STATEMENT FOR THE RECORD BY

The Honorable John F. Cox

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REGARDING

LONG-TERM FINANCING OF THE HIGHWAY TRUST FUND

BEFORE THE

Committee on Ways and Means of the United States House of Representatives

ON

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INTRODUCTION

Chairman Ryan, Ranking Member Levin, and Members of the Committee, thank you for the opportunity to provide input on the need to identify a long-term, sustainable revenue solution for the Federal Highway Trust Fund. My name is John Cox, and I serve as President of the American Association of State Highway and Transportation Officials (AASHTO), and as Director of the Wyoming Department of Transportation (WYDOT). It is my honor to provide this Statement for the Record on behalf of AASHTO, which represents the State departments of transportation (State DOTs) of all 50 States, Washington, D.C., and Puerto Rico.

For almost 60 years, the Highway Trust Fund (HTF) provided stable, reliable, and substantial highway and transit funding. However, over the past seven years this has not been the case. Since 2008, almost $62 billion have been transferred from the General Fund to the HTF to keep it solvent. Recently—and retreading a path that we all have walked down before—the U.S. Department of Transportation (USDOT) announced that the Highway Account of the HTF will likely run out of money later this summer. If this is allowed to happen, States may not be reimbursed for work they have already paid for. In addition, failure to ensure the solvency of the HTF will force States to drastically reduce the obligation of new Federal highway funds in Fiscal Year 2016.

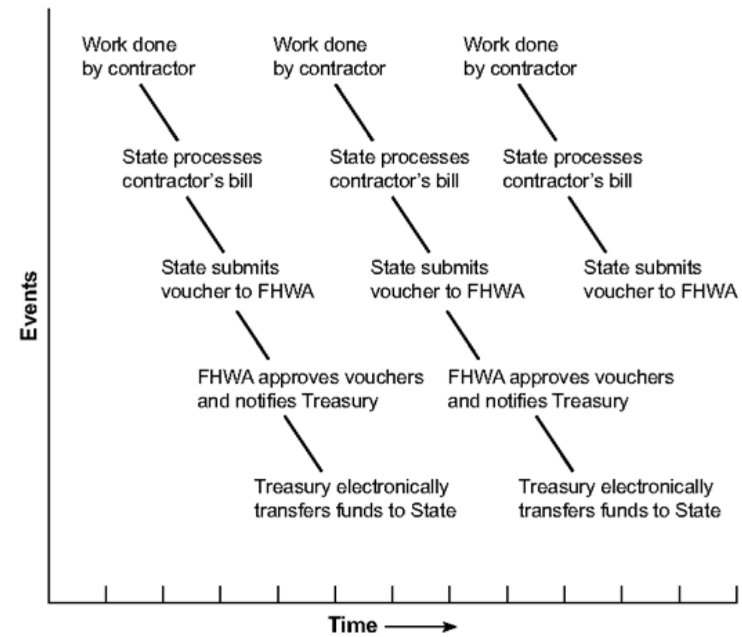
Almost half of capital investments made by States on our nation’s roads, bridges, and transit systems are supported by the HTF. Without this strong Federal-State partnership, State DOTs will not be able to play their part in building and maintaining the national transportation network on which our economy relies to be competitive in the global marketplace.

FAILURE TO REIMBURSE STATES FOR PRIOR OBLIGATIONS

The Federal-aid Highway Program currently provides about $38 billion a year to State DOTs for important road and bridge projects across the country. These funds are derived from contract authority, a unique form of Federal budgetary authority well-suited for infrastructure projects that require a multi-year construction timeline. It is critical to note that the dollars obligated under this program represent the Federal government's legal commitment and promise to pay—or more accurately—reimburse the States for the Federal share of a project's eligible costs.

Under this reimbursement framework, States only receive funding from the Federal Highway Administration (FHWA) when work is completed on a project and the State submits a request for reimbursement. States typically receive reimbursement electronically from FHWA the same day payments to the contractor are made.

EXHIBIT 1. FEDERAL-AID HIGHWAY PROGRAM REIMBURSEMENT PROCEDURES



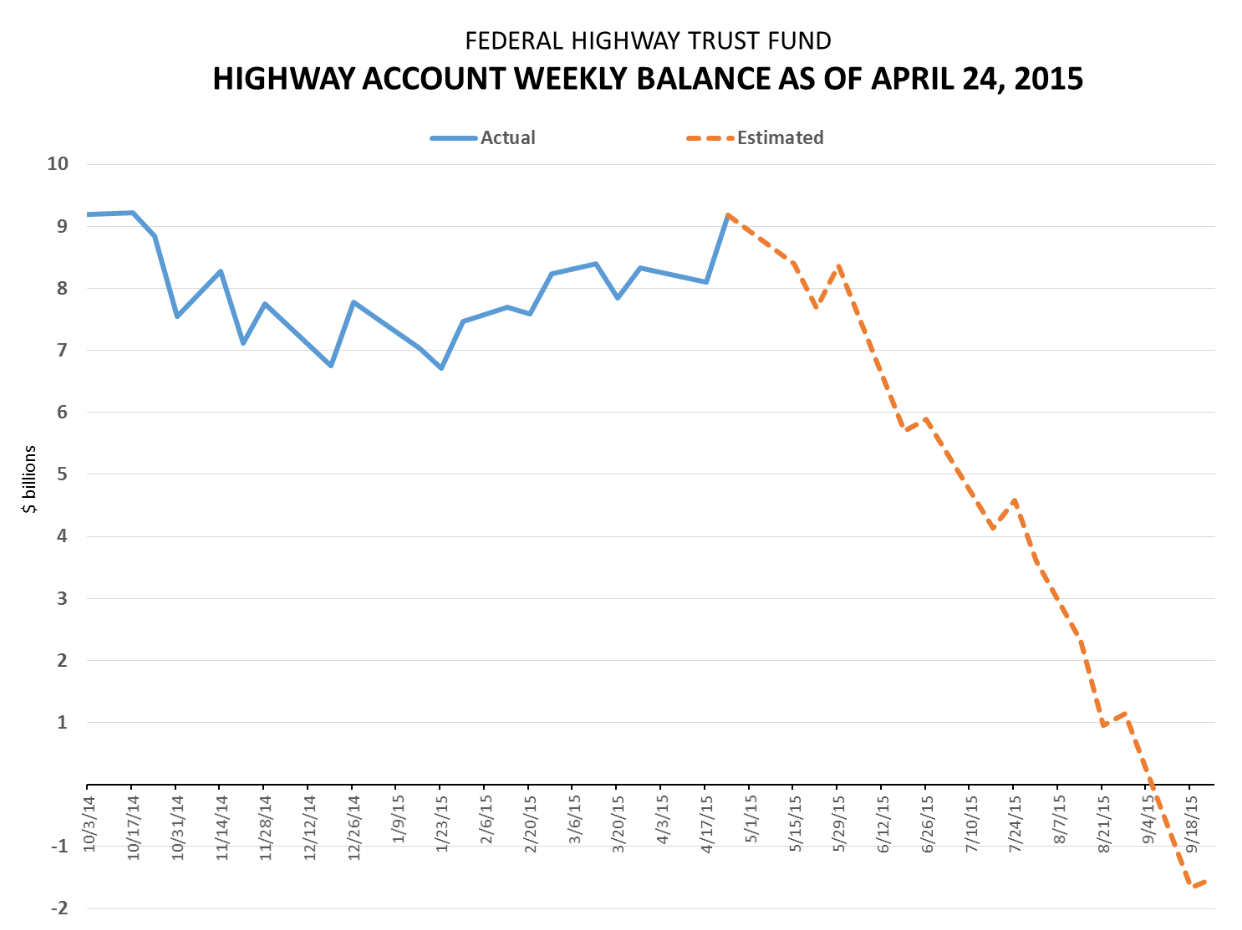
Source: Federal Highway Administration

It is currently estimated by the USDOT and Department of the Treasury that the Highway Account of the HTF is likely to run out of cash by early September of this year. Prior to reaching this point of insolvency, FHWA will be forced to institute emergency cash management procedures in order to slow down reimbursements to States for costs already incurred on highway and transit projects.

As Congress was faced with the same HTF insolvency crisis last summer, FHWA announced that under their proposed emergency cash management plan at the time, States' reimbursements would be capped at a drastically reduced amount relative to the full amount owed. This cap would have been determined by the ever-dwindling amount of cash in the HTF accessible by FHWA twice a month. Under this situation where FHWA cannot cover 100 percent of the bills received, States would have been left to provide the cash cushion—by whatever means necessary such as short-term borrowing, standby lines of credit, reliance on the state's general fund—for payments already made. Furthermore, FHWA incurs interest liability if a State pays out its own funds for Federal assistance program purposes, which would only exacerbate the cash shortfall in the HTF. Given the urgency of this situation, Congress passed the Highway and Transportation Funding Act, which was enacted on August 8, 2014, to provide $10.8 billion to the HTF.

Because States count on prompt payment from the Federal government to be able manage cash flow and pay contractors for completed work, any delay in reimbursement from FHWA will cause a significant disruption in all States. And in turn, contractors that rely on prompt payment from the State would be unable to pay their employees and suppliers. As you can imagine, such a devastating scenario will send shockwaves throughout the transportation community and all other industries supported by Federal infrastructure investment.

EXHIBIT 2. PROJECTED ESTIMATES FOR HTF HIGHWAY ACCOUNT'S END-OF-MONTH CASH BALANCE AS OF APRIL 24, 2015

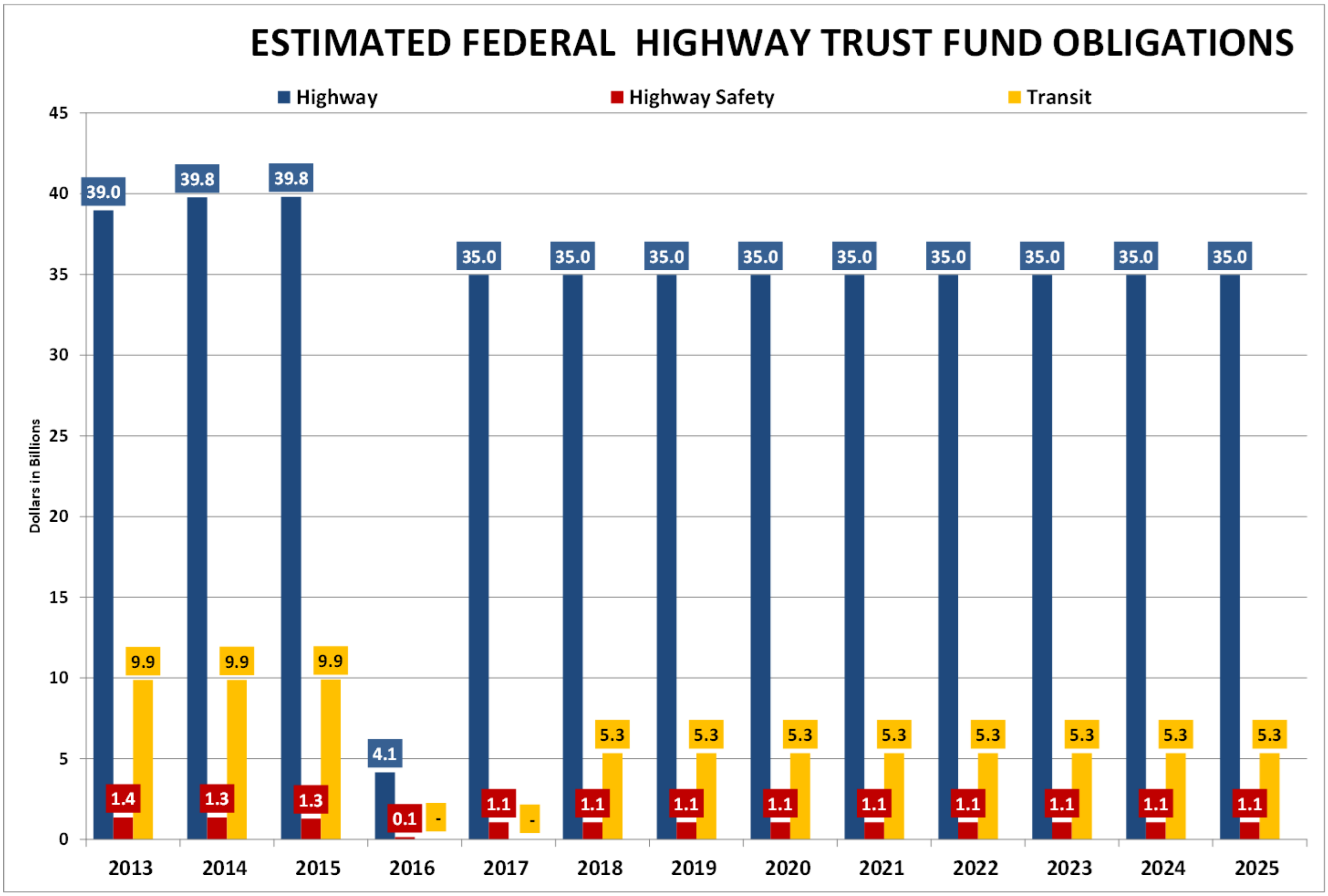


Source: US Department of Transportation; US Department of the Treasury

DEVASTATING IMPACT TO STATES OF A HIGHWAY TRUST FUND SHORTFALL IN FY 2016

Even if FHWA is able to keep the Highway Account solvent by delaying reimbursements to States this summer, it will not address the underlying structural problem. The Congressional Budget Office (CBO) estimates that yearly HTF receipts will be $17 billion less than HTF spending annually over the next ten years (FY 2016-2025). In order to keep the HTF solvent beyond this fiscal year, AASHTO estimates that States will have to significantly reduce new Federal highway funding in FY 2016—going from $40 billion to $4 billion. Even with virtually no new highway funding in FY 2016, there remains a possibility that FHWA will still have to alter its reimbursement procedures in FY 2016 to be able to pay for prior-year obligations.

EXHIBIT 3. ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2015 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



Historically, Federal highway funding has accounted for approximately 45 percent of what State DOTs spend on highway and bridge capital improvements. This means a significant portion of much-needed highway and transit projects—projects that underpin economic development and improve the quality of life—in every community and Congressional district will either be delayed or cancelled outright. Such cutbacks on contract lettings would mean missed opportunities to pare down the backlog of investment needs, while causing a negative domino effect on construction industry employment exactly when it is starting to rebound after being one of the hardest hit segments in the recent recession. Furthermore, ramping up and down construction activities—including equipment and labor resource management—due to the instability of the Federal program would represent an extremely wasteful exercise and impose heavy opportunity costs for the entire transportation industry and the nation as a whole.

ADDITIONAL REVENUES NEEDED JUST TO MAINTAIN CURRENT INVESTMENT LEVELS

As a major disruption to the HTF remains on the horizon, the Congressionally-chartered National Surface Transportation Policy and Revenue Study Commission projected annual Federal capital investment needs at $225 billion for the next fifty years. When compared to the current funding level of about $90 billion, there is a significant investment deficit in surface transportation infrastructure. In order to sustain the long tradition of robust national investment in transportation, we must ensure the HTF's looming cash shortfall is addressed with solutions that enable sustainable program funding not just beyond this summer or FY 2016, but for the long term.

While the HTF continues to derive about 90 percent of its revenues from taxes on motor fuels, these taxes are facing an increasingly unsustainable long-term future, therefore placing the viability of the HTF in question. Motor fuel taxes at the Federal level were last increased to the current rates of 18.4 cents per gallon for gasoline and 24.4 cents for diesel 22 years ago in 1993. As a static excise tax levied per gallon, taxes on motor fuel have lost a significant share of its purchasing power. Compared to the Consumer Price Index, the gas tax had lost 39 percent of its purchasing power by 2014, and is expected to lose more than half of its value—or 52 percent—by 2024. This loss of purchasing power is unusual considering the increase in nominal cost of virtually all other aspects of the economy.

EXHIBIT 4. SAMPLE OF NOMINAL PRICES RELATIVE TO FEDERAL GAS TAX, 1993 AND 2010

ITEM	UNIT/DESCRIPTION	1993	2010	PERCENT CHANGE
College Tuition	Average Tuition and Required Fees	$ 3,517	$ 9,136	**160%**
Gas	Per Gallon	$ 1.12	$ 2.73	**144%**
Movie Ticket	Average Ticket Price	$ 4.14	$ 7.89	**91%**
House	Median Price	$ 126,500	$ 221,800	**75%**
Bread	Per Pound	$ 1.08	$ 1.76	**62%**
Income	Median Household	$ 31,272	$ 49,167	**57%**
Stamp	One First-class Stamp	$ 0.29	$ 0.44	**52%**
Beef	Per Pound of Ground Beef	$ 1.57	$ 2.28	**46%**
Car	Average New Car	$ 19,200	$ 26,850	**40%**
Federal Gas Tax	**Per Gallon**	**$ 0.184**	**$ 0.184**	**0%**

Sources: U.S. Census Bureau, U.S. Department of Transportation, U.S. Postal Service, U.S.Department of Commerce, U.S. Department of Education, National Association of Theater Owners

Facing these structural headwinds, CBO projects the HTF in FY 2016 to incur $54 billion in outlays while raising only $40 billion in receipts, leading to a cash shortfall of $14 billion for its Highway and Mass Transit Accounts. This situation is not new, as the HTF will have—by the expiration of the current surface transportation program extension on July 31, 2015—relied on a series of General Fund transfers amounting to almost $62 billion since 2008 to close this gap. But this annual cash imbalance is expected to only get worse, and the HTF cannot incur a negative balance unlike the General Fund.

This situation leads to three possible scenarios for later this year:

1. Provide additional General Fund transfers to the HTF in order to maintain the current level of highway and transit investment and to meet prior-year obligations;
2. Provide additional receipts to the HTF by adjusting existing revenue mechanisms or implementing new sources of revenue; or,
3. Reduce reimbursement payments this summer and drastically reduce new Federal highway and transit obligations in FY 2016.

In order to support one of the first two scenarios where current highway and transit funding levels are maintained or increased, there is no shortage of technically feasible revenue options—including user fees and taxes—that Congress could consider.

EXHIBIT 5. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

Existing Highway Trust Fund Revenue Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	$ in Billions	
			Assumed 2014 Yield	Total Forecast Yield 2015–2020
Motor Fuel Tax—Diesel	15.0¢	¢/gal increase in current rate (approx. 10% increase in total rate)	$6.54	$41.79
Motor Fuel Tax—Gas	10.0¢	¢/gal increase in current rate (approx. 10% increase in total rate)	$13.21	$78.12
Heavy Vehicle Use Tax	50%	Increase in current revenues, structure not defined	$0.55	$3.42
Sales Tax—Trucks and Trailers	10%	Increase in current revenues, structure not defined	$0.33	$2.19
Tire Tax—Trucks	10%	Increase in current revenues, structure not defined	$0.04	$0.23
Potential Highway Trust Fund Revenue Mechanisms	**Illustrative Rate or Percentage Increase**	**Definition of Mechanism/Increase**	**Assumed 2014 Yield***	**Total Escalated Yield 2015–2020***
Container Tax	$15.00	Dollar per TEU	$0.66	$4.26
Customs Revenues	5.0%	Increase in/reallocation of current revenues, structure not defined	$1.80	$11.66
Drivers License Surcharge	$5.00	Dollar annually	$1.08	$6.98
Freight Bill—Truck Only	0.5%	Percent of gross freight revenues (primary shipments only)	$3.07	$19.90
Freight Bill—All Modes	0.5%	Percent of gross freight revenues (primary shipments only)	$3.80	$24.60
Freight Charge—Ton (Truck Only)	10.0¢	¢/ton of domestic shipments	$1.17	$7.54
Freight Charge—Ton (All Modes)	10.0¢	¢/ton of domestic shipments	$1.44	$9.29
Freight Charge—Ton-Mile (Truck Only)	0.10¢	¢/ton–mile of domestic shipments	$1.41	$9.15
Freight Charge—Ton-Mile (All Modes)	0.10¢	¢/ton–mile of domestic shipments	$3.48	$22.52
Harbor Maintenance Tax	25.0%	Increase in/reallocation of current revenues, structure not defined	$0.43	$2.79
Imported Oil Tax	$2.50	Dollar/barrel	$5.76	$37.28
Income Tax—Business	1.0%	Increase in/reallocation of current revenues, structure not defined	$2.79	$18.06
Income Tax—Personal	0.5%	Increase in/reallocation of current revenues, structure not defined	$6.70	$43.36
Motor Fuel Tax Indexing to CPI—Diesel	–	¢/gal excise tax	–	$5.22
Motor Fuel Tax Indexing to CPI—Gas	–	¢/gal excise tax	–	$10.87

EXHIBIT 6. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS, CONTINUED

Oil, Gas, and Minerals Receipts	25.0%	Increase in/reallocation of current revenues, structure not defined	$2.20	$14.25
Registration Fee—Electric LDVs	$100.00	Dollar annually	$0.01	$0.06
Registration Fee—Hybrid LDVs	$50.00	Dollar annually	$0.17	$1.12
Registration Fee—Light Duty Vehicles	$15.00	Dollar annually	$3.57	$23.11
Registration Fee—Trucks	$150.00	Dollar annually	$1.63	$10.54
Registration Fee—All vehicles	$20.00	Dollar annually	$4.98	$32.21
Sales Tax—Auto-related Parts & Services	1.0%	Percent of sales	$2.32	$15.04
Sales Tax—Bicycles	1.0%	Percent of sales	$0.06	$0.38
Sales Tax—Diesel	7.6%	Percent of sales (excl. excise taxes)	$9.65	$62.50
Sales Tax—Gas	5.6%	Percent of sales (excl. excise taxes)	$24.05	$155.66
Sales Tax—New Light Duty Vehicles	1.0%	Percent of sales	$2.41	$15.61
Sales Tax—New and Used Light Duty Vehicles	1.0%	Percent of sales	$3.46	$22.40
Tire Tax—Bicycles	$2.50	Dollar per bicycle tire	$0.08	$0.53
Tire Tax—Light Duty Vehicles	1.0%	Of sales of LDV tires	$0.33	$2.12
Transit Passenger Miles Traveled Fee	1.5¢	¢/passenger mile traveled on all transit modes	$0.84	$5.45
Vehicle Miles Traveled Fee—Light Duty Vehicles	1.0¢	¢/LDV vehicle mile traveled on all roads	$27.12	$175.58
Vehicle Miles Traveled Fee—Trucks	4.0¢	¢/truck vehicle mile traveled on all roads	$10.93	$70.73
Vehicle Miles Traveled Fee—All Vehicles	–	¢/vehicle mile traveled on all roads	$38.05	$246.31

** Base annual yield escalated using CPI-U.*

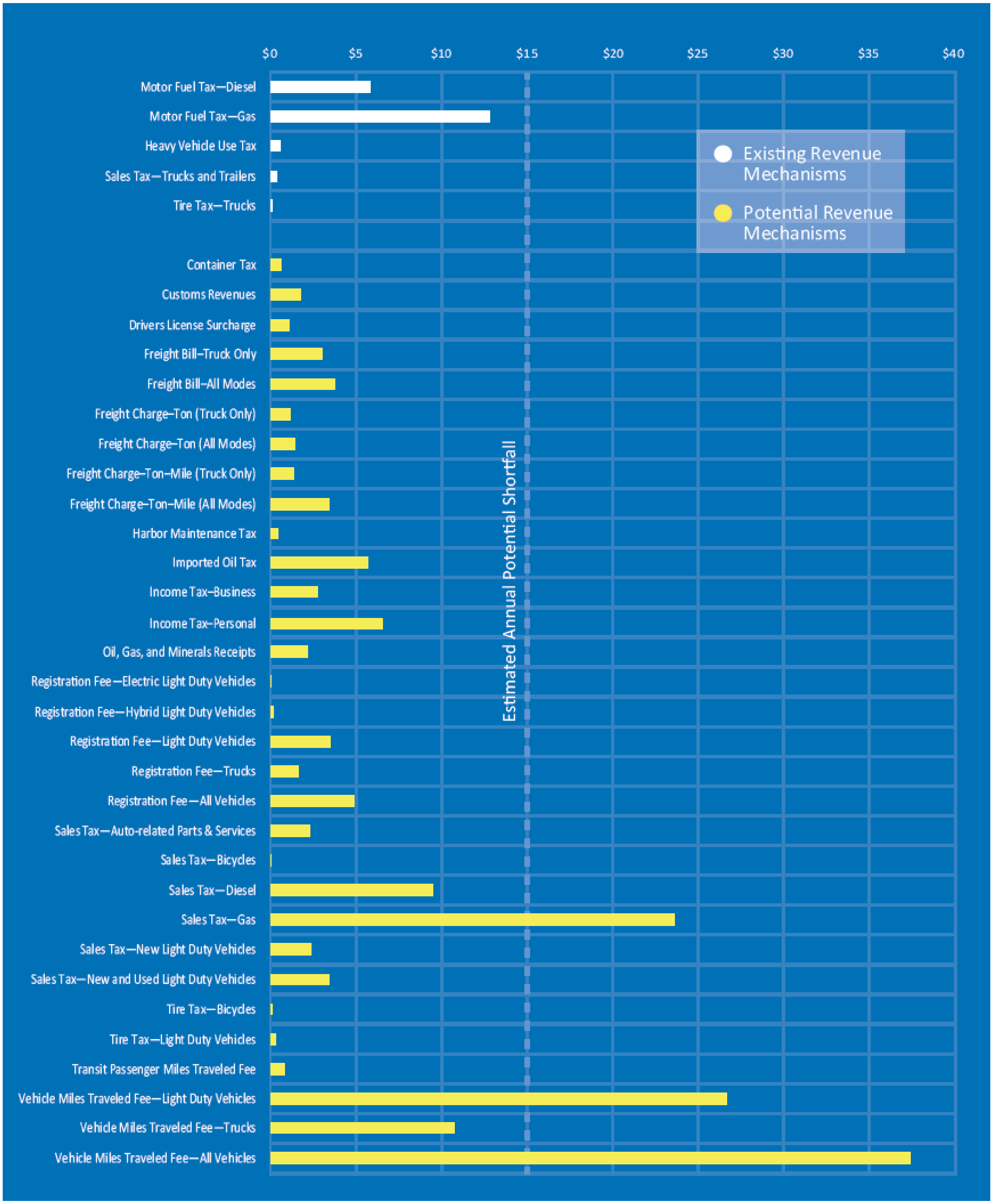
On the other hand, if no new revenues can be found for the HTF and the third scenario prevails, State DOTs will be left to face two dire consequences that will severely undermine much-needed transportation investments throughout the nation: potentially significant delays on Federal reimbursements owed to States for costs already incurred, and a virtual elimination of new Federal funding commitments in FY 2016.

CONCLUSION

There is ample documented evidence that shows infrastructure investment is critical for long-term economic growth, increasing productivity, employment, household income, and exports. Conversely, without prioritizing our nation's infrastructure needs, deteriorating conditions can produce a severe drag on the overall economy. In light of new capacity and upkeep needs for every State in the country, the current trajectory of the HTF—the backbone of Federal surface transportation program—is simply unsustainable as it will have insufficient resources to meet all of its obligations later this summer, resulting in steadily accumulating shortfalls.

Whichever revenue tools are utilized, at a minimum, it is crucial to identify solutions that will sustain the MAP-21 level of surface transportation investment in real terms. Given the devastating impact that potential delays on federal reimbursements to State DOTs combined with a virtual elimination of Federal surface transportation obligations in FY 2016 can have on the economy and construction industry employment, we look forward to assisting you and the rest of your House colleagues in finding and implementing a viable set of revenue solutions to the HTF not only for later this year, but for the long term.

EXHIBIT 7. SURFACE TRANSPORTATION REVENUE OPTIONS: ILLUSTRATIVE ANNUAL ESTIMATED YIELDS ($ BILLIONS)



**Based on the illustrative rate or percentage increase assumed in the summary matrix.*

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