AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

AASHTO

TESTIMONY OF

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REGARDING

Ohio House Bill 62

BEFORE THE

House Finance Committee

ON

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INTRODUCTION

Chairman Oelslager, Vice Chair Scherer, Ranking Member Cera, and Members of the House Finance Committee, thank you for the opportunity to appear today and address state-level funding efforts to meet highway infrastructure needs.

My name is Jim Tymon and I serve as the Executive Director at the American Association of State Highway and Transportation Officials (AASHTO), which represents the state departments of transportation (state DOTs) of all 50 states, Washington, DC, and Puerto Rico.

My testimony today will cover the following topics:

- The need to make a stronger value proposition to the public for investing in highway transportation infrastructure;
- Benefits of improving our highways and the impacts of not adjusting revenue sources, and;
- Lessons learned from revenue-raising efforts by peer states around the country.

THE NEED TO MAKE A STRONGER VALUE PROPOSITION TO THE PUBLIC

Nationwide, we see ample evidence for ever-growing transportation investment needs from growing population, aging infrastructure stock, and rapid deployment of new technology. In 1970 Americans logged just over 1 trillion vehicle miles traveled, last year we traveled over 3 trillion miles. By 2030 we are expected to see a 25 percent increase in VMT and a 64 percent increase in travel by large commercial trucks.

The demands on our nation's transportation network are increasing every year and we are not investing enough to offset these additional demands. 33% of major urban roads are in poor condition and more than half of all bridges in the U.S. are rated either "fair" or "poor". The average American spent 97 hours sitting in traffic last year costing the economy $87 billion in lost productivity. Drivers right here in Columbus wasted 71 hours sitting in traffic last year costing them nearly $1,000.

But more important than all of those statistics is the fact that more than 37,000 people died on our nation's highways in 2017. And while that number is down slightly from 2016, it is still the equivalent of a medium-sized commercial airplane crashing every day of the year. The traveling public would never stand for that type of safety record for air travel yet there isn't the same public outcry when it comes to highway fatalities.

According to the US Department of Transportation's (USDOT) 2015 Conditions and Performance Report to Congress, the highway and bridge investment backlog has reached $836 billion, breaking down into $420 billion for highways, $123 billion for bridges, $167 billion for system expansion, and $126 billion for system enhancement.

That being said, it is hard to grasp these numbers due to their sheer magnitude. We live in a market-based economy where the supply and demand for goods and services are typically determined through very clear price signals. You know exactly what a gallon of milk costs when you walk into the grocery store, how much a new computer will cost when you walk into Best Buy or the Apple Store, and how much you'll be charged for a haircut. Unfortunately, for provision and use of transportation infrastructure, there are no similar price signals to users of the system in terms of how much they are asked to pay, and what they get in return.

In the past, AASHTO has commissioned man-on-the-street interviews asking how much the typical driver of a vehicle pays in terms of state and federal gas taxes each year—and the response ranged from around $1,000 a year all the way up to $7,000. The correct answer is $313 per year, or $26 per month per vehicle assuming 12,000 miles driven and fuel efficiency of 20 miles per gallon. This compares to $160 per month for electricity and gas, $161 for cell phone, and $124 per month for cable and internet. I believe the value provided by our nation's transportation network is well worth the contributions being asked from system users, especially compared to other monthly utility and service fees.

The place to start this conversation, though, is to recognize that we in the transportation industry need to do a better job of making the value proposition for transportation investment, by more clearly communicating both the cost and benefits related to the use of our transportation system.

BENEFITS OF IMPROVING OUR HIGHWAYS AND THE IMPACTS OF NOT ADJUSTING REVENUE SOURCES

The Federal Highway Administration (FHWA) estimates that each dollar spent on road, highway and bridge improvements results in an average benefit of $5.20 in the form of reduced vehicle maintenance costs, reduced delays, reduced fuel consumption, improved safety, reduced road and bridge maintenance costs, and reduced emissions as a result of improved traffic flow. Perhaps most importantly, according to an FHWA study, $100 million spent on highway safety improvements will save 145 lives over a 10-year period.

When we as a nation make significant investments in our transportation infrastructure, it generates a multi-decade return on that investment to all sectors of the economy in the form of improved productivity and quality of life.

It is important to note that states are not the only ones struggling to keep up with the demands on their highways. AASHTO is currently urging Congress and the Trump Administration to increase federal investment in surface transportation to address the growing demands on our national transportation network.

Yet the foundation of the federal surface transportation program underpinned by the federal Highway Trust Fund (HTF) is at a dire crossroads. The federal gas tax has not increased since 1993 and as a result Congress has had to transfer $140 billion in General Fund revenue into the HTF to keep it solvent. If Congress does not identify a long-term revenue solution for the HTF,

Congress will need to come up with an additional $114 billion in General Fund revenue to keep the federal transportation programs operating through 2026.

One of the reasons Congress has had to repeatedly turn to General Fund revenue to bail out the HTF is that the purchasing power of the federal gas tax has declined significantly since 1993, losing over half its value. In 1993 (when the federal gas tax was last raised) the median household income was just over $31,000 a year. Now it is over $61,000 a year, an increase of nearly 100 percent.

EXHIBIT 1. SAMPLE OF NOMINAL PRICE CHANGES RELATIVE TO THE FEDERAL GAS TAX

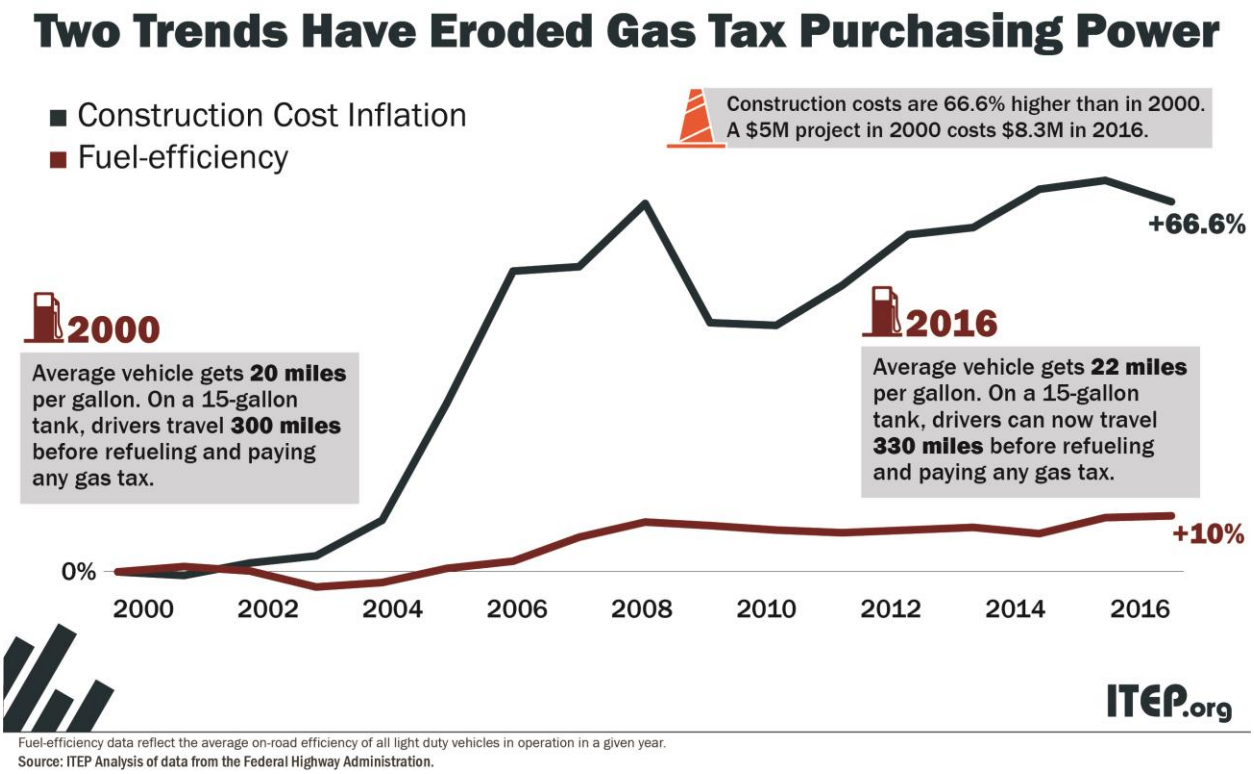
Item	Desciption	1993	2017	Percent Change
College Tuition	Average Tuition & Fees at Public 4-Year Universities	$ 1,908	$ 9,970	**423%**
Healthcare	National Expenditure Per Capita	$ 3,402	$ 10,739	**216%**
House	Median New Home Price	$ 118,000	$ 315,200	**167%**
Gas	Per Gallon	$ 1.08	$ 2.53	**134%**
Movie Ticket	Average Ticket Price	$ 4.14	$ 8.97	**117%**
Income	National Median Household	$ 31,241	$ 61,372	**96%**
Bread	Per Pound of White Bread	$ 0.75	$ 1.35	**80%**
Beef	Per Pound of Ground Beef	$ 1.97	$ 3.55	**80%**
Stamp	One First-Class Stamp	$ 0.29	$ 0.49	**69%**
Car	Average New Car	$ 16,833	$ 25,774	**53%**
Federal Gas Tax	Per Gallon	$ 0.18	$ 0.18	**0%**

A similar argument can be made here in Ohio. The state gas tax hasn't been raised in Ohio since the early 2000's. In-state tuition here at the Ohio State University in Columbus in the early 2000's was around $5,500 a year. Today tuition has more than doubled to about $11,000 a year.

We can't expect to pay the same price for a product or a service as we did 15 years ago, and we shouldn't expect that the revenue sources we established 15 years ago will be able to keep up with the demands of today's transportation network.

As we talk about the purchasing power of the gas tax we also need to discuss increases in fuel economy and the increase in the cost of construction. The graph below shows how the average fuel economy for the vehicle fleet has improved by 10 percent over the past 15 years. This means today's vehicles are able to drive 10 percent father before having to refill their gas tanks (and pay the state and federal gas tax). The graph below also shows how construction costs are impacting the purchasing power of the gas tax. A construction project that cost $5 million 15 years ago will now cost $8.3 million, an increase of more than 60 percent.

EXHIBIT 2. PURCHASING POWER OF THE GAS TAX

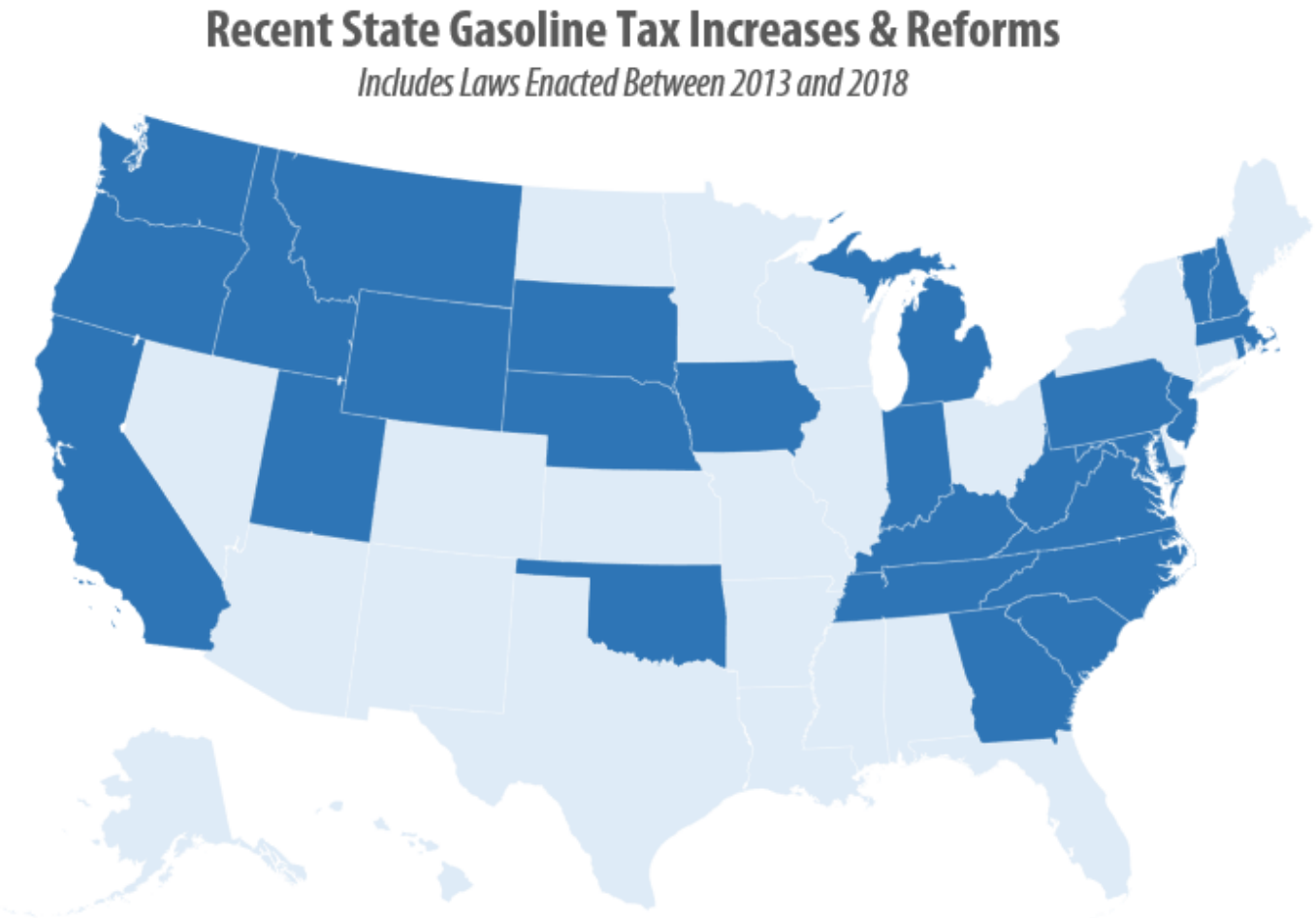


Fuel-efficiency data reflect the average on-road efficiency of all light duty vehicles in operation in a given year.
Source: ITEP Analysis of data from the Federal Highway Administration.

LESSONS LEARNED FROM REVENUE-RAISING EFFORTS BY PEER STATES AROUND THE COUNTRY

To address the increasing demands on our nation's transportation network and to offset the declining purchasing power of the gas tax, 27 states have successfully enacting a gas tax increase since 2013. As you can see from the map below, all of Ohio's neighbors have increased their gas tax over the past 5 years. You can also see that the states that have increased their gas tax stretch across the political spectrum. Traditionally red states, traditionally blue states, and purple states have all increased their gas tax over the past five years.

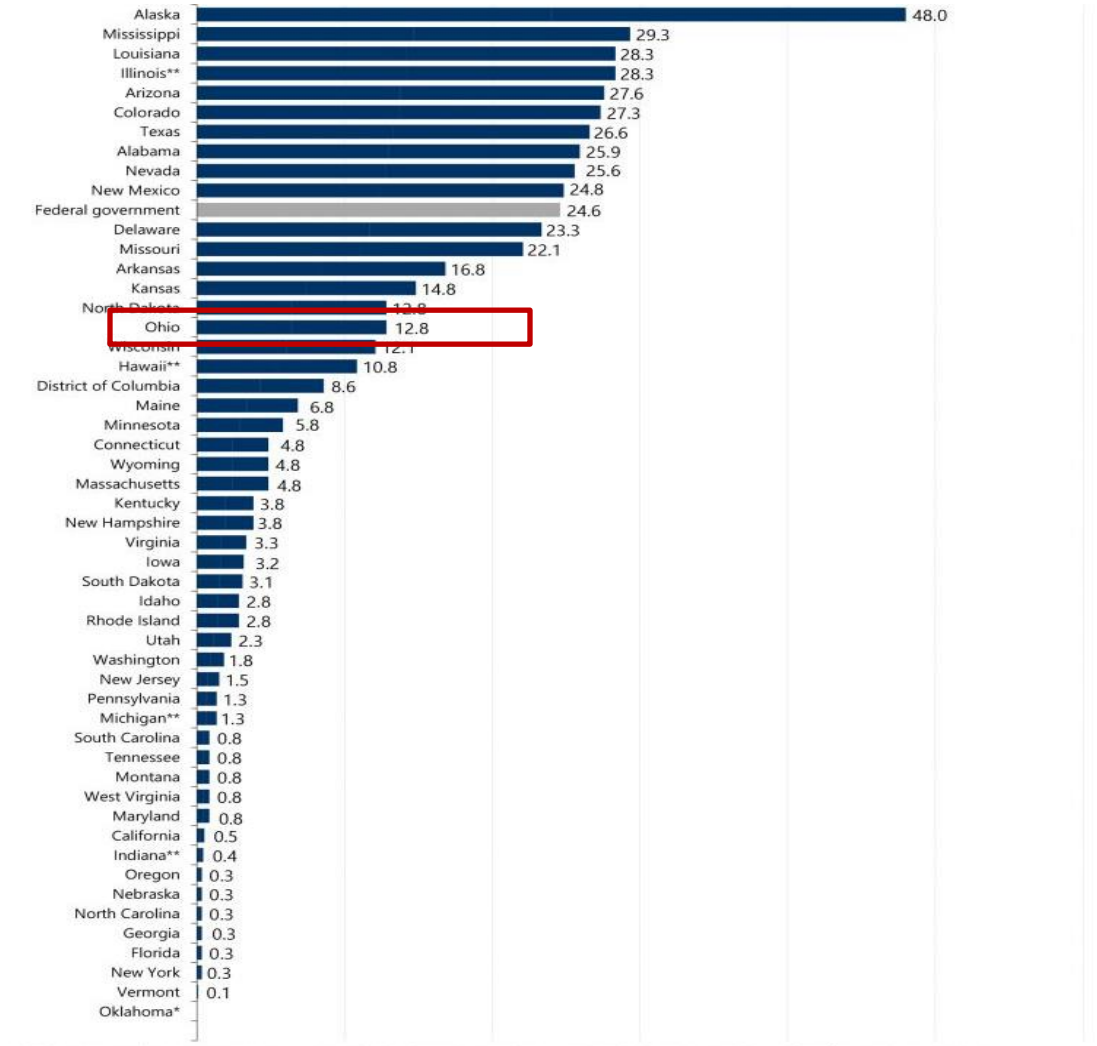
EXHIBIT 3. RECENT STATE GAS TAX INCREASES AND REFORMS, 2013-2018



Source: Institute on Taxation and Economic Policy. Reflects laws enacted through May 22, 2018.

Ohio has now gone more than 14 years since the last adjustment to the gas tax. 35 states and the District of Columbia have increased their gas tax since Ohio last increased theirs.

EXHIBIT 4. YEARS SINCE LAST GAS TAX INCREASE AS OF MAY 28, 2018



* Oklahoma's gasoline tax rate was increased under legislation enacted in 2018, though the change will not take effect until June 27, 2018.
** Hawaii, Illinois, Indiana, and Michigan apply their general sales taxes to gasoline and thus see ongoing changes in their overall gas tax rates based on changes in the price of gas. This chart excludes these price-based fluctuations in the saess tax and instead looks only at these states' excise taxes on gasoline.
Source: Institute on Taxation and Economic Policy (ITEP)

To see how your peer states have grappled with and came up with a transportation revenue package, here are some specific case studies.

Indiana

To your immediate west in Indiana, the "Funding Indiana's Infrastructure for the Next Generation" package in 2017 is expected to raise $1.2 billion in additional revenues by 2024. It has a number of components, including increasing the state tax on gasoline from 18 cents per gallon to 28 cents per gallon and increasing the state tax on diesel from 16 cents a gallon to 26

cents a gallon. The final version of the bill passed the Indiana House with a bipartisan vote of 69 to 29 and the Senate by a bipartisan vote of 37 to 12.

Tennessee

To your south in Tennessee, the Improving Manufacturing, Public Roads, and Opportunities for a Vibrant Economy (IMPROVE) Act of 2017 is expected to generate $244 million of additional revenues by 2020. The bill includes an increase in the state gas tax from 20 cents per gallon to 26 cents per gallon and an increase in the state diesel tax from 17 cents a gallon to 27 cents a gallon. The Tennessee House passed the measure with a bipartisan vote of 60-37 and the Senate with a bipartisan vote of 25-6.

New Jersey

In July 2016 New Jersey Governor Chris Christie signed an executive order halting all non-essential construction projects funded out of the state's transportation fund because the fund was running out of money. That order stayed in place for four months until the Governor and the Democrat controlled state legislature worked together to enact legislation that increased the state gas tax by 23 cents a gallon. The increase resulted in an additional $1.2 billion in additional revenue for transportation projects in the state and allowed NJDOT to resume highway construction projects across the state.

Georgia

In 2015 Georgia increased their gas tax by roughly 6.7 cents a gallon to 26 cents a gallon and indexed that tax to inflation and to vehicle fuel-efficiency improvements. The increase in tax rates is projected to raise $670 million a year for transportation projects.

Michigan

In 2015 Michigan increased their gas tax by 7.3 cents per gallon and their diesel tax by 12.3 cents per gallon to bring both taxes to 26.3 cents per gallon. The increases in fuel taxes combined with other revenue increases resulted in more than $1 billion per year in an additional funding for transportation.

These kinds of successful revenue increase do not happen overnight, as you know very well in Ohio. And some states are still looking for a solution after many attempts in the past decade. For example, Missouri in 2013 tried to increase the state sales tax by one cent, with all revenue going to transportation; raise their gas tax by about six cpg in 2016 and tried to raise it again in 2017; and in 2018 tried to increase the gas tax by 10 cpg and diesel tax by 12 cpg over five years. These measures have all failed and Missouri is having to be creative just to meet their highway and bridge maintenance needs. But they have not given up—this year Missouri is looking at a 2 cpg gas tax increase and charging vehicles based on their fuel efficiency rating.

There are several other states that are proposing increases in their state fuel taxes this year. Wisconsin Governor Tony Evers is requesting an 8 cent increase in their gas tax, Minnesota Governor Tim Walz is proposing a 20 cent per gallon gas tax increase, Alabama Governor Kay Ivey is requesting a 10 cent gas tax increase, and earlier this week Michigan Governor Gretchen Whitmer proposed phasing in a 45 cent increase for Michigan's fuel tax.

I'm certain that every state around the country has a unique story to tell when it comes to finding resources necessary to keep up and improve their transportation infrastructure. From my experience, these are the common themes behind the successful revenue efforts:

- Transportation problems are clearly explained and demonstrated to the public;
- Benefits of proposed investment are made clear and tangible for system users;
- There is a broad coalition of support beyond self-interest groups;
- There is commitment to accountability and performance outcomes, and;
- Leadership and the willingness to prioritize transportation investment from both the executive and legislative branches is crucial.

CONCLUSION

In closing, forums like today's hearing are critical to address the transportation investment challenge that is faced not only by Ohio, but by many of your peer states around the country. Recognizing how hard these conversations are given the fierce competition for scarce resources from all parts of the state government, I want to express my appreciation for your willingness to tackle this crucial issue on which the success of Ohio's economic future and quality of life depend. I am happy to answer any questions that you may have.