TESTIMONY OF

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REGARDING

Funding and Financing Options to Bolster American Infrastructure

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INTRODUCTION

Chairman Wyden, Ranking Member Crapo, and Members of the Committee, thank you for the opportunity to appear today and speak to the critical need to provide stable and predictable funding for the federal transportation program, while also providing additional financing tools for states and local governments to access.

My name is Victoria Sheehan, and I serve as Commissioner of the New Hampshire Department of Transportation (NHDOT) and as President of the American Association of State Highway and Transportation Officials (AASHTO). Today, it is my honor to testify on behalf of the Granite State and AASHTO, which represents the state departments of transportation (state DOTs) of all 50 states, Washington, DC, and Puerto Rico.

First, allow me to express the state DOTs' collective and utmost appreciation for you—the members of the Senate Finance Committee. Your leadership on several important issues affecting state DOTs must be commended: the repeal of the $7.6 billion rescission of highway contract authority in 2019; the extension of surface transportation programs through fiscal year 2021, while providing necessary funds to shore up the federal Highway Trust Fund for the duration of the extension; the $10 billion in COVID-19 relief funding for state DOTs to help replace lost revenue in December 2020; and just as important, your firm commitment to getting the federal surface transportation bill done on time and possibly providing infrastructure funding as part of a future economic stimulus and recovery package.

I would like to emphasize the following issues as part of my testimony today:

- The importance of a timely reauthorization of federal surface transportation programs;
- The need for a long-term funding solution for the Highway Trust Fund;
- Financing mechanisms can supplement, but not replace direct federal funding; and
- The tangible economic benefits of investing in highway, transit, and other transportation infrastructure—both as part of the reauthorization effort and as part of any investment in the recovery from the current pandemic.

THE IMPORTANCE OF A TIMELY REAUTHORIZATION OF FEDERAL SURFACE TRANSPORTATION PROGRAMS

States like New Hampshire rely heavily upon the federal surface transportation program in order to enable the necessary infrastructure investments for our citizens. A stable federal surface transportation program has become even more crucial as New Hampshire and states across the county continue to recover from the impacts of the pandemic. Any delay in the reauthorization process—or even worse, a series of short-term extensions—would wreak havoc across the country and would impact not just state DOTs, but our partners such as local governments and the construction industry.

In New Hampshire it would impact projects in every county, with projects of all types and sizes being vulnerable, including roadway safety improvements, state of good repair work, as well as capacity improvements, and active transportation investments. Due to our inability to complete work in the winter months, even a short-term delay could have longer term impacts, especially if the timing was such that we could not confidently advertise projects and maximize the summer construction season.

While this Committee is not generally responsible for developing surface transportation policies, you have the unenviable task of identifying and securing funding to pay for these programs. AASHTO members acknowledge the difficulty of the job ahead of you in the coming months, but we stand ready to work with this Committee and others in Congress to find a funding solution that addresses the growing infrastructure investment needs across the country.

NEED FOR A LONG-TERM FUNDING SOLUTION FOR THE HIGHWAY TRUST FUND

For many years, Congress has struggled with how to address the insolvency of the federal Highway Trust Fund (HTF). Since 2008, Congress has had to transfer over $150 billion from the General Fund of the Treasury to the Highway Trust Fund in order to maintain funding levels. While AASHTO is very grateful for this Committee and Congress's unwillingness to reduce surface transportation investments, we recognize that General Fund transfers do not provide the long-term solution needed to stabilize these important programs.

According to recently released baseline projections from the Congressional Budget Office, in order to simply maintain the current HTF spending levels adjusted for inflation after the current extension of the Fixing America's Surface Transportation (FAST) Act, Congress will need to identify $74.8 billion in additional revenues for a five-year bill through 2026; $97.2 billion would be needed to support a six-year bill through 2027 for both the highway and transit accounts.

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 over half of their value in the last 28 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

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

Every state is required to have a Statewide Transportation Improvement Program, which identifies funded priorities for the next four years. In order to do this, states must make assumptions about what might happen to federal funding when programs expire on September 30, 2021. Any shortfall or delay in federal funding will lead to serious cash flow problems for states and local governments. A lack of stable, predictable funding from the HTF makes it nearly impossible for state DOTs to effectively plan—and this is especially true for large projects that need a reliable flow of funding over multiple years. Projects that state DOTs undertake connect people, enhance the quality of life for our citizens, and just as important, stimulate economic growth in each community where they are built.

States have answered the call to action for increasing transportation investments, with more than two-thirds of all states having successfully enacted transportation revenue packages over the past decade—including in the Granite State.

In 2014 the New Hampshire House and Senate approved Senate Bill 367, a 4.2 cents per gallon increase in the state gas tax, which is known as the road toll in New Hampshire. The bill was structured so that the additional revenue could be used across the roadway network. Twelve percent of the revenue collected is returned to cities and towns, a portion is also committed to municipally owned bridges, but the majority of the funding was pledged to the reconstruction of Interstate 93 from the border with Massachusetts to Manchester, the largest city in the State. The intent being to complete the final phases of this $800 million project without reducing the investments being made in other parts of the state.

It should be noted that federal transportation funding does not displace or discourage 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.

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. Potential revenue solutions for the HTF fall into three main categories:

- 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 matrix below illustrates 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 2: 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 Forecast 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

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 four specific revenue mechanisms with substantial estimated yield that could address the HTF shortfall:

- Motor fuel tax increase and indexing
- Freight-based user fee
- Per barrel oil fee
- Mileage-based user fee (MBUF) or vehicle miles traveled (VMT) fee

Specifically on the MBUF/VMT, this Committee and others in Congress will play a critical role in deciding how best or if to proceed at the federal level in implementing this mechanism to meet long-term needs. Given the growing interest in this topic in Congress, let me offer some insights.

The FAST Act established the Surface Transportation System Funding Alternatives (STSFA) Program to provide grants to states or groups of states to demonstrate user-based alternative revenue mechanism. Since 2016, the STSFA program has provided $73.7 million to 37 projects in states across the nation funding projects that test the design, implementation, and acceptance of user-based systems, such as a vehicle mileage-based user fee.

And just last week, AASHTO's Board of Directors that I chair adopted a policy resolution on development of a national framework for MBUF implementation. In it, we call for the following:

- The national MBUF pilot program should focus on the development of protocols such that the public may give consideration to mileage-based user fees as a potential replacement of motor fuel taxes;
- A national mileage-based user fee pilot program should focus on the development of national policies and standards related to data collection, interoperability, and administrative structure and cost
- A national mileage-based user fee program should take into consideration both tax and social equity principles so it is no more burdensome than the motor fuels tax program currently in place;
- A national education campaign to inform public understanding and consideration of vehicle mileage-based user fees as an equitable way to pay for highways is an essential part of a national effort, and;
- A national mileage-based user fee pilot program must build on the leadership and expertise of state departments of transportation.

FINANCING MECHANISMS CAN SUPPORT, BUT NOT REPLACE DIRECT FEDERAL FUNDING

The state DOTs continue to support a role for federal financing tools given their ability to leverage scarce dollars that allow needed projects to benefit communities sooner. I want to recognize the work of you, Mr. Chairman, and others on this Committee to develop and pursue additional financing tools to help meet transportation needs.

Financing tools can play an important and specific role—and AASHTO has supported many such financing options in the past especially the Build America Bond from 2009 that states very much appreciated. AASHTO's members appreciate the ability to access capital markets and many states already rely on various forms of financing ranging from traditional tax-exempt bonds, tax-credit bonds, state infrastructure banks, and private equity, among other financing options.

When state DOT's are advancing larger scale projects, we carefully examine which funding and financing mechanisms will be most advantageous, given the type of the work and the status of other projects in our construction program. We strive to find the most cost effective way to advance large scale projects, without limiting our capacity to continue making investments statewide. As an example, while the 2014 state gas tax increase was intended to fund the final phases of the reconstruction of Interstate 93 from Salem to Manchester, NHDOT also pursued a Transportation Infrastructure Finance Innovation Act (TIFIA) loan, backed by the state gas tax increase. The goal was to stretch the value of the new revenue, with the TIFIA loan structured so that New Hampshire is paying interest only for the first 10 years of the 20 year loan, allowing us to pledge the additional new revenue collected to rural paving and bridge work. The result was the completion of a regionally significant project, savings of over $20 million in financing, as well as improved pavement and bridge condition across New Hampshire, due to the ability to pave 1400 miles of roadway and replace 23 structurally deficient bridges during the interest only period of the loan.

With all this said, however, 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, and not be substituted by 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.

While innovative transportation finance has evolved significantly over the last 20 years, the simple fact remains that the 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 TANGIBLE ECONOMIC BENEFITS OF INVESTING IN HIGHWAY, TRANSIT, AND OTHER TRANSPORTATION INFRASTRUCTURE

Fortunately, infrastructure investment is again one of the top national policy agenda items. This year, both Congress and the Biden Administration are discussing potential infrastructure investment legislation. An infrastructure package, coupled with a robustly funded surface transportation bill, provides a unique window of opportunity to make much-needed improvements to this nation's transportation system.

Achieving both of these goals—infrastructure investment and a robustly funded surface transportation bill—demands bold action to invest in our transportation systems at the appropriate level to guarantee the success of our nation's future as we recover from the impacts of the COVID-19 pandemic. This action has the clear support of the American public and is one of the few areas of possible bipartisan agreement.

CONCLUSION

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 can take the action now to address the projected annual shortfalls by boosting much-needed revenues. Whichever revenue tools are utilized, AASHTO looks forward to assisting you and the rest of your Senate 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.

Thank you for the opportunity to provide the perspective of the nation's state DOTs.