The Contribution of the Federal Transportation Investment Programs to Fiscal Responsibility and Deficit Reduction

Statement submitted by the American Road and Transportation Builders Association to the National Commission on Fiscal Responsibility and Reform

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Executive Summary

For more than 50 years, the federal highway, public transportation and airport investment programs have demonstrated exemplary fiscal responsibility while providing critical improvements to the nation's transportation infrastructure. Unlike most of the federal budget, these programs are financed almost exclusively by taxes and fees levied on users. Except for a small fraction of the public transportation program, they have put no burden on the nation's general taxpayers, used no General Fund money[1], and for more than 50 years have exhibited long-term fiscal balance with no net impact on the federal budget deficit.

However, projected Highway Trust Fund revenues for the foreseeable future are far short of the investment needed just to maintain current physical and performance conditions on the nation's highways and mass transit systems. Without additional revenues, Congress has only two options—fund the programs at the level supportable by Highway Trust Fund revenues, which would cause serious deterioration of our highways and transit systems, or close the gap with General Funds, which would significantly increase the federal budget deficit.

The National Commission on Fiscal Responsibility and Reform has been charged with making recommendations to Congress to reduce the federal budget deficit. One of the most reliable ways to achieve that would be to assure the future budget-neutrality of the federal transportation investment programs by generating additional user fee revenues, through any of a number of options discussed below. A safe, reliable transportation system is essential to the productivity and growth of the nation's economy. ARTBA urges the National Commission to recommend that Congress continue financing federal transportation investment through fiscally responsible and budget-neutral user taxes and levies.

Transportation Investment and User Financing

When Congress created the National System of Interstate and Defense Highways in 1956, it considered two options for financing the construction costs—borrow the money by issuing highway bonds or enact pay-as-you-go taxes on highway users. After much debate, the second option was chosen. Congress raised the federal gasoline tax from two cents per gallon to four

[1] Transfers into the Highway Trust Fund in FY 2008, 2009 and 2010 represented previously foregone revenues, as discussed below, not new General Funds.

cents per gallon and directed the revenues into the newly-created Highway Trust Fund (HTF). Virtually all federal highway investment since then has been financed from the HTF.
In 1982, Congress added the Mass Transit Account (MTA) to the HTF. The tax rate on gasoline was increased to 9 cents per gallon, with revenues from one cent of the five cent increase being directed into the MTA. Since then, most federal investment in mass transit has been financed from the Mass Transit Account, while highway improvements have been funded from the Highway Account (HA).

Subsequently, the federal tax on gasoline has been increased only twice—in 1990 and 1993—and currently stands are 18.3 cents per gallon. There is also a 24.3 cent-per-gallon tax on diesel fuel (and equivalent taxes on other motor fuels) as well as taxes on large trucks, which are also credited to the HTF. A similar user-fee-funded trust fund finances most federal investment in the nation's airports and air transportation system.

Through the years, user fee financed trust funds have proven a remarkably responsible way to finance federal investment in highways, public transportation and airports. In fact, during most years since its creation in 1956, the Highway Trust Fund generated balances that helped mask the size of the unified federal deficit, leading stakeholders to argue that Congress was violating the trust of highway users by failing to invest all user fee receipts in highway and transit improvements.

Three factors have had a significant effect on the HTF balance in recent years:

- When Congress enacted the Transportation Equity Act for the 21st Century (TEA-21) in 1998, it transferred $8 billion from the Highway Trust Fund balance to the General Fund at the start of FY 1999 and provided that interest on the HTF balance would henceforth be credited to the General Fund—the only trust fund so treated—costing the HTF almost $11 billion in foregone revenues. In addition, when Congress enacted motor fuel tax increases in 1990 and 1993, more than $22 billion of the revenues were deposited in the General Fund despite being taxes levied on highway users for the purpose of investing in highway and transit improvements.

- Economic downturns in 2001 and 2008-09 had a depressing effect on highway travel and thus revenues into the HTF, as did unusually high gasoline and diesel fuel prices in 2008. In addition, highway construction costs skyrocketed between 2004 and 2009, due to world-wide increases in the cost of asphalt, cement and steel. Both effects put immense pressure on HTF revenues.

- In 2005, Congress enacted the Safe, Accountable, Flexible, and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU) which increased federal investment in highway and transit improvements without increasing user fees. To accomplish that, Congress funded the federal highway and public transportation programs at a level where projected outlays through FY 2009 would not only use projected HTF revenues, but would also spend down much of the fund's existing balance.

The HTF balance peaked at $31 billion in FY 2000 and has since been drawn down. Nonetheless, between 1956 and 2007—a span of more than 50 years—the federal highway and mass transit programs had no net impact on the federal budget. User revenues into the Highway Trust Fund financed all federal expenditures on highway and transit improvements, imposing no burden on the federal General Fund or the federal budget deficit.

The Airport and Airways Trust Fund (AATF) has had a similar history. Created in 1971, the AATF has had positive balances most years since, punctuated only by a period in the mid-1990s when user fees on air travelers had temporarily expired. By FY 2000, the AATF had a balance of more than $7 billion. The need to improve airport security after September 11, 2001, resulted in a temporary decline in the AATF balance, but the balance is projected to bounce back to about $10 billion in FY 2010. The AATF thus has also been an example of how a user-fee financed program contributes to fiscal responsibility.

American Recovery and Reinvestment Act and General Fund Transfers

Since 2007, General Fund revenues have been used on several occasions to supplement HTF revenues to finance highway and public transportation improvements, which added to the unified federal deficit. This occurred for two reasons:

<u>Economic recovery</u>. With the economy in its worst downturn since the Great Depression and unemployment approaching 10 percent, Congress included $48 billion for ready-to-go transportation improvements in the American Recovery and Reinvestment Act of 2009 (ARRA). All of the transportation improvements were financed from the federal General Fund, as was the rest of the $787 billion Recovery Act. Since the purpose of the legislation was to stimulate economic recovery and support jobs in the United States, it was entirely appropriate to finance the highway, transit and airport construction projects through general fund deficits. While this violated the time-honored users-pay approach to financing transportation improvements, the impetus for the spending was not to improve the transportation system, but to use such improvements to stimulate the economy and support jobs. Once this is accomplished, however, asking general taxpayers to pay for regular improvements to the nation's transportation system would be a clear departure from the user fee financing principle that has served these programs and the federal budget well for decades.

<u>Rescue the Highway Trust Fund</u>. Since FY 2007, user revenues into the Highway Trust Fund have been significantly less than expected, due largely to the impact of the economic recession on highway travel (both personal and freight) as discussed above. The failure to generate new HTF revenues to support the SAFETEA-LU highway and public transportation investments made the trust fund extremely vulnerable to these economic shocks. With outlays exceeding revenues, the Highway Account of the HTF was in danger of running out of funds toward the end of FY 2008—two years earlier than the authors of SAFETEA-LU had forecast. Projections showed the transit program would run out of money two years later.

To prevent the U.S. government from defaulting on its highway and transit program obligations, Congress injected $8 billion into the Highway Account in FY 2008, followed by $7 billion in FY 2009 and $14.7 billion in FY 2010. In addition, $4.8 billion was injected into the Mass Transit Account in FY 2010.

These transfers came from the General Fund and clearly affected the size of the federal budget deficits those years. All three transfers, however, represented previously foregone user fee revenues that should have gone into the Highway Trust Fund, which instead were credited to the General Fund—$8 billion transferred from the HTF to the GF in FY 1999, interest on the HTF balance that was credited to the GF, and federal aid to state and local governments to repair transportation infrastructure damaged by natural disasters (which for many years was paid from the HFT whereas all other federal disaster relief was paid from the GF). If Congress had not diverted these user revenues from the HTF into the GF, there would, arguably, have been no need for the General Fund transfers in FY 2008, FY 2009 and FY 2010.

The injection of revenues into the HTF between FY 2008 and FY 2010 is, unfortunately, only a stopgap action. The Congressional Budget Office projects that both the Highway Account and Mass Transit Account will exhaust their existing balances during 2012 or 2013. While this is a serious concern, the far more important issue is that projected Highway Trust Fund revenues in the years ahead are far short of the nation's transportation investment needs.

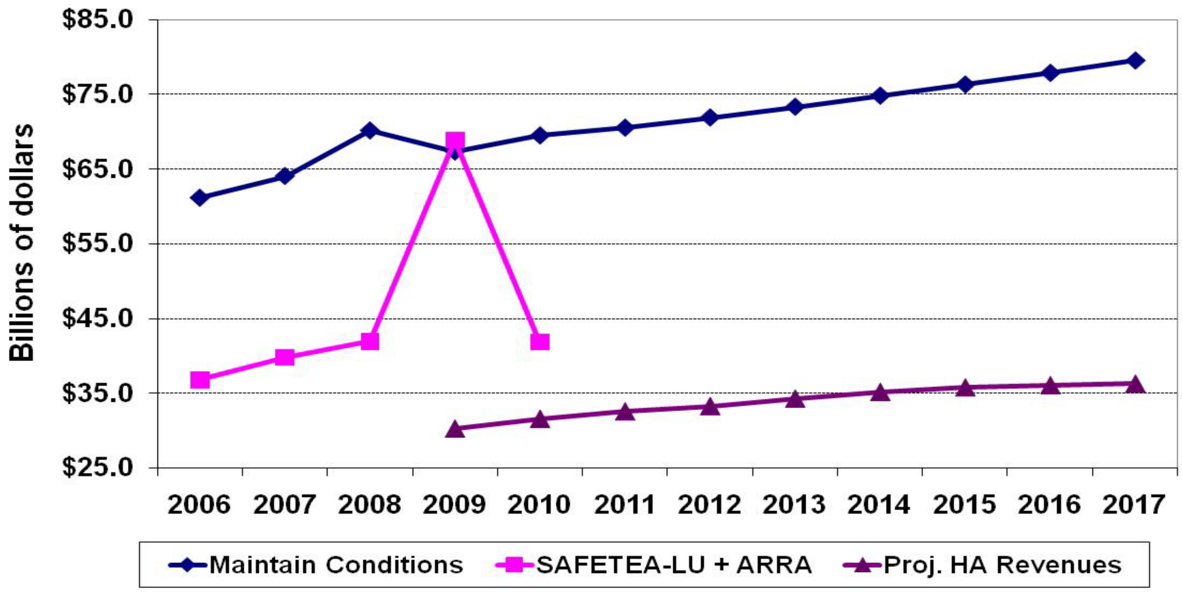
The Gap Between Needs and Revenues

The U.S. Department of Transportation (U.S. DOT) recently released its 2008 *Report to Congress on the Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance*. The report found that the United States is investing less each year than the minimum needed just to maintain current physical conditions and operational performance on the nation's highways and transit systems. For highways, report data indicate that federal highway funding in the next surface transportation bill would have start at $69.5 billion, at minimum, in FY 2010 and grow to $76.3 billion by 2015 just to maintain physical conditions and operating performance on the nation's highways and bridges.

By contrast, Congress provided funding of only $41.1 billion for the federal highway program for FY 2010, almost $28.5 billion less than would be needed just to maintain current conditions. Beyond that, the outlook is for an even greater shortfall. Projected Highway Account revenues range from $32.6 billion in FY 2011 to $35.8 billion in FY 2015, according to the Congressional Budget Office. The annual funding gap during this period averages $39 billion. The contrast between investment needs and revenues through FY 2017 is shown in Figure 1. Federal highway funding met needs in FY 2009 only because of the ARRA highway stimulus.

For public transportation, the federal share of transit capital investment during the next surface transportation bill would need to be $8.6 billion in FY 2010, rising to $9.4 billion by FY 2015. Since only 70 percent of federal transit funds go into capital improvements, funding for the

Fig. 1 - Highway Investment Needs Exceed SAFETEA-LU Funding and Highway Account Revenues



transit program in the next authorization bill would thus have to range from $12.3 billion in FY 2010 to $13.5 billion in FY 2015. By comparison, Congress enacted transit program funding of $10.34 billion in FY 2010, which is somewhat less than required to maintain current conditions.

It should be noted that funds to construct new transit systems are not included in the *Conditions and Performance Report* data. The cost of new systems would add substantially to the transit investment needs identified in the report. Moreover, the federal share of transit needs for FY 2010-2015 exceeds projected MTA revenues, which means additional revenues will be required.

Federal Commission Recommendations

SAFETEA-LU created two commissions to examine the nation's transportation investment needs and recommend revenue options—the National Surface Transportation Infrastructure Financing Commission and the National Surface Transportation Policy & Revenue Study Commission. Both have issued their final reports.

Both commissions arrived at the same conclusion after exhaustively studying myriad revenue enhancing options.

In the short-term, both commissions concluded the most efficient way to increase revenue to finance needed federal investment in highway and transit improvements is to raise the federal gas and diesel tax rates and then index these excises annually to inflation:

- The Financing Commission recommends an immediate 10 cents per gallon excise rate increase on gasoline sales and a 15 cents per gallon excise rate increase for diesel fuel sales which would both thereafter be annually adjusted to inflation. This level is intended simply to recapture purchasing power lost since the 1993 rate increase.

- The Policy & Revenue Study Commission recommends that the federal fuel tax be increased from 5 to 8 cents per gallon per year over the next 5 years, after which it should be indexed to inflation**.** This blue-ribbon group considered not only recapturing lost purchasing power, but also generating more revenue to meet the program investments it believes are necessary to reform the program and meet future national goals for system preservation, capacity enhancements to facilitate freight movement, transportation-related emission reductions and security, among others.

In the longer term, both commissions recommend transition to a vehicle-miles-travelled, or VMT-based, user fee system.

The 10 cent gasoline/15 cent diesel excise enhancements would translate into approximately $20 billion per year in additional revenue for the Highway Trust Fund. With these adjustments, on average, individual households would pay approximately $9 per month more in federal gas taxes (individual households now pay on average $17 per month). By comparison, the average household pays about $300 per month to operate and maintain its cars (and about $800 per month to own and operate them).

The overall level of revenue enhancement recommended by the National Surface Transportation Policy & Revenue Study Commission is in the range necessary to meet the national highway and transit needs previously discussed. It is also well worth noting that major national business and highway user organizations—including the U.S. Chamber of Commerce and the American Trucking Associations—are publicly supporting a federal motor fuels excise increase to finance an expanded transportation improvements.

Dedicated Financing Options

While ARTBA strongly supports an expanded highway and transit investment program financed through the federal motor fuels tax and related-user revenues, we recognize it likely will be necessary for the Congress to consider other, supportive, funding options as well. There is a host of revenue and financing proposals that have been suggested in recent years that have the potential of supporting the type of surface transportation investment program the nation needs and members of Congress and the Obama Administration say they would like to provide.

Among the options to supplement the federal motor fuels tax are:

- An ARTBA proposal to establish a freight services charge on the value of transportation provided by commercial trucks to support a new federal freight improvement program. This concept is similar to the air cargo tax which contributes to the aviation trust fund. A two percent fee would generate nearly $10 billion per year.
- A per barrel tax on oil suggested by Rep. Peter DeFazio that could raise between $100 and $150 billion for transportation improvements.
- A second DeFazio proposal to impose a transaction tax on a variety of financial products that is estimated to generate approximately $75 billion.
- Several members of Congress have proposed bond-financing mechanisms to provide revenues for surface transportation improvements.

While making individual financing recommendations for the federal highway and public transportation programs is beyond the purview of this commission, the concept of dedicated financing for these programs to ensure their continued budget neutrality is at the heart of your mission. Furthermore, as these programs support multi-year construction projects, ensuring the continuation of contract authority is essential to provide state departments of transportation the certainty they need to undertake these necessary improvements.

The Role of Private Financing & Public Private Partnerships

Given the “gap” between current federal investment in transportation programs and what is needed for the future, ARTBA believe all funding options must be “on the table” and given serious consideration.

While private sector financing of transportation infrastructure and public-private partnerships (PPPs) certainly can—and should—play a larger role in meeting the nation’s future transportation needs, these financing mechanisms should be viewed as supplementary to traditional public funding of transportation improvement programs. And it must be recognized that the decision to enter such agreements are state and local, not federal.

The reality is that the number of transportation projects and/or facilities that will attract private investment and support PPPs will always be constrained due to the underlying requirement of a stable cash return to private investors—and the whims of state and local politics. Therefore, the Congress cannot “depend” on private financing and PPPs to somehow “replace” some of the federal share of necessary investment.

Concluding Remarks

The National Commission on Fiscal Responsibility and Reform has been charged with making recommendations to Congress to reduce the federal budget deficit. One of the most reliable components of a program to achieve that would be to assure the future budget-neutrality of the federal transportation investment programs by generating additional user fee revenues, through any of a number of options discussed below. A safe, reliable transportation system is essential to the productivity, international competitiveness and future growth of the nation's economy. ARTBA urges the National Commission to recommend that Congress continue financing federal transportation investment through fiscally responsible and budget-neutral user taxes and levies.