AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS
AASHTO

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July 17, 2017

The Honorable Orrin G. Hatch
Chairman, Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Re: Transportation Infrastructure Funding Opportunities under Comprehensive Tax Reform

Dear Chairman Hatch:

The American Association of State Highway and Transportation Officials (AASHTO) appreciates the opportunity to provide comments related to Congressional efforts to enact comprehensive tax reform. AASHTO is a nonprofit, nonpartisan association representing the departments of transportation (state DOTs) of all 50 States, Washington, DC, and Puerto Rico.

AASHTO and its members are grateful for the leadership of the Senate Finance Committee (Committee) and Congress as it relates to the recently enacted Fixing America's Surface Transportation (FAST) Act. The efforts of the Senate Finance and House Ways and Means Committees to identify the funding needed to enact a long-term transportation bill has provided crucial support to the work of state DOTs in building and maintaining our nation's transportation infrastructure. While there is still more that needs to be done to shore up the federal Highway Trust Fund (HTF), we are appreciative of the steps you have taken to date.

A stated goal of tax reform efforts is the need for meaningful reforms to encourage economic growth. One way to encourage and promote long-term economic growth is through increased investments in this nation's transportation system.
The comments included in this submission focus on three key areas:

1. The need to provide long-term solvency for the federal Highway Trust Fund;
2. Policy considerations on transportation revenue options; and
3. The role of federal financing tools

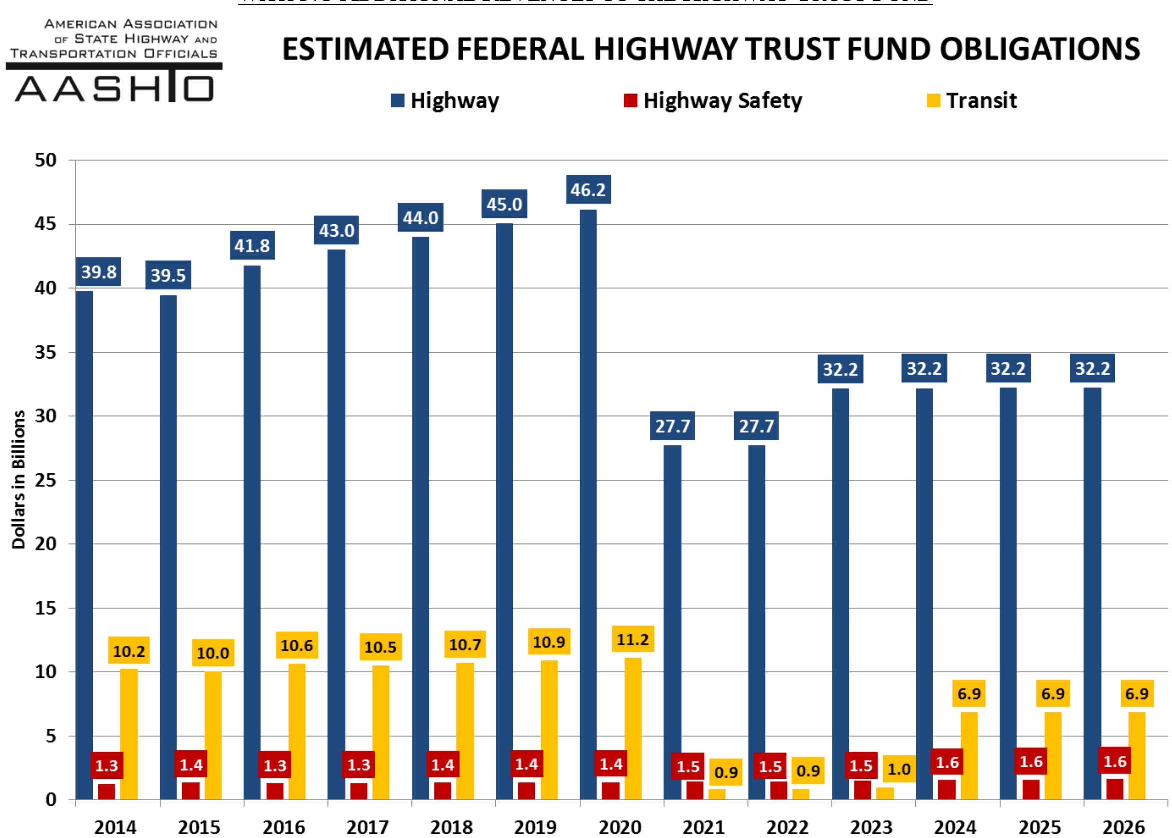
Continued

Long-term Highway Trust Fund Solvency

It should be recognized that the FAST Act provides only a near-term, though absolutely necessary, reprieve when it comes to federal surface transportation funding. That is because the HTF continues to remain at a crossroads. The HTF has provided stable, reliable, and substantial highway and transit funding for decades since its inception in 1956, but this is no longer the case. Since 2008, the HTF has been sustained through a series of General Fund transfers now amounting to $140 billion. According to the January 2017 baseline of the Congressional Budget Office, 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.

Framing this HTF "cliff" in terms of federal highway obligations, AASHTO estimates that states may see a 40 percent drop from FY 2020 to the following year—from $46.2 billion to $27.7 billion in FY 2021. 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. Perhaps more alarmingly, due to a steeper projected shortfall in the Mass Transit Account, new federal transit obligations are expected to be zeroed out between FY 2021 and FY 2023 excluding any "flex" of highway dollars to transit. Simply put, this is a devastating scenario that we must do all we can to avoid.

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



Policy Considerations on 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 an estimated 40 percent in FY 2021 and beyond, and reduce federal transit obligations supported by the HTF by an estimated 100 percent for three years.

While, as mentioned previously, AASHTO is grateful for past efforts to provide General Fund transfers into the HTF, we do not believe that is a long-term, viable solution upon the expiration of the FAST Act. In addition, AASHTO would strongly oppose the funding reductions highlighted in scenario 3. Therefore, we encourage the Committee to consider supporting taxes or user fees that provide additional receipts into the HTF.

In order to provide these additional receipts to maintain or increase current highway and transit investment levels, there is no shortage of technically feasible tax and user fee options that Congress could consider. Following is a matrix that demonstrates the breadth of potential HTF revenue mechanisms, including a column that shows an illustrative rate or percentage increase and the associated revenue yield estimated.

It is important to make several points regarding the items on this matrix.

There are three general types of funding or revenue options for the HTF:

- Raising the rate of taxation or fee rates of existing federal revenue streams into the HTF. Examples include motor fuel taxes on gasoline and diesel (including indexing), user fee on heavy vehicles, and sales tax on trucks, trailers, and truck tires.

- Identifying and creating new federal revenue sources into the HTF. Examples include container tax, driver’s license surcharge, vehicle registration fee, imported oil fee, sales tax on fuel, carbon tax, vehicle sales tax, sales tax on auto-related components, and a tire tax on light-duty vehicles.

- Diverting current revenues (and possibly increasing the rates) from other federal sources into the HTF. Examples include customs duties, the Harbor Maintenance Tax, income taxes, and other revenues from the General Fund.

There are also some key questions that Congress may want to consider when evaluating any of the options on the matrix.

1. *With the HTF balances estimated to reach zero sometime in FY2021, which funding options can be implemented most quickly*?
   If Congress wants to prevent dramatic funding cuts to state DOTs, transit agencies and other transportation partners, the time necessary to collect revenue from any option becomes critical. If the implementation of any funding option will take months or years, that has to be taken into account. Short of raising current taxes or fees—which have the administrative, collection, and oversight processes already in place—many funding options can take significant time to put into place. As the Committee explores any list of options, it may want to categorize them into short-term, intermediate-term, and long-term in order to accurately calculate the time necessary for any new funding scenario to be fully implemented.

2. *How might any new federal revenue option impact state and local funding partners?*
   Several of the illustrative funding options in our revenue matrix are currently used by states, local governments, and transit agencies to support their transportation investment. The Committee may want to recognize that utilizing these funding options at the federal level may "crowd out" the ability of non-federal transportation partners to raise revenue from these sources in the future.

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.*

The Role of Federal Financing Tools

Another area of consideration for the Committee relates to transportation financing tools beyond the revenue mechanisms mentioned previously. While financing tools leverage existing revenue streams such as user fees and taxes to provide upfront capital especially for larger, revenue-generating projects, they are typically not viable for most transportation projects in the United States that provide valuable public benefit.

Many of AASHTO's member DOTs 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 options:

- General obligation or revenue bonds: 40 states, DC, Puerto Rico (PR)
- GARVEE bonds: 23 states and DC, PR
- Build America Bonds: 27 states
- Private Activity Bonds: 6 states
- TIFIA federal credit assistance: 15 states, PR
- State infrastructure banks: 25 states, PR
- Public-private partnerships: authorized in 34 states, DC, PR
- Design-build: authorized in 45 states, DC, PR

Despite the use of these tools, states fully recognize the inherent limitations of financing for the vast spectrum of publicly-valuable transportation projects. The reality is that most transportation projects simply cannot generate a sufficient revenue stream through tolls, fares, or other user fees to service debt or provide return on investment to private-sector equity holders.

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 while important are insufficient in and of themselves to meet most transportation infrastructure investment needs this country requires.

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 the federal surface transportation program—is simply unsustainable as it will have insufficient resources to meet current federal investment levels beyond FY 2020. 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.

Sincerely,

David Bernhardt, P.E.
President, American Association of State Highway and Transportation Officials
Commissioner, Maine Department of Transportation