A bold voice for transportation workers

OPTIONS FOR AVOIDING THE HIGHWAY TRUST FUND CLIFF

While Washington obsesses over the so-called "deficit crisis," the reality is that America has a jobs and transportation infrastructure crisis, a product of decades of neglect and indifference by policymakers. This crisis reaches into every sector of our transportation system and we are committed to its reversal.

The most significant barrier to restoring America's surface transportation infrastructure is a broken and outdated funding system as politicians from both parties have been all too willing to postpone difficult choices. This "kick the can down the road" approach may have been politically expedient or even necessary in the short-term, but the consequences have been devastating to our transportation system and our economic competitiveness. If Washington gridlock kills serious proposals to fix our surface transportation funding mechanisms, millions of jobs will be at risk and the already alarming deterioration of our freight and passenger transportation systems will only worsen.

Projections tell us that at the current rate of investment, the U.S. will spend $1.1 trillion below what is needed between now and 2020. Sadly, at this rate it would take almost 80 years to complete the transit projects that are currently on the books. And with the projected insolvency of the Highway Trust Fund (HTF) in 2015 – sort of a "mobility cliff" staring us in the face – there is no more time for brinksmanship.

The HTF provides financing for public transportation and road and bridge construction. Until recently, the HTF was funded primarily by the assessment of federal excise taxes of 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel fuel. These user fees were never indexed for inflation and as a result, their buying power has fallen 33 percent since they were last increased in 1993. No nation in the world can run a 2013 surface transportation system on a 1993 budget.

In the early 1990s, the per gallon charge accounted for 17 percent of the cost of a gallon of gas, but today it represents only about 5 percent of the per gallon assessment. This decrease in buying power has caused the HTF to pay out more than it takes in. As a result, the HTF now spends $15 billion more than it receives each year, and every state received more in funding than it contributed in the years between 2005 and 2009. To fill this funding gap, over $40 billion has been injected into the HTF from the General Fund since 2008. The Congressional Budget Office recently projected that the trust fund would be able to meet its obligations through the end of fiscal year 2014, but after that it may be insolvent. Without any reforms to the revenue stream, the Highway Account would incur a $365.50 billion deficit over the next 23 years.

13

Exacerbating the HTF's underfunding is that the date of its anticipated insolvency coincides with the expiration of MAP-21, the surface transportation reauthorization legislation signed into law in 2012. Although MAP-21 did provide needed stability in trust fund expenditures, Congress was unable to agree on a sustainable and long-term solution to address the shortfall in the HTF. When MAP-21 expires, however, it will no longer have that luxury. If the HTF is allowed to become insolvent in fiscal year 2015, annual federal investments for transit would drop from $11 billion to $3.5 billion and for highways these payments would plummet from $40 billion to $4.5 billion. Allowing these programs to fall over this cliff would kill most planned projects and threaten millions of jobs. Clearly, Congress cannot delay any longer. An answer must be found.

The simplest solution to the threat of insolvency is to increase the gas tax and index it to inflation. The gas tax has a long bipartisan history. It was Ronald Reagan who defended a gas tax increase by saying, "Our country's outstanding highway system was built on the user fee principle – that those who benefit from a use should share in its cost." And in 2009, the bipartisan National Surface Transportation Infrastructure Financing Commission proposed a 10-cent increase in the gasoline tax, a 15-cent hike in the diesel tax and indexing each tax rate to inflation. This approach has been endorsed by the labor movement and businesses of all sizes. Yet to date, anti-tax zealots and extremists who clearly fail to understand how America maintains and modernizes its transportation system have managed to stop any progress.

One approach to the problems of insolvency and increasing trust fund revenues would be to include a gas tax hike in a deficit agreement. A gas tax increase has been incorporated into debt relief packages on several occasions. In late 2010, as a part of the contemporary discussion of this issue, the Simpson-Bowles Commission recommended increasing the gas tax by 15 cents per gallon over three years and dedicating the revenues to fund transportation. These types of negotiations may be the most appropriate forum for addressing the HTF shortfall.

In the absence of an agreement to increase the gas tax, we recognize that other approaches may be necessary. One recent proposal, offered by John Horsley, the former Executive Director of the American Association of State Highway and Transportation Officials, would replace the current excise tax with a sales tax. This would require the conversion from a flat per gallon rate (that is, 18.4 cents for each gallon of gasoline) to a per dollar percentage. The specific percentage of such a tax would be set at a level sufficient to provide $350 billion in funding for highway and transit programs over six years. The end result for drivers would be about $1 per week for each vehicle. This assessment is structured to ease the pain on consumers, would not change the trust fund's user fee structure and would continue to be pegged to the price of fuel. Without an increase in the gas tax as currently structured, we encourage Congress and the White House to give this proposal serious consideration.

Over the longer term, other revenue sources must also be identified. With increased fuel efficiency standards going into effect, by 2025 cars and light trucks will be required to average 54.5 miles per gallon. Additionally, many consumers and producers are moving to alternative fuel vehicles powered by electricity and natural gas. As a result, the current revenue structure for the HTF will need to shift away from one that is predicated on the consumption of gasoline and

diesel fuel. Several longer term options are available. We believe those that continue to be based on user fees are preferable to those that do not. However, these long-term revenue sources must be viewed as complements to an adjustment in the gas tax. They cannot serve as a way to avoid important decisions on looming trust fund revenue needs over the next few years.

A vehicle miles traveled (VMT) fee would provide trust fund revenue by assessing a charge to roadway users for each mile they drive. It is the most thoughtful revenue proposal that is not directly linked to fuel consumption. Like the gas tax, the VMT assesses fees to roadway users, which preserves the user fee model for surface infrastructure investment touted for decades by presidents in both parties. VMT has been endorsed by an array of commissions, including the National Surface Transportation Infrastructure Financing Commission. Differing assessments could be levied on various vehicle types, with trucks and other heavy vehicles being assessed higher charges because of the additional wear they cause on roadway surfaces. Further study may be necessary before full implementation of this approach and such evaluations should focus on easing public concerns regarding privacy and equitable fee assessments. Additionally, commercial driver's license holder protections should be provided, similar to those offered for electronic onboard recorders.

Innovative finance initiatives could also help fund certain transportation projects but are not a substitute for real action to address the chronic underfunding of the HTF. Of course, how these initiatives are implemented is extremely important given the public and employee interest issues that have surfaced over the years. At a minimum, any innovative financing proposal, including a federal infrastructure bank or a separate public private partnership, must apply Section 13(c) transit worker protections, Davis-Bacon prevailing wage rules, project labor agreements, public employee protections and Buy America requirements.

Creation of a federal infrastructure bank has received significant support and been an element of the President's vision for economic growth and infrastructure investment. Such a bank, if properly capitalized, could help to fund intermodal projects and those that affect large regions of the country by offering low-interest loans and loan guarantees. However, despite the rhetoric that one often hears about this topic inside the beltway, infrastructure banks do not replace the need to provide HTF revenue over the immediate or long term.

Public private partnerships (PPPs) are often lauded as an answer to many national infrastructure challenges; however, their implementation can be complicated and raise certain concerns that must be addressed. In essence, these transactions are billed as an opportunity to fund public infrastructure needs when public resources are scarce or inadequate. But of course not all forms of infrastructure can provide sufficient revenue to support this approach and the public interest must be carefully considered as private profits are extracted from public infrastructure. Those who promise job creation from a PPP should be held accountable and the jobs and rights of public employees must be protected. PPPs can have their place in the delivery of certain transportation projects but they must be carefully managed to ensure they are not used to weaken labor standards, eliminate public sector jobs or ignore the public interest.

As this debate unfolds, we will focus our energy on seeking a bipartisan political solution to the gridlock in Washington that is strangling our economy. Real policy solutions to the funding crisis faced by our surface transportation system do exist. What have been lacking are the political will to move forward and a serious commitment to fixing this systemic problem. TTD is committed to this effort and will make the case that funding our surface transportation system will create and sustain jobs, grow our economy and ensure our country can compete and win in the international marketplace.

Policy Statement No. W13-01
Adopted February 24, 2013