

Statement of
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Chairman Boxer, Ranking Member Vitter and Members of the Committee – I appreciate the opportunity to address you today regarding the shortfall in the federal Highway Trust Fund (HTF) and possible solutions to the impending federal transportation funding crisis.

I spent nearly eleven years as a staff member to this Committee and during that time, I had the opportunity to work on ISTEA, TEA-21 and SAFETEA-LU. I was also appointed to serve as a member of the National Surface Transportation Infrastructure Financing Commission, one of two commissions created in the SAFETEA-LU legislation. The Commission released its final report to Congress in 2009 and many of the issues I will discuss today originate from the Commission's work.

This experience has shaped my perspective on the situation we face today. I have a very real respect for the difficult work facing you, your staff and other Senators as you explore various funding options and consider the policy and implementation issues surrounding them.

Before I begin, I'd like to state that I am not here representing any particular group or entity and that all of the opinions I express are mine and mine only.

I'd like to cover three areas with you today. First, I will touch on the current funding sources and current financial condition of the federal Highway Trust Fund in order to provide context to our discussions. Second, I will provide an overview of various funding options to close the current shortfall in the Highway Trust Fund. And finally, I will discuss the implementation and policy issues you may wish to consider as you explore various funding options.

Funding versus financing

The goal of today's discussion revolves around future funding options for the Highway Trust Fund. As part of that discussion, it is important to remember the differences between funding and financing.

Funding options are those that generate revenue streams and financing options are those that leverage revenue streams. For example, the fuel tax is a funding option – raising revenue from the assessment and collection of the tax.

Financing options are programs 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.

Financing options play a key role in moving many projects forward – especially significantly large (expensive), regional and multi-state projects. Having said that, we cannot view financing options as the “silver bullet” or the solution to the impending shortfall in the Highway Trust Fund. Financing options may not be practical in all parts of the country or for every infrastructure project.

Current funding sources into the Highway Trust Fund

In order to provide context to the discussion of future funding, it may be helpful to restate the current sources of funding into the Highway Trust Fund.

The sources of revenue into the HTF fall into two separate categories – motor vehicle fuel taxes and various non-fuel taxes and fees. Highway Trust Fund revenues are:

- Gasoline and other fuels 18.3 cents/gallon
- Diesel 24.3 cents/gallon
- Retail tax on trucks 12.0% on retail sales
- Highway-type truck tires 9.45 cents/100 lbs capacity
- Heavy vehicle use tax \$100 + \$22/1000 lbs

Motor fuel taxes account for the vast majority of revenue into the HTF – approximately 90% of the HTF net receipts. Other revenues (not based on motor fuel consumption) account for only about 10% of the HTF net receipts.

The staff of the Joint Committee on Taxation have estimated that one cent per gallon of motor fuel taxes during the 10-year period beginning with FY2015 will yield about \$1.7 billion per year – of this amount, \$1.3 billion is attributable to the gasoline tax and \$400 million is attributable to the diesel tax.

Growth in motor fuel tax receipts is driven by two factors: tax rates and fuel consumption. Federal motor fuel tax rates were last raised in 1993, when Congress added an across-the-board 4.3-cent increase. The proceeds from this increase, however, initially were directed to the General Fund and were not credited to the HTF until October 1997 (fiscal year 1998). Because the tax rate has remained constant since 1993, inflation has significantly eroded the value of the tax receipts – the purchasing power of the motor fuels tax has declined by about 38 percent.

In addition, we have seen volatility regarding receipts into the HTF from non-fuel tax receipts – especially those related to truck trailer sales and the heavy vehicle use tax.

Financial condition of the Highway Trust Fund

The Highway Trust Fund has served as the means to fund federal highway and transit programs in this country for many years. Unfortunately, the revenue into the Highway Trust Fund has not kept pace with the spending. The Congressional Budget Office baseline assumption estimates the spending from the Highway Trust Fund will exceed receipts on average about \$15 billion per year for the next ten years (FY2014-2023). If no action is taken, this funding shortfall will have an extraordinary impact in FY2015 – a little over a year from now – when states and transit agencies across the country will have to significantly reduce their transportation investments. For the federal highway program, this shortfall would effectively prevent states from obligating any new federal funds – reducing the current federal highway program from \$40 billion to less than \$500 million in new obligations in FY2015. The federal transit program would see similar reductions as well.

There are serious implications from this kind of reduction – highway and transit projects across the country that are currently planned may have to be delayed or cancelled. These are projects that states, communities and even regions have been waiting for many years to see completed to improve congestion, increase capacity or address other transportation issues.

Funding options

Given the current funding picture – the question becomes – what do we do about it? One can address this in a number of ways (or some combination thereof) – do nothing and reduce federal transportation investments; increase current taxes and fees or continue transfers from the General Fund; or identify and implement new, dedicated revenue streams into the HTF.

For the purpose of today's hearing – I'm going to presume that Congress is unwilling to drastically reduce federal transportation investments and the federal government will remain a viable funding partner. Therefore, I will focus on possible funding options and policy considerations.

The National Surface Transportation Infrastructure Financing Commission (Commission) completed its work in February of 2009. While I'm not here on behalf of the Commission, we released a comprehensive report that details short and long-term funding options. While four years may seem like a long time, the funding options we explored still remain relevant to today's discussions. In addition, since the release of our report, a number of new ideas have been discussed either in Congress or in the broader transportation community – oil and gas leasing fees and a non-truck (passenger vehicle) tire tax for example.

So while not an exhaustive list of ideas, the Commission examined close to 40 funding options and this list has served as the basis for much of the conversation currently taking place in and out of Congress. We evaluated each of these funding options using criteria such as revenue raising potential (funding stream considerations); implementation and administration considerations; economic efficiency and impact considerations; equity considerations and applicability to other levels of government.

This list of options is very diverse and while the Commission did not recommend every one of these options, they are all listed in our final report. The report lists how much revenue each option could raise along with some pros and cons for the funding options.

There are three general types of funding or revenue options for the HTF – if Congress determines new or additional revenue/funding is needed:

- Raising the rate of taxation or fee rates of existing federal revenue streams into the HTF – for example the gasoline and diesel tax (including indexing); the heavy vehicle use tax; the truck and trailer sales tax; and the truck tire tax.
- Identifying and creating new federal revenue sources into the HTF – for example a container tax; drivers license surcharge; vehicle registration fee; imported oil fee; sales tax on fuel; carbon tax; vehicle sales tax ; sales tax on auto-related components, oil and gas leasing fees; and a tire tax on light-duty vehicles.
- Diverting current revenues (and possibly increasing the rates) from other federal sources into the HTF – for example, custom duties; the Harbor Maintenance Tax; or revenue from the General Fund.

The Commission spent over two years working on this report and what we submitted to Congress was the best effort of a diverse group of 15 individuals. As a former staffer, I'm well aware that Congress may have a different opinion and may choose a different set of options to fund our transportation system. It is my hope that the Commission report proves useful to this Committee, other relevant Congressional Committees and to the Congress as a whole.

Implementation and policy issues for consideration

If any of these funding options were easy, they would have been done already. Each funding option – whether increasing a current tax or fee; identifying a new funding source or even continuing General Fund transfers – has supporters and opponents and each has policy implications.

Given that, it is important that Congress consider the following key questions:

1. *With the HTF balances nearing zero sometime in early FY2015, 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. You can't forget that new revenue would have to be collected prior to FY2015 or possibly another General Fund transfer would have to take place. In other words - the time to implement any funding option has to be considered. If the implementation 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 you explore any list of options, you 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 our state and local funding partners?*

Several possible funding options are currently used by states, local governments and transit agencies to collect revenue. The Commission was concerned that if the federal government were to add a new fee onto these existing non-federal funding sources, the federal government might "crowd out" the ability of transportation partners to raise revenue from these sources in the future.

3. *Should we retain the user-fee concept?*

Do we still see a benefit of having the funding source tied - in some way - to the users or beneficiaries of the transportation system? Or is it now the case that funding - from anywhere - is what matters most? What would the lack of a user-fee basis mean in retaining contract authority? Contract authority is what makes the federal transportation program somewhat unique among federal programs and allows for the long-term planning and certainty that states, local governments and transit agencies need to plan and construct transportation projects with limited funds. If the federal transportation program were to lose contract authority and become reliant on an annual appropriations process, there are serious implications that would need to be considered.

4. *What is the public appetite for multiple funding sources?*

Given how controversial and difficult it is to raise almost any tax or fee, you may wish to consider the implications of choosing multiple sources of revenue and the level of opposition that may entail. Some funding options raise very little revenue and others would necessitate new collection, administrative and enforcement systems. I would encourage the Committee

and Congress to fully evaluate the steps that would have to take place to create any new funding option so that you have all of the information you need to make your decisions – a thorough evaluation can highlight any implementation, administrative or enforcement challenges ahead of time and allow Congress to thoughtfully take the necessary steps to successfully put in place any new mechanism.

Conclusion

At the end of the day, we are all trying to do what is best for this country. We need to remember that there are real men and women behind all of the numbers and statistics that we tend to use in our discussions. We can't get caught up in national statistics and forget the impacts of the decisions being made. Thousands of jobs depend upon federal transportation funding – not just direct jobs but indirect ones as well. Whether it is to get to work, to move goods across this county or maintain our quality of life, the federal government is an important partner in transportation investments.

I know that with your leadership, Madam Chairman, and the leadership of this Committee and other Committees, Congress will resolve the insolvency of the Highway Trust Fund and provide the funding necessary to continue valuable federal transportation investments.

Thank you again for holding this hearing and for providing me with the opportunity to share my thoughts and perspectives with you today.