

Chairman Korman, Vice Chair Boyce, and fellow Members:

My name is Baruch Feigenbaum. I am the Senior Managing Director for Transportation Policy at Reason Foundation, a non-profit think tank. For more than four decades Reason's transportation experts have been advising federal, state and local policymakers on transportation funding and financing.

Overview of Testimony

While the federal government continues to delay action on meaningful transportation funding reform, states are leading the way. Understandably, raising taxes is unpopular. And while the motor fuel tax has been a reliable funding mechanism for the past 100 years, due to the combination of an increased number of electric vehicles, an increased number of hybrid vehicles, and particularly the increased fuel efficiency of vehicles powered by internal combustion engines, the fuel tax will not be a reliable mechanism in the future. The fuel tax is like a rockstar on his farewell tour. The time to replace it with something more durable has arrived.

While states have studied multiple options ranging from statewide sales taxes to kilowatt hour fees for electric charging, two national surface transportation commissions, the National Conference of State Legislatures, and a number of transportation research organizations across the political divide have all recommended that states transition from a fuel tax to a mileage based user fee. Reason Foundation echoes that recommendation.

A road-use fee, similar to the current fuel tax, follows the users-pay/users-benefit principle. Using this principle to fund and finance transportation projects has at least five benefits:

- Fairness: Those who pay the user fees are the ones who receive most of the benefits, and those who benefit are the ones who pay. This is the same general principle used with other utilities, such as electricity and water.
- Proportionality: Those who use more highway services pay more, while those who use less pay less (and those who use none pay nothing).
- Self-limiting: The imposition of a user tax whose proceeds may only be used for the specified purpose imposes a de-facto limit on how high the tax can be: only enough to fund an agreed-upon need for investment.
- Predictability: A user fee produces a revenue stream that can and should be independent of the vagaries of government budgets.
- Investment signal: The users-pay mechanism provides a way to answer the question of how much infrastructure to build, assuming that the customers have some degree of say. With respect to toll roads, the value of the facility can be judged by how many choose to use it and what level of tolls they are willing to pay.

Maryland House Bill 1457 takes the first step to replacing the fuel tax with a mileage-based user fee. By allowing drivers of fuel-efficient vehicles the choice of paying either a sliding fee for road usage based on vehicle fuel economy or participating in a formal mileage-based user fee (MBUF) program, the bill begins the needed process of transitioning Maryland to a more sustainable road funding mechanism.

By requiring owners of electric vehicles using the highway system to pay their fair share, the legislation will have a small but real impact on Maryland's Transportation Trust Fund. While the exact amount depends on whether participants choose the annual surcharge or the mileage-based option, charging the state's approximately 127,000 electric vehicles the \$125 surcharge nets the state \$16.5 million while charging the state's 158,000 hybrid vehicles the \$100 surcharge raises \$15.8 million.

However, the bill is not primarily about raising revenue. In fact, MBUF program participants receive a discount for participating in the program. Drivers of vehicles powered by internal combustion engines would pay only 85% of the amount that they would pay in fuel taxes. This approach has been successful in encouraging MBUF adoption in other states that have tried it, such as Virginia. While this may lead to a slight revenue decrease in the short-term, it could speed the adoption of MBUFs providing a more reliable revenue source over the long-term.

Maryland is not starting from scratch on MBUFs. Other states across the country, including Oregon and Utah, already have permanent MBUF programs. Further, Maryland has already conducted a pilot to determine how MBUFs would work. The average driver would pay \$23 a month to use roads with a MBUF, the same amount as they pay in fuel taxes. Perhaps more surprising in Maryland's pilot, rural drivers paid about 9% less with MBUFs than they paid with fuel taxes. This result echoes findings from other states such as Vermont and Virginia. The reason is that rural drivers are more likely to have older, less fuel-efficient vehicles. Under the current policy, a rural, poorer driver of a Ford F-150 is effectively subsidizing a wealthier suburban and urban driver of a Toyota Prius, an odd public policy choice.

Unfortunately, there are several bills in the Legislature that would ban an MBUF system. While the authors of these bills raise understandable concerns about an MBUF program—including the concern that an MBUF might be layered on top of fuel taxes, the reality that wealthy transit users do not contribute enough revenue, or worries about privacy—each of those concerns can be mitigated.

This bill provides drivers a choice of paying an MBUF or a fuel tax. It does not charge both. And the program is completely voluntary. Nobody is required to participate in it.

I strongly agree that wealthy transit users in suburban Baltimore and Washington, D.C., should be paying more to ride transit. But dedicating portions of the Transportation Trust Fund that currently support transit to highways instead will by itself not fix the fundamental underlying problems with the fuel tax.

High-tech MBUF options use GPS signals for localization, which are sent one-way from the GPS satellite. Location is calculated on board the vehicle by a receiver using multiple satellites and GPS receivers alone cannot be used to track the vehicle. However, for those uncomfortable with high-tech options, low-tech odometer readings are another option. Maryland drivers are required to have vehicle inspections once per year. Mechanics already collect odometer data and report it to entities such as insurance companies and to the Motor Vehicle Administration. The odometer readings would not provide any entity access to data for which it does not already have access.

Thank you for the opportunity to testify on HB 1457. I'm happy to answer any question here in person or in writing.