BIC BUILD INDIANA COUNCIL

INDIANA DESERVES BETTER ROADS

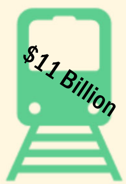
DEAR FEDERAL LAWMAKERS,

FIX THE HIGHWAY TRUST FUND

While Indiana leaders have provided a long-term, dedicated and stable STATE funding stream for highway improvements, our system still relies heavily on FEDERAL highway funds. In fiscal year 2019, for instance, INDOT's total capital construction budget, including design, right-of-way and construction, will be nearly $1.5 billion. That budget depends on about $750 million in federal funds, equating to 50% of INDOT's capital budget. Another $250 million in federal funds is distributed to local road and bridge projects for total federal funding of about $1 billion. Given that reliance on federal funds, we are concerned about the economic outlook for the Federal Highway Trust Fund. We ask our federal lawmakers to FIX THE FEDERAL HIGHWAY TRUST FUND and MAKE SURE INDIANA IS TREATED FAIRLY when it comes to distributing funds.

1. **The Federal Highway Trust Fund is broken.** The gas tax was last raised 26 years ago. Of course it's not keeping up. Annually, the HTF spends nearly 30% more than it takes in. At the end of the current highway bill (FAST Act) in 2020, the HTF will face an average annual deficit of $20 billion. **Enact new revenue generators to fund the program** - these could include a fuel tax increase, imported oil tariff, sales tax on fuel, weight distance tax, or vehicle miles traveled tax.

2. Under the FAST ACT, **Indiana's rate-of-return has averaged only 92.8%** because the HTF formula favors other states. If we had received a true 95% share, Indiana would have received an additional $93.5 Million so far. **Insist on equity and fairness for Indiana.**



3. Transit, trails, bike paths, and historic preservation: What have they got to do with highway user fees? Nothing - **except they siphon off nearly $11 Billion (25%) every year** from the Federal Highway Trust Fund, **while potholes go unfilled**. It's time to **re-dedicate highway user fees to highways.** Fund these other programs from elsewhere in the budget.

4. **End tolling restrictions.** Reliable future revenues will require tolling. It's time to **give states the freedom to toll.**

5. If Congress won't permanently increase revenue and ensure funding fairness for Indiana, **perhaps it's time to give control back to the states,** and end the federal highway program.

and MAKE SURE INDIANA GETS A FAIR SHAKE

May 15, 2019

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NEW REVENUE FOR THE HIGHWAY TRUST FUND

Discussion

A number of factors have reduced fuel tax revenue flowing into the Highway Trust Fund (HTF). These include the rise of fuel efficient and alternative fueled vehicles. In an effort to maintain transportation spending levels, Congress has enacted a series of transfers from the General Fund to the HTF. Since 2008, these transfers have totaled over $140 billion. It is questionable if these types of transfers are sustainable over the long term.

Although maintaining current spending levels will be difficult, it is important to note that those levels are not sufficient to meet the nation's needs. The Federal Highway Administration has identified a $836 billion backlog of highway and bridge investments.

When the FAST Act expires in 2020, revenue into the Highway Trust Fund will be $20 billion per year short of the amount needed to simply maintain flat funding. In light of these trends, lawmakers must consider some form of revenue enhancements to continue the federal highway program at levels necessary to maintain and improve our national highway system and support economic growth.

Position

New revenue must be identified to sustain the Highway Trust Fund. Studies have identified many options, some of which appear on the next page. BIC supports new revenue **that is user fee based, long-term and sustainable**.

Matrix of Illustrative Surface Transportation Revenue Options

Existing Highway Trust Fund Funding Mechanisms	Illustrative Rate or Percentage Increase	Definition of Mechanism/Increase	$ in Billions: Assumed 2018 Yield*	$ in Billions: Total Forecast Yield 2019–2023
Existing HTF Funding Mechanisms				
Diesel Excise Tax	20.0¢	¢/gal increase in current rate	$8.8	$42.2
Gasoline Excise Tax	15.0¢	¢/gal increase in current rate	$21.8	$102.1
Motor Fuel Tax Indexing of Current Rate to CPI (Diesel)	--	¢/gal excise tax		$3.7
Motor Fuel Tax Indexing of Current Rate to CPI (Gas)	--	¢/gal excise tax		$8.8
Truck and Trailer Sales Tax	20.0%	increase in current revenues, structure not defined	$0.6	$4.2
Truck Tire Tax	20.0%	increase in current revenues, structure not defined	$0.1	$0.5
Heavy Vehicle Use Tax	20.0%	increase in current revenues, structure not defined	$0.2	$1.2
Other Existing Taxes				
Minerals Related Receipts	25.0%	increase in/reallocation of current revenues, structure not defined	$0.6	$3.4
Harbor Maintenance Tax	25.0%	increase in/reallocation of current revenues, structure not defined	$0.4	$1.9
Customs Revenues	5.0%	increase in/reallocation of current revenues, structure not defined	$1.9	$10.3
Income Tax - Personal	0.5%	increase in/reallocation of current revenues, structure not defined	$5.3	$28.4
Income Tax - Business	1.0%	increase in/reallocation of current revenues, structure not defined	$1.7	$8.9
License and Registration Fees				
Drivers License Surcharge	$5.00	dollar assessed annually	$1.1	$6.1
Registration Fee (Electric Light Duty Vehicles)	$100.00	dollar assessed annually	$0.0	$0.2
Registration Fee (Hybrid Light Duty Vehicles)	$50.00	dollar assessed annually	$0.2	$1.3
Registration Fee (Light Duty Vehicles)	$5.00	dollar assessed annually	$1.3	$6.8
Registration Fee (Trucks)	$100.00	dollar assessed annually	$1.2	$6.3
Registration Fee (All vehicles)	$5.00	dollar assessed annually	$1.3	$7.1
Weight and Distance Based Fees				
Freight Charge—Ton (Truck Only)	10.0¢	¢/ton of domestic shipments	$1.1	$5.8
Freight Charge—Ton (All Modes)	10.0¢	¢/ton of domestic shipments	$1.3	$7.1
Freight Charge—Ton-Mile (Truck Only)	0.5¢	¢/ton-mile of domestic shipments	$10.1	$54.2
Freight Charge - Ton-Mile (All Modes)	0.5¢	¢/ton-mile of domestic shipments	$21.6	$115.9
Transit Passenger Miles Traveled Fee	1.0¢	¢/ passenger mile traveled on all transit modes	$0.6	$3.2
Vehicle Miles Traveled Fee (Light Duty Vehicles)	1.0¢	¢/LDV vehicle mile traveled on all roads	$29.1	$155.7
Vehicle Miles Traveled Fee (Trucks)	1.0¢	¢/truck vehicle mile traveled on all roads	$2.9	$15.7
Vehicle Miles Traveled Fee (All Vehicles)	1.0¢	¢/ vehicle mile traveled on all roads	$32.0	$171.5
Sales Taxes on Transportation Related Economic Activity				
Freight Bill - Truck Only	0.5%	percent of gross freight revenues (primary shipments only)	$3.8	$20.2
Freight Bill - All Modes	0.5%	percent of gross freight revenues (primary shipments only)	$4.6	$24.8
Sales Tax on New Light Duty Vehicles	1.0%	percent of sales	$2.8	$14.9
Sales Tax on New and Used Light Duty Vehicles	1.0%	percent of sales	$4.2	$22.4
Sales Tax on Auto-related Parts & Services	1.0%	percent of sales	$2.7	$14.4
Sales Tax on Diesel	2.0%	percent of sales (excluding excise taxes)	$1.5	$7.9
Sales Tax on Gas	2.0%	percent of sales (excluding excise taxes)	$5.2	$28.0
Tire Tax (Light Duty Vehicles)	1.0%	of sales of LDV tires	$0.3	$1.4
Sales Tax on Bicycles	1.0%	percent of sales	$0.1	$0.3
Other Excise Taxes				
Container Tax	$15.00	dollar per TEU	$0.7	$4.0
Imported Oil Tax	$2.50	dollar/ barrel	$4.5	$23.9

** Assumed yield in 2018 or the latest year data is available.*

FUNDING EQUITY FOR INDIANA

Discussion

The federal highway program has included complex formulas that determine the distribution of funds between the 50 states. Historically, those formulas have put Indiana at a disadvantage. Indiana is a highway funding "donor state," in that Hoosier motorists contribute a greater share of fuel tax revenue to the federal Highway Trust Fund (HTF) than the share of funds the state receives back. Since the creation of the program in 1956, Indiana has forgone over $3 billion that instead went to other states for road construction and repair.

The Indiana congressional delegation has worked tirelessly to improve Indiana's share of funds. For decades federal highway legislation has included some type of minimum funding guarantee to ensure a more equitable distribution of funds between the states. The result of these efforts has been a more equitable federal program and more dollars for Indiana highways.

The 2012 Moving Ahead for Progress in the 21st Century (MAP-21) eliminated funding formulas and equity guarantees. Instead, Congress based funding for FY2013 - FY2014 on FY2012 levels. The 2015 Fixing America's Surface Transportation (FAST) Act extended this approach and requires that all states receive the same percentage share of distributions between FY2015 - FY2020 that they received in FLY2015. In this regard, both MAP-21 and the FAST Act promote a status quo distribution of funds, with no state doing better or worse than before. Consequently, since 2012, Indiana's share of federal funds (relative to other states) has been frozen at 2.42 percent. At the same time, Hoosier motorists are contributing on average 2.61 percent of all fuel tax revenue flowing into the Highway Trust Fund. Thus, under the FAST Act Indiana's rate of return has averaged only 92.8%.

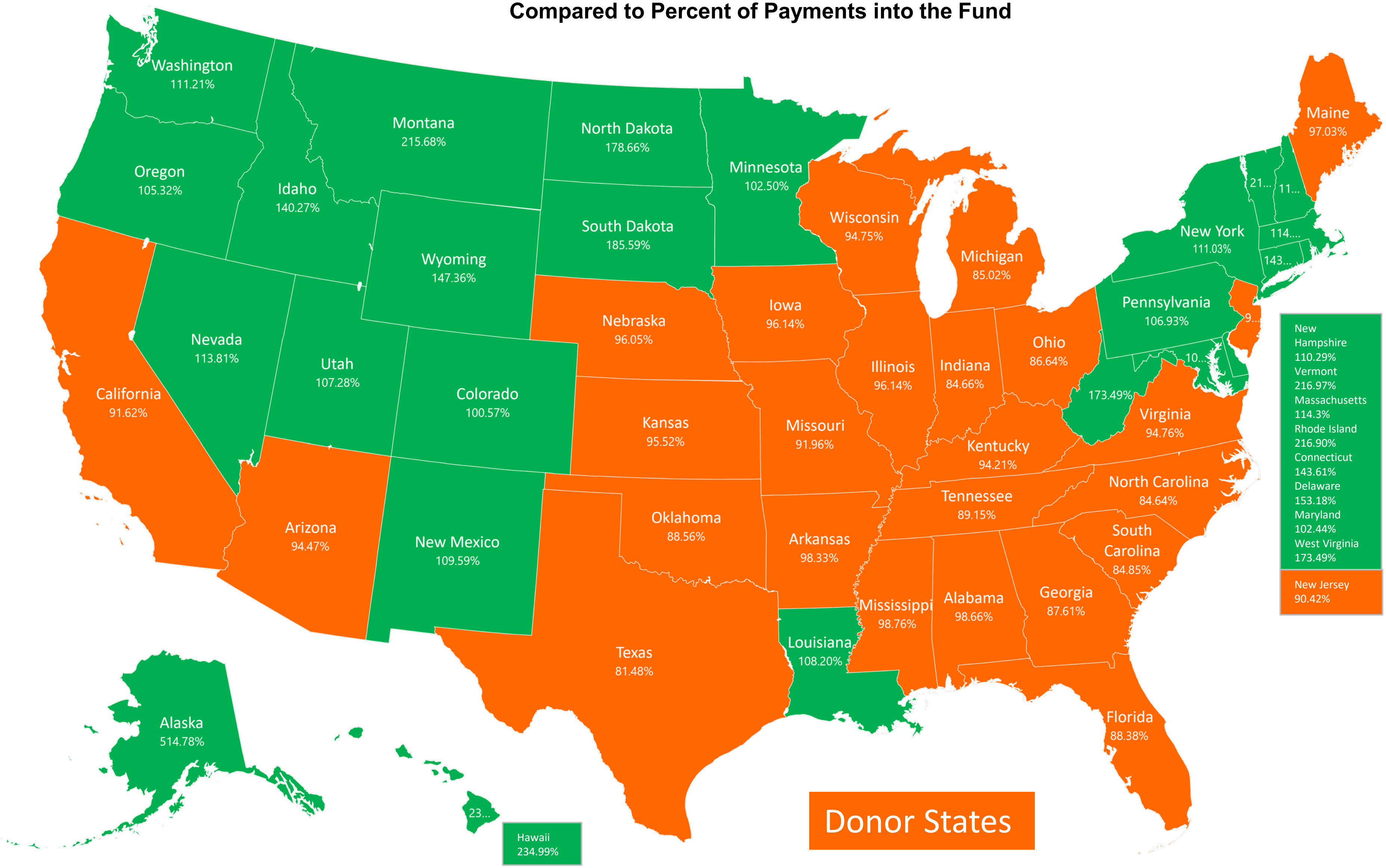
Both MAP-21 and the FAST Act required a transfer of General Fund revenue to the HTF, in order to maintain overall investment at previous levels. The program will likely need a similar infusion of funds in the future. These funds could come from the General Fund or some other source of revenue such as repatriated tax dollars, drilling fees, etc. Regardless of the funding source, the equity guarantee should apply to all funds distributed to the states.

Position

Congress should **base funding distribution formulas on equitable principles**, and not on political influence, Congressional seniority, or the pet programmatic goals of powerful committee leaders. The FAST Act will expire on September 30, 2020. As Congress begins work on a new highway reauthorization bill, it should establish a specific equity guarantee in law to ensure all states a minimum level of funding relative to other states.

Build Indiana Council believes all states should receive a minimum of 95 percent return on their share of fuel tax contributions. This percentage should govern the distribution of all federal highway program funds – no matter their source.

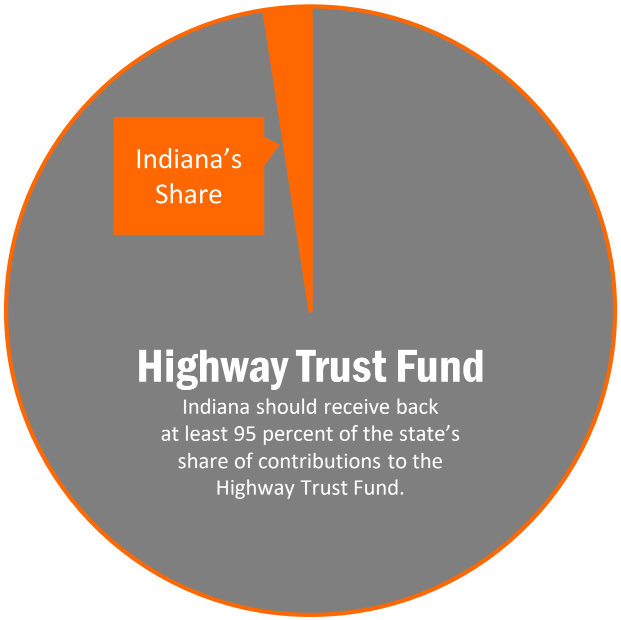
1957-2017 Cumulative Percent of Total Apportionments and Allocations From the Highway Account Compared to Percent of Payments into the Fund

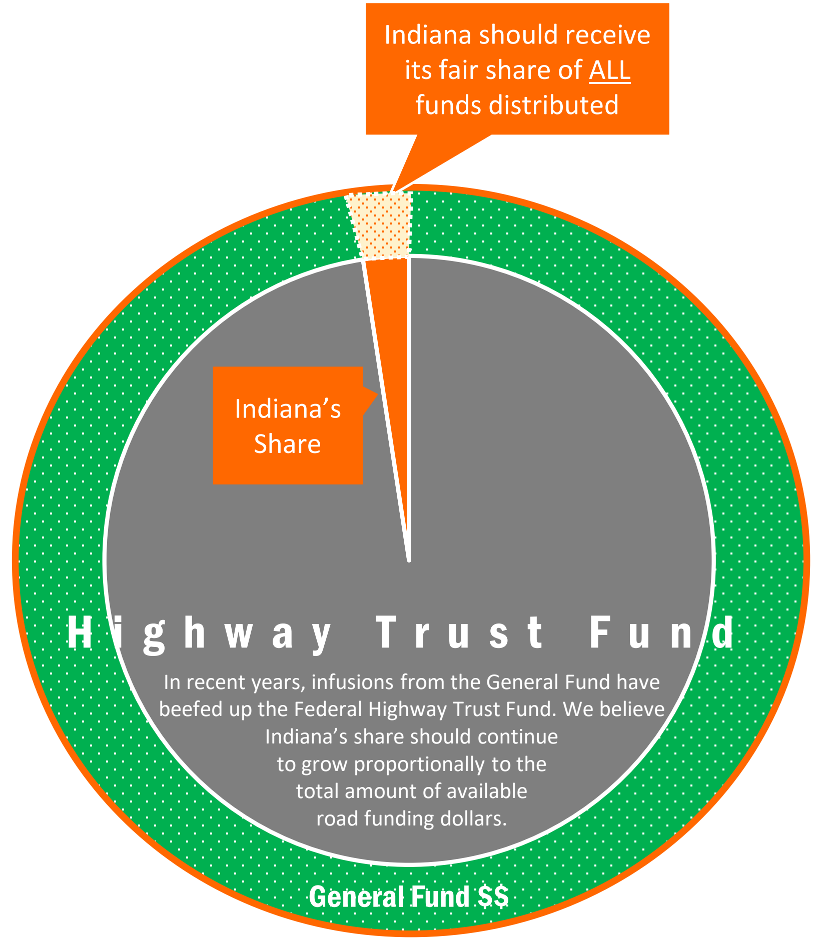


Build Indiana Council – (317) 634-4774 – May 15, 2019

INDIANA'S FAIR SHARE

OF FEDERAL HIGHWAY FUNDS





Rate of Return Calculation			***Fair Share Rate of Return = (Percent state gets back) ÷ (Percent state puts in)***				
	Yearly Average Under the FAST Act						
	Apportionments	Share of Program	Taxes Collected	Share of Taxes	ROR	If ROR = 95%	
		(Percent we get back)		**(Percent we put in)**			**(Share required to reach 95% ROR)**
Indiana	994,709,784	2.425%	926,228,000	2.61%	92.80%	1,018,247,405	2.48%
Total	41,012,807,193	100.00%	35,441,141,000	100.00%		41,012,807,193	100.00%

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REFOCUS THE FEDERAL HIGHWAY PROGRAM BACK ON HIGHWAYS

Discussion

If the political environment prevents discussion of revenue increases, then lawmakers must consider how to structure a federal highway program at current fuel tax revenue levels. In every year since 2008, there has been a shortfall of federal highway funding that has been covered by a series of General Fund transfers. These transfers provided a band-aid but did not address the mounting needs of the nation's road and bridge system. It is possible that Indiana could benefit from a plan that removes non-road programs from fuel tax-funded spending.

A study by Reason Foundation shows a 25% diversion of Highway Trust Fund spending to non-road uses – nearly $11 billion per year. This diversion includes enhancement projects (bike paths, scenic trails, historic preservation, decorative lighting, etc.), non-road portions of federal highway projects, gas tax dollars going to transit, highway money flexed to transit, the National Highway Traffic Safety Administration, and the Federal Motor Carrier Safety Administration. The Reason Foundation notes that other safety regulatory agencies are funded out of the General Fund, including those with oversight of aviation and rail. Therefore, the road safety oversight agencies should be as well.

Position

Lawmakers should put the "trust" back into the Federal Highway Trust Fund. Reduce the scope of the federal highway program and refocus it on road and bridge priorities. **Non-road programs should be funded elsewhere in the budget.**

ALLOW STATES TO TOLL INTERSTATES

Discussion

HEA 1002, passed by the Indiana General Assembly in 2017, provides for long term road funding. A significant part of the "long term" aspect of the legislation provides for tolling of Indiana's interstates in the near future to generate sustainable road funding when increased vehicle fuel economy may lead to declining fuel tax revenues.

In late 2018, the Indiana Department of Transportation completed a study detailing how tolling could be implemented on I-70, I-65 and I-94. INDOT found that toll revenues could fully support the construction and financing phases for the entire interstate widening program. Additionally, tolling would generate significant excess cash (about $700 million per year for 40 years) that could be used for any approved transportation purpose.

Despite the benefits of tolling, federal law restricts states from tolling existing interstates. While a small pilot program exists to allow tolling of existing Interstates, this program limits participation to only three states. These restrictions should be lifted to allow all states to utilize tolling if they feel it's in their best interests.

The freedom to toll presents several benefits. First, the future of the Highway Trust Fund is at risk with shrinking revenues from federal fuel taxes. Second, there are few funding alternatives available to meet the considerable investment needs in each state. Third, tolling generates resources that stay in-state. Fourth, electronic tolling technology makes payment convenient and efficient. Finally, it's the fairest way to fund highways - those who benefit, pay.

Tolling can be a major source of revenue to enhance state infrastructure investment.

Position

The Build Indiana Council supports the move towards tolling in the state of Indiana. We ask our Congressional delegation to advocate for reforms to the Federal Highway Program to **give all states the freedom to implement tolls** if they believe it is in their best interests.

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IF REFORMS ARE NOT ACHIEVABLE... DEVOLVE THE PROGRAM BACK TO THE STATES

Discussion

The federal highway program is at a crossroads. Key issues related to Highway Trust Fund (HTF) revenue, program efficiency, and state funding fairness will all have to be decided. If Congress cannot tackle these challenges, there are policy options that might be more beneficial for Indiana's road building program than the current federal highway program. One of these options is devolution of the federal program back to the states.

In 1956, as Congress discussed the creation of the interstate system program, Charles P. Taft, then mayor of Cincinnati, testified, "The money raised should be put in a trust fund…and can only be used for roads and immediately related purpose." This was based on the practice used in Ohio at the time. The legislation creating the HTF was based on that principle. In 1970, the first diversion from the HTF occurred, as the highway bill allowed highway apportions to be used on bus lanes, facilities and park-and-ride lots. The diversions have only increased since that time, now accounting for about 25 percent of the total funds authorized.

At the same time, regulatory burdens have increased for the state departments of transportation (DOTs) administering the federal dollars. Ralph Stanley, who created the Dulles Greenway toll highway in Virginia, estimated that federal regulations increased construction costs by 20 percent. Robert Farris, who was commissioner of the Tennessee DOT and who headed up the Federal Highway Administration, suggested that federal regulations increase costs by 30 percent.

Congress saw the first "turn back" bill (or devolution) in 1997. It had about two dozen cosponsors and it received the endorsement of 20 states. Since then, some version of devolution has been introduced in every Congress. These proposals typically reduce the federal gas tax by annual increments and allow the states to add that amount to their gas tax. The total tax paid by the motorist stays the same.

Position

Build Indiana Council supports a comprehensive and thoughtful reauthorization of the federal highway program that includes program reforms and equitable funding distribution formulas. However, **if Congress is unable to properly fund the program, eliminate program diversions, streamline burdensome regulations and ensure funding fairness for Indiana, then Congress should give control back to the states**.