

RESTORING CONFIDENCE IN THE FEDERAL HIGHWAY TRUST FUND

A better and more sustainable approach: *Each state pays an amount (based on a Federal rate) into the HTF for its proportion of national travel.*

Threading the needle between Federal political will and state user fee initiatives. This problem is not going to fix itself – Congress must fix it! Band-aids being advanced by various interest groups just hold back the inevitable! It is in the interest of the authorizing Committees and the Nation to stop kicking the can down the road.

- States would have the option to serve as agents of the US Treasury and collect Federal Highway Trust Fund revenues on a user fee basis of their choice as long as it totals the state's share of national VMT at a Federally established rate.
- These fees would be in lieu of the current Federal gas tax, not in addition to it.
- States would choose to piggyback on their own user-based systems (e.g., traditional fuel taxes or low tech or high tech VMT or any combination) thus reflecting greater fairness.
- If states choose to opt-in, they will receive an increase to their FHTF apportionments.
- States would receive a percentage of payments to act as the Federal tax collector -- which would help them possibly pay for their own revenue collection as well.
- States would be permitted to develop and join reciprocity agreements with other states to collect/submit on their behalf.

The Problem: For over a dozen years as fuel efficiency has eroded predictable revenue yields, Congress and others have been searching for a funding alternative to the Federal motor vehicle fuel taxes to support the long-term solvency of the Federal Highway Trust Fund (HTF). Only Congress can truly solve this problem, following the bipartisan recognition of the benefits of user-fees. Studies have been authorized for and tested through the Surface Transportation System Funding Alternatives (STSFA) and Strategic Innovation for Revenue Collection (SIRC) programs. Many states have adopted vehicle miles travelled-based mechanisms to address state shortfalls. Much has been learned through testing and implementation of a variety of such approaches.

Inaction addressing national revenue shortfalls is rooted in understandable political resistance reflecting a lack of consensus on any single approach that is considered fair and efficient nationally. Issues include fairness across vehicle fuel efficiencies/engine technology, fairness for both commercial and personal users, lack of confidence in administration by a national bureaucracy, the cost of collection, and concerns about privacy and security vulnerabilities. Various pilots and state programs have demonstrated that technology itself is not the real barrier – policy decisions and direction and efficiency at scale are much larger concerns.

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The Federal System Funding Alternatives Advisory Board was established under IIJA S.13002 to advise the Secretary on a National Trial for VMT fees. It has never met, with late term appointments under the Biden Administration. Mileage based fees were recommended by two Federal blue-ribbon panels, but are considered by many to be an “academic response” regardless of the fact that variations have been piloted. Strong support exists for user fee approaches as fairer for the mix of current and future vehicle fleets, when safeguards are deployed.

Pro's

- This approach would generate sustainable **revenue** consistent with the user fee principle.
- Yields of “easier” alternatives (i.e. EV fee proposals under consideration) are insufficient to **address insolvency** and would also continue to face bipartisan challenges.
- The version of a Federal registration fee that has been widely proposed relies upon conditionality i.e. reduction in apportionments should states not collect the fees on behalf of the Federal government. The yield from this “stick” vs “**carrot**” **approach** is unpredictable, could be considered nationally **intrusive**, and likely be more **expensive to administer** because it would be applied to every drive/vehicle.
- The reward for voluntary participation would be **increased state apportionments**, carved out from the total program size, serving to incentivize ultimate adoption of user based funding at the state level as well as throughout the Federal system. **Incentives for each state to innovate** within their own policy context to find their own This would motivate efficiencies by states including **working with other states** to collaborate to greater scale.
- History of the adoption of gas taxes and other revenue mechanisms tells us that once successful models get going, they can quickly expand (even to national scale).
- **No single national mechanism is mandated** and therefore taxpayer fairness would be addressed in each state context, sensitive to demographics, markets, and travel patterns.
- This proposal itself does not address reauthorization issues such as Federal rate, program uses and structures, or apportionment formulas. It focuses solely on the fee mechanism and would need to be integrated into a comprehensive reauthorization proposal.
- Depending on rates and program size, Federal taxes could include and **substitute for Federal HVUT and bus taxes** which would be well-received by those constituents.
- Turning collection back to the states (building upon those pilots and programs that have advanced the user fee mechanisms in a variety of ways), avoids establishing a national bureaucracy. **Bottom-up vs. top-down** fosters acceptance.
- This approach is **not an “unfunded mandate.”** States would receive compensation.
- Federal fees would be more transparent at the pump but without any visible overall change to the driver.

Con's

- No single Federal tax structure. Less predictable apportionments in total.
- Those not receiving an apportionment increase might feel penalized.
- Existing fairness issues concerning out-of-state are not resolved with current technology.
- As with all proposals, addressing insolvency likely to result in sticker-shock increases, dependent upon program size.

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Features/options open for further refinement

- A national user fee rate per mile could be established that was at least revenue neutral to the current fuel excise tax yields. It could also be indexed for inflation.
- The assessment that each state would be based on travel estimates.
 - Prior year could be used.
 - At this point, the best source for timely, consistent, cost-effective data would likely be TMAS (currently generated by states).
 - The language of the statute would assign to the Bureau of Transportation Statistics to provide the forecast. This would allow BTS to pursue future better sources that might include new technology. Even though the data at this time isn't perfect, states would be more motivated to report better data.
 - Depending upon the extent and availability of data, the assessment might have rates stratified by vehicle type
 - An option could be to assess and pay only on the basis of the Interstate System, or other functional class.
- Definition of "user fees" would be key to the statute. Congress could take a variety of approaches to establish qualification for the incentive apportionments.
 - Piggyback on their existing state fuel tax mechanisms by raising the rates.
 - Alternatively, if the Committee desired to press the adoption of more advanced vmt mechanisms, it could define user fees based on a more targeted definition.
 - Qualification could be established with a transition period.
 - Existing mechanisms that states adopted to increase revenues could be grandfathered in statute.
 - Statute could preclude state weight-distance fees from qualifying as contrary to interstate commerce.
- An option could be included that would solve the "double-counting" problem by having states certify their toll road miles. If states can demonstrate toll road travel, that amount could be deducted from the Federal taxable travel.
- Depending upon how the statute is written, provisions in the research title would be compatible with this proposal.
 - Continue funding for SIRC funding.
 - Adopt an apportionment approach to future SIRC funding.
 - Continue Advisory Board to address potential national trials.
 - Provide funding for improvements to data collection.
- Depending upon how other provisions of the statute are crafted, the relationship between income derived for the FHTF can be distributed between the Highway and Transit subaccounts in the same manner that it is now.