PAYING OUR WAY:
A NEW FRAMEWORK FOR TRANSPORTATION FINANCE

Final Report Briefing
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About the Commission

- Created in SAFETEA-LU (sec. 11142) to:
  - Assess highway and transit investment needs
  - Examine federal HTF revenues, status, and projections
  - Consider alternative funding options and finance techniques
  - Report back to Congress with findings and recommendations

- 15 Commissioners – diverse backgrounds, appointed by Congress or Secretary of Transportation

- Open and transparent process
Commission Focus, Principles, Process

☑️ Three interrelated questions:
  ▪ How much revenue is needed?
  ▪ How should it be raised?
  ▪ How should it be spent? (generally outside scope)

☑️ Six guiding principles:
  ▪ Enhance mobility of all system users
  ▪ Generate sufficient funding on a sustainable basis
  ▪ Cause users to pay full cost of system use to greatest extent possible
  ▪ Encourage efficient investment
  ▪ Incorporate equity considerations
  ▪ Support broader public policy goals (i.e., energy and environment)

☑️ 40+ existing and potential funding options plus financing techniques
Initial Observations

- System demands outpacing investment
- System maintenance cost competing with capacity expansion
- Fuel taxes not sufficient, at current rates
- Need more revenue...and collected in ways more directly related to system costs
- Need more investment...and more intelligent investment
Findings – Funding Gap

- Nationally, meeting only 1/3 of roughly $200 billion required each year to maintain and improve the system – perhaps only 1/5 when externalities (congestion, environmental, safety impacts) considered
- Federal level, also meeting only about 1/3 of needs
  - HTF receipts projected to average $32 billion per year over next 25 years (2008 dollars)
  - To maintain system, projected to need additional $25 billion + each year
  - To improve system, at current federal share of total highway and transit needs, projected to need additional $64 billion + each year
Federal Funding Gap

Under current law, $400 billion projected gap through 2015; nearly $3 trillion gap over 25 years

EXHIBIT ES–3: A LARGE AND WIDENING GAP BETWEEN FEDERAL REVENUES AND INVESTMENT NEEDS, 2010-35 (in nominal dollars)

- Cumulative Gap 2010–15 $400 Billion
- Cumulative Gap 2010–35 $2.3 Trillion

HTF Revenues—Baseline Forecast
Findings – Fuel Taxes Unsustainable

- Fuel tax-based funding approach insufficient at current rates – 33% of purchasing power lost since last raised in 1993
- Fuel tax sustainability eroding quickly – unlikely to follow smooth path, with technology advances and heightened focus on global climate change
Fuel Tax Projections & Near Term Challenge

EXHIBIT 2-15: HTF / HIGHWAY ACCOUNT REVENUE PROJECTIONS SINCE SAFETEA-LU

Short-term revenue projections dropping in successive forecasts
Commission Recommendations Overview

- No “silver bullet”, especially in short term
  - Current funding structure not sustainable
  - Current indirect user fee system (fuel taxes) provides weak price signals to use system efficiently
  - Near-term options face political and practical challenges
  - Financing approaches can help but no substitute for solving problem of insufficient revenue

- Long term, mileage-based user fee (VMT) system best choice
  - Sends clear signals about costs of system use
  - Spurs more efficient use and investment
  - More consistent with broader federal policies
  - Sustainable as a funding source

- Near term, need to bridge the gap with current sources
Assessment of Options

- Established 14 evaluation criteria:
  - Revenue stream considerations
  - Implementation and administration
  - Economic efficiency and impact
  - Equity considerations

- Evaluated 40+ funding options:
  - Existing sources
  - New vehicle-related taxes and fees
  - New fuel-related taxes
  - Broad-based taxes
  - Freight-related sources
  - Tolling and pricing mechanisms
Assessment of Options (cont’d)

Options evaluated based primarily on relevance to federal funding gap or extent federal action can facilitate state and local action.

**EXHIBIT 3–8: REVENUE OPTION EVALUATION SUMMARY**

<table>
<thead>
<tr>
<th>Strong</th>
<th>Moderate</th>
<th>Weak</th>
<th>Not Applicable/Seriously Flawed**</th>
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**Federal Options**

- Vehicle miles traveled fee
- Automobile tire tax
- Motor fuel tax
- Carbon tax/cap and trade
- Customs duties
- Truck/trailer sales tax
- Vehicle registration fee
- Heavy Vehicle Use Tax
- Container fee
- Tariff on imported oil
- Sales tax on motor fuels
- Truck tire tax
- Freight waybill tax
- Vehicle sales tax
- Harbor maintenance tax
- General fund transfer
- Freight ton-mile tax
- Driver’s license surcharge
- Bicycle tire tax
- Dedicated income tax
- Auto-related sales tax
- Freight ton-based tax
- General sales tax
- Vehicle inspection and traffic citation surcharge
- Vehicle personal property tax
- Windfall profits tax
- Petroleum franchise tax
- Minerals severance tax
- Federal tax on local transit fares
- Federal tax on local parking fees

**State and Local Options Benefiting from Federal Action**

- Facility level tolling and pricing
- Proceeds of asset sales, leases, and concessions
- Cordon area pricing
- Passenger facility charges
- Development and impact fees
- Tourism-related taxes
- Tobacco, alcohol, and gambling taxes

*For revenue options that are dependent upon utilization of a targeted investment fund as a basic premise for feasibility, such a fund is assumed for evaluation purposes (e.g., for all freight-related funding mechanisms and more specifically those more narrowly targeted to intermodal port and harbor-related investment).**

**State and local options in this category may have applicability but there is no relevant federal action or role.**
Commission Recommendations – Transition to Mileage-Based User Fee

- Begin transition to VMT as soon as possible
- Set federal fee at level to fund federal share of needs (approx. 2¢ per mile for autos under current policies and estimates)
- Additional charges at state/local level, incl. congestion-based
- Reduce / eliminate HTF reliance on fuel and vehicle-based taxes (carbon charges may still be required)
- Ancillary benefits – ITS (traveler info) and VII (safety applications)
All our choices are fraught with problems, which is the “least regrets” option?

Why settle for second best?

It is the only mechanism that is more sustainable in every sense.

It builds on our technology development curve.
Experience

- Tolling in US and overseas is extensive and growing
- Road pricing in the US and overseas is minimal and growing
- *Nonetheless this is a big leap!*
Potential Advantages

- Revenue flexibility
- Sending Accurate Market Signals to System Users
- Impacts on System Investment
- Environmental Benefits
- Benefits for Transit
Potential Disadvantages and Concerns

- Public and Political Opposition to Tolling and Pricing
- Challenges to Setting Efficient Tolls and Road Prices
- Mobility Impacts
- Balkanization of National Network
- Route Diversion
- Adverse Freight Industry Impacts
Potential Disadvantages and Concerns

- Social Equity Concerns
- Rural Equity Concerns
- Double Taxation Arguments
- Tolling and Pricing Administration Costs
- Privacy Concerns
- Scaling the Technology
Transition to VMT (cont’d)

- **Significant but resolvable issues:**
  - System reliability / security / enforceability / fairness
  - Privacy (anonymous operations, cash cards, limiting / encrypting / deleting information collected)
  - Implementation and administration cost
  - Technology standards/equipping vehicles (mandate for new, retrofit for old)

- **Next steps:**
  - R&D programs (technologies and standards)
  - Pilot programs and state-level VMT initiatives
  - Extensive public outreach to address concerns, problems, possible solutions
  - Independent advisory committee or policy oversight body to coordinate efforts
Commission Recommendations – Facilitate Non-Federal Investment

- **Tolling and Other Direct User Fee Initiatives**
  - Allow Interstate tolling for all new capacity and for existing capacity under certain circumstances
  - Residual revenues for surface transportation
  - Tolling standardization and pricing information for travelers

- **Federal Assistance, Financing Incentives, Tax Policy**
  - Enhance federal credit (TIFIA) and State Infrastructure Banks
  - Additional financial incentives for user-backed projects
  - Targeted tax subsidies (private activity bonds, tax credit bonds)

- **Private Sector Financial Participation (PPPs)**
  - Facilitate private investment where it adds value
  - Ensure appropriate controls to protect public interest
  - Support state oversight of PPP arrangements
Concluding Thoughts

“Looking to the future, Commission supports transitioning to funding approach based more directly on use of the transportation system – ideally a mileage-based user fee – as the right foundation.”

- Who pays now?
  - Average user pays 3¢ per mile in motor fuel taxes (compared to 10¢ to 29¢ per mile cost on congested highway). Gas taxes pay small share of typical new urban capacity cost.

- Who pays in the future?
  - We still pay …Question is how much, when, and what do we get…
  - Build infrastructure for economic growth, personal mobility, less congestion, and safer travel. Pay more in fuel taxes, VMT fees, tolls, higher state and local taxes.
  - Don’t build infrastructure and pay with reduced mobility, lower productivity growth, more time on congested roads, worse environment, and reduced safety.

- Financing can accelerate improvements. But, still need source of funding.
- Must fix system so users pay close to cost of their use – in turn, encourages efficient system use and improved system performance.
For More Information

http://financecommission.dot.gov

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