STATEMENT OF PRINCIPLES ON THE FEDERAL-STATE-LOCAL TRANSPORTATION PARTNERSHIP

With this statement of principles, The Council of State Governments (CSG) calls on Congress to seek solutions to the long-term solvency of the Highway Trust Fund prior to the expiration of the Fixing America's Surface Transportation (FAST) Act in 2020. CSG also expresses support for the efforts of states in their traditional role as the laboratories of democracy to experiment with transportation funding mechanisms. And CSG expresses its opposition to any federal legislation or executive action that would eliminate the federal tax exemption on municipal bonds.

Principles for the Future of Federal Transportation Program

President Obama signed the Fixing America's Surface Transportation (FAST) Act into law on December 4, 2015. It was a five-year, $305 billion bill paid for with a combination of existing gas tax revenue and $70 billion in offsets from other areas of the federal budget. The legislation was the first transportation funding bill lasting longer than two years that Congress had passed since 2005 and offered some degree of long-term certainty to state transportation officials around the country following years of short-term extensions.

But the FAST Act failed to adequately address the issue of how to sustain the Highway Trust Fund long term. It did not seek to raise the federal gas tax as many groups have long recommended and so it continued a shift away from the user fee-financed system that long has been the foundation of the federal program to one that relies significantly on General Fund revenues and budget gimmicks to shore up funding levels.

If Congress is unable to raise the gas tax or identify a new source of revenue for transportation in the next few years, a successor to the FAST Act could be delayed well beyond the act's 2020 expiration date. That would present significant challenges to states that must decide which long-term transportation projects to invest in. If gas tax revenues remain stagnant, a much more significant infusion of increasingly hard to come by General Fund dollars could be needed to finance the next highway bill at just current funding levels. But inflation, increasing fuel efficiency and new technologies like driverless cars could also erode the buying power of the federal gas tax and change gas consumption and driving patterns in unpredictable ways in the years ahead. That could put the future of the federal transportation program in jeopardy even as state backlogs of transportation projects continue to grow.

The Council of State Governments calls on Congress to seek lasting solutions to the long-term solvency of the Highway Trust Fund prior to the expiration of the FAST Act in 2020.

Principles on State Exploration of Transportation Revenues

The FAST Act included a $95 million grant program that required the U.S. secretary of transportation to set up a program to "provide grants to states to demonstrate user-based alternative revenue mechanisms that utilize a user fee structure to maintain the long-term solvency of the Highway Trust Fund." Five states and two multi-state collaboratives were among the recipients of the first $15 million in grants to be awarded in August 2016. Most of these will fund pilot tests of mileage-based road usage charges, which many believe could help transportation funding evolve to better meet today's transportation needs.

States have also been doing something Congress has been unable to do—raising gas taxes to generate additional revenues for transportation. Eight states raised gas taxes in 2015 and in October, New Jersey lawmakers voted to raise that state's gas tax by 23 cents. States have also enacted indexing mechanisms, established fees for electric and alternative fuel vehicles, created other new kinds of fees and raised others and turned to tolling to operate and maintain transportation facilities.

States have also empowered localities to go to the voters with state and property tax increases to fund long-term transportation investments. Billions of dollars in transit projects were at stake in 2016 ballot measures considered in cities like Atlanta, Los Angeles and Seattle.

CSG expresses support for the efforts of state and local governments to continue their experimentation with transportation funding mechanisms and urges Congress and the Administration to continue to support such efforts.

<u>Principles on Local Transportation Investment</u>
But state and local governments continue to rely heavily on municipal bonds to help finance transportation projects as well.

According to the National Association of Counties (NACo): "Municipal bonds remain the primary method used by states and local governments to finance public capital improvements and public infrastructure projects that are essential for creating jobs, sustaining economic growth and improving the quality of life for Americans in every corner of this country." Between 2003 and 2012, states, counties and other localities invested $3.2 trillion in infrastructure through long-term tax-exempt municipal bonds. That was 2.5 times more than the federal investment.

Interest earned on municipal bonds is currently subject to federal tax exemption. That allowed state and local governments to avoid $495 billion in additional costs between 2003 and 2012. A repeal of that tax-exemption could significantly impact local governments, prolong financial recovery and damage the ability of states to fund critical infrastructure needs. It would impact all Americans as well—both as investors and taxpayers.

The National Association of Counties also notes that: "The tax-exemption of municipal bond interest from federal income tax represents one of the best examples of the federal-state-local partnership. … Municipal bonds are a proven, decentralized investment tool that maintains the decision-making for infrastructure with state and local leaders in partnership with their residents. It allows Americans to diversify their retirement portfolios into safe investments and provides them an opportunity to invest in their communities. Using municipal bonds, both small, rural counties and large, urban counties finance schools, hospitals, roads and other essential infrastructure projects. Any change to the tax-exempt status of the municipal bond interest will only multiply the woes of a beset U.S. infrastructure system.”

CSG expresses its opposition to any federal legislation or executive action that would eliminate the federal tax exemption on municipal bonds.

Adopted by The Council of State Governments’ Executive Committee this 11th Day of December, 2016 in Colonial Williamsburg, Virginia.