

NATIONAL SURFACE TRANSPORTATION INFRASTRUCTURE FINANCING COMMISSION

PAYING OUR WAY: A NEW FRAMEWORK FOR TRANSPORTATION FINANCE

Final Report Briefing

Presented by:

Dr. Adrian Moore, Commissioner
Vice President, Reason Foundation

April 17, 2009

TTI Symposium on Mileage-
Based User Fees



About the Commission

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- 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

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- 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

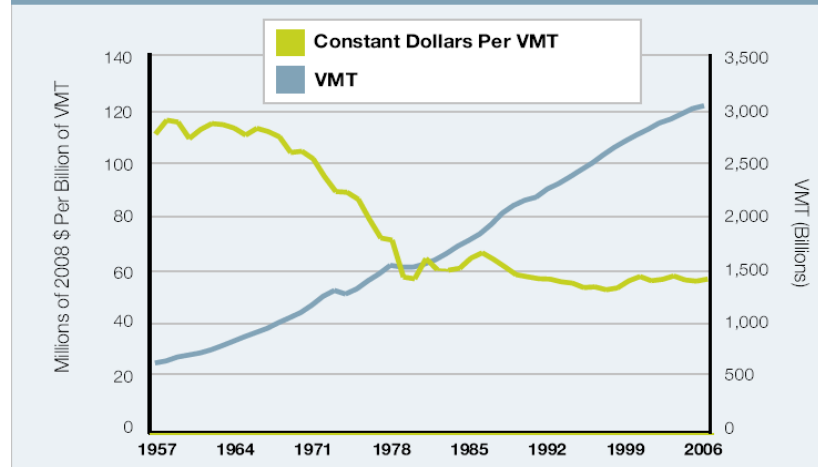


Initial Observations

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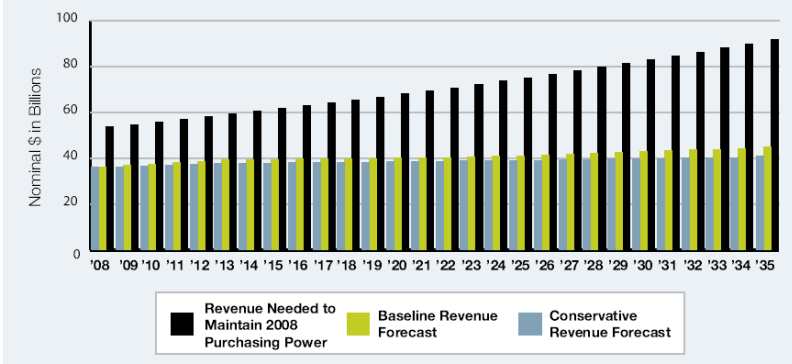
- System demands outpacing investment
- System maintenance cost competing with capacity expansion
- Fuel taxes not sufficient, at current rates
- Need more revenue...and collected in ways more directly related to system costs
- Need more investment...and more intelligent investment

EXHIBIT 2-2: VMT-ADJUSTED HIGHWAY SPENDING, 1957-2006



Source: VMT data are from FHWA Highway Statistics.

EXHIBIT 2-21: ANNUAL FEDERAL REVENUE NEEDED TO MAINTAIN CURRENT HIGHWAY AND TRANSIT PROGRAM PURCHASING POWER, 2008-35



Findings – Funding Gap

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- 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

EXHIBIT ES-1: AVERAGE ANNUAL CAPITAL NEEDS AND GAP ESTIMATES, ALL LEVELS OF GOVERNMENT, 2008–35 (in 2008 dollars)

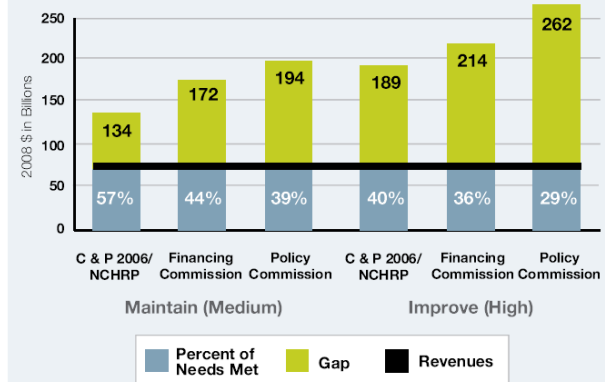
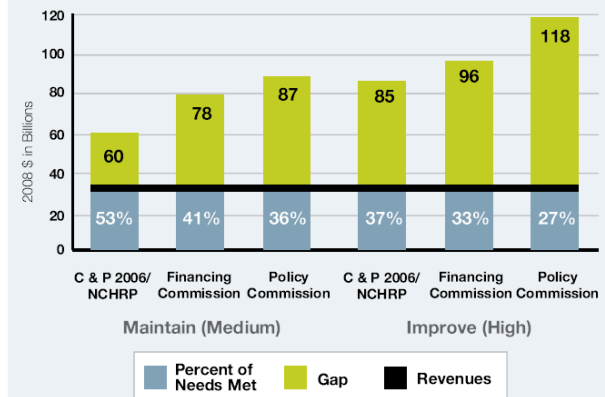


EXHIBIT ES-2: AVERAGE ANNUAL CAPITAL NEEDS AND GAP ESTIMATES, FEDERAL GOVERNMENT, 2008–35 (in 2008 dollars)

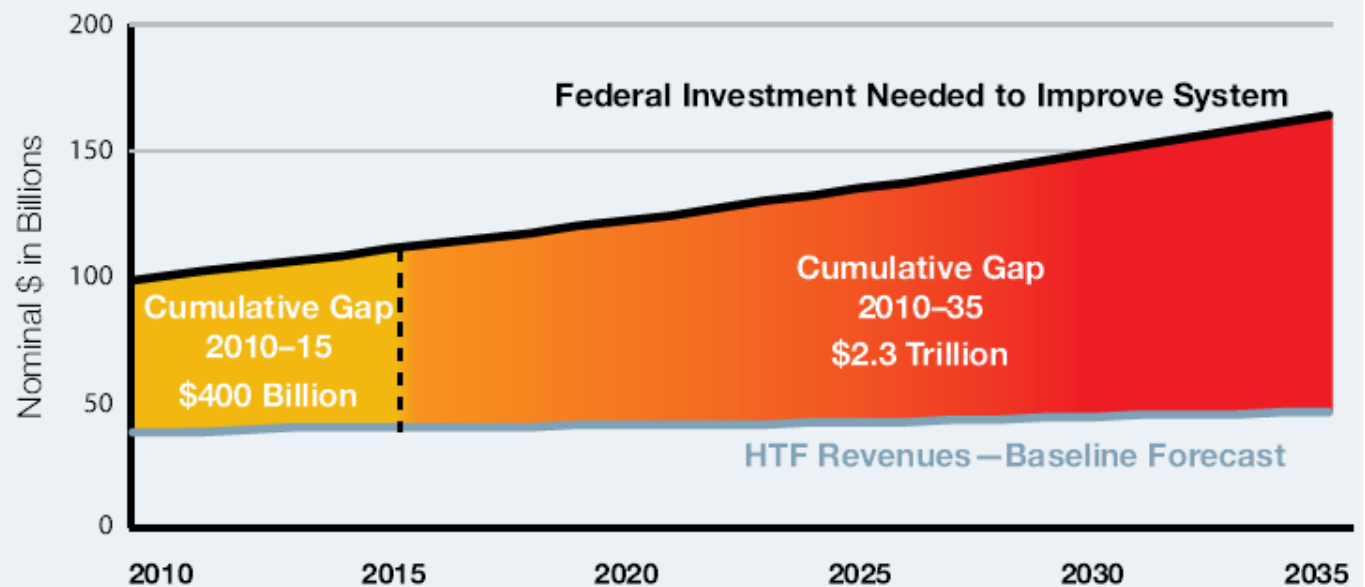


Federal Funding Gap

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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)

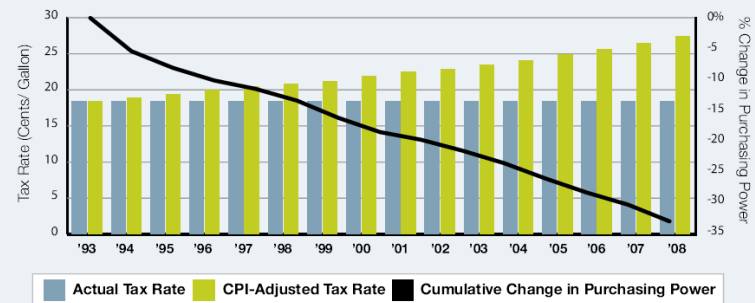


Findings – Fuel Taxes Unsustainable

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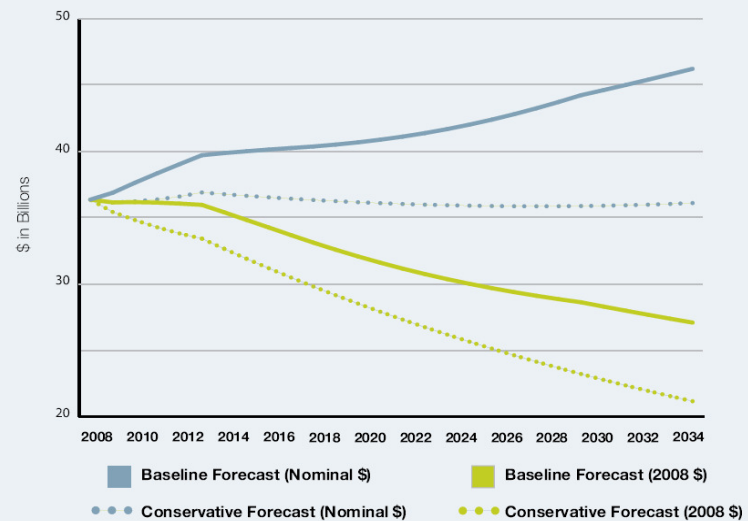
- Fuel tax-based funding approach insufficient at current rates – 33% of purchasing power lost since last raised in 1993
- Fuel tax sustainability eroding quickly – unlikely to follow smooth path, with technology advances and heightened focus on global climate change

EXHIBIT 2-9: FEDERAL GASOLINE TAX RATE AND LOSS IN PURCHASING POWER



Source: FHWA 2006 Highway Statistics, Table FE-21B, indexed using CPI-U as reported by the Bureau of Labor Statistics.

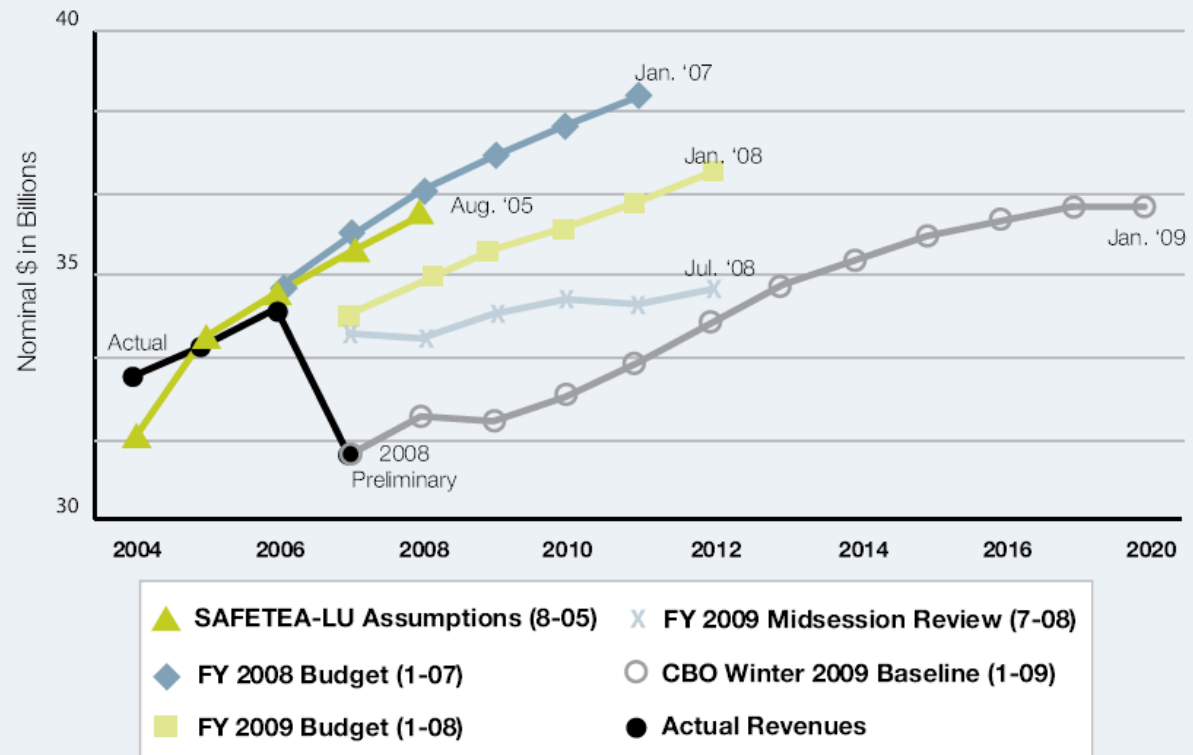
EXHIBIT 2-19: HTF BASELINE FORECAST VS. CONSERVATIVE FORECAST (HIGHER MPG ASSUMPTION)



Fuel Tax Projections & Near Term Challenge

Short-term revenue projections dropping in successive forecasts

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



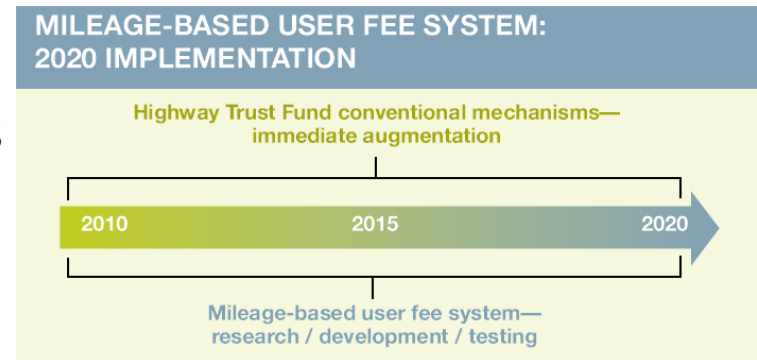
Commission Recommendations Overview

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- 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

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- 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*

Strong	Moderate	Weak	Not Applicable/ Seriously Flawed**
Federal Options			
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Freight waybill tax • Vehicle sales tax • Harbor maintenance tax • General fund transfer 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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			
<ul style="list-style-type: none"> • Facility level tolling and pricing 	<ul style="list-style-type: none"> • Proceeds of asset sales, leases, and concessions 	<ul style="list-style-type: none"> • Cordon area pricing • Passenger facility charges 	<ul style="list-style-type: none"> • 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

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- 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)



Commission Recommendations – Transition to Mileage-Based User Fee Cont'd

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- 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

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- 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

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



Potential Disadvantages and Concerns

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- 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

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- Social Equity Concerns
- Rural Equity Concerns
- Double Taxation Arguments
- Tolling and Pricing Administration Costs
- Privacy Concerns
- Scaling the Technology



Transition to VMT (cont'd)

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- 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

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- 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

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“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

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<http://financecommission.dot.gov>

Dr. Adrian Moore
Vice President
Reason Foundation
Adrian.Moore@Reason.org

