tax by 15 cents per gallon over the course of a 3 year period. In recent years the Simpson-Bowles Commission[4] and the National Surface Transportation Infrastructure Financing Commission,[5] among others, have come to the conclusion that additional user-based revenue is needed, with each suggesting an increase in the federal motor fuels tax. While the motor fuels tax remains the best long-term solution to solving the HTF shortfall in a fiscally responsible, deficit neutral way, a full range of options must be considered within the context of reauthorization, either within or outside of any broader tax reform package.

It is important to fix the inability of the fuels tax rate to maintain its purchasing strength because it is not indexed to economic indicators like the Consumer Price Index (CPI). An indexing of this sort is done with other government revenues and would allow the gas tax to remain strong despite the rising costs of steel, other building materials and worker pay. If adjusted to the projected CPI over the next 10 years, the current fuels tax would raise[6] an additional $27.5 billion, which is enough to plug the HTF shortfall for about 2 years. ASCE recommends raising the motor fuels tax by 25 cents per gallon and indexing for inflation to help meet our state's near-term surface transportation needs.

Facilitating Access to Private Capital

Innovative financing tools can greatly accelerate infrastructure development and can have a powerful economic stimulus effect compared to conventional methods, but need to be coupled with approaches that provide dedicated funding to the HTF. It should be noted, however, that innovative financing should not be viewed as an

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[4] *http://momentoftruthproject.org/report/recommendations.*
[5] *http://financecommission.dot.gov/.*
[6] *http://renacci.house.gov/index.cfm/2015/4/bipartisan-group-of-lawmakers-introduce-long-term-solution-to-address-highway-trust-fund*

alternative to funding. In fact, many times P3s are dependent upon securing public support on user fees like tolling.

ASCE supports innovative financing programs and the use of public-private partnerships (P3s) and advocates making programs available to all states and localities. Additionally, the federal government should make every effort assist public asset owners to engage in P3s and also facilitate engagement with private investors who are oftentimes in search of clear, accurate asset and project data that can help inform their infrastructure investment strategies.

Programs like Transportation Infrastructure Finance and Innovation Act (TIFIA), bonds, national and state infrastructure banks, and other innovative solutions like the President's Qualified Public Infrastructure Bonds (QPIBS) are attractive products to both the public and private sector to fill the state's infrastructure investment gap. In this sense, it would be helpful to see an even greater engagement by the private sector in the *funding* debate, and the need for additional public sector revenues, in order to make the most out of private *financing* opportunities.

Next Steps: Long-Term Revenue Mechanism

ASCE supports the need to address the issue of future sources of revenue for surface transportation funding. Congress should allow for the exploration of the feasibility of the most promising funding options that will ensure the long-term viability of the HTF. In particular, a mileage-based system for funding our state's surface transportation systems needs further study, and the recommendation of the National Surface Transportation Infrastructure Financing Commission[7] calling for a transition to a mileage-based user fee system must be considered. A federal effort to support further state and local pilot testing of these options, as a follow-up to the ongoing work being conducted in Oregon, should be supported. This experimentation at the state and community level will be critical in determining how to generate future HTF revenue as the state's dependence on gasoline as a fuel source for automobiles is reduced.

Conclusion

Surface transportation infrastructure is the critical engine supporting the nation's economy, national security, and public safety. To compete in the global economy, improve our quality of life and raise our standard of living, we must successfully rebuild America's surface transportation infrastructure for the 21st century. Faced with that task, Congress must continue to fund surface transportation projects and should approve a long-term, sustainable HTF revenue solution to complement MAP–21 policy reforms before the law expires on July 31, 2015. This long overdue combination would maximize the ability of federal resources to build and maintain a national surface transportation network that boosts economic competitiveness and job creation.

State of California

EDMUND G. BROWN JR., GOVERNOR

LUCETTA DUNN, Chair
BOB ALVARADO, Vice Chair

SENATOR JIM BEALL, Ex Officio
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CALIFORNIA TRANSPORTATION COMMISSION

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July 1, 2015

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[7] *http://financecommission.dot.gov/*

Senate Committee on Finance
Attn. Editorial and Document Section
Rm. SD–219
Dirksen Senate Office Building
Washington, DC 20510–6200

RE: United States Senate Committee on Finance, Committee Hearing Thursday, June 18, 2015, 10:00 AM—*Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding*

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 transportationinfrastructure 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: 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 Department of Transportation

Concrete Reinforcing Steel Institute (CRSI)

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Fax 847.517.1206 | *www.crsi.org*

June 17, 2015

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
U.S. Senate
Washington, D.C.

Re: Hearing June 18, 2015, *Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding*

Dear Chairman Hatch and Members of the Committee on Finance:

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 W–2 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.

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 it's founding—citizens willing to pay.

We have patched, extended, delayed and dallied for far too many months. The country needs a serious, 6-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,

Scott D. Stevens, PE
Chairman of the Board
Concrete Reinforcing Steel Institute

STATEMENT SUBMITTED FOR THE RECORD BY DEAN FRY

Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding
United States Senate Committee on Finance
Thursday, June 18, 2015, 10:00 AM
215 Dirksen Senate Office Building

Dean Fry
10727 Saint Matthew Lane
Saint Ann, MO 63074

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.

- 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.

- 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 and/or 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.

- 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.

- 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 fallingmore 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.

- 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 1 year to the next, due to valuation increases, could be set aside for transportation expansion to encourage continued growth and soften some downturns.

- Fuel Excise Tax (used 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.

- 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.

- 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.

- 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.

- 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 of tunnels of longer than 2,000 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 used 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:

- 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.
- Over a 6 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 that what is done now and fit well with the types-of-projects funded with federal dollars.

- 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 6 years. The regulations should allow this funding to continue to grow as the economy grows.
- Use repatriation to fund certain "mega projects" 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.

Great Lakes Metro Chambers Coalition

June 16, 2015

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch:

The following statement of Ed Wolking, Jr., Executive Director, Great Lakes Metro Chambers Coalition is provided for the record of the Committee's June 18, 2015 hearing on long-term financing of the Highway Trust Fund. I am also the Executive Vice President, Detroit Regional Chamber, One Woodward Avenue, Suite 1900, Detroit, MI 48226.

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,

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 and 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

Highway Materials Group

ACAA

ACPA *www.acpa.org*

Associated Equipment Distributors (AED)

Association of Equipment Manufacturers (AEM)

Concrete Reinforcing Steel Institute (CRSI)

National Asphalt Pavement Association (NAPA)

National Ready Mixed Concrete Association (NRMCA)

National Stone, Sand and Gravel Association (NSSGA)

Portland Cement Association (PCA)

Comments for the Record

submitted to the

United States Senate Committee on Finance

Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding

June 18, 2015

Dear Chairman Hatch, Ranking Member Wyden, and esteemed members of the Finance 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 6-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 a 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 lease 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 6 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.

INSTITUTE ON TAXATION AND ECONOMIC POLICY (ITEP)

Informing the debate over tax policy nationwide

Adding Sustainability to the Highway Trust Fund

Testimony for the Senate Committee on Finance
For the hearing entitled:
"Dead End, No Turn Around, Danger Ahead:
Challenges to the Future of Highway Funding"

Carl Davis, Research Director
Institute on Taxation and Economic Policy (ITEP)

June 18, 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 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 nu-

[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.

merous 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 put the HTF 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 HTF'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 Shows 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, 16 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 19 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

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[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/vm1.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.*

[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.*

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 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.

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

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[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.

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 Barrack 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 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 the 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 60 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 RTF's perpetual funding crises for decades to come, and the beginning of hugely valuable investments in the nation's transportation infrastructure.

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June 18, 2015
For Immediate Release

[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/1b24c4cf-6005-4a4e-bab7-3d9e3820c509/JCT%206-6-14.pdf.*

Statement

Senate Committee on Finance
Hearing on Challenges to the Future of Highway Funding

The Mileage-Based User Fee Alliance (MBUFA) is a national non-profit organization that brings together government, business, academic, and transportation policy leaders to conduct education and outreach on the potential for mileage-based user fees as an alternative for future funding and improved performance of the U.S. transportation system.

Jim Whitty is former Vice Chair of MBUFA and the manager of Oregon Department of Transportation's Office of Innovative Partnership Programs. He has led the development and now implementation of Oregon's mileage-based user charge system and he made the following comment:

"Oregon was the first state to adopt the gas tax in 1919 and you could say that we were the first state to notice that it was going awry. In 2001, the state legislature established a task force to create a new revenue system for highways. The recommendation was a per-mile charge as the most viable alternative to the gas tax. After 14 years of research and pilot programs, Oregon will launch on July 1st, a road user charge system for 5,000 volunteers that will have three types of mileage reporting from three providers so that users have choices for what system to use. Through our pilot programs we have learned that providing system choice and making clear that government will not be tracking drivers is critical to responding to drivers' concerns about privacy."

Adrian Moore, Ph.D., is vice president for education and an MBUFA board member. He is also vice president of policy at Reason Foundation, a non-profit think tank advancing free minds and free markets. He served as a commissioner on the National Surface Transportation Infrastructure Financing Commission which was established by Congress. He made the following comment:

"The gas tax used to be a reasonably good way to pay for transportation. If you look into the future, you can see its weaknesses are growing and the strengths are shrinking. Nothing is going to change that. Eventually, it will quit being an effective mechanism and it's going to have to be replaced. The question is what is the most efficient and effective method to pay for transportation and infrastructure? And that would a fee on use of transportation infrastructure. User fees have many inherent advantages over taxes because they are related to the usage of the system. When usage goes up, revenue tends to go up; when usage goes down, revenue tends to go down. It sends signals to the system much like prices do in the market. On the Transportation Financing Commission we spent 2 years evaluating the strengths and weaknesses of every tax and every fee that we could think of or that anyone could suggest to us. The mechanism that stood out as being efficient, effective, equitable and sustainable was the mileage based user fee."

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Robyn Boerstling
Director, Transportation and Infrastructure Policy
Infrastructure, Legal and Regulatory Policy

June 18, 2015

The Honorable Orrin G. Hatch
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
United States Senate
Washington, DC 20510

Dear Chairman Hatch and Ranking Member Wyden:

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 appre-

ciate 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 the Senate 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.

Manufacturers welcome the Administration, the House and Senate 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,

Robyn Boerstling

American Truck Dealers Division

National Automobile Dealers Association

8400 Westpark Drive
McLean, VA 22102

A Hearing Entitled

"Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding"

Before the Senate Finance Committee

June 18, 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.

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

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[1] "Projections of Highway Trust Fund Accounts," CBO March 2015 Baseline, issued January 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.

[3] Scott Grenerth (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.*

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 Dealers Association, Navistar, NTEA—The Association for the Work Truck Industry, Owner Operator Independent Drivers Association, Recreation Vehicle Industry Association, Truck and 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.

National Conference of State Legislatures

The Forum for America's Ideas

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STATEMENT FOR THE RECORD BY
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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

DEAD END, NO TURN AROUND, DANGER AHEAD: CHALLENGES TO THE FUTURE OF HIGHWAY FUNDING

TO THE
COMMITTEE ON FINANCE,
UNITED STATES SENATE

JUNE 18, 2015

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 Hatch, Ranking Member Wyden, and the other distinguished members of the Senate Finance 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 to-

[6] FHWA, Office of Highway Policy Information, October 2012 to September 2013: *http://www.fhwa.dot.gov/policyinformation/statistics/2013/fe10.cfm.*

gether to ensure a safe and reliable surface transportation system throughout the country.

As you know, on August 1st 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 2½ years, state legislators in more than a quarter of states, from Maryland and Virginia to Utah 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.

[1] American Society of Civil Engineers. "2013 Report Card for America's Infrastructure." May 2013. *http://www.infrastructurereportcard.org/*.

- 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

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STATEMENT SUBMITTED FOR THE RECORD BY KENNETH ORSKI

A Conservative Vision for the Future of the Highway Trust Fund

Submitted to the Senate Committee on Finance in response to its invitation for written comments in connection with the hearings on long-term financing of the highway trust fund, June 18, 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 fiscal year 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 6 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 6 to 10 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 18th Senate hearing, at the end of fiscal year 2014, $65 billion in contract authority had been obligated but not spent and another $6 billion was still available but not yet obligated, for a total of $91 billion in contract authority. These unliquidated obligations represent more than 2 years' worth of tax receipts. (*The Status of the Highway Trust Fund,* testimony by Joseph Kile, June 18, 2015).

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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 18th 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.

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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 2 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 2 years and sent the bill to the Governor. **Nebraska:** The Nebraska legislature approved a 6 cent/gallon gas tax increase over the next 4 years, eventually expected to generate $76 million annually. **Tennessee:** Gov. Bill Haslam released a 3-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 1st. 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, 2-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 5 to 10 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 fiscal year 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 5 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 5 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.

PeopleForBikes Business Network

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Statement for the Record By Jenn Dice, Vice President, Business Network, PeopleForBikes
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Senate Finance Committee Hearing
Dead End, No Turn Around, Danger Ahead:
Challenges to the Future of Highway Funding
June 18, 2015

Chairman Hatch, Ranking Member Wyden, and Members of the Committee, thank you for the opportunity to provide input on the need to find a long-term solution to financing the Highway Trust Fund.

PeopleForBikes Business Network represents the bicycle industry ranging from retailers to suppliers to manufacturers in communities across the country. Bicycling contributes significantly to the national, state and local economics. PeopleForBikes Business Network has 1,825 business members who depend on very modest federal investments in bike infrastructure to grow their businesses.

Bicycling directly generates $81 billion annually for the United States economy—a figure that includes more than $10 billion in state and local tax revenues. More than 750,000 U.S. jobs are supported by the bicycling industry. Across Utah, there are 235 bicycle retailers, employing 1,215 people, with $198.9 million in annual sales. In Oregon, there are 282 bicycle retailers, employing 1,493 people, generating $121.6 million in annual sales.

Bicycling means business—and this business depends on a transportation system that not only provides safe places to bike but also the efficient shipment of our product to market. For these reasons, the U.S. bicycle industry supports a well-funded federal transportation program not only because it improves bicycle infrastructure, but also because the shipping of our products from factory to warehouse to retail point of sale depends on a well-maintained and connected transportation system. Close to 18 million bikes are sold in the U.S. every year.

Communities across the country are realizing the economic development potential that comes from an integrated transportation system, where bicycle infrastructure is just one part of their larger system to efficiently move goods to market and reduce congestion during the morning and evening commute. For example, Indianapolis cites the construction of the eight-mile Cultural Trail with attracting at least $100 million in new investment in the city. Continued federal investment in bicycle infrastructure is essential to helping more communities capitalize of bicycling to meet their transportation challenges.

Commuting by bicycle has doubled since 2000, and a new study shows that one in four Americans rode a bicycle last year or 103 million people. Also, half the trips Americans take are 4 miles or less. We are seeing a growth in Americans who look to the bicycle for these short trips. For example, a trip to the grocery store that is a few miles from their house to pick up a few items. As more of these trips are taken by bike, road congestion, air pollution and parking infrastructure needs are all reduced. This saves our nation money.

Finding a long-term funding solution to the Highway Trust Fund is critical to states and communities across the country to meet the needs of their transportation system, including the construction of good bicycle infrastructure. Without the certainty of a long-term funding solution many states and communities will hold back on investing in projects due to the lack of certainty that they will receive a reimbursement from the federal government for transportation projects that have a multiyear construction timeline.

We look forward to working with the Committee to find a long-term funding solution to the Highway Trust Fund that recognizes our integrated transportation system.

Statement for the Record

Hearing: Dead End, No Turn Around, Danger Ahead: Challenges to the Future of Highway Funding

Committee on Finance
United States Senate

June 18, 2015

Submitted by: The Real Estate Roundtable
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On behalf of the following organizations:

Alternative and Direct Investment Securities Association
American Hotel and 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

As the Senate Committee on Finance 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 the Real Estate Investment and Jobs Act of 2015 (S. 915/H.R. 2128).

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

[1] Deloitte, *REITs and Infrastructure Projects* (2010), *available at: http://www2.deloitte.com/content/dam/Deloitte/mx/Documents/bienes-raices/REITs_infrastructure_proyects.pdf.*

States is far behind other regions of the world in harnessing private investment for infrastructure development.[2]

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 U.S. 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 U.S. 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-U.S. 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 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 inex-

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[2] OECD, *Pension Funds Investment in Infrastructure: A Survey* (2011), *available at: http://www.oecd.org/sti/futures/infrastructureto2030/48634596.pdf.*

[3] Internal Revenue Service, Announcement 2008–115 (December 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).

[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-h-lee/lets-at-least-have-a-sens_b_3112325.html.*

tricably 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 most recent FIRPTA reform proposal, the Real Estate Investment and Jobs Act of 2015 (H.R. 2128), introduced by Representatives Kevin Brady (R–TX) and Joseph Crowley (D–NY), 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 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 2 months, H.R. 2128 has already attracted the co-sponsorship of 31 of the 39 members of the Ways and Means Committee.

The Brady-Crowley bill is nearly identical to an amendment filed by Senators Robert Menendez (D–NJ) and Michael Enzi (R–WY) when the Senate Finance Committee considered Highway Trust Fund legislation last year. For several years, Senators Menendez and Enzi have led the effort in the Senate to unlock foreign capital for investment in U.S. commercial real estate.

In February, under the leadership of Senators Menendez and Enzi, as well as Chairman Orrin Hatch (R–UT) and Ranking Member Ron Wyden (D–OR), the Senate Finance Committee unanimously passed another version of FIRPTA reform (S. 915), which increases the cap on foreign ownership of U.S. publicly traded REITs. 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 Senate Finance 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.

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[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.*

We look forward to working with the Committee to advance meaningful FIRPTA reform in the context of Highway Trust Fund legislation.

Tire Industry Association

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Dr. Roy Littlefield
Executive Vice President

Finance Committee

U.S. Senate

June 18, 2015

Mr. Chairman and members of the Finance 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 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		Distribution of Taxes to the HTF		Non-HTF
Fuel	Tax Rate (per gallon)	Highway Account	Mass Transit Account	Leaking Underground Storage Tank Trust Fund
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 two 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, five Republican Senators and three 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 finding bill. TIA, along with the highway, transit, trucking, and motorist communities, is committed to supporting your efforts.

Transportation Equity Caucus

Statement for the Hearing Record

Submitted to:
Senate Finance Committee
June 18, 2015

Hearing on:
"Dead End, No Turn Around, Danger Ahead:
Challenges to the Future of Highway Funding"

Chair Hatch, Ranking Member Wyden, and members of the Committee:

As members of the Transportation Equity Caucus, a diverse coalition of organizations promoting policies that ensure access, mobility, and opportunity for all, we appreciate the opportunity to submit this statement for the record today to express our priorities for the financing of the Highway Trust Fund.

The Transportation Equity Caucus is a group of more than 100 organizations formed by the nation's leading civil rights, community development, social justice, economic justice, faith-based, health, housing, disability, labor, tribal, women's

groups and transportation organizations. Our goal is to drive transportation policies that advance economic and social equity in America.

Transportation is a critical link to opportunity-connecting us to jobs, schools, housing, health care, and grocery stores. We are pleased that the Senate Finance Committee (Committee) recognizes the importance of creating a long-term plan for the financing of the Highway Trust Fund. In addition, we look forward to working with Congressional Leaders to develop and pass transportation legislation driven by the following principles of economic and social equity:

- Create affordable transportation options for all people.
- Ensure fair access to quality jobs, workforce development, and contracting opportunities in the transportation industry.
- Promote healthy, safe, and inclusive communities.
- Invest equitably and focus on results.

Failing to provide the long-term, sustained investment in transportation infrastructure keeps workers out of jobs, undercuts long-term planning, and hinders the nation's ability to advance to a transportation system that provides for the needs of all its users. Sustained transportation investment is crucial to developing equitable communities, expanding employment opportunities, and boosting our nation's economic recovery.

As a recent *New York Times* article highlighted,[1] a lack of reliable and efficient transportation is often an almost insurmountable barrier for low-income people trying to access jobs and build better lives for themselves and their children. **Three-fourths of low-and middle-skill jobs cannot be accessed by a one-way 90-minute transit commute.**[2] Also, in a national, long-term study,[3] researchers at Harvard found commute times were a crucial predictor of upward social mobility: families living in areas with shorter average commute times had a better chance of moving up the economic ladder than those living in areas with longer average commute times.

Moreover, low-income households are struggling with significant transportation costs:

- Low- and moderate-income households spend **42 percent of their total annual income on transportation,** compared to middle-income households, who spend less than 22 percent.
- According to the U.S. Department of Treasury, transportation expenses for households in the bottom 90 percent income bracket are twice that of those in the top 10 percent income bracket.

Additionally, many communities of color and low income populations face barriers to accessing reliable transportation. Over 22 percent of African Americans, 14 percent of Latino households **and 45 percent of U.S. rental households with mobility device users have no personal vehicle,**[4] and 15 percent of Native Americans must **travel more than 100 miles to access basic services.**

Adequate Federal transportation investments can lay a strong foundation for economic growth and expand opportunity for millions of people. Strategic Federal investments in transportation can transform struggling communities, unleash untapped human potential, and promote local economic development to allow all people to thrive. When transportation funding decisions are driven by economic and social equity, we can build transportation system that works for everyone, regardless of income, race or zip code. To this end, we ask the Committee to:

1. Utilize new revenue to expand or improve mobility and access for underserved communities.

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[1] Bouchard, Mikayla. "Transportation Emerges as Crucial to Escaping Poverty." *http://www.nytimes.com/2015/05/07/upshot/transportation-emerges-as-crucial-to-escaping-poverty.html?abt=0002&abg=1&_r=1.*

[2] Sources: Bureau of Labor Statistics, 2008; National Household Travel Survey, 2009; U.S. Department of Treasury, Community Development Financial Institutions Fund, 2001; and Brookings Institution, 2011.

[3] Chetty, R., N. Hendren, P. Kline, and E. Saez. "Where Is the Land of Opportunity? The Geography of lntergenerational Mobility in the United States." The Quarterly Journal of Economics 129.4 (2014): 1553–623. Web.
http://scholar.harvard.edu/files/hendren/files/mobility_geo.pdf.

[4] The University of Kansas Research and Training Center on Independent Living, *http://www.rtcil.org/~rtcil/cl/documents/US%20Housing%20urban&rural%20tagged%20logo.pdf.*

2. Ensure that any mechanisms used to finance our nation's transportation system (whether that be repatriation, increasing the gas tax, user fees, or other potential financing mechanisms) do not disproportionately burden low-income people.
3. Work with the House Transportation and Infrastructure Committee to establish criteria and align federal funding to national transportation outcomes such as improved mobility for people and goods, access, transit ridership, health and safety, as well as reduced household costs, carbon emissions, and vehicle miles traveled.

The Transportation Equity Caucus stands ready to work with this committee on these outcomes. For more information, please contact the co-chairs of the Transportation Equity Caucus: Anita Hairston, PolicyLink, 202–906–8034, *anita@policylink.org* or Emily Chatterjee, The Leadership Conference on Civil and Human Rights, 202–466–3648, *chatterjee@civilrights.org*.