TESTIMONY OF

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before the

SUBCOMMITTEE ON HIGHWAYS AND TRANSIT

of the

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

July 16, 2002

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I am honored to appear before you again in your reauthorization deliberations, today on the subject of the Highway Trust Fund's continuing viability. My additional focus will be on how other countries address similar funding issues.

Road Systems are funded by a broad – almost bewildering – array of funding methods. These methods not only vary significantly between countries but within countries. No country I have examined over the years uses only one form of financing. The mix includes local and national funds, private and public finance, and direct, dedicated, and general revenue sources.

It is difficult to untangle the relationship between road user fees and road quality and road cost. In general road quality seems less variable than road cost. Whatever the funding mechanism in countries around the world it seems that the resources are generally found within the political process to fund road programs reasonably adequately. If one compares shares of GDP going to roads it seems closely allied across countries, varying around about 1.5% of GDP, regardless of funding mechanism.

<u>Every one loves to tax fuels and vehicles; few use the revenues for roads.</u> Dedicated road fees directly linked to road expenditures are more the exception than the rule, particularly in the exclusive sense we think of in the United States. Where general revenues are the source of highway expenditures, highways, as a competitor with other public needs seem capable of obtaining reasonable levels of funding. The issue then is not access to funds; highway needs can successfully compete for resources. Some countries that have or have had at least partial dedication of road revenues are the following:

Nations with some degree of dedication of road revenues

Argentina
Australia
Brazil
Netherlands
Japan
S. Africa
Switzerland

The fact that we are somewhat alone does not make me think for a moment we are not on the right path – quite the opposite. To me the great benefit of the trust fund over almost 50 years is the implicit "user compact" in its formation and use. Users and only users pay for the roads and the fees obtained are used to support the roads. As we move away from that the value of the system is diminished. It is one of the soundest public funding devices in our nation and a model to be emulated for other programs.

<u>In most countries where road user fees and highway funding are de-coupled, the overwhelming tendency is for highway fees to become a popular source of general revenue, generally exceeding highway spending requirements by 2 or 3 or even 4 times.</u> I recall a note from the Swedish government many years ago expressing their disinterest in highway cost allocation policy – their goal they said was to decouple highway fees from payments for highways; only then could they access road user fees as a major source of revenues. When one recognizes that most world railroads are owned by governments and often are the largest employer in the nation, then the willingness to tax highway use is understandable.

<u>The real message of the trust fund then is not what we think – it is not a device to assure funding to highways – highways will get their share. Rather it has the effect in America of setting the upper limit on road user charges.</u> If all user-based funds are dedicated to road uses then the maximum taxation of road users will be the maximum needed to support highways.

In Canada the Provinces are more and more attracted to the trust fund concept for their own use and have sought to gain national government agreement to the concept of a national system to try to control the tendency of the national government to raise far more road revenues than it pays out in road payments.

Japan seems a special case where funding from dedicated road user fees and general revenue are both employed to support a massive road program.

Many places outside the United States, especially Europe, have placed more emphasis on road fees as tools to achieve other social and economic goals than on the relationship to highway expenditures. These variant approaches, however ineffective, have been instructive in teaching us a great deal about how governments view road taxation and the public reactions to various funding devices. <u>Fundamentally, road user fees are seen as a "cash cow" able to absorb immense amounts of taxation and generate immense amounts of revenue.</u> It is especially attractive where general taxation, e.g. income taxes, are subject to abuse. Like the vat tax, it is hard to avoid. It has appeal also where the opportunity is great to tax foreign visitors or truckers passing through. In the United States the share of total government revenue represented by the road taxation system is minor – but in many countries it is a major factor in general revenue generation sometimes representing as much as 10% of national tax revenue. To me the over-taxation of transportation and communications (they often go hand in hand) because they are readily taxable and the public will pay the fees, is the most deleterious thing governments could do in regard to national economic growth.

All over the world, attempts at reducing the attractiveness of highway travel by high taxation of vehicles, fuels and road use have not particularly slowed the rate of growth of highway use – which at least demonstrates that there is considerable revenue capacity still available in user fees.

The introduction of such policies in the United States would have the primary effect of attacking those most recently gaining access to the personal vehicle. Those at the margin would be pushed out of the system – the low income, mostly minorities and immigrants. A major impact would be on housing.

The threats to the trust fund's viability over the years have been few:

1. increased fuel efficiencies and now the potential for new untaxed fuels
2. degradation of effective revenues from inflation
3. tax avoidance
4. diversion of funds to non transportation uses
5. increasing kinds of beneficiaries who are not contributors to the fund.

Not only do these factors reduce revenue to the fund, they also tend to reduce users' respect for the system and sharply lessen their support for future revenue development.

Future threats will be simply more sophisticated variants on past themes. The most significant will be two:

1. Hybrid vehicles and hybrid fuels. These can be addressed by a surrogate gas tax based on equivalent tax rates – either a BTU equivalent tax or a Vehicle Miles of Travel tax.
2. Expanding the list of "worthy constituencies" who would claim access to the funds. This can only be addressed by a sense of dedication to the principles of the trust fund and a sense of fairness.

It is fascinating to see fuel costs vary by as much as a dollar in the course of a year in the United States and see people recoil at the idea of a five-cent gas tax increase. Again if toll roads are considered, the public will willingly pay 10 cents per mile or more on a toll road to gain better service – a cost that equals two or three dollars per gallon in taxes. If it is correct that we are incurring costs greater than a $1000 a year in congestion costs per peak period driver, then a small payment, less than 10% of that, about what people pay to operate their car air-conditioning could alleviate a large part of the other 90%.

We have two amazingly effective financing tools for transportation in the highway trust fund and the aviation trust fund. They will always be attractive to those looking for a source of funding deserving programs. If we are to be truly multi-modal and intermodal in our programs our sources of revenue must also be multi-modal and intermodal – not just drawn from the successful modes. As we consider the role of the highway trust fund we must consider the prospect of a truly multi-modal revenue base for transportation.

The trust fund(s) have served us well and they will continue to be sturdy and effective tools for a long time to come.

- We can deal with the gradual introduction of hybrids and new fuels, but immediate studies by Congress must be commissioned.
- We can address the decay in revenue effectiveness by consideration of an indexing approach to inflation, and seriously consider rational increases in the fuel user charge to meet user needs.
- We must attack vigorously any attempts at tax avoidance.
- And we can address prospective diversion by greater dedication to dedication.

I would see in the future the potential for an almost "automatic system" of funding as at least a conceptual model: Revenues generated based on needs assessments, and system-wide cost allocation analyses, so that all users contribute equitably, protected by inflation indexing; with funding protected by a RABA-like device and timely, adequate funding assured. I could envision a toll road system as a supplement to the trust fund to provide premium services that users are willing to pay for. If we envision what a model National Road Corporation might function like we have the model for the future. The Committee might think of itself as such a national corporation, balancing costs and spending, assuring users of an effective, low-cost system, and assuring the nation of a sound backbone transportation system.

I want to thank you for this opportunity to come before you and address this topic of major national significance. I would be happy to address any questions you might have.