Fiscal Responsibility and Deficit Reduction Commission
Prepared Remarks of
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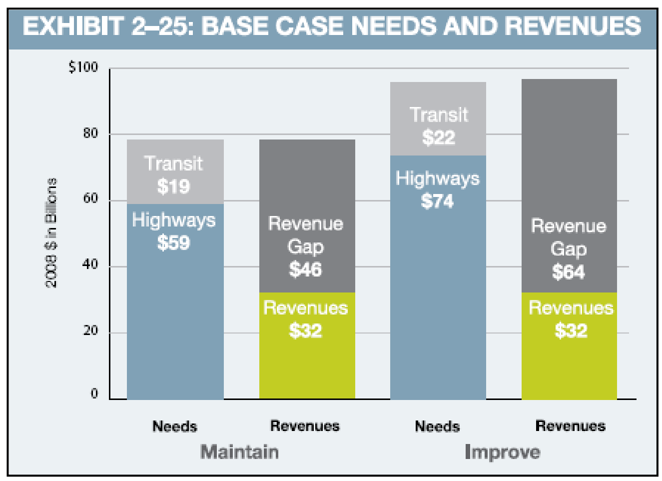
The Transportation Finance Gap

Transportation expenditures contribute to the national deficit—present and future. While this share is relatively small (transportation represents less than 3% of the total federal budget), it is nonetheless a striking illustration of fiscal irresponsibility and the lack of pay-as-you-go principles underpinning basic American mobility needs. There are at least four components to this problem:

- **We spend more than we raise** from federal transportation-related taxes and fees: We spend about $78 billion annually in federal dollars for surface transportation (highways, transit, buses, Amtrak, High Speed Rail, research and administration) while we raise less than half that ($32.0 billion) in transportation related taxes and fees.[1] The rest is covered by general funds, including tax expenditures of about $4.2 billion annually (2010) for employer-provided free parking and transit commuter benefit vouchers,[2] and about $45 billion in surface transportation stimulus funds for 2009-2010 (100% federal, no match required) in the America Reinvestment and Recovery Act of 2009.[3] *These are deficits we are passing on to future generations as additions to the national debt.*



- **We waste much of what we spend:** non-performance-based earmarks (authorizations and appropriations), bridges to nowhere, and formula grants to states and municipalities with no accountability for outcomes. *These are "white elephants" we are passing on to future generations as non-performing assets.*
- **We are not maintaining the system or investing in future needs.** The Congressionally-established National Surface Transportation Revenue and Policy Study Commission puts the maintenance gap at $46 billion annually, and the

[1] Congress transferred another $19.5 billion in General Fund revenues to the Highway Trust Fund in the HIRE act (HR 2847) signed into law by President Obama March 18, 2010 just to keep the federal Highway Trust Fund solvent through 2010.
[2] Joint Committee on Taxation, Tax Expenditure Report January 2010 at p.37)
[3] This includes $27.5 billion for highways, $8.4 billion for transit, $1.3 billion for Amtrak and $8.0 billion for High Speed Rail.

needed improvements gap at $64 billion annually.[4] See chart. *These are costs we are passing on to future generations as deferred maintenance and investment.*

- **We are increasing our dependence on foreign oil**, which in turn increases our current trade deficit, increases carbon-loading into our atmosphere, and increases the threat to coastal infrastructure and housing from storm surge, as well as the buckling of pavement, rail trackage and airstrips from heat damage.[5] *These are health and welfare costs we are passing on to future generations as externalized costs, which will soon become actual adaptation and public health costs.*

Direct subsidies to transportation from the General Fund under the existing SAFETEA-LU transportation law,[6] plus stimulus-related transportation grants and transportation-related tax expenditures financed out of the U.S. Treasury, amount to about $46 billion annually.[7] This is a tax—not on us, but on our children and grandchildren—and will keeping adding to their tax burden through the interest they will pay on this deficit-financed transportation program as our total deficit continues to mount. This is unsustainable. It is also highly unfair to future generations of Americans who are subsidizing our present lifestyle.

The Case for Carbon Pricing

We urge this Commission to recommend to Congress that we return to the financing principle Congress adopted in 1956 to pay for the Interstate and Defense Highway System—the principle of ***pay-as-you-go***. There are ways to do this through marginal cost pricing, where the user of transportation capacity pays for the direct costs to the other users and to society for access to the capacity actually used. However, not all costs can be quantified at the point of use—among them the costs of maintaining energy security, protecting our environment, and promoting economic competitiveness. For those costs, a system-wide pricing of transportation carbon would allow us to more efficiently: (1) collect adequate taxes/fees to pay for present federal transportation expenditures, (2) eliminate transportation's contribution to the national deficit, and (3) assure that these transportation expenditures don't impede, and hopefully support, long-standing national goals around preserving our public health, welfare, energy security, economic competitiveness and environment.

However, we cannot ask the American taxpayer to pay one more dollar to the federal government to fund a dysfunctional transportation program. We therefore ask this Commission to conduct or support research to test the following validation for pricing transportation carbon:

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[4] see www.transportationfortomorrow.org.

[5] Our annual trade deficit from oil imports alone is over $300 billion annually. We now import over 70% of the oil we consume and 70% of the oil we consume is in the transportation sector, which is 95% dependent on fossil fuels as its energy source.

[6] The Safe, Accountable, Flexible, Efficient, Transportation Equity Act-a Legacy for Users (PL 109-59, August 5, 2005).

[7] The $45 billion in ARRA-funded surface transportation assistance, spread out over two years, will terminate in 2011. This still leaves about $25 billion annually in on-going transportation expenditures funded entirely out of the General Fund.

- **Current transportation spending suffers from entrenched programs misaligned with new policy objectives and must be "right-sized" before new funding is justified**. A zero-based budgeting analysis of these programs could separate the wheat from the chaff, propose sun-setting of programs (and earmarks) whose goals have been achieved or are no longer a national priority, and secure the public support needed to finance new program priorities.

- **It is possible to do performance analysis and to invest wisely in transportation infrastructure**. We have not done so in the past, and the result is a fragmented system, bridges to nowhere, a single fuel (oil) powering all US mobility demands, and high household costs of transportation. There are ways to invest more strategically to maximize public benefits of transportation.

- **Transportation-related carbon emissions accelerate climate change; reducing such emissions accelerate cooling effects. Targeting transportation carbon is therefore a cost-effective insurance plan against abrupt climate disruption.** The Goddard Center for Space Studies recently issued a report demonstrating the outsized climate-forcing impacts of transportation carbon emissions (including CO and black carbon), especially short-lived emissions, and thus the corresponding outsized benefits of reducing such emissions. This is a strong argument for taxing transportation carbon first.

- **The co-benefits of pricing transportation carbon exceed the costs, yielding net benefits personally, and to society.** Testing this hypothesis requires an analysis of how pricing can reduce costs both: (1) directly (less need for new infrastructure through effective capacity utilization) and (2) indirectly through strategic and equitable reinvestment of revenues generated.

- **Transportation carbon pricing will reduce the deficit by providing new, dedicated funding to programs now paid out of general revenues, fund a reform transportation program, reduce dependence on foreign oil as well as threats of domestic oil spills, and moderate climate disruption.** This is a description of a strategic investment program that maximizes and reinforces these co-benefits.

If these arguments are proven valid, we must not jump immediately to embracing new carbon taxes. Instead, we must look first to secure revenues *already assessed on carbon-based fuels* that we are not collecting due to tax-preferences waiving such revenues to promote a broader public good. By both taxing and subsidizing carbon-based fuels we are working at cross purposes—like putting our feet on the gas pedal and the brake at the same time. President Obama has already pledged to eliminate tax breaks and subsidies for fossil fuels that are no longer justified. These subsidies amount, at a minimum, to $40 billion over 10 years. Let's close these tax loopholes that are inconsistent with new national clean-energy objectives so any new forms of carbon pricing will be used to maximum public advantage.

Eliminate Royalty Waivers on Offshore Oil and Gas Drilling

One carbon pricing loophole the Obama Administration has not yet addressed is the waiver system on royalties for offshore oil and gas drilling. These royalties, which amount to between 12.5% and 18.5% of the market price of oil and gas extracted from waters within the Exclusive Economic Zone of the United States, are often reduced or waived as an incentive for oil and gas companies to drill in these waters. Revenues lost through these waivers represent a carbon subsidy and should be closed. Our preliminary review of this waiver program reveals the following problems:

- The deep water royalty relief program in the Gulf of Mexico was started to encourage drilling in the deeper areas of the Gulf, at a time when the price of oil was $18 a barrel. Now that the price of oil is around $70 a barrel and industry profits have grown, deep water royalty relief is unneeded.

- Under the Deep Water Royalty Relief Act, oil and gas companies were given more relief for drilling in deeper waters. Specifically, the deeper the water, the larger the volume of oil and gas receiving the waiver. This policy incentivized oil and gas companies to drill in areas that had been previously considered economically unattractive and led to riskier business practices.

- Clerical errors in the deep water lease contracts and recent rulings by the U.S. Court of Appeals could result in up to $53 billion in foregone royalties to the federal government, according to GAO estimates.

- From 2005 to 2009, oil and gas companies got approximately $2.4 billion in royalty relief. Moreover, the Minerals Management Service estimates that from 2011 to 2015, oil and gas companies will receive approximately $3.15 billion in royalty relief. Because of this relief, American taxpayers are not getting a fair return on the leasing of the public waters they own.

Conclusion

In conclusion, we would like to re-emphasize the following six points:

1. Federal transportation spending has abandoned its founding principle of pay-as-you-go and is rapidly digging a deeper deficit hole.
2. Deficit spending on transportation, particularly spending to cover the costs we impose on the system ourselves but refuse to pay for out-of-pocket, is a tax on future generations.
3. Before we ask Americans to increase the price of transportation carbon we must conduct a baseline budgetary review of existing programs to determine if they are still aligned with national needs. If not, they should be sun-setted.

4. In addition, we must eliminate present subsidies to carbon-based fuels, especially oil and gas, recapture the revenues forgone, and apply these revenues to putting our transportation program back on a pay-as-you-go basis.
5. Any reuse of recaptured revenue must be aligned with new national energy and transportation policies and objectives.
6. Once we have eliminated obsolete transportation spending programs and recaptured lost revenues from oil and gas subsidies, new carbon pricing may still be needed, and justified, to meet compelling new transportation and energy security needs of the 21st century. We should not hesitate to act on these new needs.