



**The Interim Report of the National Surface Transportation Infrastructure
Financing Commission
“The Path Forward: Funding and Financing Our Surface Transportation
System”**

**American Road & Transportation Builders Association
Comments**

June 2, 2008

The American Road and Transportation Builders Association (ARTBA) appreciates the opportunity to comment on the interim report of the National Surface Transportation Infrastructure Financing Commission, “The Path Forward: Funding and Financing Our Surface Transportation System.” ARTBA staff have attended virtually all public meetings of the Commission and each commissioner has been provided with the full report of ARTBA’s recommendations for reauthorization of SAFETEA-LU, “A New Vision & Mission for America’s Federal Surface Transportation Program” that was finalized in January of 2007 after 18 months of work by the association’s members.

On behalf of the over 5,000 ARTBA members nationwide, we extend our sincere appreciation to all members of the National Surface Transportation Infrastructure Financing Commission. The amount of time each commissioner is devoting to this important task and the seriousness with which the Commission is proceeding are not only commendable, but desperately needed. The nation’s transportation network is truly at a crossroads. Demands on the system imposed by a growing population and economy vastly outpace the ability to maintain and upgrade critical surface transportation assets. It is becoming widely accepted that transportation infrastructure network inadequacies are an impediment to the international competitiveness of the U.S. economy. The federal Highway Trust Fund is facing an immediate revenue crisis in FY 2009. Meanwhile, countless states and localities are struggling to meet their own needs, with some dipping into their transportation funds to finance unrelated activities. In short, the status quo is not only unacceptable—it is deteriorating.

The 2009 reauthorization of the federal surface transportation program provides the best opportunity in more than 50 years to begin charting a new course for the future of America’s highway and transit systems. While we must adopt a long-term perspective in attempting to develop sustainable policies and financing mechanisms that will yield a surface transportation network that meets the nation’s needs, we must also recognize the reality of the appropriate time horizons to accomplish this goal. The 2009 reauthorization bill must be the starting point to begin these transformations.

Arguably, the debate over this monumental legislation has been underway for over a year. The significance of the next federal surface transportation bill demands that a spirited discussion with broad ranging ideas ensue. Given the magnitude of the challenges facing the nation's transportation network, no solution should be taken off the table in these deliberations. It is imperative, however, that this debate proceeds in a manner that is based on fact and avoids political or ideological biases. Furthermore, the nation's transportation challenges are so voluminous there is no rational need to denigrate potential solutions in favor of some other alternative. Quite frankly, we are facing a situation that requires an "all of the above" approach and not an "either/or" attitude.

The Commission's interim report does an impressive job of articulating the many transportation challenges facing U.S. policy makers. The empirical analysis laid out in the report's Chapter 4, "The Challenge—The Path We're On," is both compelling and succinct. This portion of the report should be required reading for anyone involved in the 2009 reauthorization debate. Too often, the debate over transportation solutions quickly devolves into discussion over different financing mechanisms without quantifying existing needs and understanding the relationship between these needs and available revenues. Chapter 4 explicitly describes this situation. We urge the Commission to utilize the report's Figure 3 as a driving principle during the remainder of your proceedings and to ensure that each policy and revenue alternative you consider be required to empirically demonstrate how it will help fill the growing gap between needs and revenues.

Appropriate Federal Role

Incumbent in the effort to answer the question of how to address the nation's surface transportation needs is an understanding of the role for various entities with responsibility and ownership of this system. As the Commission is charged with making recommendations to Congress about what federal policy and financing changes are necessary in pursuit of this goal, it is important to define the appropriate role for the federal government in addressing the nation's surface transportation challenges.

The U.S. Constitution provides a foundation for the federal role in surface transportation policy by giving Congress the responsibility of regulating commerce among the states and with other nations. A national, coordinated system of well-maintained highways and bridges with intermodal linkages must exist in support of interstate commerce and commercial export. The Constitution also requires the federal government to provide for the national defense. To meet this responsibility, the federal government must ensure that efficient transportation facilities are available to expedite emergency military and industrial mobilizations and support civil defense needs and activities.

In addition to this Constitutional direction, there are functional aspects to this question. Webster's New World Dictionary defines holistic as "an organic or integrated whole [that] has a reality independent of and greater than the sum of its parts." This definition is the embodiment of what a national transportation system must be and underscores the need for the federal government to ensure a holistic approach to the nation's transportation challenges is implemented.

The value of one state's roadway network or one city's public transportation system is greatly diluted if it is viewed in isolation. Integrating these facilities into a national transportation network, however, can facilitate economic growth for a region, provide citizens with unimpeded mobility, and ensure national objectives, such as public safety, are addressed. For example, a major metropolitan area with a successful public transportation system achieves more than just mobility for users of that system. Freight shipments to and from this area by highway are also greatly enhanced by the reduced roadway congestion facilitated by a successful public transportation system. As a result, businesses in that area and across the nation are more productive due to the opening of this market that is realized because of a local transportation solution.

This reality is further illustrated by the Commodity Flow Survey data produced by the Bureau of Transportation Statistics and the U.S. Census Bureau. According to the 2002 edition of this report, the latest available, \$6.2 trillion of product shipments, or 74.3 percent, of the \$8.4 billion value of all product shipments in the U.S. in 2002 was carried by trucks over the nation's highways. In addition, \$1.1 trillion or 12.8 percent of the value of shipments went by private courier or the U.S. Postal Service, or by a combination of truck and water or truck and rail. In all, then, more than 87 percent of the value of shipments involved truck transportation on the nation's highways.

In summary, the United States has a national economy that will only function efficiently with a holistic national transportation system. Individual states do not compete with China or the European Union and it is not the responsibility of individual states to ensure mobility beyond their borders. These are clear federal responsibilities and only through federal leadership will the benefits of our nation's surface transportation network be maximized. Continuing and enhancing the federal government's responsibility for the development and maintenance of the nation's surface transportation network, therefore, is essential for ensuring a comprehensive and effective approach to addressing the nation's transportation challenges.

Scope of the Commissions Analysis

We are also pleased the Commission is taking a broad-based approach to its analysis that includes intermodal needs, the requirements of urban and rural areas, and the challenge of goods movement. Our transportation system is in a multi-layered crisis and all of these challenges must be considered to appropriately develop a comprehensive solution. ARTBA's recommendations for the 2009 reauthorization bill call for the development of a bifurcated structure for the federal surface transportation program that consists of two separate, but equally important components:

- The current highway and transit programs must be significantly better funded in the short-term through the existing user fee structure and reformed to address future safety and mobility priorities. They should focus attention and resources on upgrading and protecting the nation's enormous past investments in surface transportation infrastructure.
- The federal government must initiate a new program, funded with new, "fire-walled" freight-related user fee mechanisms, that over the next 25 years will greatly expand the capacity of the nation's intermodal transportation network. This "Critical Commerce Corridors Program" (3C) will be devoted to improving U.S. goods movement and emergency response capabilities.

As was mentioned previously, the details of ARTBA's proposed restructuring of the federal surface transportation program and how to finance these needs has already been provided to each commissioner. ARTBA's comprehensive approach advocates for significant investment increases for the core highway and public transportation program, creation of "Critical Commerce Corridors" and specific programmatic improvements to improve the effectiveness of federal transportation policy would help meet America's infrastructure challenges and ensure its competitiveness in the 21st century global economy. ARTBA is happy to appear before the Commission to further discuss these proposals in detail.

Interim Report Concerns

While the Commission's interim report provides a thoughtful description of the nation's unmet surface transportation needs, appropriately considers the many challenges facing this system and appears to consider all potential options to solve these challenges, ARTBA is concerned the interim report demonstrates a number of unfortunate biases even at this early stage in your deliberations. At the outset, we should state ARTBA is a strong supporter of alternative transportation financing mechanisms, such as public-private-partnerships, tolling, and pricing, and believes states should have maximum flexibility to utilize these tools. The members of ARTBA's Public Private Ventures Division have been leaders in this area for 20 years—long before these concepts recently became in vogue. We are concerned, however, the report consistently describes the motor fuels tax in pejorative terms or contexts. Meanwhile, other alternatives, specifically congestion pricing, are portrayed as without flaw. It is entirely appropriate for the Commission to list the pros and cons of all potential solutions, but selectively applying these criteria calls into question the credibility of the Commission's analysis.

Furthermore, in at least one instance the motor fuels tax is inaccurately characterized. The second sentence on page eight states: "The fuel tax is directly related to gasoline and diesel fuel consumption, only indirectly related to system use, and negatively related to increased use of alternative fuels." In terms of revenues raised, the fuels tax may currently be negatively related to the use of some, but not all, alternative fuels. Congress changed the tax treatment of ethanol-based fuels in 2004 to ensure the Highway Trust Fund was equally compensated whether a motorist purchases gasoline or gasohol. The Congressional Budget Office acknowledged this fact earlier this year in its 2008 budget outlook, by pointing out increased use of ethanol fuels is buoying Highway Trust Fund receipts. In addition, alternative fuels like compressed natural gas are currently taxed at the gasoline equivalent. These examples demonstrate the existing fuel tax structure can be modified to ensure alternative fuels contribute equally and appropriately to the maintenance and improvement of the nation's surface transportation system.

The Commission interim report frequently questions the political viability of increasing the motor fuels tax. Do commissioners seriously believe that tolling and congestion pricing are not without political consequences? That is certainly the impression the report gives, because nowhere is the political viability of congestion pricing, tolling or privatization raised in the interim report. Yes, increasing the fuel tax is politically difficult, but no one should attempt to suggest there are not political obstacles facing other financing mechanisms. The truth of the matter is that if surface transportation investment is going to be increased, someone is going to have to pay for it, and it will require political will to generate revenues. It should not be the role

of the Commission to judge the political viability of alternative funding measures. Instead, the Commission should provide a full analysis of all potential options—including revenue potential, impact on efficiency and equity, etc.—and let Congress judge their political viability.

Furthermore, we are concerned that the Commission may overlook potential consequences of various funding options. For example, the interim report suggests that congestion pricing can reduce the need for highway investment by shifting travel to less congested times or modes. But, as the 2006 Conditions and Performance Report revealed, the price to highway users required to eliminate congestion may actually exceed the cost of building additional capacity. There is also a cost to implementing and enforcing congestion pricing, particularly a universal system that would apply to all roads, which the Commission should take into account in its analysis. Furthermore, to the extent that congestion pricing forces traffic onto other roads, the additional traffic would raise maintenance costs and offset some or all of the potential capacity savings. To be useful to Congress, the Commission's analysis of revenue options should be complete and neutral.

We would also recommend that the Commission include more information on the recent increase in highway construction costs and its impact on highway investment needs. While the interim report refers to the rise in construction costs, the extent of the increase and its impact on funding requirements is important information that the Commission's final report should include, particularly as it affects highway and transit funding in the next federal surface transportation authorization bill.

In considering revenue options, we also strongly urge the Commission to articulate the differing time horizons that policymakers face and the potential of various revenue options to provide solutions during these different periods. First, there is an immediate revenue crisis facing the Highway Trust Fund's Highway Account that, if left unaddressed, will force a \$14 billion cut in federal highway investment in FY 2009. There are only a handful of alternatives available to Congress to address this situation.

Secondly, the existing federal surface transportation program authorization expires September 30, 2009. Commissioners should consider the revenue generating potential of various alternatives to begin addressing the needs/revenue gap demonstrated in Figure 3 of your report within 18 months. While ARTBA supports tolling, pricing and other non-traditional financing alternatives, and believes the Commission should as well, it is important that the Commission quantify the extent to which these facilities/mechanisms can generate billions of dollars of new revenues the interim report shows are needed starting October 1, 2009. The motor fuels tax and other excise taxes can generate substantial revenues in a very short period of time.

Finally, it is clear to all that we must find a new way of financing surface transportation improvements in the long-term. ARTBA has long supported a transition to a vehicle miles tax and applauds the Commission for looking into this alternative. We strongly urge you, however, to not ignore the nation's immediate transportation needs in pursuit of a financing mechanism that may be more sustainable in the long-term.

ARTBA also urges the Commission to not overstate the impact of separate federal policies, such as fuel economy standards, on the viability of the fuels tax. According to the Congressional Budget Office, the recently enacted increase in fuel economy standards is projected to dilute Highway Trust Fund revenues by \$2.7 billion over the next 10 years. The same legislation, however, is expected to increase Highway Trust Fund revenues by \$1.7 billion over the next 10 years due to its increased biofuels production provisions, for a net Highway Trust Fund loss of \$1 billion over 10 years. It is important to note, however, when examined over the anticipated life of the next reauthorization bill (FY 2010 through FY 2015) the new fuel standards are actually projected to increase Highway Trust Fund revenues by \$54 million. While this is not a significant amount in the context of a multi-year surface transportation program reauthorization bill, it demonstrates the flaw in suggesting that policies such as fuel economy standards dilute the viability of the motor fuels tax in the short-term.

Throughout the interim report, the Commission raises serious questions about the efficiency of transportation investment decisions at all levels of government. We are concerned the goal of these comments is more for political purposes than to facilitate solutions. For example:

- “Federal spending through certain programs and earmarks—especially for projects that do not reflect a state or local government priority—can divert state and local funds away from other investments.” (page 24)
- “The vast majority of transportation funds is spent by state and local governments, but it is directed in accordance with elaborate planning and programming procedures significantly influenced by federal regulations...By emphasizing process over outcome, they do not promote the most economically efficient or network appropriate investments. When new capacity is added, it is not necessarily in the areas that need it most. Investments are often more costly than necessary.” (page 25)

While ARTBA agrees the status quo should not be accepted and attempting to ensure public funds are used as wisely as possible must be a top priority, these types of unsupported statements severely undermine the public credibility of the federal role in delivering transportation solutions. If the Commission insists on proceeding with this counterproductive approach, we suggest you quantify these assertions by listing the earmarks that are not a state or local government priority vs. those that are state and local government priorities, and naming the projects or decisions states have made and why the Commission came to the conclusion they were unnecessary or overly costly. ARTBA’s SAFETEA-LU recommendations include a proposal to require that all earmarked funds be obligated during the life of the next reauthorization bill. If the Commission wants to see reform in this area, we suggest incorporating ARTBA’s proposal or some other similar concept.

Conclusion

In short, Congress needs a complete and unbiased analysis of the funding options that are available to meet the nation’s surface transportation investment requirements for the years ahead. The Commission’s interim report has an excellent discussion of the existing gap between current revenue sources and the investment needed to maintain and improve surface transportation infrastructure. Where the interim report falls short is in providing a factual, objective analysis of

funding options. ARTBA would like to see the final report include such information on each option as the revenue potential, the cost of implementing and administering each revenue option, and the potential impact on congestion, safety, economic activity, and equity. With this information, Congress can make the political decisions.

We need an honest debate about the future of the nation's transportation system. The hard reality remains that, no matter how it is structured, a solution to the nation's surface transportation challenges must include additional investment and someone is going to have to pay for these investments. Transportation infrastructure improvements cost money and the longer they are delayed, the more they will ultimately cost.

Again, we appreciate the opportunity to provide you with comments on your interim report and we commend all Commissioners for the commitment you have demonstrated to improving the nation's surface transportation system.