AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS
AASHTO

TESTIMONY OF

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REGARDING

Paving the Way for Funding and Financing Infrastructure Investments

BEFORE THE

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

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INTRODUCTION

Chairman Neal, Ranking Member Brady, and Members of the Committee, thank you for the opportunity to provide the perspective of the nation's state departments of transportation (state DOTs) on funding and financing infrastructure investments.

My name is Joung Lee, and I serve as Director of Policy and Government Relations at the American Association of State Highway and Transportation Officials (AASHTO). Today it is my honor to testify on behalf of AASHTO, which represents the transportation departments of all 50 States, Washington, DC, and Puerto Rico.

My role at AASHTO is to lead policy efforts across all modes of transportation. Working with Congress, executive branch agencies, and transportation industry stakeholders, I represent the policy interests of state DOTs as bills and regulations are developed and implemented. I also oversee AASHTO's technical capacity-building programs in areas of environment, finance, planning, rail, and transit. I began my career with the Federal Highway Administration in 2000 prior to joining AASHTO in 2007.

When dollar amounts in the hundreds of billions or trillions are mentioned in the context of national funding needs, they are hard to grasp due to their sheer magnitude. We live in a market-based economy where the supply and demand for goods and services are typically determined through very clear price signals. You know exactly what a gallon of milk costs, how much a new car will be, and how much you'll be charged for a haircut. Unfortunately, for provision and use of transportation infrastructure, there is no familiar price signal to users of the system in terms of how much they are asked to pay, and what they get in return.

In the past, AASHTO has commissioned person-on-the-street interviews asking how much the driver of a typical vehicle pays in terms of state and federal gas taxes per year—and the responses ranged from around $1,000 all the way up to $7,000. The correct answer is $313 per year, or $26 per month per vehicle assuming 12,000 miles driven and fuel efficiency of 20 mpg. This compares to $112 for electricity, $70 for water, and $66 for broadband internet per month per household, and $100 per month for individual cell phone according to HNTB Corporation. I believe the value provided by our nation's transportation network is well worth the contributions being asked from system users, especially compared to other monthly utility and service fees.

The place to start this conversation, though, is to recognize that we in the transportation industry need to do a better job of making the value proposition for transportation investment, by more clearly communicating both the cost and benefits related to the use of our transportation system. And for that, I'm grateful for your Committee's timely attention and action on the question of infrastructure revenue and financing this morning.

My remarks today center around the following key points:

- The federal government should look to build upon substantial state and local investment in transportation;
- Underinvestment in our transportation system threatens the economy and quality of life in every community across the nation;
- The federal Highway Trust Fund (HTF) must once again be secured with a long-term and sustainable revenue solution;
- We need direct program funding first and foremost that financing tools can supplement.

THE FEDERAL GOVERNMENT SHOULD LOOK TO BUILD UPON SUBSTANTIAL STATE AND LOCAL INVESTMENT IN TRANSPORTATION

From the very beginning of our developing nation we have valued investment in our transportation system—starting with rivers, harbors, and post roads. We recognize that a well-functioning and safe transportation system is the foundation of a strong economy and quality of life benefits such as access to employment, education, recreation, and health service opportunities, and it is this interconnected multimodal national system that has enabled the United States to become the most vibrant and powerful nation in history.

Today, the Fixing American's Surface Transportation (FAST) Act of 2015 continues to fulfill the Constitutional directive that investment in transportation is a core federal responsibility. The federal government, along with states, local governments and the private sector, is a key partner in working to address an ever-growing need for transportation investments resulting from a growing population and aging infrastructure assets.

With that said, our proud legacy of achievement is at risk as we face a possibility of what the future could look like without a revitalized federal surface transportation program: compromised safety, seriously degraded quality of life and environment, and a lack of global economic competitiveness.

Despite substantial and recurring funding challenges facing transportation, the investment backlog for transportation infrastructure continues to increase—reaching $786 billion for highways and bridges and $116 billion for transit according to the United States Department of Transportation released earlier this month. According to the Congressional Budget Office (CBO), in order to simply maintain the current HTF spending levels adjusted for inflation after the FAST Act, Congress will need to identify $100 billion in additional revenues for the next six-year bill through 2026.

At the same time, the purchasing power of HTF revenues has declined substantially mainly due to the flat, per-gallon motor fuel taxes that have not been adjusted since 1993, losing more than half of its value in the last 27 years. This loss of purchasing power is especially stark when compared to cost of other basic goods and services during the same time period.

EXHIBIT 1: PURCHASING POWER LOSS OF THE GAS TAX RELATIVE TO OTHER HOUSEHOLD EXPENSES

Sample of Nomical Price Changes Relative to Federal Gas Tax

Item	Description	1993	2015	Percent Change
College Tuition	Average Tution & Fees at Public 4-year Universities	$ 1,908	$ 9,145	**379%**
Healthcare	National Expenediture 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

States are answering this call to action for increasing transportation investments, signified by successful enactment of transportation revenue packages in 39 states since 2013. Just this past November, voters in 19 states sent a decisive message of support for transportation investment by approving almost 90 percent of 305 state and local transportation ballot measures according to the American Road and Transportation Builders Association.

I mention this because AASHTO and its members vehemently disagree with any notion that federal transportation funding displaces or discourages state and local investment. In fact, as evidenced by significant transportation infrastructure investment needs, further strengthening and reaffirmation of the federally-assisted, state-implemented foundation of the national program is even more critical now than in the past.

The best way for the federal government to lead is to augment substantial state and local transportation investment by ensuring long-term, sustainable federal funding from the Highway Trust Fund, and to provide direct, formula-based funding to states to address highway, transit, rail, freight, and active transportation investment needs—both preservation and new capacity—as part of the next surface transportation reauthorization. And we urge you to avoid short-term extensions of the program by reauthorizing the next bill on time by October 1, as funding gaps cause unnecessary program disruptions and delay safety and mobility benefits to states and communities.

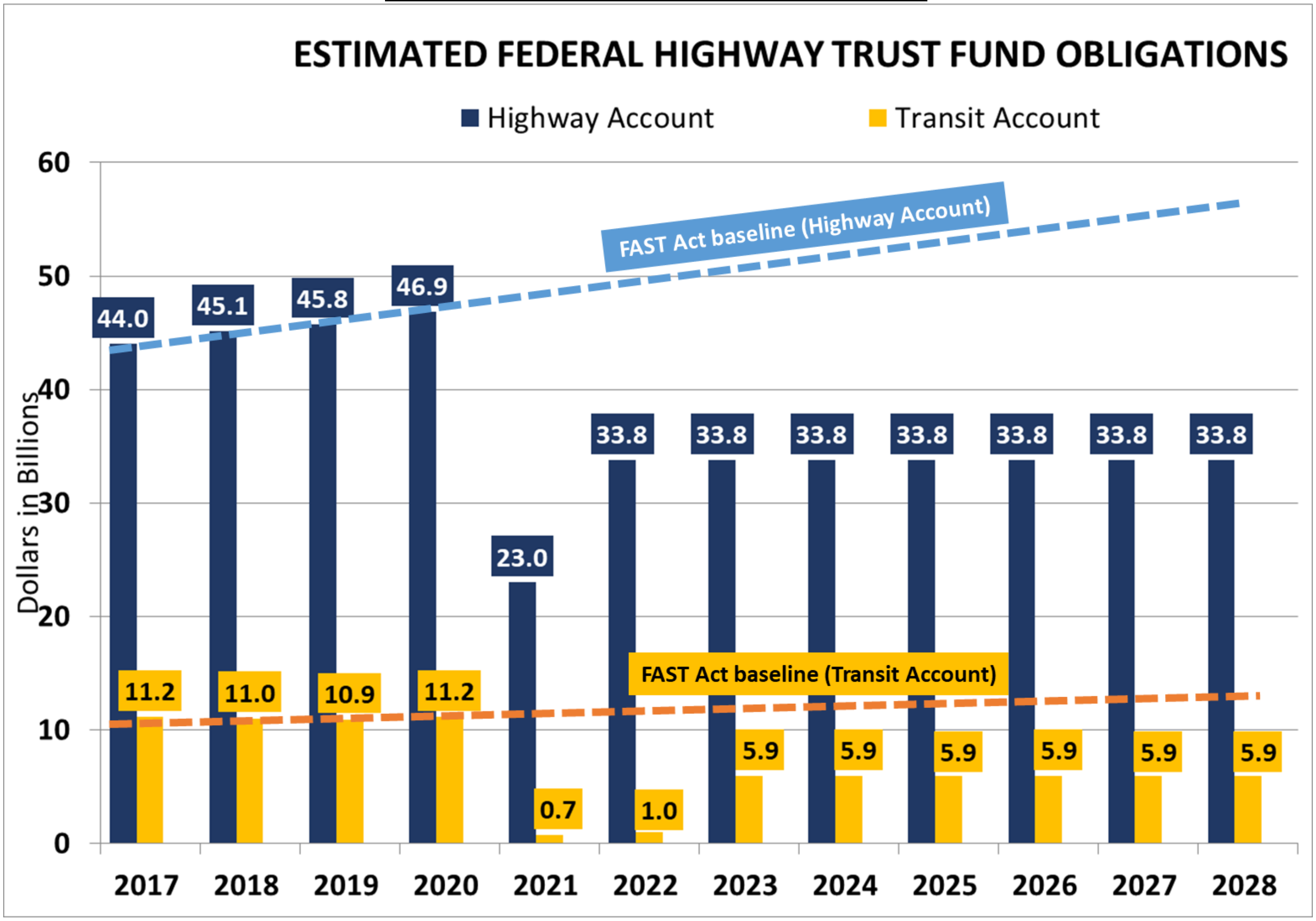
UNDERINVESTMENT IN OUR TRANSPORTATION SYSTEM THREATENS THE ECONOMY AND QUALITY OF LIFE IN EVERY COMMUNITY ACROSS THE NATION

The FAST Act's authorization of $305 billion for federal highway, highway safety, transit, and passenger rail programs from 2016 to 2020 could not have been timelier in supporting our economic growth and maintaining our multimodal transportation infrastructure. That being said, the FAST Act provided only a near-term 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 May 2019 projection of the Congressional Budget Office, annual HTF spending is estimated to exceed receipts by about $17 billion in FY 2021, growing to about $26 billion by FY 2029. Alarmingly, the HTF is expected to experience a significant cash shortfall in FY 2021, since it cannot incur a negative balance. This situation will leading to an estimated 51 percent drop in highway obligations from the year before, or from $47 billion to $23 billion, and a zeroing out of obligations from the Mass Transit Account around 2021 and 2022. In the past, similar shortfall situations have led to the possibility of major cuts in federal reimbursements to states on existing obligations, leading to severe cash flow problems for states and resulting in major uncertainties for important projects.

Our members and their partners in the transportation industry do everything in their power to deliver needed priority projects as quickly as possible, but due to the nature of large capital programs, many of the projects take several years to complete. The lack of stable and predictable funding from the HTF makes it nearly impossible for state DOTs to plan for large projects that need a reliable flow of funding over multiple years. And these projects are what connect people, enhance quality of life, and stimulate economic growth in each community where they are built.

EXHIBIT 2: ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2020 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



THE FEDERAL HIGHWAY TRUST FUND MUST BE ONCE AGAIN SECURED WITH A LONG-TERM AND SUSTAINABLE REVENUE SOLUTION

While state DOTs are grateful for past efforts to supplement the HTF with general fund transfers, this is not a viable long-term solution upon expiration of the FAST Act.

In order to provide additional HTF receipts to maintain or increase current federal highway and transit investment levels, there is no shortage of technically feasible tax and user fee options that Congress could consider. Three broad categories of revenue for the HTF exist, along with illustrative examples:

- 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 for the HTF: Examples include a mileage-based user fee, per-barrel oil fee, and freight user fee.
- Redirecting current revenues (and possibly increasing the rates) from other federal sources into the HTF: Examples include customs duties, income taxes, and other revenues from the general fund.

The 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.

EXHIBIT 3: MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

Existing Highway Trust Fund Funding Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	$ in Billions	
			Assumed 2018 Yield*	Total Fore-cast Yield 2019–2023
Existing HTF Funding Mechanisms				
Diesel Excise Tax	20.0¢	¢/gal increase in current rate	$8.8	$42.2
Gasoline Excise Tax	15.0¢	¢/gal increase in current rate	$21.8	$102.1
Motor Fuel Tax Indexing of Current Rate to CPI (Diesel)	--	¢/gal excise tax		$3.7
Motor Fuel Tax Indexing of Current Rate to CPI (Gas)	--	¢/gal excise tax		$8.8
Truck and Trailer Sales Tax	20.0%	increase in current revenues, structure not defined	$0.6	$4.2
Truck Tire Tax	20.0%	increase in current revenues, structure not defined	$0.1	$0.5
Heavy Vehicle Use Tax	20.0%	increase in current revenues, structure not defined	$0.2	$1.2
Other Existing Taxes				
Minerals Related Receipts	25.0%	increase in/reallocation of current revenues, structure not defined	$0.6	$3.4
Harbor Maintenance Tax	25.0%	increase in/reallocation of current revenues, structure not defined	$0.4	$1.9
Customs Revenues	5.0%	increase in/reallocation of current revenues, structure not defined	$1.9	$10.3
Income Tax - Personal	0.5%	increase in/reallocation of current revenues, structure not defined	$5.3	$28.4
Income Tax - Business	1.0%	increase in/reallocation of current revenues, structure not defined	$1.7	$8.9
License and Registration Fees				
Drivers License Surcharge	$5.00	dollar assessed annually	$1.1	$6.1
Registration Fee (Electric Light Duty Vehicles)	$100.00	dollar assessed annually	$0.0	$0.2
Registration Fee (Hybrid Light Duty Vehicles)	$50.00	dollar assessed annually	$0.2	$1.3
Registration Fee (Light Duty Vehicles)	$5.00	dollar assessed annually	$1.3	$6.8
Registration Fee (Trucks)	$100.00	dollar assessed annually	$1.2	$6.3
Registration Fee (All vehicles)	$5.00	dollar assessed annually	$1.3	$7.1

EXHIBIT 3: MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS (CONTINUED)

Weight and Distance Based Fees				
Freight Charge—Ton (Truck Only)	10.0¢	¢/ton of domestic shipments	$1.1	**$5.8**
Freight Charge—Ton (All Modes)	10.0¢	¢/ton of domestic shipments	$1.3	**$7.1**
Freight Charge—Ton-Mile (Truck Only)	0.5¢	¢/ton-mile of domestic shipments	$10.1	**$54.2**
Freight Charge - Ton-Mile (All Modes)	0.5¢	¢/ton-mile of domestic shipments	$21.6	**$115.9**
Transit Passenger Miles Traveled Fee	1.0¢	¢/ passenger mile traveled on all transit modes	$0.6	**$3.2**
Vehicle Miles Traveled Fee (Light Duty Vehicles)	1.0¢	¢/LDV vehicle mile traveled on all roads	$29.1	**$155.7**
Vehicle Miles Traveled Fee (Trucks)	1.0¢	¢/truck vehicle mile traveled on all roads	$2.9	**$15.7**
Vehicle Miles Traveled Fee (All Vehicles)	1.0¢	¢/ vehicle mile traveled on all roads	$32.0	**$171.5**
Sales Taxes on Transportation Related Economic Activity				
Freight Bill - Truck Only	0.5%	percent of gross freight revenues (primary shipments only)	$3.8	**$20.2**
Freight Bill - All Modes	0.5%	percent of gross freight revenues (primary shipments only)	$4.6	**$24.8**
Sales Tax on New Light Duty Vehicles	1.0%	percent of sales	$2.8	**$14.9**
Sales Tax on New and Used Light Duty Vehicles	1.0%	percent of sales	$4.2	**$22.4**
Sales Tax on Auto-related Parts & Services	1.0%	percent of sales	$2.7	**$14.4**
Sales Tax on Diesel	2.0%	percent of sales (excluding excise taxes)	$1.5	**$7.9**
Sales Tax on Gas	2.0%	percent of sales (excluding excise taxes)	$5.2	**$28.0**
Tire Tax (Light Duty Vehicles)	1.0%	of sales of LDV tires	$0.3	**$1.4**
Sales Tax on Bicycles	1.0%	percent of sales	$0.1	**$0.3**
Other Excise Taxes				
Container Tax	$15.00	dollar per TEU	$0.7	**$4.0**
Imported Oil Tax	$2.50	dollar/ barrel	$4.5	**$23.9**

** Assumed yield in 2018 or the latest year data is available.*

We fully recognize the ongoing funding challenge is not merely technical. To that end, after much deliberation, our Board of Directors in May 2019 coalesced around these specific revenue mechanisms as the preferred approach to fix the HTF: motor fuel tax increase and indexing, freight-based user fee, per barrel oil fee, and mileage-based user fee.

Fortunately, infrastructure investment has been one of the top national policy agenda items the last few years, even if significant action is yet to be taken. But Americans get it—they understand the benefits, and they want to see investment in our transportation systems.

We believe this truly is a unique window of opportunity to ensure the continued quality of life and economic vitality that make America a nation we are proud to call home. To do this, the situation demands bold action to invest in our transportation infrastructure at the appropriate level to guarantee the success of our nation's future. This action has the clear support of the American public, and it is time for the President and Congress to make it happen.

WE NEED DIRECT PROGRAM FUNDING FIRST AND FOREMOST THAT FINANCING TOOLS CAN SUPPLEMENT

In reaffirming the proper federal role and responsibility, AASHTO strongly believes that federal surface transportation funding must continue to be focused on direct formula-based apportionments from the Highway Trust Fund to states and transit agencies—which in turn relies on user fee and tax revenues deposited into the HTF. And the HTF can only be fixed with real revenue solutions, not financing tools such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) program, infrastructure banks, or any program that provides direct loans or loan guarantees to support transportation projects. These loans require repayment from an identified revenue stream—i.e., a funding source.

AASHTO's member DOTs appreciate the ability to access capital markets and subsidized federal loans to help speed up the delivery of much-needed transportation improvements, and many states already rely on various forms of financing ranging from traditional tax-exempt bonds, TIFIA credit assistance, tax-credit bonds (especially the Build America Bond that states very much appreciated), state infrastructure banks, and private equity, among other tools.

In addition, more and more states—up to 38 states according to the National Conference of State Legislatures—are interested in experimenting with and harnessing public-private partnerships (P3s) especially for larger projects that tend to me more expensive and complex. If structured in a way that is durable enough to last many decades but also flexible enough to adapt to changes in circumstances, P3s can serve as a robust procurement vehicle to optimize allocation of risk between the public and private sector partners that bring different sets of strengths and weaknesses to the project delivery table.

With that said, while innovative transportation finance have evolved significantly over the last 20 years, the simple fact remains that use of financing tools that leverage existing revenue streams are typically not viable for the vast spectrum of publicly-valuable transportation projects. To this day, 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 equity holders. According to the CBO, for example, P3s have accounted for only one to three percent of spending for highway, transit, and water infrastructure since 1990.

The state DOTs continue to support a role for financing tools given their ability to leverage scarce dollars that allow needed projects to benefit communities sooner. But we also maintain that financing instruments in the form of federally-subsidized programs like TIFIA, tax-exempt municipal and private activity bonds, infrastructure banks, and other tax code incentives are insufficient in and of themselves to meet most types of transportation infrastructure investment needs our state members face.

CONCLUSION

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 and reduce everyone's quality of life. 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 2021.

Congress could address the projected annual shortfalls by boosting much-needed revenues. 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. To overcome this significant challenge, AASHTO looks forward to assisting you and the rest of your House colleagues in finding and implementing a viable set of revenue solutions that will renew our national heritage of investment in our country and our future through transportation.

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