

AMERICAN ASSOCIATION
OF STATE HIGHWAY AND
TRANSPORTATION OFFICIALS

AASHTO

TESTIMONY OF

Jim Tymon

**Director of Policy and Management / Chief Operating Officer
American Association of State Highway and Transportation Officials**

REGARDING

**Condition of Our Nation's Transportation System
and Financing Options to Sustain Long-term
Growth**

BEFORE THE

**Subcommittee on Transportation, Housing and
Urban Development, and Related Agencies of the
Committee on Appropriations of the
United States Senate**

ON

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INTRODUCTION

Chairman Collins, Ranking Member Reed, and Members of the Subcommittee, thank you for the opportunity to provide input on the condition of our nation's transportation system and funding and financing options to sustain long-term growth. My name is Jim Tymon, and I serve as the Director of Policy and Management and Chief Operating Officer at the American Association of State Highway and Transportation Officials (AASHTO). Alongside David Bernhardt, our Association's President and Commissioner of the Maine Department of Transportation, today it is my honor to also testify on behalf of AASHTO, which represents the departments of transportation (state DOTs) of all 50 States, Washington, DC, and Puerto Rico.

My testimony today will emphasize five main points:

- Instability in federal surface transportation funding due to recurring Highway Trust Fund shortfalls;
- Examination of well-documented surface transportation capital investment needs;
- Additional revenues needed simply to support current spending levels;
- Policy considerations on surface transportation revenue options, and;
- Critical importance of direct program funding relative to financing.

INSTABILITY IN FEDERAL SURFACE TRANSPORTATION FUNDING DUE TO RECURRING HIGHWAY TRUST FUND SHORTFALLS

I would like to first begin by expressing the State departments of transportation's utmost appreciation for your Committee's leadership, along with your Senate and House colleagues on partner committees, in shepherding the Fixing America's Surface Transportation (FAST) Act in December 2015 to ensure stability in the federally supported passenger rail, freight, safety, highway, and transit programs through 2020. While the five years authorized under the FAST Act has given us a crucial yet temporary reprieve, the case for maintaining a strong federal role and investment in transportation remains as important as ever.

As we prepare for the post-FAST Act years, the federal surface transportation program funding remains at a crossroads. While the Highway Trust Fund (HTF) has provided stable, reliable, and substantial highway and transit funding over many decades since its inception in 1956, this is no longer the case. Since 2008, the HTF has been sustained through a series of General Fund transfers now amounting to over \$140 billion. And according to the January 2017 baseline of the Congressional Budget Office (CBO), HTF spending is estimated to exceed receipts by about \$17 billion in FY 2021, growing to about \$24 billion by FY 2027. Furthermore, the HTF is expected to experience a significant cash shortfall in FY 2021, since it cannot incur a negative balance.

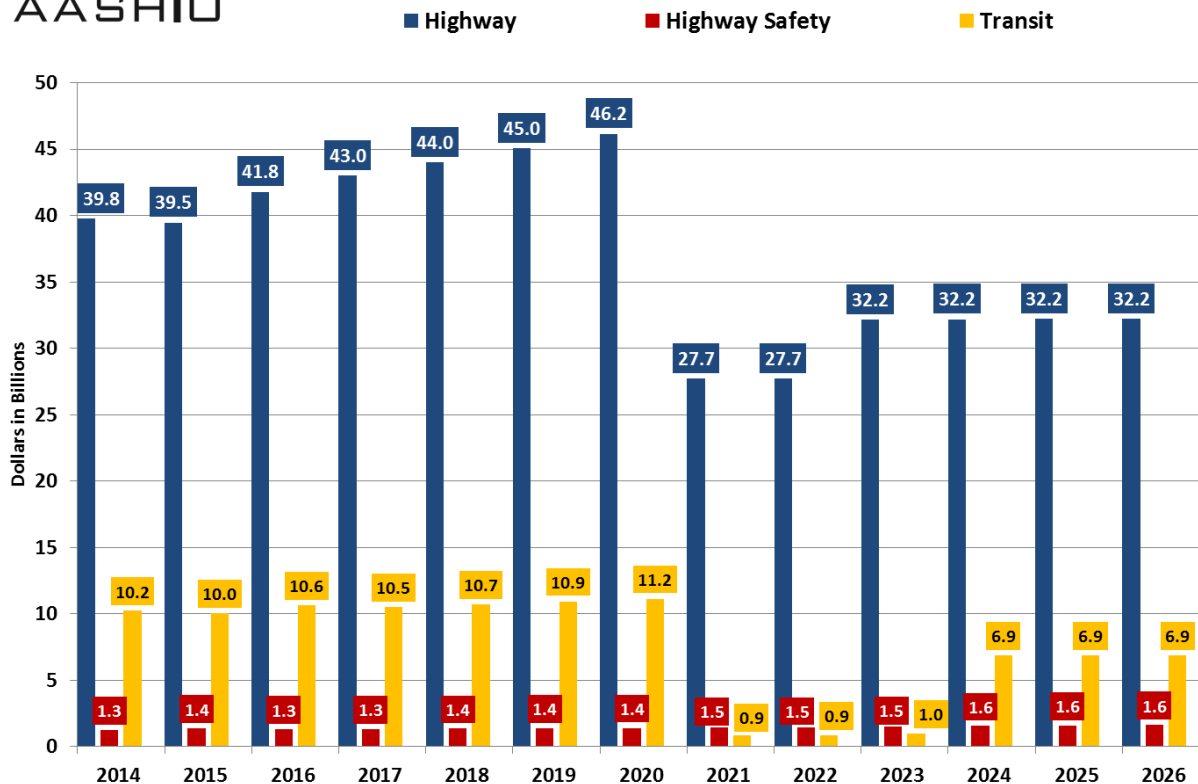
CBO projects that based on the current funding levels for surface transportation, the HTF will need at least \$144 billion to remain solvent through FY 2027, which includes the minimum prudent balance of \$4 billion for the Highway Account and \$1 billion for the Mass Transit Account. To support a five-year FAST Act reauthorization (FY 2021-2025), the necessary additional HTF deposits or increased tax receipts needed total about \$95 billion; to support a six-year bill, about \$120 billion would be necessary.

Framing this HTF “cliff” in terms of federal highway obligations, we estimate that states may see a 40 percent drop from FY 2020 to the following year - from \$46.2 billion to \$27.7 billion. In the past, such similar shortfall situations have led to the possibility of reduction in federal reimbursements to states on existing obligations, leading to serious cash flow problems for states and resulting project delays. Even more alarmingly, due to a steeper project shortfall in the Mass Transit Account, federal transit obligations are expected to be zeroed out between FY 2021 and FY 2023 excluding “flex” of highway dollars to transit. Simply put, this is a devastating scenario that we must do all we can to avoid.

EXHIBIT 1. ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2020 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



ESTIMATED FEDERAL HIGHWAY TRUST FUND OBLIGATIONS



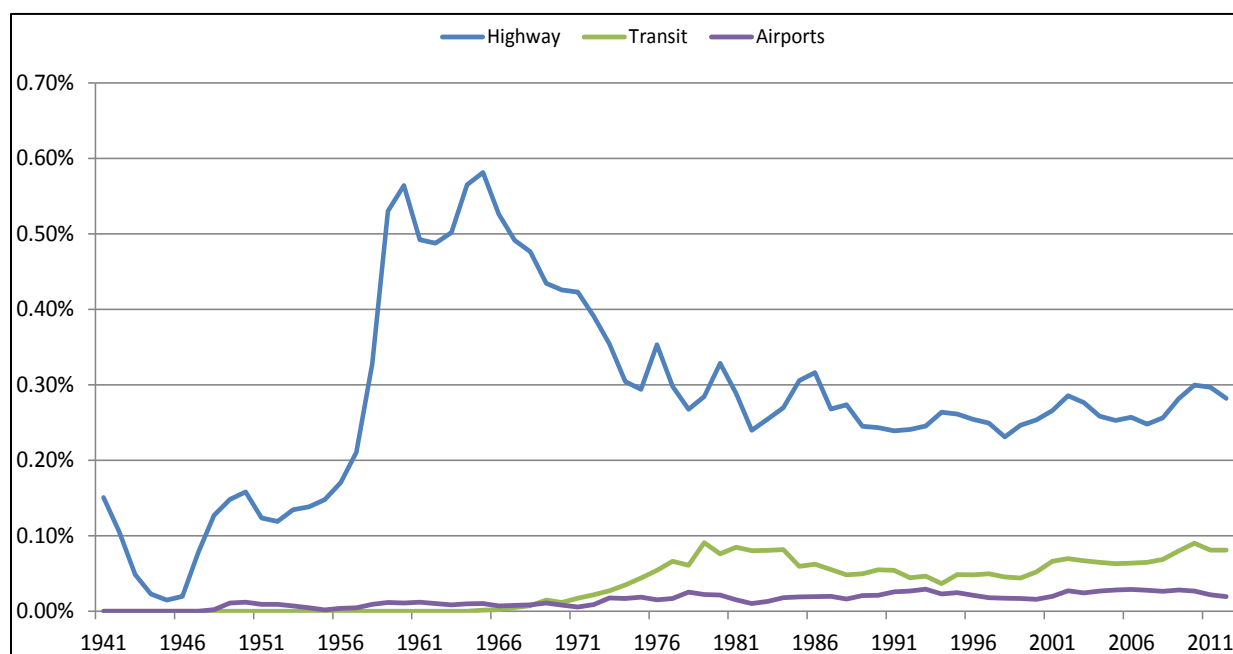
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**EXAMINATION OF WELL-DOCUMENTED SURFACE TRANSPORTATION
CAPITAL INVESTMENT NEEDS**

Despite federal funding challenges, investment needs continue to mount. According to the US Department of Transportation’s (USDOT) *2015 Conditions and Performance Report*, \$142.5 billion in annual capital investment is necessary for highways in order to improve Interstate Highways, the National Highway System, and one million-plus miles of Federal-aid Highways. Put another way, annual funding necessary to tackle this \$836 billion backlog of highway investment needs would represent a 35.5 percent increase from 2012 levels, which itself was above the baseline spending levels due to outlays related to the temporary funding boost provided by the American Recovery and Reinvestment Act. Similar funding outlook exists for federal mass transit investment. The *Conditions and Performance Report* states that low- and high-growth scenarios for transit will necessitate annual capital investment of \$22.8 billion and \$26.4 billion, respectively, equating to a 34 or 55 percent increase over 2012 levels.

However, in the recent decades—especially after the completion of the Interstate Highway System—federal investment in transportation has declined significantly as a share of the Gross Domestic Product (GDP).

EXHIBIT 2. FEDERAL TRANSPORTATION SPENDING AS PERCENT OF GDP

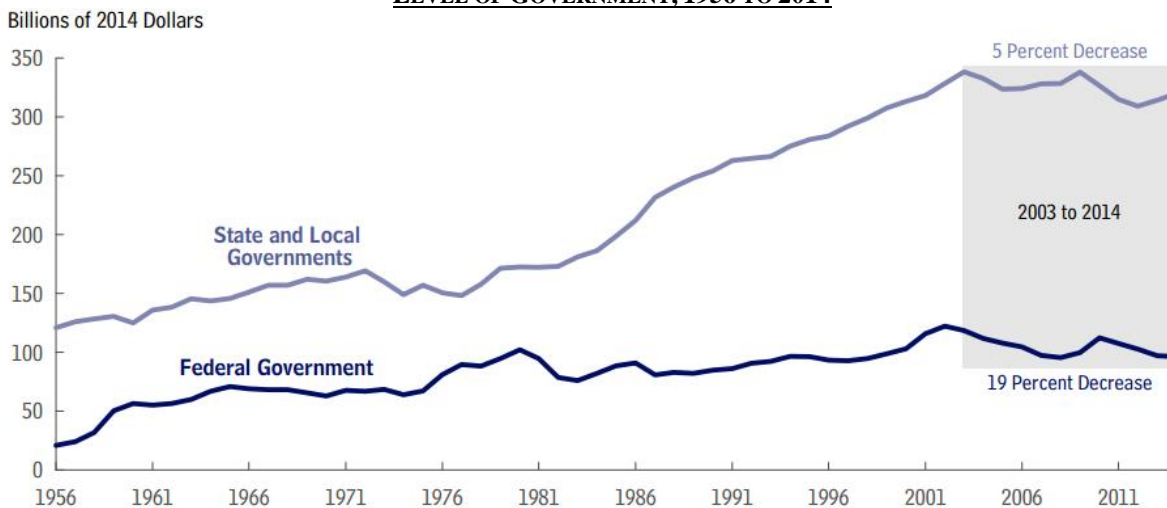


Sources: Congressional Budget Office, Office of Management and Budget

Given that much of the Interstate system has now reached the end of its design life and must be reconstructed or replaced—and there is considerable need for additional capital improvements to the broader federal-aid highway network and the country’s transit system—there is a strong argument that the federal government should strive to return to this prior level of investment relative to the national economy. Yet the federal government’s share of transportation and water

spending has actually been falling behind relative to state and local governments, as evidenced by its 19 percent drop between 2003 to 2014; during the same timeframe total state and local spending saw a 5 percent decline.

EXHIBIT 3. INFLATION-ADJUSTED PUBLIC SPENDING ON TRANSPORTATION AND WATER INFRASTRUCTURE, BY LEVEL OF GOVERNMENT, 1956 TO 2014



Sources: Congressional Budget Office based on data from the Office of Management and Budget, the Census Bureau, and the Bureau of Economic Analysis

States are expected to reverse this decline in the coming years, however, thanks to a series of successful enactments of state-level transportation packages, numbering 23 states since 2012.

Our nation’s freight network is an especially illuminating example of the capital investment backlog in our transportation infrastructure. Freight received a targeted funding boost to the tune of about \$11 billion through the new National Highway Freight Program and the Nationally Significant Freight and Highway Projects—also known as FASTLANE Grants—in the FAST Act. While we welcome this new federal investment and focus on the freight network, it is important to provide some context regarding the scale of the need for these projects. According to the nationwide survey conducted for the *State of Freight II* report published by AASHTO and the American Association of Port Authorities last year, 57 percent of surveyed states have already identified 6,202 projects through their freight plan development process. Furthermore, \$259 billion in project costs have been identified by just 35 percent of all states – therefore we know the national figure is much higher.

At the same time, we continue to fall behind global peers in infrastructure quality and economic competitiveness. The recent *Global Competitiveness Report* rankings from the World Economic Forum on infrastructure quality has listed the United States at just 11th place overall.

EXHIBIT 4. US INFRASTRUCTURE QUALITY RANKINGS

↕↕ 2nd pillar: Infrastructure	11
2.01 Quality of overall infrastructure	12
2.02 Quality of roads	13
2.03 Quality of railroad infrastructure	13
2.04 Quality of port infrastructure	10
2.05 Quality of air transport infrastructure	9
2.06 Available airline seat kilometers millions/week	1
2.07 Quality of electricity supply	17
2.08 Mobile-cellular telephone subscriptions /100 pop.	66
2.09 Fixed-telephone lines /100 pop.	25

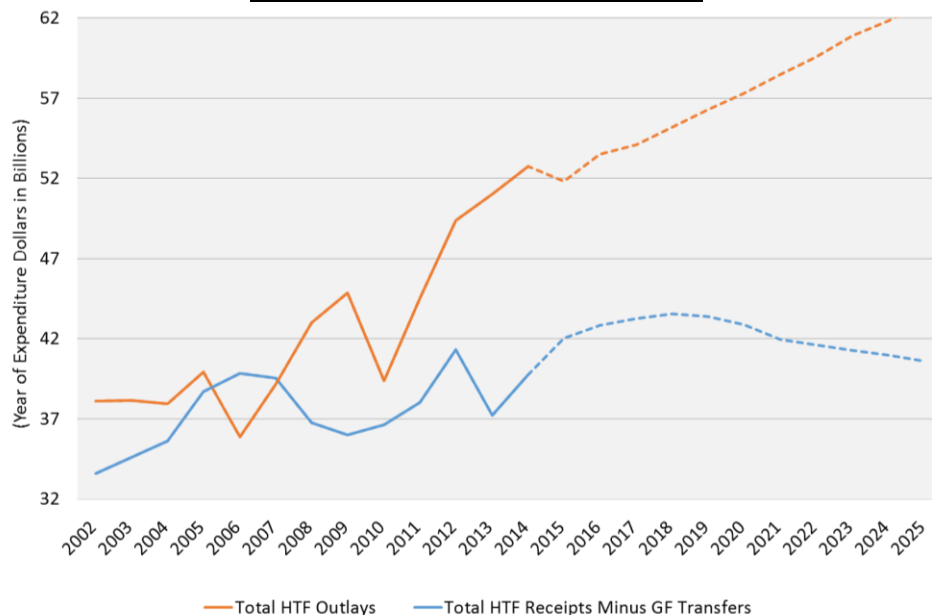
Sources: *The Global Competitiveness Report 2016-2017*

In light of continued population growth and increases in freight movements for all modes, capacity enhancements—and not just maintenance of existing infrastructure stock—must remain a key element of the national transportation investment strategy. A potentially catastrophic disruption to the federal transportation program in FY 2021 will produce serious losses that threaten the macroeconomic gains made since 2008.

ADDITIONAL REVENUES ARE NEEDED SIMPLY TO SUPPORT CURRENT SPENDING LEVELS

While the HTF continues to derive about 90 percent of its revenues from taxes on motor fuels, they are facing an increasingly unsustainable long-term future, therefore placing the viability of the HTF in question.

EXHIBIT 5. HIGHWAY TRUST FUND DISCREPANCY IN RECEIPTS AND OUTLAYS EXCLUDING GENERAL FUND TRANSFERS



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Three factors explain the structural challenge faced by long-term motor fuel tax revenue prospects.

First is the slowdown in the growth of vehicle miles traveled (VMT) in the United States, on an aggregate basis. A steady increase in VMT has allowed the HTF to see corresponding revenue increases without necessitating constant adjustments in fuel tax rates for most of its existence. While total VMT has resumed its growth in the last two years due to increases in both population and economic activity in the post-recessionary environment, it is unlikely to see the 3.2 percent growth rate experienced on average between 1956 and 2007.

Second, 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 24 years ago in 1993. As an 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 2015, and is expected to lose more than half of its value—or 52 percent—by 2025. Put another way, while college tuition has increased by 379 percent and healthcare by 180 percent in nominal costs since the last time federal motor fuel taxes were increased, federal motor fuel taxes have stayed at the exact same rate during this period.

EXHIBIT 6. PURCHASING POWER LOSS OF THE GAS TAX RELATIVE TO OTHER HOUSEHOLD EXPENSES

Sample of Nominal Price Changes Relative to Federal Gas Tax

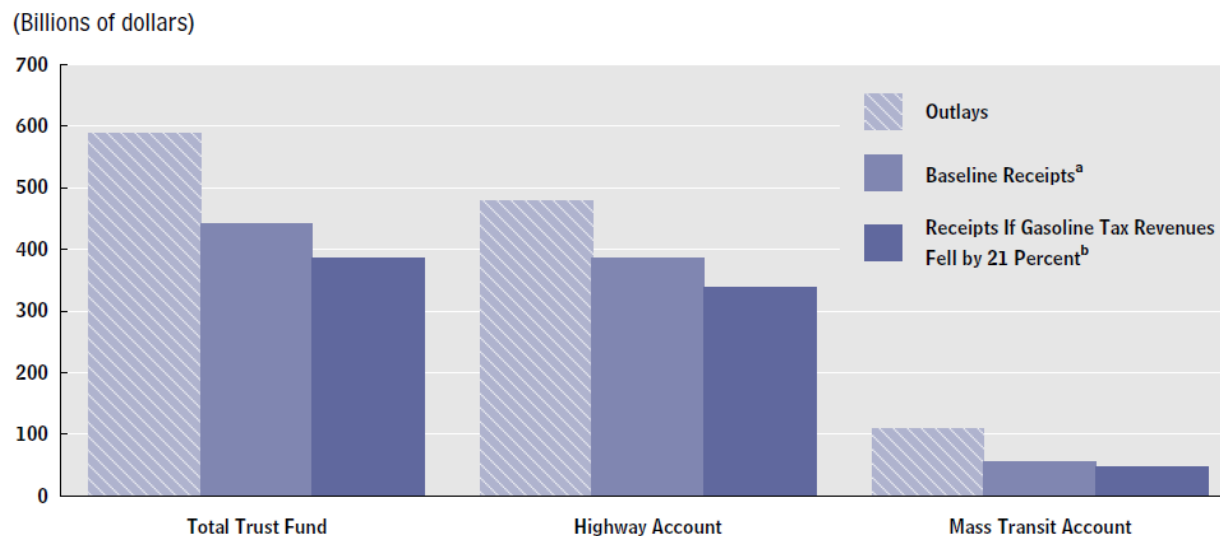
Item	Description	1993	2015	Percent Change
College Tuition	Average Tuition & Fees at Public 4-year Universities	\$ 1,908	\$ 9,145	379%
Healthcare	National Expenditure Per Capita	\$ 3,402	\$ 9,523	180%
House	Median New Home Price	\$118,000	\$292,000	147%
Gas	Per Gallon	\$ 1.08	\$ 2.56	137%
Beef	Per Pound of Ground Beef	\$ 1.97	\$ 4.38	122%
Movie Ticket	Average Ticket Price	\$ 4.14	\$ 8.43	104%
Bread	Per Pound of White Bread	\$ 0.75	\$ 1.48	98%
Income	National Median Household	\$ 31,241	\$ 56,516	81%
Stamp	One First-Class Stamp	\$ 0.29	\$ 0.49	69%
Car	Average New Car	\$ 16,871	\$ 25,487	51%
Federal Gas Tax	Per Gallon	\$ 0.18	\$ 0.18	0%

Source: Bureau of Labor Statistics, Center for Medicare and Medicaid Services, College Board, Federal Reserve Bank of St. Louis, Oak Ridge National Laboratory, Census Bureau, Energy Information Agency, Postal Service

Third, according to the CBO, the recent increases in Corporate Average Fuel Economy standards are expected to cause a significant reduction in fuel consumption by light-duty vehicles, which would result in a proportionate drop in gasoline tax receipts. CBO expects gradual lowering of gasoline tax revenues, eventually causing them to fall by 21 percent by 2040. Just in the 2012 to 2022 period, CBO estimates that such a decrease would result in a \$57 billion drop in revenues

credited to the fund over those 11 years, a 13 percent reduction in the total receipts credited to the fund.

EXHIBIT 7. PROJECTED OUTLAYS AND RECEIPTS OF THE HIGHWAY TRUST FUND BY ACCOUNT, 2012-2022



Source: Congressional Budget Office

POLICY CONSIDERATIONS ON SURFACE TRANSPORTATION REVENUE OPTIONS

While its annual cash imbalance widens, the HTF cannot incur a negative balance unlike the General Fund. This situation leads to three possible scenarios for FY 2021:

1. Provide additional General Fund transfers to the HTF in order to maintain the current level of investment and prevent a dramatic drop;
2. Provide additional receipts to the HTF by adjusting existing revenue mechanisms or implementing new sources of revenue, or;
3. Reduce federal highway obligations supported by the HTF by 40 percent in FY 2021 and beyond, and reduce federal transit obligations supported by the HTF by 100 percent for three years.

In order to support the first two scenarios where current highway and transit investment levels are maintained or increased, there is no shortage of technically feasible tax and user fee options that Congress could consider.

EXHIBIT 8. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

Existing Highway Trust Fund Revenue Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	\$ in Billions	
			Assumed 2014 Yield	Total Forecast Yield 2015–2020
Motor Fuel Tax—Diesel	15.0¢	¢/gal increase in current rate (approx. 10% increase in total rate)	\$6.54	\$41.79
Motor Fuel Tax—Gas	10.0¢	¢/gal increase in current rate (approx. 10% increase in total rate)	\$13.21	\$78.12
Heavy Vehicle Use Tax	50%	Increase in current revenues, structure not defined	\$0.55	\$3.42
Sales Tax—Trucks and Trailers	10%	Increase in current revenues, structure not defined	\$0.33	\$2.19
Tire Tax—Trucks	10%	Increase in current revenues, structure not defined	\$0.04	\$0.23
Potential Highway Trust Fund Revenue Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	Assumed 2014 Yield*	Total Escalated Yield 2015–2020*
Container Tax	\$15.00	Dollar per TEU	\$0.66	\$4.26
Customs Revenues	5.0%	Increase in/reallocation of current revenues, structure not defined	\$1.80	\$11.66
Drivers License Surcharge	\$5.00	Dollar annually	\$1.08	\$6.98
Freight Bill—Truck Only	0.5%	Percent of gross freight revenues (primary shipments only)	\$3.07	\$19.90
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
Oil, Gas, and Minerals Receipts	25.0%	Increase in/reallocation of current revenues, structure not defined	\$2.20	\$14.25
Registration Fee—Electric LDVs	\$100.00	Dollar annually	\$0.01	\$0.06
Registration Fee—Hybrid LDVs	\$50.00	Dollar annually	\$0.17	\$1.12
Registration Fee—Light Duty Vehicles	\$15.00	Dollar annually	\$3.57	\$23.11
Registration Fee—Trucks	\$150.00	Dollar annually	\$1.63	\$10.54
Registration Fee—All vehicles	\$20.00	Dollar annually	\$4.98	\$32.21
Sales Tax—Auto-related Parts & Services	1.0%	Percent of sales	\$2.32	\$15.04
Sales Tax—Bicycles	1.0%	Percent of sales	\$0.06	\$0.38
Sales Tax—Diesel	7.6%	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 tires	\$0.33	\$2.12
Transit Passenger Miles Traveled Fee	1.5¢	¢/passenger mile traveled on all transit modes	\$0.84	\$5.45
Vehicle Miles Traveled Fee—Light Duty Vehicles	1.0¢	¢/LDV vehicle mile traveled on all roads	\$27.12	\$175.58
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

* Base annual yield escalated using CPI-U.

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An area of rapid deployment thanks to seed funding in the FAST Act is in the area of mileage-based user fees. The Surface Transportation System Funding Alternatives grants from the Federal Highway Administration (FHWA) provides \$95 million through FY 2020 to states or groups of states to demonstrate user-based alternative revenue mechanisms that utilize a user fee structure to maintain the long-term solvency of the Highway Trust Fund. The objectives of the program are:

- To test the design, acceptance, and implementation of two or more future user-based alternative mechanisms;
- To improve the functionality of the user-based alternative revenue mechanisms;
- To conduct outreach to increase public awareness regarding the need for alternative funding sources for surface transportation programs and to provide information on possible approaches;
- To provide recommendations regarding adoption and implementation of user-based alternative revenue mechanisms; and
- To minimize the administrative cost of any potential user-based alternative revenue mechanisms.

For the first round of funding under this program, FHWA identified eight state DOT projects—including two multistate consortia on east and west coast—to test various user-fee concepts.

EXHIBIT 9. FY2016 SURFACE TRANSPORTATION SYSTEM FUNDING ALTERNATIVE PROGRAM SELECTION

State DOT	Project Description	Funding
California	Road User Charge (RUC) using pay-at-the Pump/ charging stations.	\$750,000
Delaware	User fees based with on-board mileage counters in collaboration with members of the I-95 Corridor Coalition.	\$1,490,000
Hawaii	User fee collection based on manual and automated odometer readings at inspection stations.	\$3,998,000
Minnesota	Use of Mobility-as-a-Service providers (MaaS) as the revenue collection mechanism.	\$300,000
Missouri	Implementation a new registration fee schedule based on estimated miles per gallon.	\$250,000
Oregon	Improvements to Oregon’s existing road usage charge program.	\$2,100,000
Oregon	Establishing the consistency, compatibility and interoperability in road user charging for a regional system in collaboration with members of the Western Road User Charge Consortium.	\$1,500,000
Washington	Testing critical elements of interoperable, multi-jurisdictional alternative user-based revenue collection systems. Piloting methods of road usage reporting with Washington drivers.	\$3,847,000
	Total	\$14,235,000

Source: Federal Highway Administration

However, if no new revenues can be found for the HTF and the third scenario prevails in FY 2021, state DOTs and their local partner agencies will be left to face a dire program disruption

that will severely undermine much-needed transportation investments throughout the nation and therefore, will have a significantly negative impact on the nation’s economy.

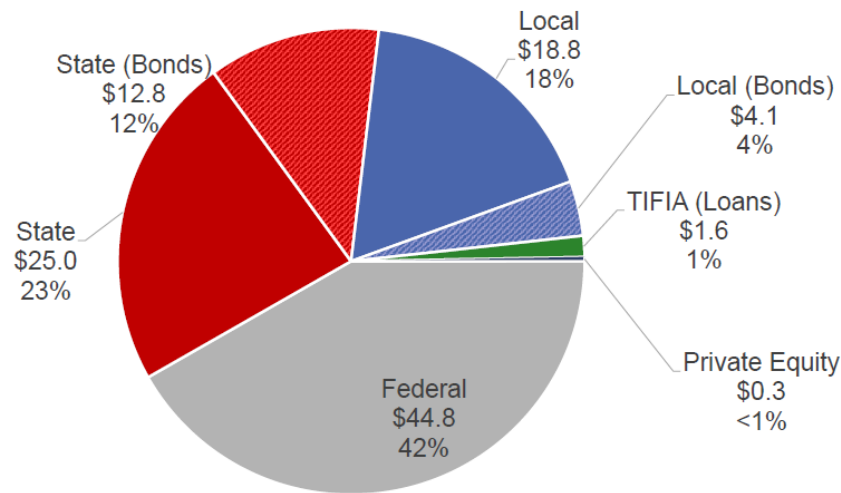
CRITICAL IMPORTANCE OF DIRECT PROGRAM FUNDING RELATIVE TO FINANCING

Beyond fixing the HTF, it cannot be emphasized enough that any major transportation infrastructure package must focus on direct funding based on formula apportionments, rather than on federal financing support. This is because financing tools that leverage existing revenue streams—such as user fees and taxes—are typically not viable for most transportation projects in the United States. AASHTO’s member DOTs certainly appreciate the ability to access capital markets to help speed up the delivery of much-needed transportation improvements, and many states already rely on various forms of financing and procurement as seen below:

- General obligation or revenue bonds: 45 states, DC, Puerto Rico (PR)
- GARVEE bonds: 33 states, DC, PR
- Build America Bonds: 15 states
- Private Activity Bonds: 6 states
- TIFIA federal credit assistance: 12 states, PR
- State infrastructure banks: 34 states, PR
- Public-private partnerships: authorized in 33 states, PR
- Design-build: authorized in 45 states, DC, PR

At the same time, states fully recognize the inherent limitations of financing for the vast spectrum of publicly-valuable transportation projects because they cannot generate a sufficient revenue stream through tolls, fares, or availability payments to service debt or provide return on investment to equity holders. In 2014, non-direct funding sources amounted to less than 18 percent of total capital outlays.

EXHIBIT 10. SHARE OF FINANCING IN CAPITAL OUTLAYS FOR HIGHWAYS, 2014



Sources: Mercator Advisors based on Highway Statistics, Table HF-10; Bond Buyer Annual Statistics; FY 2016 Budget, DOT Appendix

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The state DOTs continue to support a role for financing and procurement tools such as public-private partnerships given their ability to not only leverage scarce dollars, but to also better optimize project risks between public and private sector partners best suited to handle them. But we also maintain that financing instruments in the form of subsidized loans like TIFIA, tax-exempt municipal and private activity bonds, infrastructure banks, and tax code incentives are just simply not enough in and of themselves to meet most transportation infrastructure investment needs.

AASHTO and its member are well-prepared to work with Congress to take advantage of our strong, productive partnerships with Federal and local governments to deliver on a major infrastructure initiative.

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 current federal investment levels beyond FY 2020.

Congress could address the projected annual shortfalls by substantially reducing spending for surface transportation programs, by boosting revenues, or by adopting some combination of the two approaches. Whichever revenue tools are utilized, it is crucial to identify solutions that will, at a minimum, sustain the FAST Act-level of surface transportation investment in real terms.

A potential 40 percent reduction of federal highway funding FY 2021 and a virtual wipeout of federal transit funding from FY 2021 to FY 2023 will have a devastating impact on all aspects of the national and regional economy. To overcome this significant challenge, AASHTO looks 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 FY 2021, but that can also be sustained for the long term.

I want to thank you again for the opportunity to testify today, and I am happy to answer any questions that you may have.