TESTIMONY BEFORE THE US HOUSE OF REPRESENTATIVES COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE SUB-COMMITTEE ON HIGHWAYS AND TRANSIT

The Federal User Charge System

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Introduction

Mr. Chairman and distinguished members: it is a great pleasure to appear before this Committee once again to discuss with you the substantial challenges the nation faces in transportation and transportation funding. I treasure the past interactions I have had with this great body over the years.

Last year we celebrated the 50th anniversary of the Interstate System. In fact what we were celebrating was the 50th anniversary of the funding mechanism that made the Interstate possible. As stated in my testimony to this body in January of this year, the vision for the interstate system was developed in the thirties, the plan (the actual map) evolved in the forties, but it took President Eisenhower's genius for organization to put it all in motion with the financing plan that created the Highway Trust Fund in 1956 and the Pay As You Go system that made the Interstate System (the crown jewel of the nation's transportation system) possible. Previous proposals had advanced the idea of a entirely toll-based road system; later Administration proposals from the Clay Commission advanced the idea of a bonding program paid for with fuel taxes. The Pay As You Go system was a Congressional decision after the other concepts were deemed inappropriate for being too limited or too expensive.

That Trust Fund and the user fee based system of revenues that support it have served the Nation well for those fifty years. In my testimony I will describe many of the elements that made for an effective revenue system and examine how those elements are changing.

The User Compact

The fundamental understanding is that of a user compact between government and road users. In that user compact users pay according to the costs they exert on the road system and governments expend those funds in ways that are responsive to user needs and seek to minimize their costs. The responsibilities are mutual and reciprocal.

First and foremost we need to recognize that to be effective a charging system for road use must seek to be fair to users as well as adequate in the resources it generates. To be fair it is best for the fee system to be a surrogate for the miles traveled by vehicles and proportionate to the effects the vehicle has on the roads it uses. The fuel user charge does that really quite well. Absent complex technology, only recently emerging, it does it about as well as one could imagine such a system to do. Among its attributes:

- Almost all motorized vehicles have been and still are petroleum-based so effectively all motorized vehicle users pay as they use their vehicles;
- Non-users of the road system pay nothing directly for the road system;
- A limited number of users of purchased fuels don't use them on roads and in most instances there are refund mechanisms to address this;
- To the extent that fuel taxes are a part of trucking costs, road costs are incorporated in the costs of products we buy whether we are road users or non-users;
- Taxation increases with distance traveled;
- Heavier, bigger vehicles which may cause more damage tend to pay higher fees given their typically lower gas mileage;
- System administration costs (costs of collection, fraud, etc.) are small;
- Continuing cost allocation studies by FHWA have assessed the proportionate shares of costs among users.

Such a system is dependent on getting the original relationship between fuel taxes per mile of travel right in the first place – that is knowing the average cost exerted on the road system per mile of travel and thru the intermediary-ship of the changing miles per gallon characteristics of the fleet, and the fuel user charge rate per gallon, assuring that the user is paying an appropriate amount for use.

Weaknesses

We already see from this some of the ways that the system's effectiveness can go wrong. These have two parts: the fundamental attributes of the system; and the effects of time:

Fundamental Attributes

- The adequacy of the original user charge expressed as cents per VMT could have been wrong;
- Funds may be adequate but not dedicated to the needs of road-users as dictated by user revenues;
- Funds may be diverted, impounded, or otherwise not employed in cost-effective ways;
- Administrative procedures may be weak, lax or inappropriate.

The Effects of Time

- Over time vehicle fuel economy could change modifying the program's income per vehicle mile;
- Over time the weights of vehicles could change causing greater damage than expected;
- Over time road congestion can change the cost picture for both user and highway operator;
- Over time the mix of roads in the system can change with different costs to build and operate (e.g. the Interstate);
- Over time the needs for maintenance will grow with system size and age reducing funds for expansion;
- Over time costs may change with technology, new procedures, new demands (sound barriers), new expectations;
- Over time the value of the revenue can be eroded by changing labor and materials costs and inflation.

All of these problems are directly addressable analytically, legislatively, by policy, by indexing systems or other means. It must be recognized that our wealthier society today makes demands on a system based on the public's higher values of time, their greater willingness to see investment in environmental, safety and aesthetic concerns than past generations. We expect more of our system today. Trying to accomplish more has placed great strains on the present Highway Trust Fund system. One result has been a growing backlog of investment needs in improved condition and performance.

A Broader Assessment of Weaknesses

Some analysts observe that the use of averages in the user charge system have undesirable consequences and would foresee a system that could charge not just for miles driven but for miles driven at certain times and in certain places. Few taxing systems are capable of such precision. Cost allocation procedures as mentioned above seek to get costs right by broad vehicle classes over the years and have difficulty getting that right much less by type of facility, or specific facility, by time of day or in real time – especially when the goal is to be sensitive to congestion levels on a given facility at a given time.

The history of the program has been such that the relatively blunt mechanisms employed to generate revenues were compensated for by, in relative terms, very large percentage increases in the fees, by relatively benign inflation rates, but most of all by the explosive growth in the early days of the system and up to just recently in drivers, vehicles and their travel. These included:

- The baby boomers coming of working age and the advent of a greater proportion of women entering the work force than ever before created an extraordinary boom in new drivers;
- Vehicle ownership after WWII exploded and produced a dramatically larger vehicle fleet;
- Growing wealth made vehicles more broadly affordable and made fuel cost and the accompanying user charge a relatively minor consideration;
- The shifts away from crowded cities by the population expanded the auto-oriented high-mobility life style;
- Tourism, including business travel and recreation, became major industries generating new levels of long distance vehicle-based travel;

The fuel tax increases in the early stages were dramatic in percentage terms: July 1956 50% (2¢ to 3¢); Oct 1959 33% (3¢ to 4¢); April 1983 125% (4¢ to 9¢); Jan 1987 55% (9.1¢ to 14.1¢) and finally Oct 1993 30% (14.1¢ to 18.4¢)

(Appendix charts following this testimony document these trends)

One of the key factors in the future that we began to see even in the nineties is the reflection of the saturation of many of these trends. The white non-Hispanic population has reached effective saturation among both men and women in drivers' licenses and in vehicles. Remaining growth will be a product of the closing of licensing and vehicle ownership gaps by:

- minorities over time as their incomes rise;
- the arrival of new immigrants;
- and the reaching of driving age of today's youth.

Increases in per capita VMT have stabilized as the population shifts toward the lower travel age groups. Current estimates of twenty year VMT growth trends now range below two percent per year, instead of the three and four percent rates typical of previous decades. One of the remaining gaps to close over the next 15-20 years will come from the aging of the high travel prone baby boom age group replacing the present older population which was less oriented to the auto.

While all of these factors are significant, the greatest impacts on the user charge system and its adequacy have not been demographic or technological. They have been the result of fiscal and policy decisions that have distorted the Pay As You Go system with expanded targets for funding (transit and other); fiscal constraints on the process (impounding, CAFE and obligation limits) and the erosion over time of the value of the funds raised from failure to make timely adjustments to the fee structure system.

The feared future erosion of the system's revenues from new alternative fuels, new vehicle technologies are relatively distant in terms of serious impact and can be addressed as long as we keep in mind the relationship between road use and the user fee, but it is the other challenges that will be the more serious threat to the viability of the system. The greatest threat to the effective functioning of the system will be the program's continued lack of focus and expansion of eligible opportunities so that everything is federal.

Closing Thoughts on the Fundamental Challenges we face

Much has been made of the public's resistance to fuel tax increases. In a period when fuel prices varied by at least a dollar a gallon, it is hard to see how a five or ten cent change from user charges would have been singled out as too onerous. It is more to the point that the public may have lost faith in the validity of our vision and our ability to execute our plans that leads to a distaste for increases. When a sound menu is put before the public by agencies that are trusted the success has been substantial.

Over all the Pay As You Go system tied to the Trust Fund mechanism has been immensely effective. Other nations have used the gas tax as a cash-cow seeking consciously to separate road program costs from road taxes in order to tap into the immense benefits the public receives from road use. Other funding approaches are not immune from this. We are seeing in Europe debates among countries as to whether toll revenues are general fund receipts or dedicated transportation revenues. In this country we are seeing that same conflict with old and new toll systems and new proposals for lease arrangements.

In effect, then, one of the great benefits of the present US Highway Trust Fund system is that it establishes an upper limit on what can be charged to road users and that is that amount needed to assure a responsive road system which supports road users and the nation in its economic and social aspirations. In my mind the integrity of dedication to highways of the user charge is the most fundamental aspect of the user compact. It is most fundamental that that be preserved. If that connection to transportation is lost the injury to America's high mobility society will be massive. All other factors are relatively secondary to that. At an expected $1.7 billion per penny the fund will continue to attract friends. The great power of the Interstate System program was its power to attract and to repel. It attracted supporters of the concept and the funding system to support it. It also was able to repel those who had broader designs on what the money raised might do. It is that ability to repel that has been diminished by the decline of the Interstate program with the results we see today – effectively a funding source without a program. not that such a program does not exist but it has not been enunciated. A new mission – a new vision – is required.

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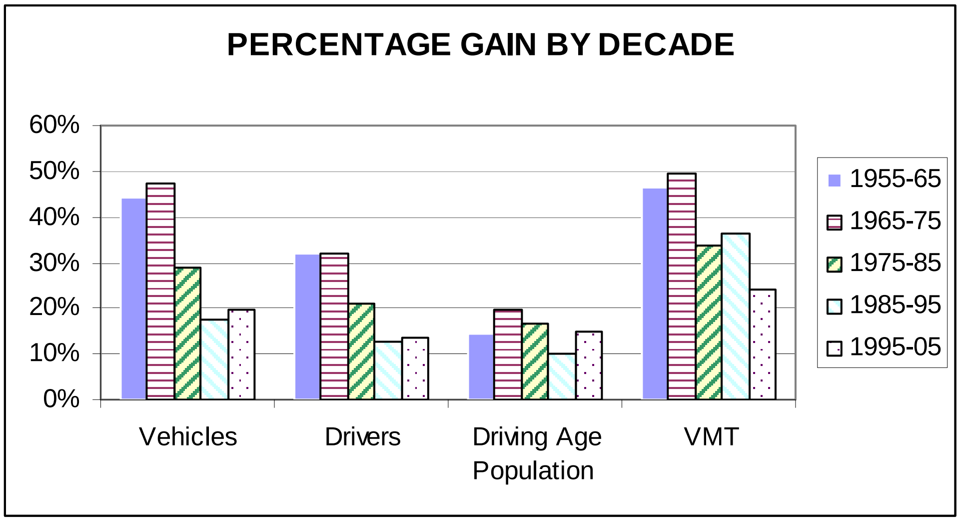
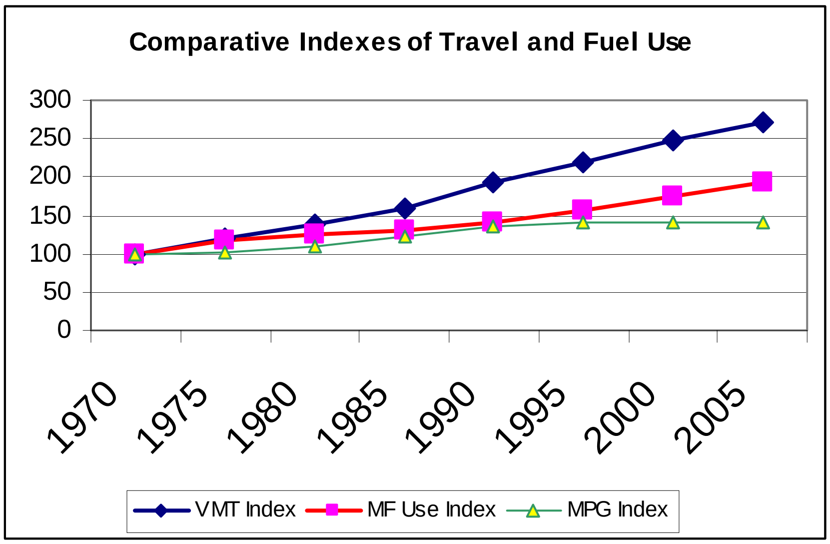
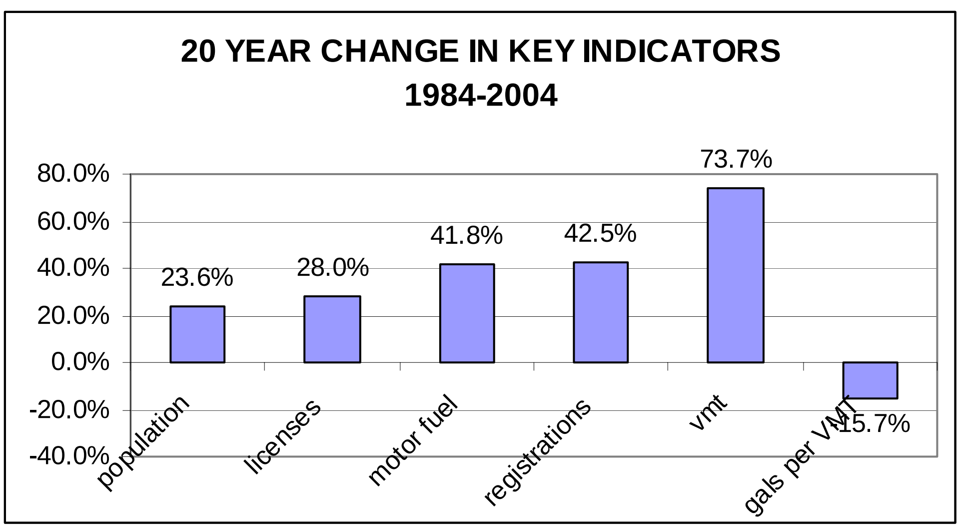
GRAPHICAL APPENDIX

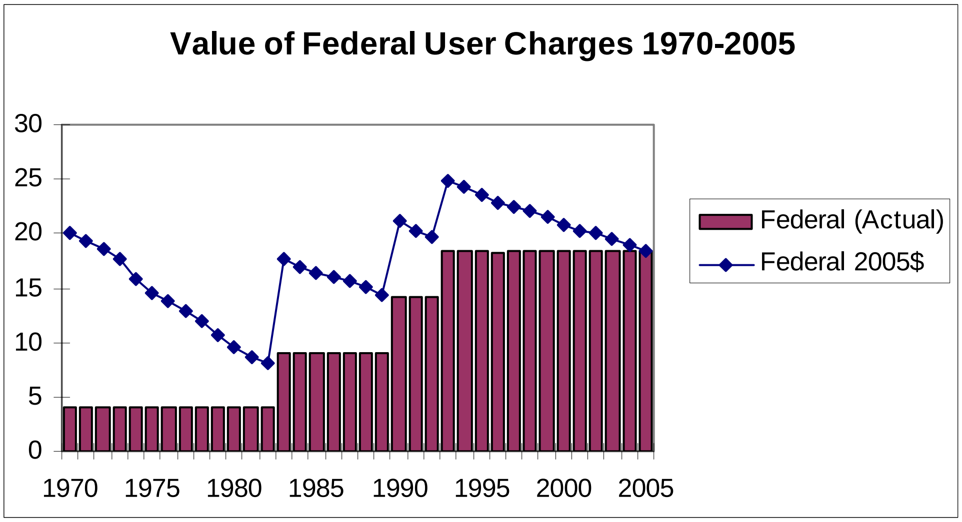
SOURCES:

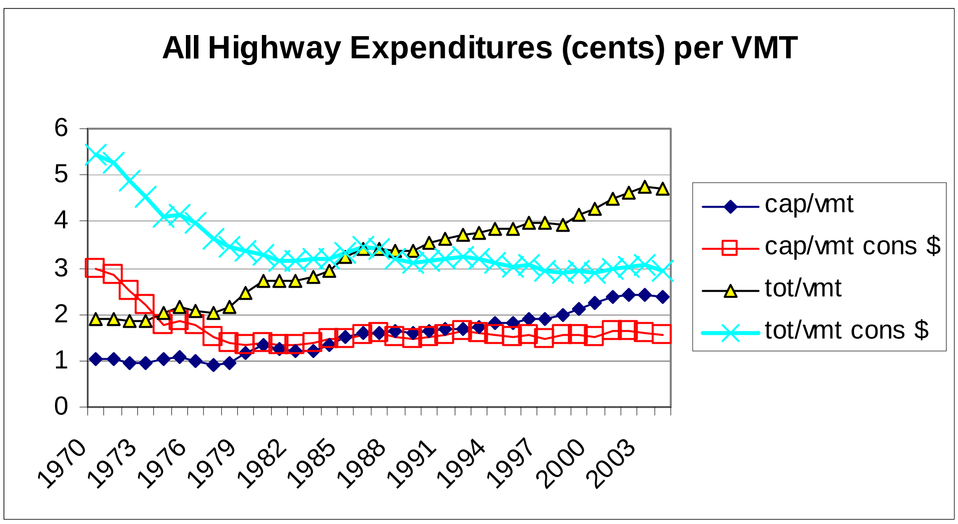
FHWA: HIGHWAY STATISTICS
FHWA: OUR NATION'S HIGHWAYS
FHWA: NATONAL HOUSEHOLD TRAVEL SURVEY

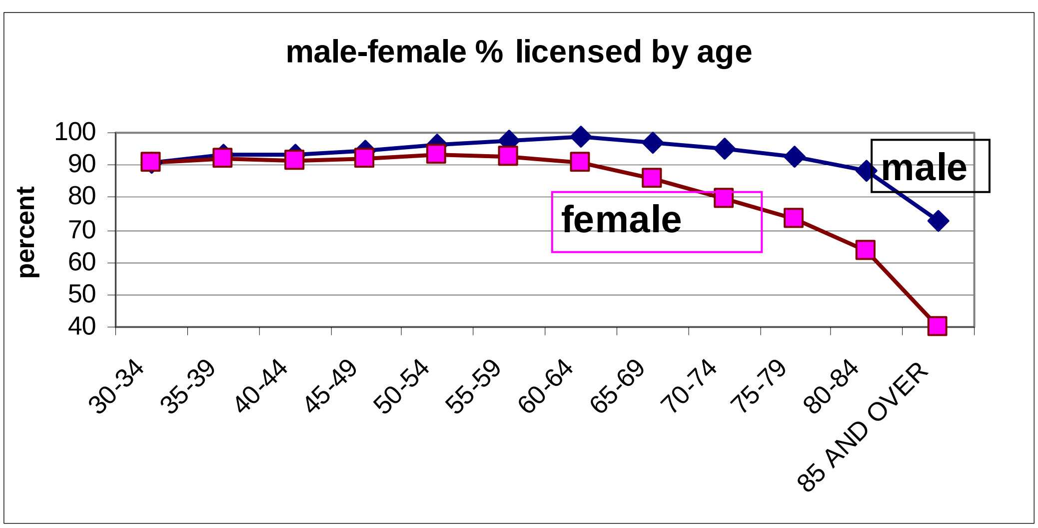

PERCENTAGE GAIN BY DECADE
60%
50%
40%
30%
20%
10%
0%
Vehicles
Drivers
Driving Age Population
VMT
1955-65
1965-75
1975-85
1985-95
1995-05


Comparative Indexes of Travel and Fuel Use
300
250
200
150
100
50
0
1970
1975
1980
1985
1990
1995
2000
2005
VMT Index
MF Use Index
MPG Index


20 YEAR CHANGE IN KEY INDICATORS
1984-2004
80.0%
60.0%
40.0%
20.0%
0.0%
-20.0%
-40.0%
23.6%
28.0%
41.8%
42.5%
73.7%
-15.7%
population
licenses
motor fuel
registrations
vmt
gals per VMT


Value of Federal User Charges 1970-2005
30
25
20
15
10
5
0
1970
1975
1980
1985
1990
1995
2000
2005
Federal (Actual)
Federal 2005$


All Highway Expenditures (cents) per VMT
6
5
4
3
2
1
0
1970
1973
1976
1979
1982
1985
1988
1991
1994
1997
2000
2003
cap/vmt
cap/vmt cons $
tot/vmt
tot/vmt cons $


male-female % licensed by age
percent
100
90
80
70
60
50
40
30-34
35-39
40-44
45-49
50-54
55-59
60-64
65-69
70-74
75-79
80-84
85 AND OVER
male
female

TREND IN PERSONAL VMT – by age-sex