



**Testimony of the American Road &
Transportation Builders Association**

Long-Term Financing of the Highway Trust Fund

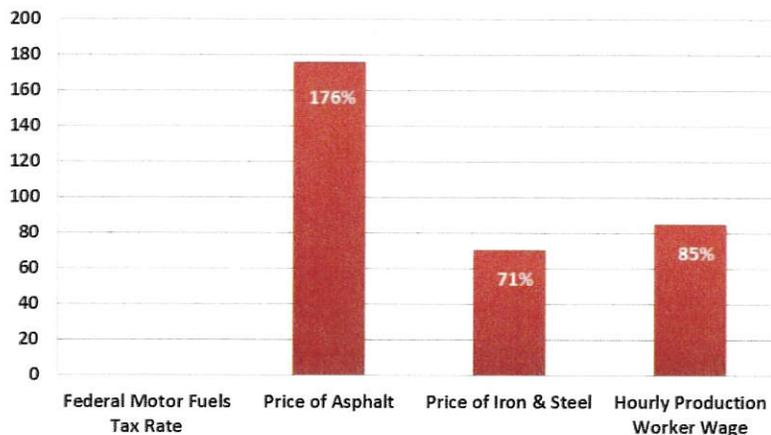
**House Ways & Means Committee
June 17, 2015**

Chairman Ryan and Representative Levin, we appreciate you scheduling today's hearing to discuss the status of the Highway Trust Fund. The federal highway and public transportation programs are already on their second temporary extension since the 2012 surface transportation law, the "Moving Ahead for Progress in the 21st Century Act" (MAP-21), expired more than eight months ago. President Obama and leaders of both parties and both chambers have all routinely pointed to a long-term surface transportation reauthorization bill as an area of common ground where meaningful progress could be achieved in 2015. That will not happen unless and until the Highway Trust Fund's revenue stream is stabilized and increased.

The root of the trust fund's revenue challenge is not an antiquated gas tax, alternative-fueled vehicles dominating the U.S. automobile fleet, or improved vehicle fuel economy, but a more direct and obvious flaw: the federal motor fuels tax rates and other highway user fee rates have not been adjusted for 20 years. As such, it should surprise no one that the Highway Trust Fund is on the verge of insolvency. The only surprising thing is that it did not happen sooner.

While the federal motor fuels tax rates have remained constant for more than 20 years, the rest of the world has moved forward. The U.S. population, highway-related freight shipments, and traffic congestion levels have all grown substantially since 1993. The figure below demonstrates why, at a time when our infrastructure needs are greater than ever, revenues from the motor fuels tax are buying less and less.

Cost Increase Since Federal Motor Fuels Tax Rate Was Last Adjusted in August 1993



Source: U.S. Bureau of Labor Statistics Producer Price Index



Allowing the Highway Trust Fund's structural revenue deficit to persist has forced five separate revenue shortfalls since 2008 and a sixth crisis is looming later this summer. Instead of generating sufficient resources to support needed federal investment in the nation's surface transportation network, Congress has chosen to infuse the trust fund with more than \$60 billion from non-transportation portions of the budget—\$50 billion of which added to the deficit. The U.S. Department of Transportation (DOT) will be forced to begin rationing reimbursements to state departments of transportation in August unless the trust fund is stabilized. Further, the Congressional Budget Office (CBO) projects that without new resources the trust fund will be unable to support any new spending when FY 2016 begins—requiring a one-time cut in surface transportation investment of nearly \$49 billion.

This uncertainty about future federal investment has caused seven states in 2015 to delay roughly \$2 billion in planned highway improvements. Given federal funds support on average 52 percent of state highway and bridge capital projects, we understand why a number of states would be hesitant to move forward without a reliable federal partner and expect that number to increase as the July deadline gets closer.

Mr. Chairman, let me be clear. The Highway Trust Fund has a revenue problem, not a spending problem. Federal highway investment is \$800 million less today than it was four years ago. Furthermore, House Republicans rejected an effort in 2011 by then House Transportation Committee Chairman John Mica (R-Florida) to scale back highway and public transportation

investment to the levels existing trust fund revenues could support. The House approved last week a FY 2016 Transportation, Housing and Urban Development Appropriations bill that maintains current levels of trust fund-supported highway and public transportation investment levels. The evidence is clear an overwhelming majority of both parties support either maintaining or increasing federal surface transportation investment.

We should also be clear that the Highway Trust Fund has a political problem, not a substantive one. Congress created two independent commissions in the 2005 surface transportation law to provide recommendations on how to stabilize the Highway Trust Fund. Both groups reported roughly the same conclusion: increase the federal gas tax in the short term and transition to a vehicle miles traveled fee to pay for surface transportation improvements. Stakeholder groups ranging from the U.S. Chamber of Commerce to AAA to the American Trucking Associations to Transportation for America all support increasing the federal motor fuels tax. Despite unsupported claims about declining gas tax revenues and reduced driving, the CBO projects constant Highway Trust Fund revenues for the next eight years and U.S. DOT data show driving levels have increased for three consecutive years. Furthermore, a February U.S. DOT press release states unquestionably, "U.S. Driving at Highest Level Since 2007, New Data Show."

Mr. Chairman, Congress has been told time and time again increasing or creating new highway user fees is the most equitable, transparent, and effective approach to address the nation's growing surface transportation infrastructure challenges. Unfortunately, scorecards from professional conservative lobbyists and misconceptions about the political concerns of increasing user fees are clouding this situation. I want to share with the Committee two new research pieces from the ARTBA economics team that clearly illustrate the lack of political consequences and impact on the price of gasoline from recent state gas tax increases.

89 Percent of Gas Tax Supporters Re-elected

Voting for a gas tax increase to fund transportation investments has not hurt Republicans or Democrats at the ballot box. Ninety-five percent of all Republican state legislators who voted to increase their state gas tax to fund transportation improvements in 2013 and 2014 and ran for re-election last November won their races. That was a one percent higher winning percentage than that racked up by all state Republican legislators who voted against a gas tax increase during the prior two years.

On the Democratic side, 88 percent of state legislators who voted in favor of a state gas tax increase and ran last year were re-elected, as were 86 percent who voted “no.”

This analysis shows two things members of Congress need to know. First, a bipartisan majority can be found to increase transportation investment if the leadership of both parties actually lead—rather than play politics—and give their colleagues a chance to vote. Second, if legislators are honest with their constituents and clearly explain why a gas tax increase is necessary and important and what benefits their constituents will derive from it, they have little reason to fear the ballot box over a gas tax vote.

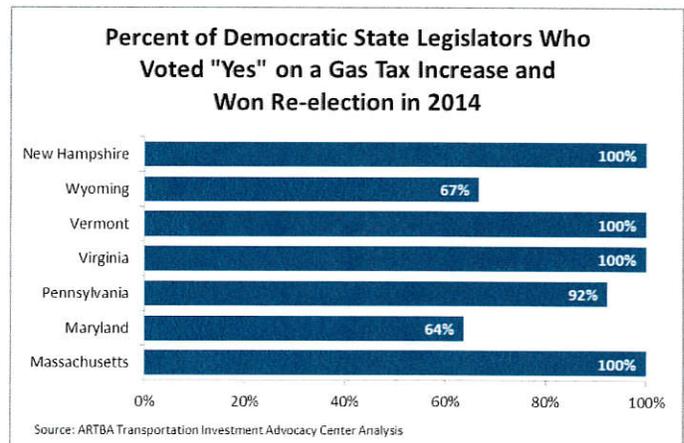
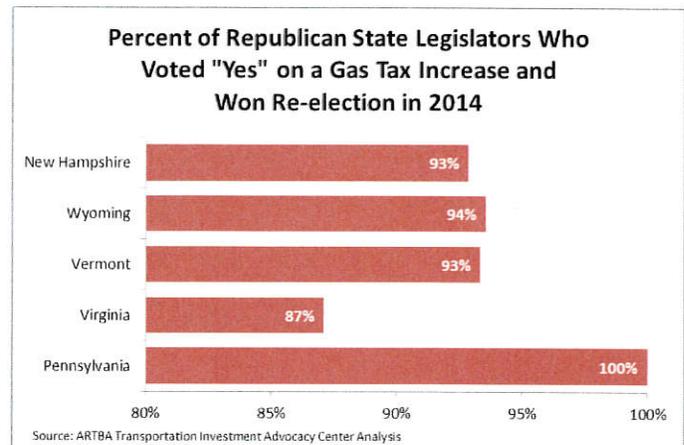
Seven state legislatures passed a gas tax increase or its equivalent during the last election cycle, according to the analysis by ARTBA’s Transportation Investment Advocacy Center: Massachusetts, Maryland, Pennsylvania, Virginia, Vermont, Wyoming and New Hampshire.

Three of the states passing increases had a Republican governor and GOP control of both the House and Senate—Pennsylvania, Virginia and Wyoming. Three had Democratic governors with party control of both legislative chambers—Maryland, Massachusetts and Vermont. New Hampshire had a Democrat as governor and a split party state legislature.

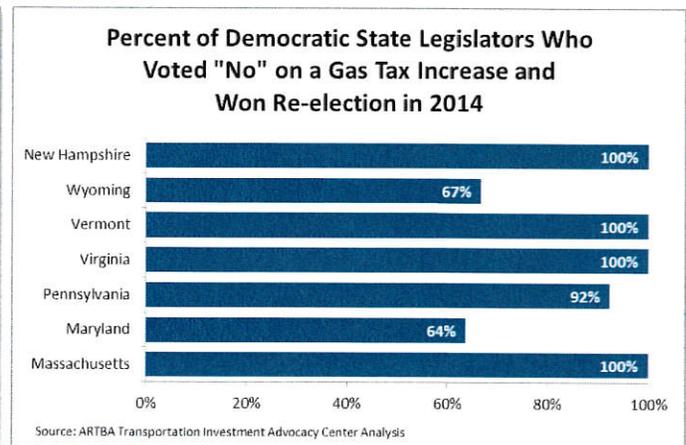
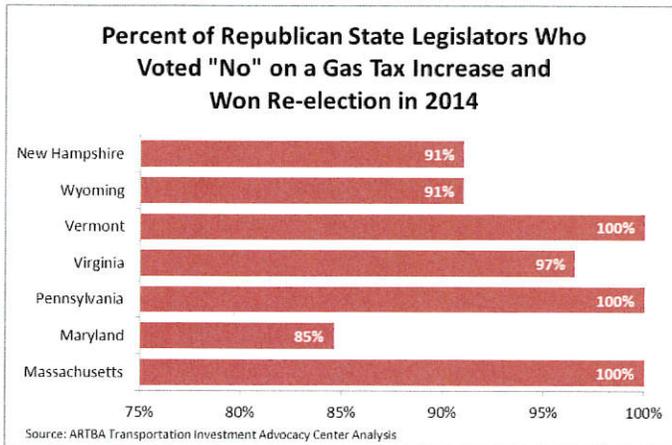
Republicans helped pass gas tax increases with 216 votes in six states, 34 percent of Republican state legislators in office at the time of the vote and 36 percent of Republican state legislators who cast a vote. No Republican legislators supported the increases in Maryland and only one legislator supported the increase in Massachusetts. All but eight who supported gas tax bills and ran for re-election won.

The analysis shows 384 Republicans voted against the gas tax measures in the seven states. Of the 305 who ran for re-election, 19 lost.

Democratic state legislators cast 673 votes in favor of a gas tax increase, 82 percent of Democrats in office at the time of the vote and 87 percent of Democratic state legislators who cast a vote. Of the 546 who ran for re-election, 68 lost. Democrats cast 101 votes against a gas tax increase. Of the 83 who ran for re-election, 12 lost.



A total 1,385 state legislators cast votes on gas tax measures, the analysis found. Of those voting, 191 were registered as signing the Americans for Tax Reform (ATR) state pledge “to oppose (and vote against/veto) any efforts to increase taxes”—180 Republicans and 11 Democrats. Thirteen percent of the signees ignored the ATR and supported increased revenue for transportation improvements, the analysis found. Only one legislator who defied the ATR and sought re-election was not returned to office

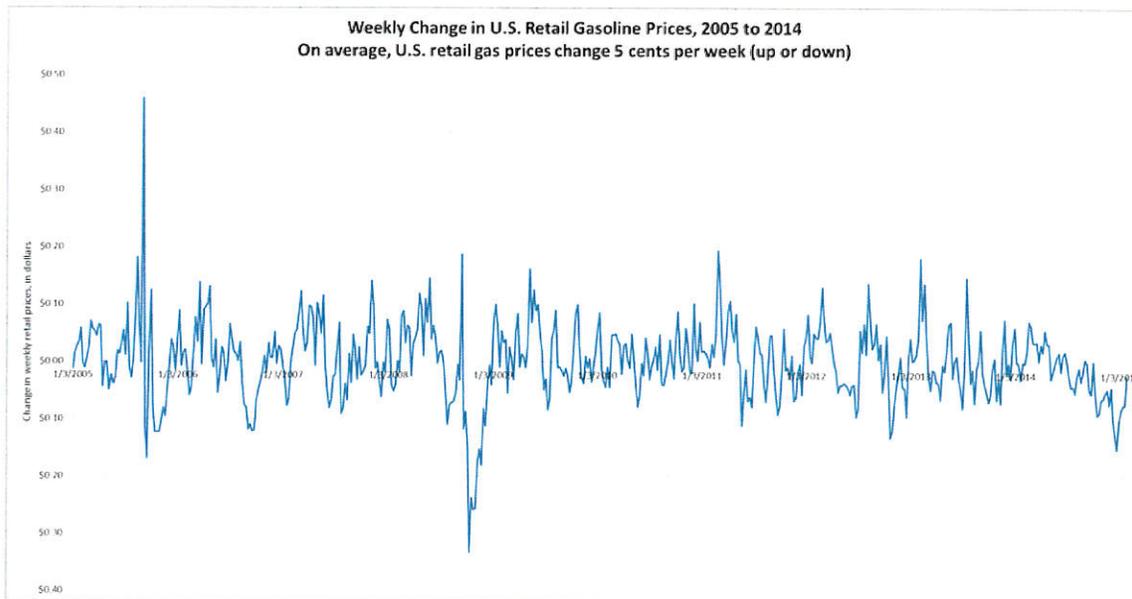


Only a Portion of State Increases Passed Through

Ask any American driver. They will tell you the price they pay for a gallon of gasoline can change significantly week to week. In fact, as the chart below illustrates, U.S. Energy Information Administration (EIA) data tracking the weekly national average retail price Americans paid for gasoline shows it has fluctuated an average five cents-per-gallon since January 2005.

The fluctuation has varied state-to-state. For example, our review of weekly price data compiled the EIA for nine states since January 2005 found:

- Ohio retail gasoline prices have fluctuated an average 10 cents-per-gallon weekly;
- In Minnesota the average weekly fluctuation has been seven cents-per-gallon;
- In California, Colorado, Florida, Texas and Washington, it matched the national average fluctuation of five cents-per-gallon; and
- The fluctuation in Massachusetts and New York was slightly lower than the national average at four-cents-per-gallon.



Politicians often cite concerns about raising prices at the pump as a reason to oppose a gas tax increase. But given the weekly volatility of retail gas prices, would a modest gas tax increase even be noticed by consumers when they purchase motor fuel? We analyzed the retail price impact of recent gas tax increases in five states—Massachusetts, Maryland, Pennsylvania, Vermont and Wyoming—to find out. But first, an understanding of the factors that determine pricing for a gallon of gasoline at the retail level is helpful and provides necessary context.

Short Run Impact of Gasoline-Related Taxes on Retail Prices

For our analysis, we obtained daily average retail gasoline price data for all U.S. states from December 1, 2012, through December 31, 2013, from the Oil Price Information Service (OPIS), which is recognized as one of the world’s most comprehensive sources for petroleum prices and news information. Its client list includes the top 200 oil companies, thousands of distributors, traders, government and commercial buyers of petroleum products.

We also obtained source information on 19 changes in state gasoline tax rates (both the excise and/or any related fees that are calculated as a cents-per-gallon change) that occurred in 13 states during 2013.

Our econometric model estimated the daily change in retail gasoline prices at the state level with a fixed effects model using state panel data. The independent variables include the daily difference in state gasoline-related excise tax rates and the lagged daily difference in the national price of Brent crude oil for a period of 30 days prior to each observation. State- and time-fixed effects were included individually and as an interactive variable. This was to account

for any seasonal and state-specific supply and demand factors that could impact the retail price of gasoline, such as the local competitive environment, refinery capacity and utilization, gasoline inventories, different fuel blends, seasonal demand and differences in state economic factors.

The gasoline-related tax rate adjustments in the 13 states included legislatively-approved changes and variable rates that occur automatically based on a price index. States with variable rates set their cents-per-gallon rate either annually, every six-month or each quarter.

Four of the changes tracked in the model were newly-enacted increases, including new tax rates in Massachusetts, Maryland, Vermont and Wyoming. Variable rates were increased in California, Florida, Georgia, Kentucky, Nebraska, New York, North Carolina and West Virginia.

There were four decreases in gasoline tax rates that occurred in states that review their rates more than once a year — Georgia, Nebraska, North Carolina and Vermont. There was also a decline in the Virginia rate.

The model included all of these changes.

Although not always understood by consumers, media, or politicians, the motor fuels tax, while folded into the overall price at the pump, is not collected by retail sales outlets. The federal and most state gasoline taxes are collected either when motor fuel is removed from the bulk storage terminal or at the distributor level.¹

Our econometric model showed that when you hold all other factors constant, on average, about 39 percent of an increase in state gas related taxes is passed through to the retail price of gasoline the day the tax goes into effect.

The model estimates that an additional 16 percent of the gas tax increase is passed through over the next 30 days.

The results did not show any price impact after 30 days, which is consistent with other studies that have found factors considered long term price changes are usually realized within 30 days.² Changes in the lagged daily price of crude oil for up to one month were also significant, as expected.

¹ U.S. Federal Highway Administration, Motor Fuel Tax Compliance Outreach.

² Stanislav Radchenko, *Lags in the response of gasoline prices to changes in crude oil prices: the role of short-term and long-term shocks.*, January 2004

These results also confirm previous research that suggest state gas taxes are just one component of a complex pricing scheme that includes consideration of the price of crude oil and other state specific factors.

State Gas Tax Changes between December 2012 and December 2013									
State	Date of Change	Type of Change	Gas Tax Rate Before			Change Amount (cents)	Gas Tax Rate After Change		
			Excise Tax	Other Tax	Total Tax		Excise Tax	Other Tax	Total Tax
California	7/1/2013	Variable Rate	36.0	7.0	43.0	3.5	39.5	7.0	46.5
Florida	1/1/2013	Variable Rate	4.0	12.6	16.6	0.3	4.0	12.9	16.9
Georgia (1)	1/1/2013	Variable Rate	7.5	12.1	19.6	-0.1	7.5	12.0	19.5
Georgia (2)	7/1/2013	Variable Rate	7.5	12.0	19.5	0.6	7.5	12.6	20.1
Kentucky	7/1/2013	Variable Rate	28.5	1.4	29.9	2.4	30.9	1.4	32.3
Massachusetts	7/1/2013	Gas Tax Increase	21.0	0.0	21.0	3.0	24.0	0.0	24.0
Maryland	7/1/2013	Gas Tax Increase	23.5	0.0	23.5	3.5	23.9	3.1	27.0
Nebraska (1)	1/1/2013	Variable Rate	26.2	0.9	27.1	-1.6	24.6	0.9	25.5
Nebraska (2)	7/1/2013	Variable Rate	24.6	0.9	25.5	1.7	26.3	0.9	27.2
New York	1/1/2013	Variable Rate	8.0	17.8	25.8	0.8	8.0	18.6	26.6
North Carolina (1)	7/1/2013	Variable Rate	37.5	0.3	37.8	0.1	37.6	0.3	37.9
North Carolina (2)	10/1/2013	Variable Rate	37.6	0.3	37.9	-0.1	37.5	0.3	37.8
Vermont (1)	1/1/2013	Variable Rate	19.0	7.5	26.5	0.2	19.0	7.7	26.7
Vermont (2)	4/1/2013	Variable Rate	19.0	7.7	26.7	-0.1	19.0	7.6	26.6
Vermont (3)	5/1/2013	Gas Tax Increase	19.0	7.6	26.6	5.9	18.2	14.3	32.5
Vermont (4)	10/1/2013	Variable Rate	18.2	14.3	32.5	-0.3	18.2	14.0	32.2
Virginia	7/1/2013	Gas Tax Increase	17.5	0.0	17.5	-6.4	11.1	0.0	11.1
West Virginia	1/1/2013	Variable Rate	20.5	12.9	33.4	1.3	20.5	14.2	34.7
Wyoming	7/1/2013	Gas Tax Increase	13.0	1.0	14.0	10.0	23.0	1.0	24.0

Source: ARTBA Analysis of data from the Federation of Tax Administrators, state DOT websites and news sources

Real World Short Run Market Impacts of Changes in State Gasoline Taxes

To test the results found with our model, we looked at “real world” occurrences of changes in the daily price of retail gasoline at the state level.

Five states enacted gas tax increases or reforms in 2013 and January 2014 that translated into higher cents-per-gallon rates—Massachusetts (3 cents per gallon), Maryland (4 cents); Pennsylvania (9.8 cents), Vermont (6 cents) and Wyoming (10 cents).

By using daily retail price data obtained from OPIS, we were able to compare changes in the price of gasoline the day before the enacted increase with prices the day of the increase, the day after the increase and again after one week, one month and one year. The overall price change would take into effect both the increase in the state gas related tax, as well as all the other market dynamics affecting supply and demand.

The data show the following:

- **The state gas tax rates increased an average 6.5 cents for the five states.**

- **On average, the pump price for gasoline increased only one cent-per-gallon the day the increase went into effect**, an increase of 0.3 percent, compared to the baseline price from the day before.
 - **The day after the gas tax increase went into effect, the average pump price compared to the baseline was only 1.4 cents**, or up just 0.4 percent.
 - **One month after the tax increase had gone into effect**, the average pump price had risen by nine cents per gallon, or 2.5 percent, compared to the baseline price. **The change, however, was, in each case, in line with that which had occurred in the national average price of gasoline over the same time period**, which was up 4.2 percent.
 - **One year after the tax increase had gone into effect, the average pump price had dropped 13 cents-per-gallon below the baseline pump price, a decline of 3.7 percent**. Again, this was in line with the national average pump price, which had dropped 3.3 percent.

These findings corroborate the results found with our empirical fixed effects model. They also **strongly suggest that that any additional increase in retail pump prices caused by a gas tax increase will likely be “lost” in the weekly price fluctuation that has been documented over the past 10 years.**

Although our model estimated that 55 percent of any change in state gas tax-related rates would be passed on through the retail price of gasoline within 30 days of initiation, in the real world this change is countered by other market dynamics related to overall supply and demand.

State	Date gas tax increase went into effect	Per gallon gas tax increase enacted	BASELINE average pump price of gas in state day before tax rate hike	Average pump price of gas in state day tax rate went into effect	Plus/Minus cents from BASELINE	% pump price increase/decrease in state from BASELINE	BASELINE national average pump price of gas day before tax rate hike	Average national pump price of gas day tax rate went into effect	% change in national average prices from national Baseline
Massachusetts	7/31/2013	\$0.030	\$3.74	\$3.73	-\$0.005	-0.1%	\$3.65	\$3.67	0.7%
Maryland	7/1/2013	\$0.040	\$3.46	\$3.46	\$0.005	0.1%	\$3.52	\$3.52	0.0%
Pennsylvania	1/1/2014	\$0.098	\$3.51	\$3.52	\$0.016	0.5%	\$3.33	\$3.33	0.0%
Vermont	7/1/2013	\$0.059	\$3.55	\$3.56	\$0.007	0.2%	\$3.52	\$3.52	0.0%
Wyoming	7/1/2013	\$0.100	\$3.57	\$3.61	\$0.033	0.9%	\$3.52	\$3.52	0.0%
Average		\$0.065	\$3.57	\$3.58	\$0.011	0.3%	\$3.51	\$3.51	0.1%

State	Date gas tax increase went into effect	Per gallon gas tax increase enacted	BASELINE average pump price of gas in state day before tax rate hike	Average pump price of gas in state day after after tax rate hike	Plus/Minus cents from BASELINE	% pump price increase/decrease the day after from Baseline	BASELINE national average pump price of gas day before tax rate hike	Average national pump price of gas the day after after tax rate hike	% change in national average prices from national Baseline
Massachusetts	7/31/2013	\$0.03	\$3.74	\$3.74	-\$0.002	-0.1%	\$3.65	\$3.66	0.4%
Maryland	7/1/2013	\$0.04	\$3.46	\$3.46	\$0.001	0.0%	\$3.52	\$3.51	-0.2%
Pennsylvania	1/1/2014	\$0.098	\$3.51	\$3.55	\$0.04	1.2%	\$3.33	\$3.33	0.0%
Vermont	7/1/2013	\$0.06	\$3.55	\$3.55	-\$0.002	-0.1%	\$3.52	\$3.51	-0.2%
Wyoming	7/1/2013	\$0.10	\$3.57	\$3.60	\$0.03	0.8%	\$3.52	\$3.51	-0.2%
Average		\$0.07	\$3.57	\$3.58	\$0.01	0.4%	\$3.51	\$3.51	0.0%

State	Date gas tax increase went into effect	Per gallon gas tax increase enacted	BASELINE average pump price of gas in state day before tax rate hike	Average pump price of gas in state one month after tax rate hike	Plus/Minus cents from BASELINE	% pump price increase/decrease one month after from Baseline	BASELINE national average pump price of gas day before tax rate hike	Average national pump price of gas one month after tax rate hike	% change in national average prices from national Baseline
Massachusetts	7/31/2013	\$0.03	\$3.74	\$3.70	-\$0.04	-1.0%	\$3.65	\$3.63	-0.4%
Maryland	7/1/2013	\$0.04	\$3.46	\$3.65	\$0.19	5.5%	\$3.52	\$3.66	4.1%
Pennsylvania	1/1/2014	\$0.098	\$3.51	\$3.50	-\$0.004	-0.1%	\$3.33	\$3.29	-1.1%
Vermont	7/1/2013	\$0.06	\$3.55	\$3.75	\$0.19	5.5%	\$3.52	\$3.66	4.1%
Wyoming	7/1/2013	\$0.10	\$3.57	\$3.66	\$0.09	2.5%	\$3.52	\$3.66	4.1%
Average		\$0.07	\$3.57	\$3.65	\$0.09	2.5%	\$3.51	\$3.58	2.1%

State	Date gas tax increase went into effect	Per gallon gas tax increase enacted	BASELINE average pump price of gas in state day before tax rate hike	Average pump price of gas in state one year after tax rate hike	Plus/Minus cents from BASELINE	% pump price increase/decrease one year after from Baseline	BASELINE national average pump price of gas day before tax rate hike	Average national pump price of gas one year after tax rate hike	% change in national average prices from national Baseline
Massachusetts	7/31/2013	\$0.03	\$3.74	\$3.63	-\$0.11	-3.0%	\$3.65	\$3.54	-2.9%
Maryland	7/1/2013	\$0.04	\$3.46	\$3.69	\$0.23	6.7%	\$3.52	\$3.70	5.2%
Pennsylvania	1/1/2014	\$0.098	\$3.51	\$2.54	-\$0.96	-27.5%	\$3.33	\$2.30	-31.0%
Vermont	7/1/2013	\$0.06	\$3.55	\$3.74	\$0.18	5.1%	\$3.52	\$3.70	5.2%
Wyoming	7/1/2013	\$0.10	\$3.57	\$3.57	\$0.00	0.0%	\$3.52	\$3.70	5.2%
Average		\$0.07	\$3.57	\$3.43	-\$0.13	-3.7%	\$3.51	\$3.39	-3.3%

Estimating the Retail Price Impact of a 15 Cents per Gallon Increase in the Federal Gas Tax

The American Road & Transportation Builders Association (ARTBA) has proposed enactment of a 15 cents-per-gallon increase in the federal motor fuels tax to put the Highway Trust Fund back on solid financial footing and provide the first significant increase in federal surface transportation investment revenues since 1993. The ARTBA proposal would fund a six-year, \$401 billion federal highway and transit investment authorization and permanently eliminate the program's \$15 billion per year "funding gap."

To mitigate any perceived political backlash that might be caused by the proposed gas tax rate increase, ARTBA suggests the Congress provide American tax filers with an annual income of \$100 thousand or less with an annual tax rebate of \$90 for the six-year authorization period. The rebate would return to 94 percent of all tax filers the \$90 per year they would pay, on average, in additional federal gas tax.

The federal government gave much larger tax rebates to middle and lower income tax filers in 2001 and 2008.

Our econometric model suggests a 15 cents-per-gallon increase in the federal gas tax would result in the following retail market impacts:

- Holding all other factors constant, the retail price of gasoline would increase just under six cents per gallon the day of the rate increased.
- It would increase an additional 1.2 cents as a result of the tax increase after a two week period.
- An additional 0.4 cents and 0.8 cents would be paid by consumers at the pump in weeks three and four, respectively.
- In total, the model estimates that 55 percent of the gas tax increase—about 8.2 cents—would be passed on to consumers through the retail price of gasoline over a one month period following the rate increase. "Real world" observation of that actually happened in the five states that increased their highway user fee in 2013, however, suggests the increase at the pump could likely be less than estimated by our model.

ARTBA's empirical analysis and examination of daily price data strongly suggest that changes in gasoline-related taxes are a small part of the overall dynamics driving the retail price of gasoline. Our fixed effects model, which is the first to examine the impact of a change in state gasoline-related taxes on the daily retail price of gasoline, suggests that just over half of an

increase in gasoline-related taxes is actually passed through to the consumer at the retail pump.

Furthermore, the likely impact of a 15 cents-per-gallon increase in the federal gas tax would likely be in line with the weekly retail gasoline price fluctuations that Americans have experienced over the last 10 years.

In an interesting side note, EIA data show the U.S. average retail price for all grades of gasoline was \$1.06 per gallon the week before the federal gas tax was last adjusted by 4.3 cents (up to 18.4 cents) in August 1993. In each of the following three weeks, the average national price variation—up and down—was within a penny. A month after initiation of the adjustment, the average price per gallon had decreased a half-cent below the baseline.

It's Time for A Real Highway Trust Fund Solution

Mr. Chairman, it's a truism that has been said many times before: we do not have a Republican road network. We do not have a Democratic road network. We have an American road network, an American bridge network, and an American transit network.

And if one thing has been learned over the past decade, it's that neither political party has had the will to enact a long-term funding solution when they had the numbers and opportunity to do it. It is going to take bipartisan cooperation, a bipartisan solution and bipartisan political risk to get the job done.

And by long-term solution, we do not mean a four- to six-year patch from repatriated overseas profits of a few large companies or some other one off mechanism. That will just leave us facing another \$16 billion a year-plus funding cliff at the end of the next authorization. We need a sustainable funding solution to put this critical national program back on solid footing for the next decade.

While some are worried about the political consequences of voting for a real trust fund fix, the rest of America is worried about commute times growing, bridges being closed, shipping costs increasing, and jobs being lost.

It's time for both parties to work together for America to put this behind us.

