

Performance Benefits of Revenue Sources

Written Statement of

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Mr. Chairman and Members of the Subcommittee,

We are pleased to have the opportunity to submit this statement of the Bipartisan Policy Center's National Transportation Policy Project (NTPP). As the co-chairs of NTPP, we recently completed a two-year effort with a wide range of business, academic and civic leaders, calling for U.S. transportation policy to be more performance driven, more directly linked to a set of clearly articulated goals, and more accountable for results. Our principle message to this committee is that achieving critical national goals will require not only a comprehensive consolidation and restructuring of current programs based on clear performance metrics, but also a fundamental new approach to funding. Our report - *Performance Driven: A New Vision for U.S. Transportation Policy* concludes that revenue issues in the upcoming legislation to extend and reform the nation's surface transportation system will involve more than just identifying revenue sources to fund programs. Financing mechanisms play a central role in the performance and outcomes of our nation's transportation system. The NTPP report calls for the adoption of better national user-based financing mechanisms, echoing the conclusions and recommendations of a number of reports, studies, and Commissions. The evidence is clear that the extent to which system costs are transparent to system users has direct effects on both performance of the system and the level of investment required.

This statement highlights two important elements of our NTPP report germane to you as the revenue raising committee:

- (1) Recommended funding principles
- (2) Immediate actions on funding mechanisms

A recurring theme of both elements is that revenue needs to be linked to system performance, and thus solutions should favor direct, user-based fees. While we did not make recommendations for specific revenue measures, we identified a number of areas where immediate action is needed – largely by the revenue-raising committees of Congress. These include moving towards user-pay financing mechanisms, as well as research and planning to enable a smooth transition of our nation's present transportation financing system to one that is supported by national user-pay funding mechanisms.

BACKGROUND

For many years the motor vehicle fuel tax provided a stable and growing source of funding for federal transportation investments. This federal tax, however, has not kept up with growth in road use, construction costs, and system needs. As a result, resources available in the Highway Trust Fund are increasingly falling short, which in turn has triggered transfers from the general fund. This situation is clearly unsustainable. Overall gasoline consumption is down—due first to high oil prices earlier this decade and now because of the economic recession. A combination of increased vehicle fuel-economy standards, the introduction of electric and plug-in hybrid vehicles, and mandated expansion of biofuels can be expected continually to reduce oil demand. This is obviously beneficial for many reasons, but it

also leads to declining receipts from fuel taxes, assuming the level of those taxes is unchanged. All of these developments combined expose flaws not only in the stability of the gas motor vehicle fuel tax as a funding source, but also in its long-term sustainability.

The current fuel tax is also inadequate in the sense that it does not charge users anything close to the full costs associated with their use of the transportation system. It does not accurately reflect the full environmental, health, energy, security, and congestion costs of individual transportation choices. If such costs were accurately priced they would affect users' decisions about a range of relevant issues, from where to live, when to commute, and what type of vehicle to drive. The failure to send accurate price signals leads to inefficient levels of consumption—if prices are too low, the result will be excess demand.¹ For example, diesel and heavy vehicle tax levels that fail to approximate the relative damage and costs imposed by heavy commercial vehicles will contribute to deteriorating road conditions by under pricing the full costs of their use and thus prompting more truck travel. Oregon's pilot mileage-based pricing program demonstrated that as drivers became more aware of the true costs of using the roads they reduced their travel even when incurring no additional costs.²

Another problem with current funding mechanisms is that they impede the distribution of funds on a mode-neutral basis because most of the revenue is generated from road vehicles via fuel taxes and other vehicle fees. This is a problem for metropolitan programs because, despite some funding flexibility, projects are forced into either "highway" or "transit" categories—even though highway and transit systems work best in concert. This is an even more severe constraint for freight projects, which are unlikely to be funded absent an unbiased assessment that considers all mode choices and gives the ability to partner across modes.

Present financing mechanisms to support the nation's highway and transit programs are unsustainable and in need of significant reform. The problem is not just a growing funding shortfall resulting from the fact that the current fuel tax and other taxes that support the highway and transit trust funds have not been increased or pegged to inflation. Rather, the central flaw of existing financing mechanisms is that they provide a poor signal to users about the costs they impose on the system (and the benefits they receive). In other words, *how* we raise money for transportation is itself an extremely important policy decision—quite distinct from the decision about how much money needs to be raised. Thus, reform of current financing mechanisms should be central to any effort aimed at making effective U.S. transportation policy that is more performance-based.

RECOMMENDED FUNDING PRINCIPLES

The question of how to raise revenue was not the primary focus of NTPP's efforts. We were primarily concerned with spending it effectively. However, we recognized the critical importance of the funding

¹ Sorenson, Paul, et al. "Moving Los Angeles – Short Term Options for Improving Transportation." RAND Corporation. 2008.

² Oregon Department of Transportation. "Oregon's Mileage Fee Concept and Road User Fee Pilot Program Final Report." 2007.

issue because how revenue is raised relates directly to system performance. NTPP recommends that future efforts to address the need for new transportation revenue-raising mechanisms be guided by the following core principles:³

- Revenue currently collected is insufficient to maintain, much less improve, system performance
- Public revenue collection can enhance the performance of the system when users understand and more directly bear the full costs of the infrastructure they use

Allow us to amplify these central principles:

Revenue is Insufficient to Maintain or Improve Performance

Adequate and sustainable funding is an essential dimension of putting in place a true performance-based transportation system. Obscuring the true costs of maintaining, operating and updating our transportation network is not in the national interest.⁴ As a new national program is defined, the primary roles and responsibilities of different levels of government in maintaining, operating and improving the performance of our infrastructure must become more transparent. This will solidify the federal role in funding programs that further specific national interests.

Proposals to increase revenues are frequently opposed as “double taxation” or resisted with complaints that users have “already paid”. Bold political leadership is needed to bring the reality to light in this area. Federal highway spending (and taxation) per mile travelled has actually *fallen by nearly 50 percent* since the Highway Trust Fund was established in the late 1950s. Moreover, because the fuel tax is not indexed to inflation, its purchasing power has declined by 33 percent since it was last increased in 1993. As population has grown and trade has expanded, basic infrastructure has deteriorated. At the same time, the lack of transparent user-based financing perpetuates individual and commercial decisions that do not take into account the full public costs imposed by each transportation choice.

A wide variety of circumstances have combined continually to weaken the link between transportation funding (primarily via the gas tax) and the costs imposed and benefits received by system users. The failure to “price” economic, environmental, and social externalities of travel has contributed to unsustainable development patterns and a lack of awareness of, or concern for, energy consumption, emissions, and congestion impacts.

Favor Direct, User-Based Fees

Taxes and fees are currently the two primary means used to raise revenue for federal transportation infrastructure. While the motor vehicle fuel tax generates significant revenues at low administrative cost, its reliability as a proxy for transportation-system use has decreased dramatically. In an age of increasing fuel efficiency, growing numbers of hybrid-electric vehicles, and increased use of alternative fuels, payment of that tax bears a diminishing relationship to actual use of the system. In contrast,

³ We note that our recommendations in this regard align closely with conclusions reached by both the National Transportation Policy and Revenue Study Commission and the National Surface Transportation Infrastructure Financing Commission.

⁴ “Using Pricing to Reduce Congestion”, 2009, <http://cbo.gov/doc.cfm?index=9750>

where users pay directly for their infrastructure use, they receive more timely and accurate signals about the full range of costs they impose and the benefits they receive. Ideally, user fees should capture diverse elements of use including miles traveled, time and place of travel, vehicle weight or number of axles, vehicle fuel efficiency, contribution to congestion, and emissions.⁵

Raising federal transportation revenue from a more complete and accurate national system of user fees can advance a range of national interests and benefits including:

- enhancing equity across all users;
- promoting consistency with energy and environmental goals by ensuring that transportation users bear the true cost of energy and environmental impacts;
- reducing congestion and increasing the reliability of travel times;
- promoting more accurate user-based signals with respect to investment priorities; and
- reducing capital needs as users internalize cost impacts and rationalize their use of the system.

A robust user-pay system would free up alternative resources to allow state or metropolitan programs investment in modes or specific user groups for which 100 percent direct user-pay funding is not feasible and to advance specified social and environmental goals. The user-pay principle should be at the core of any short-term increases in existing taxes and/or fees, as well as in the development and structure of any new revenue sources and mechanisms put in place for the long term.

RECOMMENDATION FOR IMMEDIATE ACTION ON FUNDING MECHANISMS

While we recognized that our call for a comprehensive restructuring of all federal programs will take years to achieve, several critical revenue-related principles could and should be applied in the near term. These include the following:

Set a high bar for any use of general funds for transportation infrastructure

The first and most obvious reason to set a high bar for any use of general funds for transportation infrastructure is that every dollar of additional spending out of general funds at this time represents additional borrowing and thus exacerbates the already extreme deficit problems and fiscal challenges the nation is now and will continue to confront in coming years. Second, even before it is feasible to transition fully to a user-pay system, numerous opportunities exist to raise revenue for near-term transportation needs in ways that make system costs more transparent, send more accurate price signals to users, and thus promote more efficient use of the system. Examples are system fees and road tolls. Relying on general funds obscures the true cost of the transportation system to users and does nothing to either promote efficient use of the system or to advance critical societal objectives.

⁵ Transportation Research Board. "Fuel Tax and Alternatives, Special Report 285. 2006. www.TRB.org/publ/sr/sr285.pdf

Minimize departures from user financing

Until new and long-term sustainable revenue mechanisms in the form of user-based fees can be implemented, short-term revenue-enhancing measures are likely to be put forward to cover the costs of increased federal support for transportation—even to maintain levels set in SAFETEA-LU.

NTPP recommends that any action by Congress to generate additional revenue for transportation:

- advance the user-pay principle
- be targeted toward rewarding performance on system preservation and expansion projects

Be transparent in establishing new financing mechanisms

Issuing new federal bonds or establishing a national infrastructure bank both need to be recognized as forms of borrowing. The use of general taxpayer funds should be limited to programs which demonstrably generate nationally significant and broadly based public benefits. The operations of any new financing entity need to be clear, specific, and transparent regarding actual revenue sources and beneficiaries. Such an entity should also apply rigorous quantitative performance metrics covering the range of national interests that need to be balanced, and strive to align funding sources with the beneficiaries of federal investments. Finally, establishing a new financing entity must not be seen as a substitute for moving aggressively toward transportation infrastructure supported—to the maximum extent possible—by well-designed user-based fees.

Implement a mode-neutral freight fee

A well-targeted program to address critical freight bottlenecks and improve transport efficiency along critical freight corridors, networks, and connectors is vital. The soundest basis for infrastructure investments that improve the performance of the entirely private existing freight system is a user-based freight fee. The fee structure should reflect the range of the freight network and the burden each mode imposes on public infrastructure, as well as the relative fuel efficiency and/or greenhouse gas emissions of different modes of freight transport. Revenues from the fee should be applied to projects that have clear benefits for freight transport, including transport on the privately owned system.

Charge transportation users the costs of their carbon emissions and recycle those funds into transportation investments

Effective pricing of transportation-related carbon emissions is needed to complement other transportation-related policies on energy and the environment, such as fuel efficiency standards and alternative fuel programs. Further analysis is needed to ensure that the right incentives are in place to motivate users to reduce carbon emissions from transportation. This is particularly urgent given evidence that the transportation sector has been one of the fastest growing contributors to overall carbon emissions. While a petroleum based tax may not be an adequate proxy for road use, it is an appropriate proxy for pricing the externalities associated with carbon emissions and energy security.

Just as transportation needs to bear an appropriate share of the cost of controlling and reducing greenhouse gas emissions at a national level, an appropriate share of revenues generated through a

carbon pricing should go toward transportation infrastructure investment and operations that produce carbon reduction benefits.

Help states and local governments develop sustainable funding sources

While NTPP supports a well defined federal focus on nationally significant infrastructure, there is also a national interest in supporting and incentivizing state and local governments to develop sustainable funding sources for locally significant infrastructure investments. It is clear that achieving national performance goals for the transportation system will require states and local governments to have the ability substantially to increase revenues needed for infrastructure investments.

Accordingly, the federal government should help ensure state and local capacity to develop sustainable, equitable, and performance-enhancing revenue streams. States and localities have a wide range of transportation investment and revenue-raising options at their disposal. While the federal government should not be in the business of prescribing specific state and local strategies⁶, it can remove impediments and support efforts to use creative financing tools at state and local levels.⁷ Three concrete steps the federal government can take in this regard are:

Reduce restrictions on road pricing. Performance and environmental goals are likely to be most cost-effectively achieved with greater use of variable pricing on congested roadways. The federal government should remove restrictions to instituting such policies on the nation's roadways, with appropriate limitations.

Support efforts by states to implement direct user charges. Direct user-fees, such as a mileage-based charge, can improve system performance and represents a critical tool for states and metropolitan areas to supplement or eventually replace traditional revenue sources. Support should be provided to states or groups of states piloting new comprehensive user-based fees.

Expand TIFIA credit support. With the removal of restrictions on pricing, the TIFIA program should be expanded to allow for loans that are paid back with variable pricing tolls on national highways. TIFIA should adopt performance metrics proposed in the NTPP report to aid in the assessment of projects.

Lay the Groundwork for a Sustainable Funding Source

Transitioning to a performance-based surface transportation system that is equipped to address 21st century challenges requires a timely and evidence-based transition to a user-pay funding mechanisms. This means research must begin methodically to test, evaluate and resolve various issues that are likely to arise in the course of such a transition.⁸ Concepts must be considered and encouraged that would

⁶ Government Accountability Office. "Highway Public-Private Partnerships: More Rigorous Up-Front Analysis Could Better Secure Potential Benefits and Protect the Public Interest." Sep. 2008. [GAO-08-1149R](#).

⁷ Government Accountability Office. "Highway Finance: States' Expanding Use of Tolling Illustrates Diverse Challenges and Strategies." June 2006. [GAO-06-554](#).

⁸ National Surface Transportation Policy Study and Revenue Commission. "Transportation for Tomorrow." 2007. Back up and technical papers: http://transportationfortomorrow.org/final_report/technical_issue_papers.aspx; See in particular papers 5A-06 re container charge; 5A-15 re

establish a system, which at the earliest possible date, can become the backbone of national revenue collection.

For instance a funding system that uses in-vehicle, on-board GPS units could charge differentially for mileage in high congestion zones or for travel during more congested times of day. The system could also apply different fees based on vehicle fuel economy and emissions. Such a tailored alignment of fees to distinct costs will send proper price signals to users, thereby reducing congestion, emissions, and fuel consumption. This is important because, while there is a growing support for a “mileage-based” system – or VMT fee— such a fee will only provide accurate cost signals if it is adjusted for vehicle fuel economy. Similarly, a mileage-based fee would have to account for the fact that not all miles are equal. Mileage-based fees that vary based on congestion provide incentives for drivers to shift to off-peak periods, consolidate trips, use less congested routes, use alternative modes, or telecommute. They also can be tailored to avoid penalizing rural drivers who travel long distances on relatively empty roads. A corollary benefit of increasing the transparency of costs is that capital investment decisions will be guided by quantitative signals of increased demand for physical capacity.

Over a longer time horizon, a vehicle-based revenue system may offer additional efficiencies and dramatic new safety benefits if it is integrated with developing proposals for integrating “smart road-smart car” technologies. The platform of on-board GPS technology is already being applied to advanced innovations with automatic crash prevention. Other applications are being adapted to provide diverse consumer services including routing, vehicle optimization, and payment of a range of services such as parking, registration and weight, or emissions-related fees.

Because a vehicle-based fee would likely be collected from individual drivers, however, the implementation of such a system presents numerous transition and operational challenges. For example, efficiently linking a nation-wide user fee system with state and local revenue collection, publicly tolled facilities, and private operators, will require that a host of issues be addressed. The most commonly cited concern is the privacy protection of users. These specific challenges will require time to work through, which is why the NTPP calls for immediate action to begin laying groundwork for a future system.

Concluding Remarks

This is a period of extraordinary opportunity for revitalizing America’s surface transportation system. Existing systems are dated, in many cases strained to or beyond capacity, and increasingly fall short of delivering transportation services at the level of quality, performance, and efficiency the American public demands. Current funding mechanisms and revenue sources are not sufficient to maintain existing infrastructure, let alone provide the investments needed to expand and modernize our transportation systems. Available resources are typically distributed without any sense of national

priorities. Bold federal leadership and immediate action is needed to develop, test, and implement new, more direct and more complete ways of linking revenue collection to system use and impacts.

As the NTPP report outlines and as we have discussed in this testimony, transportation investments should not be funded using general funds, assistance must be offered to states and local governments to enable them to establish sustainable funding sources for transportation projects, and our nation's transportation system should be funded by user-based fees that are sustainable and tied to system use. The way in which transportation revenue is raised and the extent to which system costs are transparent have direct effects on both the performance of the system and the level of total investment needed.

Thank you for considering this statement. We welcome future opportunities to support the work of House Ways and Means Select Revenue Measures Subcommittee, and ask that you draw upon the work of the National Transportation Policy Project as you develop legislation that ensures adequate funding of our nation's transportation infrastructure.