S. HRG. 113–732

THE NEED TO INVEST IN AMERICA'S INFRASTRUCTURE AND PRESERVE FEDERAL TRANSPORTATION FUNDING

HEARING

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

SEPTEMBER 25, 2013

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COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

ONE HUNDRED THIRTEENTH CONGRESS
FIRST SESSION

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WITNESSES

THE NEED TO INVEST IN AMERICA'S INFRASTRUCTURE AND PRESERVE FEDERAL TRANSPORTATION FUNDING

WEDNESDAY, SEPTEMBER 25, 2013

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
Washington, DC.

The full Committee met, pursuant to notice, at 10 a.m. in room 406, Dirksen Senate Building, Hon. Barbara Boxer (chairman of the full Committee) presiding.

Present: Senators Boxer, Vitter, Baucus, Carper, Cardin, Whitehouse, Merkley, Inhofe, Barrasso, Wicker, Boozman, and Fischer.

OPENING STATEMENT OF HON. BARBARA BOXER, U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator BOXER. We will come to order. We are very, very pleased, we have quite a great panel and a second that is wonderful. We have a big job ahead of us and I am going to put my statement into the record and just ad lib and hear from my colleagues for an opening statement.

The ranking member is on his way, he has been delayed, so he will be here soon, I hope. He is speaking on the floor. So we won't get into that.

Anyway, we are here on an issue that has united us, and that is a good thing, given that we probably couldn't pass a Mother's Day resolution. So I think it is excellent that we can agree that transportation is something we can rally around and work together on.

A lot of the people here today I know very, very well. We have been in the trenches in the last MAP–21 bill, and we are in the trenches now. But I really believe we can work and get a sustainable funding source for transportation. I believe this. I have seen some ideas that are quite compelling on how to do this. Simplify things, get one funding source, follow the lead of some of our States that are turning to a percentage highway fee that is paid for at the refinery level. This could bring in more than all the other taxes bring in for transportation.

There is also the talk of a more controversial idea that some of us don't think is controversial, and that is a carbon fee. That brings in quite a lot, some of that could be used. There are many ideas out there. And the one that I am leaning toward myself, although this is going to be a decision of the Finance Committee, and that is for sure, is to be able to do away with the per gallon fee at the pump and replace it with this sales fee as they have done in Virginia and Maryland. It would fund the entire highway program for 6 years, or is it 5 years? Six years, I think, David. And it would do that, we are doing away with all the other fees. It is a very exciting idea.

Here is the point. We know that the status of our roads, the condition of our roads and our bridges is just not acceptable. Not acceptable. We know that we have 70,000 of our Nation's bridges which are structurally deficient. One in four bridges is either structurally deficient or functionally obsolete. This is the greatest country in the world and we have 70,000 deficient bridges. And one in four of our bridges is either structurally deficient or functionally obsolete.

In fact, according to the American Society of Civil Engineers, listen to this, every day more than 200 million cars, trucks and buses cross a deficient bridge. Just think about that. People are actually in danger just going to work. And we have seen it too many times. So this job that we are doing is not a lighthearted job. It is very serious. And we need to keep our economy moving. You cannot be a great economy if you can't move people and you can't move goods. And the system is not reliable.

That is why we have the Chamber of Commerce here and that is why we have the unions with the Chamber on this. This is something we can all unite behind.

A recent report from the National Association of Manufacturers found that 70 percent of our manufacturers believe America's roads are getting worse. And 67 percent believe infrastructure is important enough to American business that all options to fund investments should be on the table. Look, roads and bridges are not Republican or Democrat. So we need to work together. And we have a wonderful history of working together on this. We worked with Senator Inhofe when he was the ranking, we work with Senator Vitter as he is the ranking, we have worked with Senator Barrasso, Senators from both sides of the my colleagues on the Democratic side, because we all understand this.

In closing, I would say the States are demonstrating greater leadership. They are taking bold action. And we will have a representative from Virginia here to discuss that State's successful effort, and again, quite bipartisan. So we are facing a challenge. I believe we are going to find the sweet spot, I really do. I have spent, I think now, more than a year looking at all the funding options. I think we can unite behind something that takes us away from the per gallon tax and moves us away from that toward a sales fee for highways. It would make a big improvement in the security of this fund. We know that the funds will then go be deposited in the fund.

The last time we did this we had to take from the General Fund. Those days are over. We are trying to get rid of a sequester that is hurting our economy deeply. I hope we succeed. But we certainly have no room to go to the General Fund to fund highways and transportation. It is not going to happen, let's be clear.

So we must work together, and I thank you very much. Seeing that my ranking isn't here, we will be happy to call on Senator Barrasso.

[The prepared statement was not received at time of print.]

OPENING STATEMENT OF HON. JOHN BARRASSO, U.S. SENATOR FROM THE STATE OF WYOMING

Senator BARRASSO. Thank you very much, Madam Chair, for holding this hearing. As the ranking member of the Transportation and Infrastructure Subcommittee, I do look forward to working with you, Madam Chair, about our national transportation investment needs.

I would also like to welcome Janet Kavinoky, who is testifying on behalf of the U.S. Chamber of Commerce. She is from Thermopolis, Wyoming, which is my wife Bobbi's home town. Janet, thank you for being here.

Wyoming is one of those bridge States, Madam Chairman, where it allows for the flow of commerce to move coast to coast. This Committee must not lose sight of the importance of a national, interconnected system of highways that includes access for rural America.

The I–80 corridor is a crucial link and a critical link for moving commerce from the west coast ports to cities throughout the United States. Interstate 80 captures about 60 percent of the truck traffic, most of which doesn't originate or terminate in my home State of Wyoming.

In the next 20 years, traffic on I–80 is going to double, according to the Federal Highway Administration. Wyoming, like many other low-populated States, will have needs that are very different from the needs of cities like New York or San Francisco. So in order to meet the highway system's national needs, rural States must have flexibility to use Federal dollars that serve the national interest.

Madam Chairman, I have full faith in the Wyoming Department of Transportation that they will continue to direct Federal resources that will keep our highway system whole. Thank you so much for your leadership and holding this hearing.

Senator BOXER. Thank you, Senator, for your leadership.

Now, by order of arrival, we will go to Cardin, then Carper, then Whitehouse.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM THE STATE OF MARYLAND

Senator CARDIN. Madam Chairman, thank you very much for holding this hearing. I want to thank all the witnesses that are here today to help us deal with the funding of our transportation priorities here at the Federal level.

It has been 20 years since we last adjusted the transportation revenues, 1993. And we have an opportunity now to do something about it. I serve not only on this Committee, but I serve on the Senate Finance Committee, and we are engaged in tax reform discussions, including the transportation revenues.

So I hope this Committee can work with the Senate Finance Committee, leadership of both parties, to recommend a responsible way to deal with the transportation needs of this country.

We need a long-term reauthorization of our transportation programs. I was proud to be part of the MAP–21 effort. It was extremely important and difficult to get done. I applaud the leadership of this Committee, Senator Boxer, what you did to get that bill passed. But we know we need a longer term transportation reauthorization. We couldn't get that, because we didn't have the revenue to deal with the longer term. So we need a longer term solution to these problems.

I want to compliment the representative from the Chamber of Commerce, because I think you have laid out the three fiscally responsible options we can do. One is to cut the transportation programs commensurate with available funding levels. That would be fiscally responsible, but it would shift dramatically the burdens on transportation to our State and local governments, as they do not have this capacity and these programs are national in need and that is not what we should be doing.

Second option would be to continue to shift General Funds into the transportation funds, motor vehicles and dollars. That violates the user pay philosophy of the transportation funding and would jeopardize our ability to pay our other bills. That is not really a very viable option.

The third option you spell out very clearly, is that we can increase user fees and identify new revenue sources to address the well-documented needs of today and tomorrow.

I particularly want to compliment the comment that you make in your written statement saying this debate, particularly the revenue consideration it entails, will never be convenient. Well, matters of convenience are not what Americans are asking their leaders in Washington to do. And let me just underscore that point. Because in my State of Maryland, our Governor, our legislature stepped up to the plate. They changed their transportation revenues. Changed the gasoline tax into a more inflation-sensitive revenue source. It was not popular.

But guess what? The Governor is now going around to all the communities in our State, showing what that revenue increase meant as far as community improvements and transportation. Communities are now saying, gee, this was a pretty good thing to do.

So I understand it may be difficult for us to take up these issues. But politically, from a responsible point of view we need to, but politically, at the end of the day I think it will be rewarded when we give the communities the type of transportation they need.

I will just give you one example, Madam Chair. The Texas Transportation Institute at Texas A&M rates the different communities as far as the most congested in the country. Congratulations, we won. The Washington area was rated the most congested area in the country.

And I experience it first hand, because I do travel into the city. You can't find too many more places to build highways or expand capacity for automobiles, but we can improve transit. One of the things that I have urged as we go through this debate, maintain the comprehensive nature of transportation. We have a Purple Line in this area that we are working on that will help a great deal in the Washington area. In Baltimore, we have the Red Line. We have alternatives and transportation programs that help get cars off the roads and help us.

My point is this. For quality of life, we have to succeed here. It is just unacceptable that it takes a couple of hours to get into the Nation's capital. That is what it takes me to get in from Baltimore, a couple hours.

So this is an urgent issue. I would urge us to, and I think this hearing, and we have the experts who can help us develop a way that we can be responsible to find the revenue we need to carry out our Federal responsibility.

[The prepared statement of Senator Cardin follows:]

STATEMENT OF HON. BENJAMIN L. CARDIN,
U.S. SENATOR FROM THE STATE OF MARYLAND

Madam Chairman, thank you for holding today's hearing on a very important issue that is especially timely with ongoing talks about comprehensive tax reform, coupled with the expiration of MAP–21 being just about a year away. The last time the gas tax increased it was done as part of the 1993 Tax Reform Act, and I am glad that in the Finance Committee we have been discussing including surface transportation revenues in tax reform.

When SAFETEA-LU expired the Highway Trust Fund was in the red. Keeping the Trust Fund solvent so that USDOT wouldn't default on its obligations to the States required a series of General Fund transfers. The incremental diversion of billions and billions of dollars from the General made each SAFETEA-LU extension increasingly more controversial to point that there were credible threats from the House to allow USDOT to default on its debt.

We cannot afford to go through that situation again.

Especially not now, not when the infrastructure needs of our States is so great. MAP–21 has certainly helped. The American Society of Civil Engineers (ASCE) Infrastructure Report Card noted modest improvement in the quality and condition of our Nation's bridges and roads. But there is still a lot of work to do.

The needs in Maryland are extremely high. The Texas Transportation Institute, at Texas A&M, for the second year in a row gave the Greater Washington region the dubious distinction of having the worst traffic congestion in the Nation. Traffic congestion across the region hurts my State's economy, the quality of life of my constituents and the public's health both in terms of air quality and mental stress.

My home State of Maryland has set forth ambitious plans to improve the safety of the State's highways while reducing traffic congestion in our major metropolitan regions.

As several traffic and community planning studies have concluded: the long term path toward reduced traffic congestion is best achieved by providing and improving transportation options in and around population centers. The best way to reduce long term congestion is by having fewer vehicles on the road. Providing convenient and affordable public transportation options as well as safe bike and pedestrian infrastructure are especially effective at eliminating the number of single occupancy vehicles on the road.

It is these benefits that highway users receive from local and regional investments in transit systems and transportation alternatives that more than justify the modest investment of Federal gas tax dollars in public transit service.

I am a regular highway user and my daily commute from Baltimore to DC is usually pretty bad. It can take upwards to 2 hours for me to travel the 45 miles between my house and the Capitol. I cannot imagine how many times worse it would be if Metro and MARC didn't provide hundreds of thousands of commuters rides to work each morning.

The fact of the matter is the Old Line State is at about capacity for new roads. Expansion of transit service is the best, if not only, option to significantly reduce congestion in Maryland.

Maryland's top transportation priorities recognize this forward thinking approach to transportation planning.

The development of the Purple Line in the Washington suburbs of Montgomery and PG Counties will provide needed congestion relief along East/West corridors of the inner suburbs. In Baltimore, the Red Line will provide fast and convenient light rail service for the inner suburbs into downtown Baltimore.

MDOT's plans are not limited to just our two major metropolitan areas. In the rural reaches of the State, improving local road safety along the major trucking routes is incredibly important, and the State is making safety improvements along some of the State's more deadly stretches of highway a priority.

If all of this sounds ambitious it is because it is. The reason, however, it is possible is because Maryland recently did something that we desperately need to do at the Federal level. Earlier this year, Maryland raised new transportation revenues.

Reforming the State's gas tax, indexing it to CPI, and putting in place other smaller revenue measures will provide the State an estimated $3.4 billion in additional transportation revenues. The State's transportation needs are great. Raising new transportation revenues was the right decision for the legislature to make, even if it was not the politically popular thing to do at the time.

I say "at the time" because now, as Governor O'Malley and Maryland Transportation Secretary Jim Smith visit communities across the State to detail and explain the new transportation projects coming to their communities and the improvements these communities will experience to their local economies and the livability of their neighborhoods, the State's decision to raise the gas tax is no longer a controversial issue.

Transportation infrastructure happens to be very visible and tangible evidence of taxpayer dollars. And when our constituents experience a safer drive across their county, a new transit line serving their neighborhood, or less congestion on the highway they know, and usually approve, of how their tax dollars are being spent.

It probably goes without saying, but Maryland cannot succeed with its ambitious transportation goals without a sound Federal partner. This is true in every State. Maryland has shown its commitment to improving its share of responsibility for America's economic competitiveness and meeting our national goals to improve highway safety. The Federal Government must do the same, starting with Congress approving the means of acquiring the necessary resources to make these investments.

Thank you, and I look forward to our witnesses' testimony.

Senator BOXER. Thank you so much, Senator.

Senator Carper.

OPENING STATEMENT OF HON. THOMAS R. CARPER, U.S. SENATOR FROM THE STATE OF DELAWARE

Senator CARPER. Thank you, Madam Chair.

For those of you who are sitting out at the dais, every now and then you see us take a drink of water. This glass that is right here where I am sitting, it is empty. This is our transportation trust fund. It is empty.

What we have been doing for a number of years now, to the tune of, I think about $53 billion, we have been drawing from another fund, this is the General Fund of our country, in order to replenish the transportation trust fund. This one is empty, too.

And when that is the case, we go to a big fund. This is, I think of this as the world capital markets. What we do is we go around the world with a glass in hand, and we draw on the world capital markets and we fill up the General Fund, so that we can then turn around and put something in our transportation trust fund. So far about $53 billion have gone from here to here in recent years.

If we are going to have the kind of transportation system we want, we are talking about in the next several years about $100 billion more that we have to borrow to replenish the General Fund to in turn provide for transportation improvements.

I don't think it is a very smart way to do business. Not a very smart way to do business. There are a number of kinds of investments that we need to make in order to grow our economy. We need to invest in the work force, so we have a world class work force. We need to invest in R&D that can be commercialized and turned into products that people around the world will want to invest in.

A number of years ago, I don't recall exactly what year, Madam Chair, I would say about a half dozen or so years ago, when we passed the Railroad Transportation Bill, we created a commission. We created a commission and we said we would like for this commission to actually look at all the different options for revenues that we know that we need. They came up with, I want to say, maybe 25 different proposals. And their proposals came to us in very short order. Their recommendations were basically labeled dead on arrival. Dead on arrival. And for the most part, nothing much has happened to those ideas.

Well, one of our former colleagues on this Committee is a fellow named George Voinovich from Ohio. Former mayor, Governor, Senator. He and I served together as Governors and Senators, he is one of my closest friends. He was by here about a week or two ago and we had a chance to commiserate.

He was the only person in the Senate I could find who would join me in writing a letter to the Bowles Simpson Commission suggesting that we actually address this problem by raising the gas tax. Not like a dollar or 50 cents, but to do it over a period of time, and essentially to raise it a penny a month for, I think we suggested 25 months. Ten cents would go for deficit reduction, the other 15 cents would go into the transportation trust fund.

The Bowles Simpson Commission took that idea and they amended it, as you may recall. They said no, don't do 25 cents, do 15 cents. And don't do it a penny a month for 15 months, do it a penny a quarter for 15 quarters, which is just under 4 years. A majority of the commission actually voted for that.

We need to do something like that. And what we then said, what the commission then said, then index whatever the gas tax ends up being, index it to the rate of inflation so we don't end up in this same kind of problem again.

When George Voinovich and I sent that idea to the Bowles Simpson Commission, private letter, the next day it was public knowledge that we had done it. One of my colleagues said to me then, you have just written your first 30-second commercial that will be used against you the next time you run for office. I ran for office last year, I was reelected with 67 percent of the vote, just about. And the first 30-second commercial that was used against me was on this subject. And yet, all the other three candidates combined got about a third of the vote.

My colleagues and I are reluctant to do this kind of thing, because we know it could have real political consequences. I am just here today to say, it did in my State. What I have said to my State for years, my constituents for years, if things are worth having they are worth paying for. If things are worth having, they are worth paying for. We need a world class transportation in our country. We have a number of States that have stepped forward and said, we have the political courage to do what is the right thing to do. We need as a body, as the U.S. Senate, the House and the Congress, to also figure out what is the right thing to do, and summon the courage to do it.

Thank you.

Senator BOXER. Thank you so much. Senator Fischer, followed by Senator Whitehouse.

OPENING STATEMENT OF HON. DEB FISCHER, U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator FISCHER. Thank you, Chairman Boxer, for holding the hearing today to discuss the need to invest in America's infrastructure and preserve Federal transportation funding.

Our transportation infrastructure expands and strengthens commerce. It provides for the movement of goods, the efficient transportation of products in and out of State, and from farm to market, is vital to our economy. Highways promote commercial development in our communities and growth from businesses. They provide citizens access to services and a better quality of life.

One of my guiding principles in the Nebraska legislature, a principle I now apply in the U.S. Senate, is that a limited government should focus its resources on meeting its core duties. Infrastructure, including highway maintenance and construction, is one of these important responsibilities.

In the Nebraska legislature, I served as chair of the Transportation and Telecommunications Committee. In that role, I had the opportunity to examine how State government can responsibly invest in the lifeblood of its communities, its roads. I traveled the State and spoke to countless Nebraskans and various organizations. Throughout these conversations, I heard a reoccurring theme: Nebraskans wanted their State government to live within its means and fund only what could be done with existing resources. In Washington, I refer to this point as Nebraska common sense.

I am proud that my colleagues and I were able to craft a bill that the legislature passed in 2011 and it carries out this objective. The Build Nebraska Act directs a portion of Nebraska's existing sales tax fund to fund new road construction. Now we are beginning to see the results. The economy is improving. We have completed, and there are ongoing infrastructure projects now across the State.

The success of this Build Nebraska Act, I believe, is a model for other States, and importantly, it is a model for our Federal Government. Rather than raising taxes to solve the problem, the State government lived up to its duty by using only these existing resources.

At the Federal level, I am committed to ensuring that infrastructure funding challenges are addressed with the same fiscal responsibility that we have demonstrated in Nebraska. And we have demonstrated that it works.

I look forward to today's hearing to examine our transportation funding needs and to explore solutions to meet these demands. Thank you.

Senator BOXER. Thank you, Senator.

I want to point out that with the current Highway Trust Fund, it will be empty, completely empty, by 2015. So we have to come up with a better way to pay for it, and I believe we can do it, and do away with a lot of the current taxes, and replace it with something that is more reliable. That is going to be what we do.

But if we take the position that we have to live within the current situation, there will be no Highway Trust Fund in 2015. I think that is an important point for us to remember.

Senator Whitehouse.

OPENING STATEMENT OF HON. SHELDON WHITEHOUSE, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator WHITEHOUSE. Thank you, Chairman Boxer.

My most important task this morning is to welcome Mike Lewis, who is our Rhode Island Director of Transportation and is here representing the American Association of State Highway and Transportation Officials, of which he is now the president. He has done a wonderful job for us in Rhode Island. When the Economic Recovery Act passed and we tried to get money out to stem the worst of the great recession, I don't think there was a single State that put more of their money out more rapidly into more shovel-ready projects and often used it to leverage private financing as well than Mike did. He was a bright spot in a previous administration, and he was kept on by a former member of this Committee, Lincoln Chafee, now as Governor Chafee. I am delighted to welcome him here.

He is somebody who clearly sees the infrastructure deficit that this country has. I would note that we have a water infrastructure deficit as well as a road and highway and bridge infrastructure deficit. We tackled about 1 percent of our water infrastructure deficit in the Economic Recovery Act, leaving 99 percent of the hole still to be filled. And on the roads and highways and bridges side, we continue to earn a D from our civil engineers for the second rate state of our infrastructure in our first rate Nation. Our first rate Nation should not have second rate infrastructure.

But we are going to need 60 votes in the Senate to do anything, and we are going to get many things through a Republican-controlled House. So if we are going to do this, it is going to have to be bipartisan. So far, that record hasn't been so great. We passed a very bipartisan Water Resources bill here and it is still tangled up in the House of Representatives and has not passed there. We tried to pass a Transportation Funding bill and that got torn up by filibuster on the Senate floor, and torn apart in the House by the battle that we are seeing now between the more practical Republicans and their extremist fringe. So we are no place on the Transportation Funding bill.

So I think we need, if we are really going to try to move from having second rate infrastructure for roads and highways and bridges to having first rate infrastructure, we really are going to have to rethink where everybody's position is. And particularly I think the absolute no revenue pledge that has characterized the Republican position to the point where it has been less important to them to address the deficit than it has been to protect the embarrassingly low tax rates paid by hedge fund billionaires. They pay lower tax rates than a brick mason does in Rhode Island. That is a principle that is worth defending. The oil subsidies to the most profitable companies in the history of the universe, those are worth defending. Companies that hide revenue by off-shoring or they move jobs offshore and get protection in the tax code, that is all worth protecting, because of this no revenue rule. And I think it is a mistake, frankly, to have those very unfair peculiarities built into our tax code. They are the product of special interest lobbying over the years, and I don't think they are entitled to that vigorous of a defense.

But while the no revenue rule applies, they get that vigorous of a defense, and of course, they love it. If you are a hedge fund billionaire and you are paying a lower tax rate than a brick mason, life is really good for you. You might even actually be willing to spend a little money on politics to try to keep it that way.

So I think we are headed for a bit of a collision here, and it's going to take some rethinking by our colleagues to figure out how we are actually going to refill the—to use Senator Carper's very good show and tell there—the empty glass of our Highway Trust Fund without just borrowing. That I think requires is to cross the revenue threshold. That is something that we should be going about, because otherwise we are just spinning in circles here in this Committee.

I think our infrastructure deficit is important. I think we need to fill it in. I think the American people deserve first rate infrastructure. And I think frankly, if you took a poll, most Americans would say, yes, I will pay to have first rate infrastructure. I want my roads to work right. I want my water to be clean. I want to have first rate resources, and not to travel to other countries and see how much nicer their airports or their roads or their bridges are than ours. That is not something that we should be proud of.

Thank you for your leadership on this, Chairman, and I am sorry to put a bit of a cloud in the sky. But I really do think that we are going to have to address this no revenue issue if we are going to get this solved.

Senator BOXER. That is exactly the point of this hearing. I just feel even more optimistic than you do. That is just the way I am. I do feel that, we did do the WRDA bill and I do believe the House will pass the WRDA bill. I have no reason to believe that they won't. You are right, it took them a long time. I think Chairman Shuster now believes he has the votes to do it. We will see. Leader Cantor said he believes that it can pass as well. So I hope that my optimism is not misplaced.

I also feel this Committee has been a bright spot in terms of what we have done on transportation before. I also believe, and I have spoken to Senator Barrasso about this, Senator Vitter about this, Senator Inhofe and others, that there are ways to follow the leadership of the States who have worked in a bipartisan way to do away with a lot of taxes and they have come up with a new way to fund.

But I share your view. If we fail on this, this is our moment in the sun or in the darkness, to be honest. Because if we fail to get a way to fund it, there is no program because there is no room in the General Fund as we face sequester. So it is, the challenge is as stark as you have posed it, Senator Whitehouse. I just believe that we can do this. We can set aside some of our deep differences and we can do this, because business, labor, the public, wants this. You are absolutely right. Seventy-five to 80 percent of them, they see what is happening. The Business Roundtable sees what is happening, the Chamber of Commerce sees what is happening.

So I think that there is political will out there in the community for us to work together. That should reflect, that light should reflect on all of us. It certainly has on me and I hope, dare I say pray, because I think it is that important, because it is saving lives. These bridges go down, there are Republicans and Democrats on the bridges.

Senator Wicker, it is your turn and then Senator Vitter.

OPENING STATEMENT OF HON. ROGER WICKER, U.S. SENATOR FROM THE STATE OF MISSISSIPPI

Senator WICKER. Thank you, Madam Chair. We have a distinguished panel today and I am eager to hear what they have to say. I look out over the audience and I see faces that I saw yesterday at a subcommittee hearing of the Commerce Committee on the innovative ways to finance transportation projects.

Let me weigh in on behalf of the optimism expressed by the Chair of this Committee and hope that my distinguished friend from Rhode Island will have his spirits lifted by the sort of bipartisanship that we had with the WRDA bill. And indeed, a work of art. I am optimistic, having talked to Chairman Shuster in the House and others that we can move that in addition to other transportation legislation.

So thank you, Madam Chair. I am very interested to give our panelists an opportunity to talk.

Senator BOXER. Thank you.

Senator Vitter, Ranking Member.

OPENING STATEMENT OF HON. DAVID VITTER, U.S. SENATOR FROM THE STATE OF LOUISIANA

Senator VITTER. Thank you, Madam Chair, and thank you for your leadership in calling this important hearing, which we fully support on the Republican side. This is very, very important.

We all know what has been happening over several years to erode the sustain ability of the Highway Trust Fund. We are going to have some great testimony about that today. I won't repeat that.

But I will say the Highway Trust Fund was designed to create a sustainable fund paid for by users to benefit those users. Such a structure was intended to not only facilitate the unique characteristics of funding transportation infrastructure, but also to provide safeguards for dedicated transportation funding.

Putting such a structure back on a sustainable course is essential and it will restore confidence in the highway program and provide the needed certainty of continual investment that can produce the long-term reauthorization bills that meet our infrastructure needs.

Now, since 1993, the trust fund has relied on a set of static funding mechanisms to maintain and grow this Nation's infrastructure. As a result, every year its purchasing power is eroded by rising gas prices, increased fuel efficiencies, inflation, rising costs of material, et cetera. Some believe that it is somehow some core conservative principle to adhere forever to this static, flawed mechanism in perpetuity and that is all there should ever be to meet our infrastructure demands.

I don't understand that, I don't agree with that, I don't think that is a core conservative principle.

Equally, I would caution, I don't think it is fair or reasonable to expect middle class families to endure a net tax increase. And I don't agree with that, won't support that, and I don't think that is doable in terms of this Congress at all. So I think we need to look hard in the realm of the possible and put this important financing mechanism back on a sustainable course that is sustainable, that is a user fee but that isn't net tax increase to those middle class families who can't afford it, particularly in a horrible economy where they endure many other cost and tax increases.

This hearing is a very important part of the discussion to hopefully get us there. Again, I want to thank the Chair and the witnesses for all of their hard work, and look forward to continuing down this path to get to that important goal.

Senator BOXER. Thank you very much, Senator Vitter.

I ask unanimous consent to place in the record two very thoughtful statements, one from the American Council of Engineering Companies, representing a half-million employees. And then this very interesting long and thoughtful piece, written by the Associated General Contractors of America, the AGCA. And I will quote briefly, they lament the fact that MAP–21, once it is expired, we will be out of funding. And we have to "avoid draconian cuts," and how important it is.

In their conclusion, they say that the U.S. has been under-investing in our transportation systems far too long. The impact is being felt in every State and town. With the interstate system beyond capacity and design life, this under-investment is costing U.S. business and individuals time and money.

I think this is very important, so we will put those in the record and we will get started with you, Dr. Ruane.

[The referenced information follows:]

ACEC

AMERICAN COUNCIL OF ENGINEERING COMPANIES

100 Years of Excellence

Statement for the Record

U.S. Senate Committee on Environment & Public Works hearing on
"The Need to Invest in America's Infrastructure and Preserve Federal Transportation Funding"

September 25, 2013

Federal investment in transportation infrastructure plays an essential role in protecting public health and safety, promoting commerce and keeping America competitive. Thanks to your tremendous work – Chairman Boxer, Ranking Member Vitter, Chairman Baucus, Senator Inhofe, and the other members of this committee – significant headway was made in 2012 with enactment of the Moving Ahead for Progress in the 21st Century Act (MAP-21). MAP-21 provided two years of funding stability for highway and transit programs while delivering much-needed reforms to streamline project delivery and focus on core national interests. These important changes are already reducing costs and bringing project benefits to the public faster.

Unfortunately, MAP-21 did not provide for the long-term financial stability of the Highway Trust Fund (HTF). According to the Congressional Budget Office projections, the balance of the HTF will be depleted in Fiscal Year 2015, necessitating dramatic cuts in highway and transit spending unless new revenues are provided. At least $15 billion is needed in additional annual revenues in order to simply maintain current funding levels, adjusted for inflation, over the next ten years.

Absent congressional action, highway and transit obligations would be all but eliminated in 2015 and remain significantly below current funding levels thereafter. These cuts would have a devastating impact on state and local transportation agencies and postpone critical projects to improve safety, reduce congestion and enhance mobility. Even the mere threat of impending cuts is causing state and local agencies to delay projects, which ultimately raises the cost of undertaking the projects once funds are secured.

Continued instability and underinvestment in transportation infrastructure will only hamper economic growth. Deteriorating roads and bridges and worsening congestion have raised the price of doing business through increased maintenance costs, wasted fuel and delayed shipments. Last year, our economy was crippled by $121 billion in congestion costs, or $818 per U.S. commuter, and an additional $230 billion in economic costs from accidents.

By contrast, a long-term solution to the revenue challenges facing the HTF would boost the economy while also reducing the deficit. Every dollar invested in highway construction generates up to $8 in economic output. According to the U.S. DOT, each $1 billion in federal highway investment supports 34,000 jobs. With predictable, sustainable and growing revenue sources – particularly user fees – the Highway Trust Fund will not need further infusions from the General Fund, and will support infrastructure investments that foster economic growth and bring in additional revenue.

A wide array of options have been identified that would help to address the challenge, including increasing and indexing the current user fees, switching to a sales tax on fuel, mileage-based fees, tolling, bonding and other financing mechanisms, freight charges, and revenues from increased domestic energy production. All options must be on the table in congressional deliberations on the budget.

We strongly urge the committee to protect federal infrastructure programs from the devastating cuts that are projected. We also urge the committee to work with your colleagues to address the looming Highway Trust Fund fiscal crisis with new and sustainable sources of revenue.

In order to assist you in this task, ACEC is sponsoring two major public relations outreach and education campaigns on the value and importance of federal infrastructure programs. In conjunction with many different transportation user groups – the principle payers into the system – and other stakeholder organizations, we are going across the country and making sure that the American public appreciates the necessities of transportation and other infrastructure systems to their everyday lives, the tremendous value they receive for a relatively small investment, the urgent need for immediate action, and the economic growth and prosperity that can be achieved with further improvements.

ACEC members – numbering more than 5,000 firms representing more than 500,000 employees throughout the country – are engaged in a wide range of engineering works that propel the nation's economy and enhance and safeguard America's quality of life. The Council and its members stand ready to assist this committee in advancing long-term solutions to the infrastructure crisis facing our country.

AGC of America
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Quality People. Quality Projects.

Statement of The Associated General Contractors of America

Presented to the

Senate Committee on Environment and Public Works

on the topic of

Preserving Federal Transportation Funding

September 25, 2013

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
2300 Wilson Boulevard, Suite 400 • Arlington, VA 22201 • Phone: (703) 548-3118 • FAX: (703) 837-5407

Introduction

Madame Chairman and Members of the Committee, AGC is the oldest construction association in the country representing contractors that build all forms of infrastructure, including: highways, bridges, transit systems, railways, airport terminals and runways, water and wastewater treatment facilities, underground utilities, public buildings, multi-family housing, office buildings, military facilities, water resource projects, energy production and conservation, and the many other structures that are the backbone of the US economy and provide and ensure US Citizens' quality of life. AGC represents more than 28,000 businesses with 94 chapters representing members in every state.

Since the creation of the Interstate Highway System in 1956, the Highway Trust Fund has been supported by revenue collected from users. This 'pay-as-you-go'system has served America well, allowing States to plan, construct and improve America's surface transportation infrastructure. AGC has long-supported maintaining the user-fee model for providing Highway Trust Fund revenue – including taxes on gasoline and diesel fuel – and encourages Congress to act immediately to provide the revenue necessary to fill the Highway Trust Fund revenue gap we will face in fiscal year 2015 and beyond. User fees and taxes have not been increased in twenty years. For the past five years, the revenue going into the Highway Trust Fund has fallen short of what is needed to address America's infrastructure needs and keep funding at existing levels. By the expiration of MAP-21, the Highway Trust Fund will have received over $53 billion in transfers from the general fund simply to meet its obligations.

The solution to meeting our transportation infrastructure needs is twofold. First, Congress and the Administration must work together in a bipartisan way to increase user fees and identify new revenue sources to address our Highway Trust Fund solvency, both now and in the future. The simplest, quickest, and most efficient way to generate the revenue for federal highway and transit programs would be to increase the federal tax on gasoline and diesel. Sadly, this obvious option is often dismissed by some leaders in Washington. AGC and other transportation stakeholders are currently engaged in lobbying efforts to include an injection of revenue into the Highway Trust Fund as a component of comprehensive tax reform. Whether it is tax reform, deficit reduction or debt ceiling packages, Highway Trust Fund solvency must be a component of any final deal. Second, there must be more private-sector involvement in the construction of transportation projects. There is a growing interest in public-private partnerships (PPPs) and other innovative financing tools that can help deliver many of our nation's most challenging transportation needs, and federal credit programs like TIFIA can help attract private investors for these projects. It must be stressed, however, PPPs and programs like TIFIA should never be considered as a substitute for the" user pays" funding system. The number one priority for Congress and the Administration must be to ensure the short-term and long-term solvency of the Highway Trust Fund.

Immediate Highway Trust Fund Shortfall

According to the Congressional Budget Office (CBO) the Highway Trust Fund will have a negative balance at the expiration of MAP-21 – in fiscal year 2015. Without additional revenue the trust fund will be unable to support any new federal obligations in 2015, resulting in a 100 percent cut to new highway and transit funding for that year. In order to avoid such draconian cuts and simply maintain current funding levels a $15 billion Highway Trust Fund deficit will need to be filled before the expiration of MAP-21 on September 30, 2014.

Need for Certainty

Because of the current state of trust fund finances, Congress must take steps to maintain certainty in program continuity that was established in MAP-21. The construction industry makes decisions about investments in new equipment and in retaining and training a workforce based on its best projection about where the market will be over the long term. Without the knowledge that a continuous and growing market is on the horizon, contractors will not make the investments necessary to carry out this program's objectives. This is particularly true for small businesses, which typically have less operating capital to invest, thus are more risk-adverse with their capital. This trait is also magnified by the economic conditions, which make risk reduction a company's top priority. This hurts the program as much as it does the industry. Efficiency and productivity increases when contractors can project a steady future market in which to work. This helps lower costs, and allows for a better constructed project because new equipment and improved technology improves the final project.

Unfortunately the current mismatch between what states need to invest to maintain and improve their roads and what is collected at the federal, state and local levels injects uncertainty into the transportation construction market. Current investment by all levels of government is $91.1 billion annually. The US Department of Transportation's *Conditions and Performance* report estimates that $101 billion, plus increases for inflation, would be needed annually over the next 20 years from all levels of government – local, state and federal – just to maintain the highway system in its current state. The same report estimates that $170.1 billion would be required to improve conditions.

Highway Trust Fund

The Highway Trust Fund is the ultimate "Pay-Go" program. Highway users pay fees that reflect their usage of the system. These fees are credited to the Highway Trust Fund which is then used to support expansion and improvement to the federal-aid highway system. This mechanism was successful in providing the funds necessary to build the interstate highway system and to continue to expand and maintain it in recent years. The Highway Trust Fund has also supported the construction and upkeep of other transportation projects, including mass transit.

However, the shortfall that we face in the immediate future is only the symptom of the long-range problems facing the trust fund. Revenue has not kept pace with funding commitments and transportation needs. The great recession only exacerbated this problem where revenue continued to plummet as purchases of heavy trucks declined and vehicle miles traveled diminished. Significant increases in the cost of fuel, more fuel efficient vehicles, and alternatively fueled vehicles have all impacted the amount of revenue that comes from the motor fuels tax.

Motor Fuels Tax

AGC believes that the time has now come for Congress to realize that there is no easy solution for addressing our transportation investment deficit. The level of investment provided by the Highway Trust Fund should be increased to address mounting need. An increase in revenue is necessary just to keep up with inflation additional funding is also needed to address the backlog of transportation investment needs. Numerous authoritative reports have come to the conclusion that, for the foreseeable future, the federal motor fuels tax is the best method for funding transportation infrastructure investment and that the motor fuels tax needs to be increased. SAFETEA-LU established two national commissions to look at the future of the federal transportation programs and to make recommendations on paying for these needs into the future. Both Commissions were appointed with bi-partisan membership and included transportation experts and individuals representing businesses and other users of the system.

The National Surface Transportation Policy and Revenue Study Commission called for a national vision to "Create and sustain the pre-eminent transportation system in the world," and recommended a variety of reforms to improve the delivery of a transportation system that supports U.S. economic growth. To accomplish this, the Commission concluded that the United States needs to invest at least $225 billion annually from all sources for the next 50 years to provide a transportation system that ensures strong economic growth. To support this initiative, the Commission recommended that the federal motor fuel tax be increased 5 to 8 cents per gallon per year over five years, after which it should be indexed to inflation. This conclusion was reached after an exhaustive examination of all potential funding sources. The commission concluded that the motor fuels tax provides: low administrative and compliance costs; ability to generate substantial amounts of revenue; relative stability and predictability; and ease of implementation.

SAFETEA-LU's second commission, the National Surface Transportation Infrastructure Financing Commission, consisted of an entirely different group of individuals from diverse backgrounds, including: economics, finance, industry, law, and public policy. The Commission came to the conclusion that the current federal surface transportation funding structure that relies primarily on taxes imposed on petroleum-derived vehicle fuels is not sustainable in the long term and is likely to erode more quickly than previously thought. However, the Commission also concluded that as a nation, we cannot afford to wait for a new revenue system to be put in place to start addressing the fundamental investment challenge. After reviewing a wide array of options, the Commission concluded that increasing and indexing existing mechanisms is the most effective way to raise the revenue needed to meet existing needs. The Commission recommended an immediate increase in the federal gasoline tax of 10 cents, a 15 cent increase in the federal diesel tax, and commensurate increases in all special fuels taxes, and indexing these rates to inflation.

More recently, the Simpson Bowles Commission recommended a 15-cent increase plus inflation in the motor fuel and diesel taxes

AGC Recommendations

Highway user fees in the form of motor fuel taxes have been the primary source of funding for construction, maintenance, and rebuilding of our nation's road system at the state and federal level for the past 80 years. The Highway Trust Fund has been a model for efficient transportation investment that enjoys significant public support. Eventually the method for charging the user fee will need to be changed but in the short-term an increase the federal tax on gasoline and diesel is the simplest and easiest way to address the looming Highway Trust Fund revenue deficit.

AGC recommends that Congress shore up this successful funding method through such an increase until a better system can realistically be put in place. The Senate Finance Committee illustrated the problem facing the Highway Trust in their infrastructure policy option paper. As a result of that paper, a matrix of revenue options is being circulated that would maintain the user-fee model that has been the backbone of the Highway Trust Fund since 1956. The potential sources of revenue include increasing the gasoline and diesel taxes, transitions to a mileage based user fee, a sales tax on fuel sales, oil exploration fees, fees on natural gas used for transportation, vehicle registration fees and others. AGC urges Congress to consider all options as they address the short-term and long-term challenges facing the Highway Trust Fund.

Tolling/ Public Private Partnerships (PPP)/Innovative Financing

Together, tolls and private capital contribute a small percentage annually to the total revenue pool currently available for U.S. highway program investments. Much of this revenue is used for debt service. While there is potential to expand the application of tolling in the U.S. and to attract even more private capital to highway investments, objective research suggests these methods alone cannot realistically be anticipated to raise the amount of revenue necessary to close substantially the existing highway capital investment gap. As such, while they should be promoted and encouraged, they should not be overemphasized as solutions to meeting future funding needs.

States should be granted the option to use tolls on all existing and future interstate and National Highway System (NHS) routes. Should a state choose to toll existing or future routes built with federal revenue, its federal apportionment should be adjusted to reflect only non-tolled lane miles in the state.

In addition, states should be granted authority to partner with the private sector to improve and operate interstate and NHS routes. The expanded TIFA programs and other federal credit enhancement programs will continue attract the participation of private investors in certain highway projects. However, none of these financing mechanisms should be viewed as a replacement or a silver bullet to fixing the revenue problem facing the Highway Trust Fund.

Conclusion

The United States has been under investing in our transportation systems for far too long and the impact is now being felt in every state and in most towns. With the interstate system beyond capacity and design life, this underinvestment is costing U.S. businesses and individual's time and money.

Providing continued support for traditional funding mechanisms and finding new financing options is necessary to address this dire situation. Again, AGC believes the traditional motor fuels tax is the most efficient mechanism for increasing revenue for surface transportation in the short-term and should be adjusted regularly to account for inflation and growing investment needs. In addition, AGC believes financing methods such as bonding, Public Private Partnerships, and tolling should be used to supplement Highway Trust Fund financing.

AGC encourages Congress to consider all options as it looks to make the tough choices that will be necessary to avoid the looming transportation fiscal cliff.

Senator BOXER. Yes, we are just about finished with opening statements, but go ahead.

OPENING STATEMENT OF HON. JAMES M. INHOFE, U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator INHOFE. We were a bit busy on the floor this morning, I apologize. I really do want to get my opening statement in. When we have an area where Senator Boxer and I agree so closely, I want to make sure everybody knows it.

So I do thank you, the panelists, for taking time to be here as well. It is no secret I am one of the strongest advocates of strong, robust investment in our Nation's transportation system. I think a lot of people don't understand, a lot of my conservative friends, that the conservative position is to have this, that is what we are supposed to be doing.

As CBO reported earlier this year, absent a new revenue source and General Fund transfer to address the $14 billion annual shortfall in the Highway Trust Fund, we are going to need to cut the current highway program by almost 80 percent. I am sure out witnesses will agree that at a time when the highways we built more than 50 years ago are at the end of their useful life, this kind of cut would be catastrophic.

There is no hiding from the problem. We still need substantial infusions of cash just to maintain what we have now.

Last month I hosted our new Secretary of Transportation, Secretary Foxx, in my State of Oklahoma, and showed him the major project being built with I–44 and I–235 in Oklahoma City. I see that Gary Ridley is in the audience today, and of course he was there. This interchange supports over 200,000 vehicles a day, many of which are passing through from other States, and encompass a railroad bridge crossing as well as two structurally deficient bridges over creek beds. With $100 million of this $231 million project complete, there is a very real possibility that we would just have to halt construction after this year without the confidence of a solvent Federal highway program. This is just one of a couple of thousands of projects that the Oklahoma Department of Transportation has identified in its 8-year plan, which includes replacement of our structurally deficient bridges.

Unfortunately, States are already backing away from their longtime regionally significant projects, like I–44, because of the uncertainty in Federal action. It is time to look at all options for the General Fund to avoid public disruptions, public bond defaults and continuing, as the market is uncertain. I feel very strongly that Congress needs to reassure our States and our cities that we are prepared to redirect this.

I am committed to working with Senator Boxer and Senator Vitter to find new sustainable revenue sources for the Highway Trust Fund, even if that includes devolving the decision to totally new Federal highways back to the States to ensure all users pay their fair share. I recognize removing the Federal tolling prohibition is controversial. But we can't handcuff States' and localities' ability to maintain and modernize their obsolete roads, while threatening an 80 percent cut in their budget.

So as for the General Fund, we have $14 billion annual shortfall in the Highway Trust Fund. We can't ignore the $200 billion we pay farmers not to farm their land or the $24 billion annually on vacant Federal properties or the $47 billion spent on improper or fraudulent medical costs we pay out of the General Fund. We just have to say, there is nothing more significant except for our Nation's defense than infrastructure. To me, that should be further up the line in terms of the General Fund.

So we have a lot of things to look at. The last thing I would say to my conservative friends, the conservative position is to have another highway reauthorization program instead of relying on extensions, which arguably cost about 30 percent more to do without any of the planning or the reforms.

Thank you, Madam Chairman, for allowing me to come in late.

Senator BOXER. Senator, I think your statement is very important. You have nailed it. This is our moment in this Committee. What we do now is going to be critical. Because we are going to do a 5- or 6-year bill, and we have to figure out a way to fund it. We will work with our friends on the Finance Committee. I am going to go see Dave Camp and Max Baucus and talk about this.

I have been working to figure out a way where we can replace that gas tax at the pump with a different type of funding mechanism. I am hopeful we can come together, we need to come together for the good of the country. This is a place where, you are right, conservatives and liberals and moderates can come together.

I see we have been joined by Senator Merkley. Do you have an opening statement? If so, please proceed.

OPENING STATEMENT OF HON. JEFF MERKLEY, U.S. SENATOR FROM THE STATE OF OREGON

Senator MERKLEY. Thank you. Very briefly, I want to offer special thanks and a welcome to a fellow Oregonian, Greg DiLoreto. Thank you, Greg, for coming. He brings extensive experience as an engineer and general manager of Oregon's second largest water utility in Tualton. And your front line experience is very welcome in this conversation.

I have other comments that I will save for later so we can get on with the testimony.

Senator BOXER. Thank you.

Senator Inhofe, did you see if Gary Ridley is out there?

Senator INHOFE. Yes.

Senator BOXER. Your friend and my friend now?

Senator INHOFE. Yes, our friend Gary Ridley. Hold your hand up. Gary Ridley has been a witness at this table more than any other one person. He is our Secretary of Transportation in Oklahoma. He knows what he is doing.

Senator BOXER. It is nice to see you here, Mr. Ridley.

All right, we are going to go to Dr. Ruane, President and CEO, American Road and Builders Association. Please proceed.

STATEMENT OF T. PETER RUANE, PRESIDENT AND CEO, AMERICAN ROAD AND TRANSPORTATION BUILDERS ASSOCIATION

Mr. RUANE. Good morning, Chairman Boxer, Senator Vitter, members of the Committee.

Thank you for inviting me to participate in this important discussion about the challenges facing the future of the Federal surface transportation program.

For too long, the primary metrics that gauge the impacts of the Federal highway program have been each State's apportionments, highway trust fund rate of return, and in times past, earmarks. Unfortunately, these methods of evaluation drastically understate the value of Federal highway investment.

The purpose of the Federal highway program is to ensure the movement of people and goods among the States. As a result, an efficient national system of roads and bridges is the linchpin, the linchpin for a strong, growing U.S. economy. While this relationship is both intuitive and irrefutable, it is sometimes hard to quantify.

What is more absorbable, however, is the contribution Federal highway investment makes to each State's annual road and bridge improvements. Federal funds account for roughly 50 percent of State roadway and bridge capital outlays. And looking at the very specific State situation is particularly illuminating.

The map that has been displayed here behind me shows that 11 States rely on Federal highway investment for 70 percent, 70 percent or more of their road and bridge capital improvements. It also shows that Federal reimbursement support between 50 and 69 percent of capital outlays for some 20 States. For the remaining 19 States, Federal highway investment accounts for between 35 and 49 percent of their highway construction activities.

These figures are a 10-year average of the relationship between Federal highway investments and State road and bridge improvements. Although the amount of reliance on Federal funds for needed road and bridge improvements may vary by State, it is clear, it is clear that for the vast majority of States, in fact 61 percent, the effectiveness of the highway construction programs is heavily dependent on a strong and reliable Federal partner. This is a very good proxy for the importance of the Federal program.

This makes the fact that the Highway Trust Fund will face, as you know, the fifth insolvency crisis in 7 years when MAP–21 expires at the end of 2014, even more disturbing. We should be clear that this continuing saga is not the result of runaway spending. In fact, Federal highway investment is less today than it was in fiscal year 2011.

We should also be clear that the root cause of this problem is not declining Highway Trust Fund revenues. The revenues from the Federal gasoline, diesel and truck taxes have returned to their prerecession levels, and the Congressional Budget Office rejects continued moderate growth in trust fund revenues over the next decade.

The simple fact is the user fees that generate the Highway Trust Fund's revenue stream, as you know, have not been adjusted for 20 years. As a result, the trust fund has limped along from insolvency crisis to insolvency crisis since 2008. We have all seen the CBO's projections on the devastating investment cuts that would be necessary if remedial action is not taken to avert the revenue shortfall that again looms at the end of 2014. Alternatively, as Congress continues the recent practice of transferring resources from other parts of the budget to the Highway Trust Fund, you will have to add some $135 billion to the Federal deficit over the next 10 years, or shift about $135 billion from other Government activities to the trust fund. Neither of these approaches, in our judgment, are sound fiscal or economic policy.

Chairman Boxer, the reforms that you and this Committee helped to craft as part of MAP–21, including the substantive refocusing of the entire program, are deeply appreciated. The remaining impediment that faces us right now is to come up with a long-term, sustainable, reliable source of funding for our Nation's transportation infrastructure. Thank you very much.

[The prepared statement of Mr. Ruane follows:]

American Road & Transportation Builders Association

Testimony of

T. Peter Ruane
President & CEO

Submitted to:
Committee on Environment & Public Works
U.S. Senate

Hearing:
"The Need to Invest in America's Infrastructure and Preserve Federal Transportation Funding"

September 25, 2013

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American Road & Transportation Builders Association

"The Need to Invest in America's Infrastructure and Preserve Federal Transportation Funding"

Testimony Presented to the Committee on Environment and Public Works
United States Senate
September 25, 2013

Dr. T. Peter Ruane, President and CEO
American Road and Transportation Builders Association

Chairman Boxer, Senator Vitter and members of the Committee, thank you very much for inviting me to testify on behalf of the American Road and Transportation Builders Association (ARTBA) on the importance of federal surface transportation investment and the challenges facing the Highway Trust Fund.

Established in 1902, ARTBA is the oldest national transportation construction-related association. ARTBA's more than 6,000 members include public agencies and private firms and organizations that own, plan, design, supply and construct transportation projects throughout the country and world. The industry we represent generates more than $380 billion annually in U.S. economic activity and sustains more than 3.3 million American jobs.

At the outset, I would like to thank all members of this Committee for your work and leadership in reauthorizing the federal highway and public transportation programs in the last Congress. The result of your efforts has been a much-needed stabilization of the transportation construction marketplace. Additionally, policy reforms are underway that will greatly improve the effectiveness of future federal surface transportation investments.

Given your efforts in the last Congress and the challenges you overcame, the problems facing the Highway Trust Fund are well known to this Committee as well as to outside analysts and transportation stakeholders.

In 1956, Congress created the Highway Trust Fund (HTF) to ensure that taxes levied on highway users, not general taxpayers, would be the source of funding for federal investments in highways, including the Interstate Highway System and other highways of importance to the national economy[1]. For more than 50 years, revenues from highway user taxes, including the

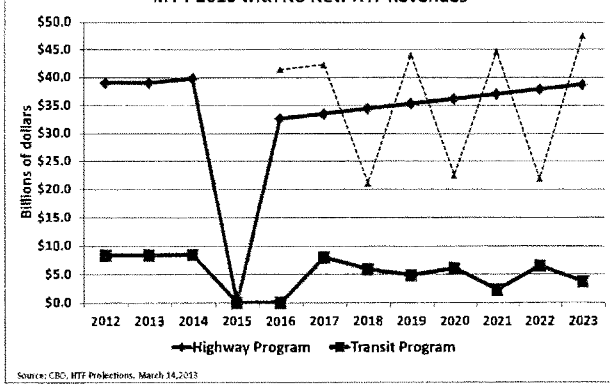
[1] Since 1982, the HTF has also funded federal investment in Mass Transit.

tax on gasoline and diesel fuels and taxes on heavy trucks, paid for all federal investment in highways and mass transit with no burden on the general fund. In FY 2008, however, HTF revenues fell short of the amount needed to pay all obligations, and Congress closed this gap with a general fund transfer that restored resources previously withdrawn from the fund that were allocated to deficit reduction. Congress made additional transfers from the general fund during FY 2009 and FY 2010 to compensate the trust fund for previously foregone revenues to mitigate additional revenue shortfalls.

The Moving Ahead for Progress in the 21st Century Act (MAP-21), the surface transportation authorization law enacted in July 2012 to fund the federal highway and mass transit programs for FY 2013 and FY 2014, provided $40 billion each year for highways and $10.5 billion for transit, $8.5 billion of which is funded from the Mass Transit Account of the Highway Trust Fund. Supporting these levels of investment required Congress to transfer more than $20 billion from elsewhere in the federal budget to the Highway Trust Fund. These resources, however, will be fully utilized by the time MAP-21 expires in FY 2014.

The clear lesson from FY 2008 – FY 2014 is that revenues from the highway user taxes, at existing rates, are too low to support continued federal highway and public transportation investment at current levels. In fact, the July projections from the Congressional Budget Office (CBO) show the Highway Trust Fund would be unable to support any new obligations for highway and transit improvements in FY 2015, as all revenues collected that year would be needed to pay existing obligations. It is also possible the Mass Transit Account would be unable to fund any new transit obligations in FY 2016.

Fig. 1 - Highway and Transit Program Funding Will Plummet in FY 2015 with No New HTF Revenues



After that, funding for the highway program would average under $36 billion per year between FY 2016 and FY 2023, either growing gradually in line with inflation as the solid line in Figure 1 shows or more variably if obligations each year were determined by available revenues, as the dotted line shows[2]. Transit funding from the trust fund would fall to an average of $5 billion per year, with CBO's projection of annual funding levels shown by the red line.

Congress has three options for addressing the revenue shortfall:

- Permit highway and transit program funding to fall to the levels that can be supported by existing revenues, as shown in Figure 1. Funding would be substantially less than at present and far short of the amount of federal investment needed to maintain existing conditions and performance on our nation's highways and mass transit systems.

- Continue MAP-21 highway and transit investment levels by making annual transfers from the general fund. According to recent CBO testimony, the cost between FY 2015 and 2023 would be over $135 billion, which would either add to the projected budget deficit or force Congress to cut $135 billion from other programs.

- Close the HTF revenue gap by raising rates on existing highway user taxes or enacting new taxes. CBO testified that this could be accomplished with a 10-cent per gallon increase in the federal tax on gasoline and diesel fuel. Alternatively, Congress could enact new highway user fees, such as a vehicle-miles-traveled (VMT) tax, a tax on freight shipments, or other use-based mechanisms.

There is widespread awareness of the political obstacles to increasing Highway Trust Fund revenues, and I don't need to discuss those. <u>What I would like to do today is raise awareness of what the trust fund delivers and the implications of reducing federal transportation investment to the level of existing tax revenues</u>.

State-by-State Impact of Federal Highway Investment

For almost 100 years, the federal government has shared the cost to the states of capital improvements to highways that are important for the performance of the national economy.

Our analysis of data from the Federal Highway Administration, covering the decade 2001-2011, shows that reimbursements to the states from the federal highway program account for an average of 51.6 percent of all state capital investments in highways and bridges. Since most federal aid program funds are used for capital outlays, this measure is an indicator

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[2] CBO's projections are based on maintaining a $4 billion balance in the Highway Account and $2 billion in the Transit Account. If balances were allowed to fall below those levels, possible funding for each program would be a bit higher, but in no case would approach existing funding levels. The CBO projection sets new highway obligations each year at the level that would spend all available revenues except a $4 billion balance. The solid line calculated by ARTBA has the same total obligations but smoothes the path.

of how important this national program is to each state highway and bridge construction market.

The attached table shows how much each state relies on the federal highway program to finance its highway infrastructure improvements, ranging from 35.3 percent for New Jersey to more than 80 percent for Rhode Island, Alaska, Montana and Vermont. Thirty-two states rely on the federal highway program to support more than half of their annual highway and bridge outlays.

Madame Chairman — as the table below shows, during the past decade California has relied on the federal highway program for just over 48 percent of its highway and bridge capital improvements. This year, California received more than $2.9 billion of new obligation authority for highways under MAP-21. Louisiana over the past decade depended on the federal highway program for more than 47 percent of its highway capital investment and received more than $629 million of obligation authority this year.

Most states are highly dependent on the federal aid program for their highway and bridge construction market. Relationship of federal aid reimbursements and state spending on highway and bridge capital outlays. Average for 2001-2011			
State	Federal reiumbursements as a % of total state capital outlays (includes construction costs, preliminary engineering and right of way expenditures)	State	Federal reiumbursements as a % of total state capital outlays (includes construction costs, preliminary engineering and right of way expenditures)
Alabama	67.7%	Rhode Island**	101.5%
Alaska**	93.2%	Alaska**	93.2%
Arizona	49.0%	Montana**	87.3%
Arkansas	62.3%	Vermont**	86.3%
California	48.6%	South Carolina	79.3%
Colorado	63.5%	Hawaii	79.2%
Connecticut	70.6%	North Dakota	77.8%
Delaware	41.3%	Wyoming	72.5%
Dist. of Col.	52.2%	South Dakota	71.2%
Florida	38.6%	Connecticut	70.6%
Georgia	61.8%	New Mexico	70.2%
Hawaii	79.2%	Idaho	68.0%
Idaho	68.0%	New Hampshire	67.7%
Illinois	38.7%	Alabama	67.7%
Indiana	54.4%	Missouri	65.2%
Iowa	59.4%	Mississippi	64.8%
Kansas	48.7%	Colorado	63.5%
Kentucky	43.9%	Minnesota	63.5%
Louisiana	47.5%	Oklahoma	63.0%
Maine	57.4%	Arkansas	62.3%
Maryland	47.9%	Tennessee	61.8%
Massachusetts	36.5%	Georgia	61.8%
Michigan	40.8%	West Virginia	60.9%
Minnesota	63.5%	Iowa	59.4%
Mississippi	64.8%	Ohio	57.9%
Missouri	65.2%	Maine	57.4%
Montana**	87.3%	Virginia	56.7%
Nebraska	48.5%	Wisconsin	55.0%
Nevada	49.2%	Indiana	54.4%
New Hampshire	67.7%	Oregon	54.1%
New Jersey	35.3%	New York	53.7%
New Mexico	70.2%	Dist. of Col.	52.2%
New York	53.7%	Nevada	49.2%
North Carolina	48.0%	Arizona	49.0%
North Dakota	77.8%	Kansas	48.7%
Ohio	57.9%	California	48.6%
Oklahoma	63.0%	Nebraska	48.5%
Oregon	54.1%	North Carolina	48.0%
Pennsylvania	45.6%	Maryland	47.9%
Rhode Island**	101.5%	Louisiana	47.5%
South Carolina	79.3%	Texas	47.0%
South Dakota	71.2%	Pennsylvania	45.6%
Tennessee	61.8%	Washington	44.6%
Texas	47.0%	Kentucky	43.9%
Utah	38.3%	Delaware	41.3%
Vermont**	86.3%	Michigan	40.8%
Virginia	56.7%	Illinois	38.7%
Washington	44.6%	Florida	38.6%
West Virginia	60.9%	Utah	38.3%
Wisconsin	55.0%	Massachusetts	36.5%
Wyoming	72.5%	New Jersey	35.3%
Total	**51.6%**	**Total**	**51.6%**

Source: ARTBA analysis of Highway Statistics, tables SF-1 and SF-2, total averages for 2001 to 2011.

** In a few cases total federal reiumbursements are greater than total capital spending or above 80 percent. This can happen because although most federal aid dollars are used for capital outlays, reiumbursements also include debt service for GARVEE bonds. Typically the cost of federal aid construction projects are split 80/20 between the federal and state government, but there are exceptions for some programs, including the American Recovery and Reinvestment Act (ARRA) funds, the Alaska Marine Highway System, the Appalachian Development Highway Program, emergency repair funds and some safety programs. In this case the federal share may be as high as 100%.

How many states could fill the gap if Congress reduces federal highway investment to the level of Highway Trust Fund revenues? How would California make up the hundreds of millions of dollars it would lose? How would Louisiana make up its loss? How will states like South Carolina or North Dakota, which are dependent on the federal highway program for almost 80 percent of their highway capital spending, meet their highway investment needs if Congress slashes the federal highway program?

The most likely result is that state after state would slash its highway construction program, allowing roads and bridges to deteriorate and foregoing improvements needed to keep the U.S. transportation system and economy productive and competitive. Tens of thousands of jobs would be eliminated in the construction industry, supplier industries and the rest of the economy, further weakening the economy at a time it is being kept on life-support by the Federal Reserve.

Given the current situation for highway and bridge contractors, further decline in the market would have dire consequences. The amount of real pavement work is on track to decline eight percent in 2013 compared to 2012. The real value of work on highways and bridges has dropped 30 percent since 2009. The outlook is mixed from state to state—over the past 12 months the value of new highway and bridge starts is up in 17 states, down in 23 states and fairly flat within plus or minus five percent in 11 states.

As a result of the continued market slowdown, employment by highway and bridge contractors continued to decline over the summer, compared to last year. Average employment through July 2013 is down 16 percent compared to pre-recession levels. Highway and bridge contractors today employ nearly 50,000 fewer men and women than they did in 2008.

Our contractors also have the ability to take on more work. Nearly one-third of the respondents to our most recent contractor survey said they were working 75 percent below capacity.

Highway and bridge construction has a widespread impact throughout the economy. Let me address the economic impact of transportation investment in more detail.

Contribution of the Highway Trust Fund to the U.S. Economy

A safe and efficient transportation system is one of the fundamental requirements of a modern economy. Virtually every business and industry depends on the national transportation system to obtain needed materials and labor and to get goods and services to customers. Every household depends in some measure on the transportation system for access to work, shopping, medical care, church, family and entertainment. Millions of workers depend directly on the transportation system for jobs - auto workers, bus and truck drivers, airline workers, auto mechanics and gas station attendants, and hotel employees, among others.

Jobs: Building and maintaining the nation's transportation infrastructure is itself a major source of jobs in the U.S. Every $1 billion invested in highways supports 27,823 jobs, according to the Federal Highway Administration, including 9,537 on-site construction jobs, 4,324 jobs in supplier industries and 13,962 jobs throughout the rest of the economy. Investment in other modes would support a similar number of jobs.

In 2012, almost $119 billion worth of construction work was performed on transportation projects, including highways, bridges, subways, light rail systems, freight rail, airports and water ports. This investment supported more than 3.3 million jobs in the U.S., including just over one million construction jobs.

But focusing just on the jobs supported by the Highway Trust Fund sells its importance short. Far more important in the long run is the contribution of highways to economic activity and jobs throughout the entire economy.

The simple fact is that more than 70.9 million American jobs in just tourism, manufacturing, transportation and warehousing, agriculture and forestry, general construction, mining, retailing and wholesaling alone are dependent on the work done by the U.S. transportation construction industry. These dependent industries provide a total payroll in excess of $2.67 trillion and their employees contribute more than $230.7 billion annually in state and federal payroll taxes.

Freight: In 2010, according to the Federal Highway Administration, more than $16.0 trillion dollars of freight was shipped in the U.S. including $13.0 trillion of domestic shipments and $3.0 trillion of exports and imports. Two-thirds of the total, or $10.8 trillion, was shipped by truck on the nation's highways. Another 17 percent, or $2.7 trillion, involved multiple modes including trucks, which means trucks were involved in 82 percent of all freight shipped in the U.S. in 2010. Rail, air, water and pipelines accounted for the remaining 18 percent of freight shipments.

The Federal Highway Administration estimates that the volume of freight shipments will more than double between 2010 and 2040 to almost $39.5 trillion in constant dollars, with $21.8 trillion of that carried by truck and $10.3 trillion by intermodal combinations that include trucks. The growth will put enormous pressure on every element of the nation's transportation infrastructure.

Benefits to businesses: Businesses have always depended on the nation's transportation system to connect to suppliers and customers, but during the past 25 years improvements in transportation have also been a major source of productivity increases and reduced costs for many U.S. businesses. Manufacturers and retailers today use the just-in-time delivery system to assure materials are available when needed in the manufacturing and production process and finished goods arrive at retail stores and customers' docks in a timely manner. This has greatly reduced the need and expense of warehousing inventory, freeing up scarce capital to invest in, and make improvements to, other business activities like technology, product quality and marketing.

Just-in-time logistics, however, require a dependable transportation system, which is threatened by the ever-growing problem of congestion on our highways, rails, airports and water ports. Congestion makes transportation slower, more costly and unreliable. Adapting to congestion requires scheduling more time for trips, which raises labor costs, or holding more inventory which ties up capital. When that happens, the economy becomes less productive, costs increase and living standards decline.

Personal mobility: Americans are among the most mobile people on earth. In 2009, the latest year for which data are available, Americans traveled a total of 4.85 trillion miles by all transportation modes, or an average of 15,791 miles per person. Most of the travel, 3.9 trillion miles, or 81.1 percent, of the total, was by automobile, truck or motorcycle, an average of 13,799 miles per person.

Virtually every trip has an economic purpose or impact on the economy. Most obvious is the daily commute to and from work for the nation's 136 million workers. But every trip to the grocery store or shopping center has an economic impact, as do trips to restaurants, to the movies, to vacation spots, to school, even to church where the weekly offering helps maintain the building and clergy. And many trips are essential to our quality of life, including visits to family and friends, a night out after a hard day's work, or an emergency trip to the hospital.

Defense and security: The U.S. transportation infrastructure network is critical to our national defense and homeland security. More than 60,000 miles of roads have been designated part of the Strategic Highway Network, including the entire Interstate Highway System, because of their important role in transporting military equipment and personnel. Roads also comprise the primary evacuation routes in the event of an attack by a foreign enemy such as that on the World Trade Center in 2001, or a natural disaster like Hurricane Katrina in 2005 and Hurricane Sandy in 2012. These disasters pointedly showed the need for both adequate capacity and redundancy in the nation's transportation system.

Highway Travel and Highway Trust Fund Revenues

As Congress works to address the Highway Trust Fund revenue shortfall, there are numerous options for generating new revenues. Reports by the National Surface Transportation Policy and Revenue Study Commission and the National Surface Transportation Infrastructure Financing Commission created by SAFETEA-LU offered a number of possible alternatives, while other groups including ARTBA have offered additional recommendations[3].

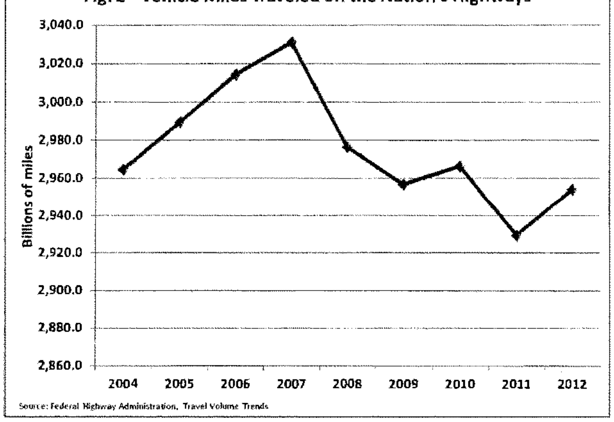
One option that should be on the table is raising the federal gas tax which, despite the recent shortfall in Highway Trust Fund revenues, remains a viable revenue source for the Highway Trust Fund.

One argument often raised against a gas tax adjustment is that people are not driving as much as in the past, thus reducing the future investment needed to maintain and improve the nation's highways. Less travel would also reduce the viability of the federal motor fuel taxes as a source of revenues to finance federal investment in highway improvements.

While it is difficult to predict the future, including highway travel, the facts suggest it is premature to conclude that a long-term change has occurred in America's highway use or future highway investment needs.

First, a downturn in vehicle miles traveled did happen after 2007 following years of steady growth, as shown in Figure 2. However, the downturn was caused by the 2007-09 economic recession rather than a change in long-term driving trends. The Great Recession was the nation's worst economic downturn since the Great Depression of the 1930s. U.S. Gross Domestic Product fell 4.7 percent, the unemployment rate soared to 10.0 percent

Fig. 2 - Vehicle Miles Traveled on the Nation's Highways



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[3] See, for example: *"Paying Our Way: Report of the National Surface Transportation Infrastructure Financing Commission,"* February 2009, Chapter 3; and *"The Budgetary Impact of Highway Transportation Services Tax"* prepared by PricewaterhouseCoopers LLP for the American Road & Transportation Builders Association, June 2009.

and 8 million Americans lost their jobs. Freight shipments plunged. As a result, between 2007 and 2011, vehicle miles traveled on the nation's highways fell 100 billion or 3.3 percent.

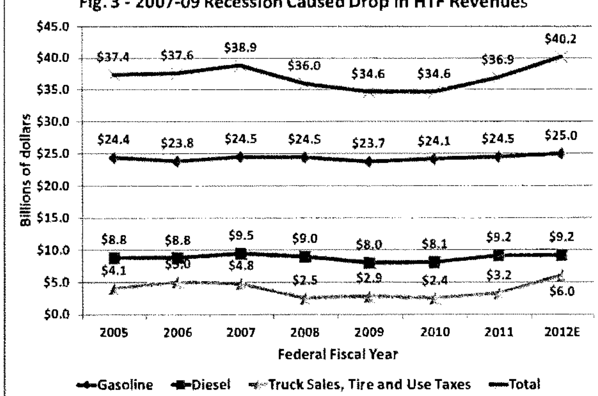
The economy is now, fortunately, improving. With employment rising and unemployment declining, the long-term growth of highway travel is resuming. In 2012, vehicle miles traveled on the nation's highways rose 25 billion miles, offsetting one-quarter of the recession-driven decline.

And there are a number of reasons why the travel demand should continue to grow well into the future. Each year, the U.S. population grows just under 3 million while the number of licensed drivers grows more than 2 million. With each driver in the U.S. averaging 12,000 miles per year, population growth alone will drive VMT up about 25 billion miles per year. And, according to the U.S. Energy Information Administration (EIA), VMT per driver is expected to grow to 13,300 miles by 2040, propelled by a projected 95 percent increase in disposable personal income between now and then. Population growth and the projected growth of VMT per driver will thus add more than 1 trillion miles of travel on the nation's highways over the next 30 years, a 33 percent increase. This will result in more wear and tear and congestion, and the need for more, not less, highway investment!

Truck travel is also rebounding from the recession and is expected to grow substantially in the years ahead. Although freight shipments by truck fell from 12.8 billion tons in 2007, the pre-recession peak, to 11.3 billion tons in 2011, the Federal Highway Administration projects truck freight will grow to 18.8 billion tons by 2040, an increase of almost 50 percent from the 2007 pre-recession peak. Projections by the EIA of fuel use by heavy trucks show a similar increase, growing almost 47 percent between 2011 and 2040. Trucks cause far more wear and tear on highways than do personal cars and SUVs, so the projected growth of truck traffic suggests the need for highway investment will increase even more rapidly than the growth of total vehicle miles on the nation's highways.

Highway Trust Fund revenues confirm this analysis of VMT, with a recession-caused decline followed by projected growth in the years ahead. As Figure 3

Fig. 3 - 2007-09 Recession Caused Drop in HTF Revenues



Source: FHWA, Highway Statistics 2011, Table FE-210; U.S. Treasury Bureau of Public Debt shows, total HTF revenues fell substantially after 2007, plunging almost 11 percent by the time the economy bottomed out in 2009 and 2010. However, almost all the revenue decline was related to the decline in freight shipments by truck, with revenues from the federal excise tax on diesel fuel falling almost 16 percent from the economic peak to trough and revenues from taxes on large trucks declining almost 50 percent. By contrast, revenues from the federal gas tax, which tracks personal travel, fell only 3.2 percent from peak to trough.

Furthermore, as Figure 3 shows, revenues have rebounded substantially now that economic growth has resumed, with truck tax receipts hitting a record in 2012 and gas tax revenues exceeding the 2007 pre-recession peak. On a longer-term basis, the Congressional Budget Office's latest Highway Trust Fund outlook anticipates that total revenues will continue to increase, although at a more moderate pace, for at least the next decade.

The recent weakness in vehicle miles traveled on the nation's highways was caused by the 2007-2009 Great Recession, not a long-term change in American driving habits. With many Americans out of work and freight shipments down, the recession caused a temporary lull in highway use in the United States. But economic growth has resumed, employment is rising and unemployment falling, and freight shipments have rebounded, all contributing to renewed growth of highway travel. VMT rose in 2012 and should continue rising in the long-run. This, plus a substantial increase in truck traffic, means the need for investment in highway and bridge improvements will continue to grow in the years ahead.

Alternative Fuel Vehicles and Highway Trust Fund Revenues

Some analysts argue that alternative fuel vehicles and increased fuel economy requirements mean a demise of the motor fuel excise taxes as a reliable revenue source for the Highway Trust Fund.

Alternative fuels are not eroding the federal motor fuel tax base. Two-thirds of all alternative-fuel vehicles are cars that run on E85 ethanol, which pays the same tax as gasoline into the HTF. Under current law, all other alternative fuels, such as CNG and LPG, except electricity, are taxed at the energy equivalent of gasoline. Electric cars pay no tax into the HTF but the number is miniscule. In 2010, there were only 57,000 electric cars, less than .02 of one percent of all vehicles, representing a tax loss of just over $5 million.

Increased fuel economy standards will reduce the future growth of HTF revenues, but the impact will be very gradual. First, increased fuel economy standards are being phased in, and will not be fully implemented until 2025. Furthermore, given current new vehicle purchase and vehicle retirement rates, it takes well over 15 years for the fleet of motor vehicles to be fully replaced. HTF revenues will grow even with the new CAFÉ standards, but at a slower rate.

The root of the trust fund's revenue challenge is not reduced driving or alternative-fueled vehicles dominating the U.S. automobile fleet or improved fuel economy, but a more direct and obvious flaw: the federal motor fuels tax and other highway user fees have not been adjusted for 20 years. Existing revenues are about $15 billion short of the amount needed to maintain current levels of federal highway and transit investment, and at least $25 billion short of the investment needed just to maintain current physical and performance conditions on the nation's highways and public transportation systems.

Devolving the Federal Highway Program to the States

The final issue I want to address in my statement is the concept of devolving the federal highway program to the states.

Periodically, members of Congress introduce legislation to drastically scale back the federal highway program, devolve responsibility for highways almost entirely to state and local governments and reduce the federal gasoline tax to a few cents per gallon. The thinking behind this is that state and local governments have better knowledge of their highway investment needs than the federal government and thus can make better investment decisions. They also have a better sense of the willingness of local taxpayers to finance highway improvements and thus could do a better job of determining how and by how much to replace the lost federal aid.

Highway investment is not just a state and local issue. No state exists in an economic vacuum. The economic prosperity of each state depends heavily on the ability of its local businesses to access markets and customers around the country. That access is provided primarily by highways. Even if a state were to do an outstanding job of building and maintaining its own highways, that effort would support only a small fraction of the state's overall economic activity. The state's economy would still be vulnerable to highway investment decisions made by policymakers in other states.

The importance of a nationwide freight system to the economic prosperity of each state is illustrated by the data in Tables 2 and 3. Table 2 shows, for 2011 (the latest data available), that, nationwide, nearly 72 percent of all freight was shipped solely by truck over the nation's highways. For some states, like Georgia, North Carolina and Wisconsin, the fraction was much higher—over 85 percent.

Table 2. Importance of Truck Transportation to State Economic Prosperity (Billions of dollars)					
		Products shipped by truck		Products shipped by other modes	
State	Total value of products shipped	Value	Percent of total	Value	Percent of total
Alabama	$239.9	$186.2	77.6%	$53.7	22.4%
Alaska	$316.8	$17.1	5.4%	$299.7	94.6%
Arizona	$286.2	$230.9	80.7%	$55.3	19.3%
Arkansas	$145.2	$119.2	82.1%	$26.0	17.9%
California	$2,270.7	$1,642.9	72.4%	$627.8	27.6%
Colorado	$214.6	$157.7	73.5%	$56.9	26.5%
Connecticut	$178.6	$139.8	78.3%	$38.8	21.7%
Delaware	$50.9	$35.6	70.0%	$15.3	30.0%
Florida	$740.3	$622.0	84.0%	$118.3	16.0%
Georgia	$589.3	$503.8	85.5%	$85.5	14.5%
Hawaii	$61.0	$39.6	65.0%	$21.3	35.0%
Idaho	$79.9	$50.2	62.9%	$29.6	37.1%
Illinois	$898.4	$652.7	72.7%	$245.6	27.3%
Indiana	$458.7	$368.4	80.3%	$90.3	19.7%
Iowa	$221.5	$187.0	84.4%	$34.5	15.6%
Kansas	$210.3	$153.4	72.9%	$56.9	27.1%
Kentucky	$306.5	$221.2	72.2%	$85.3	27.8%
Louisiana	$531.9	$171.8	32.3%	$360.1	67.7%
Maine	$79.1	$65.5	82.8%	$13.6	17.2%
Maryland	$235.3	$199.3	84.7%	$36.0	15.3%
Massachusetts	$285.3	$222.7	78.1%	$62.5	21.9%
Michigan	$584.0	$444.1	76.0%	$139.9	24.0%
Minnesota	$367.1	$241.5	65.8%	$125.5	34.2%
Mississippi	$152.6	$112.6	73.8%	$39.9	26.2%
Missouri	$300.1	$233.7	77.9%	$66.4	22.1%
Montana	$90.0	$42.9	47.7%	$47.1	52.3%
Nebraska	$120.6	$97.0	80.4%	$23.6	19.6%
Nevada	$88.6	$73.9	83.4%	$14.7	16.6%
New Hampshire	$104.2	$62.4	59.9%	$41.8	40.1%
New Jersey	$654.0	$490.5	75.0%	$163.5	25.0%
New Mexico	$73.4	$41.5	56.5%	$31.9	43.5%
New York	$1,002.0	$775.4	77.4%	$226.5	22.6%
North Carolina	$425.9	$379.8	89.2%	$46.0	10.8%
North Dakota	$134.4	$69.7	51.9%	$64.6	48.1%
Ohio	$747.1	$597.1	79.9%	$150.0	20.1%
Oklahoma	$209.5	$156.1	74.5%	$53.4	25.5%
Oregon	$218.5	$176.7	80.9%	$41.8	19.1%
Pennsylvania	$728.0	$581.0	79.8%	$147.1	20.2%
Rhode Island	$40.6	$34.2	84.1%	$6.5	15.9%
South Carolina	$271.1	$230.2	84.9%	$40.9	15.1%
South Dakota	$70.9	$53.7	75.8%	$17.2	24.2%
Tennessee	$515.1	$416.9	80.9%	$98.2	19.1%
Texas	$2,169.7	$1,277.8	58.9%	$891.9	41.1%
Utah	$154.7	$99.2	64.1%	$55.5	35.9%
Vermont	$38.7	$27.0	69.8%	$11.7	30.2%
Virginia	$356.1	$290.3	81.5%	$65.8	18.5%
Washington	$452.1	$275.0	60.8%	$177.1	39.2%
Washington, D.C.	$6.6	$5.9	89.1%	$0.7	10.9%
West Virginia	$77.8	$48.7	62.7%	$29.0	37.3%
Wisconsin	$322.9	$277.3	85.9%	$45.6	14.1%
Wyoming	$74.0	$25.8	34.8%	$48.2	65.2%
US total	$18,950.5	$13,625.4	71.9%	$5,325.1	28.1%

Source: 2011 data, U.S. Department of Transportation, Freight Analysis Framework

Even more illustrative of the need for a nationwide highway system are the data in Table 3, which breaks down truck shipments into those that remain entirely within each state, short-haul shipments to adjacent states and long-haul shipments that go through one or more states before reaching their destination. As the table shows, about 55 percent of the value of truck shipments remains within the originating state. The remaining 45 percent of shipments go to other states. 19 percent represents short-haul shipments that originate in one state to destinations in adjacent states. The remaining 26 percent are long-haul shipments that go completely through one or more states before reaching their final destinations. The economic prosperity of the states would thus be highly vulnerable if highway responsibilities devolved to state and local governments.

The data clearly demonstrate the dependence of each state's businesses on the highway network in other states. Correspondingly, this information also conclusively proves an efficient national highway system is needed for the movement of freight.

Another little acknowledged shortcoming of devolution proposals is that, to make up for the loss of federal highway funds, states would have to increase their own gasoline tax rates by an average of 21 cents per gallon and diesel tax by an average of 27 cents per gallon or generate a comparable level of revenues from other sources. Although some states have recently raised their own highway taxes, in most states there is no more political will to increase taxes than in the U.S. Congress, which has failed to increase the federal gas tax since 1993 despite growing highway traffic, increased congestion, higher construction costs and the widespread recognition that current revenues are woefully inadequate to finance needed federal highway investment.

Devolution thus would have the impact of reducing total investment in highway improvements and result in a deterioration of the ability of our highway system to serve the transportation needs of the national economy.

Table 3. Value of Products Shipped by Truck Within State and to Other States (Billions of dollars)

		Shipped within the state		Shipped to other states			
State	Total value of products shipped by truck	Value	Percent of total	Short-haul to adjacent states	Percent of total	Long-haul through one or more states	Percent of total
Alabama	$168.1	$94.1	56.0%	$32.6	19.4%	$41.4	24.6%
Alaska	$14.9	$14.6	98.4%	$0.0	0.0%	$0.2	1.6%
Arizona	$204.5	$146.9	71.8%	$32.8	16.0%	$24.8	12.1%
Arkansas	$117.4	$59.8	50.9%	$27.8	23.6%	$29.9	25.5%
California	$1,165.2	$915.7	78.6%	$51.1	4.4%	$198.3	17.0%
Colorado	$148.7	$111.0	74.7%	$13.0	8.8%	$24.6	16.6%
Connecticut	$131.8	$68.9	52.3%	$28.0	21.2%	$34.9	26.5%
Delaware	$28.9	$10.6	36.5%	$6.0	20.6%	$12.4	42.9%
Florida	$412.0	$343.1	83.3%	$14.1	3.4%	$54.8	13.3%
Georgia	$397.7	$220.0	55.3%	$98.0	24.6%	$79.6	20.0%
Hawaii	$23.2	$23.2	100.0%	$0.0	0.0%	$0.0	0.0%
Idaho	$42.7	$28.1	65.9%	$5.9	13.8%	$8.6	20.2%
Illinois	$558.2	$290.9	52.1%	$97.2	17.4%	$170.1	30.5%
Indiana	$349.1	$151.0	43.2%	$86.7	24.8%	$111.5	31.9%
Iowa	$182.9	$104.4	57.1%	$36.0	19.7%	$42.6	23.3%
Kansas	$149.7	$84.8	56.7%	$30.2	20.2%	$34.7	23.2%
Kentucky	$202.0	$82.2	40.7%	$59.6	29.5%	$60.2	29.8%
Louisiana	$150.7	$96.7	64.2%	$24.0	15.9%	$30.0	19.9%
Maine	$36.9	$22.7	61.5%	$1.4	3.8%	$12.8	34.7%
Maryland	$166.7	$87.5	52.5%	$46.0	27.6%	$33.2	19.9%
Massachusetts	$192.8	$114.2	59.3%	$32.6	16.9%	$45.9	23.8%
Michigan	$320.7	$193.0	60.2%	$42.9	13.4%	$84.8	26.4%
Minnesota	$229.7	$139.0	60.5%	$33.9	14.8%	$56.8	24.7%
Mississippi	$106.0	$47.8	45.1%	$23.3	22.0%	$34.9	32.9%
Missouri	$225.8	$124.2	55.0%	$50.1	22.2%	$51.5	22.8%
Montana	$27.9	$18.5	66.3%	$5.8	20.9%	$3.6	12.8%
Nebraska	$94.5	$55.4	58.6%	$16.1	17.0%	$23.0	24.4%
Nevada	$71.0	$42.8	60.3%	$19.8	27.9%	$8.4	11.9%
New Hampshire	$60.2	$29.1	48.4%	$11.3	18.8%	$19.8	32.8%
New Jersey	$335.1	$148.0	44.2%	$83.9	25.0%	$103.2	30.8%
New Mexico	$37.5	$26.4	70.3%	$5.9	15.6%	$5.3	14.0%
New York	$538.1	$346.2	64.3%	$84.9	15.8%	$107.0	19.9%
North Carolina	$355.8	$187.4	52.7%	$63.4	17.8%	$105.0	29.5%
North Dakota	$40.8	$27.8	68.1%	$7.1	17.5%	$5.8	14.3%
Ohio	$560.6	$275.0	49.1%	$115.2	20.5%	$170.4	30.4%
Oklahoma	$152.8	$88.9	58.2%	$39.1	25.6%	$24.9	16.3%
Oregon	$151.9	$84.4	55.5%	$47.4	31.2%	$20.1	13.2%
Pennsylvania	$511.8	$277.3	54.2%	$104.7	20.5%	$129.7	25.4%
Rhode Island	$30.1	$12.9	42.8%	$7.8	25.9%	$9.4	31.3%
South Carolina	$177.3	$73.9	41.7%	$33.6	19.0%	$69.8	39.4%
South Dakota	$53.1	$24.7	46.5%	$21.9	41.3%	$6.5	12.2%
Tennessee	$371.8	$108.8	29.3%	$99.0	26.6%	$164.0	44.1%
Texas	$975.8	$740.9	75.9%	$72.3	7.4%	$162.5	16.7%
Utah	$97.6	$61.4	62.9%	$18.0	18.5%	$18.2	18.6%
Vermont	$18.0	$9.1	50.6%	$3.4	19.0%	$5.5	30.4%
Virginia	$221.6	$133.5	60.2%	$32.4	14.6%	$55.7	25.1%
Washington	$190.6	$140.3	73.6%	$19.9	10.4%	$30.4	16.0%
Washington, D.C.	$5.3	$3.7	70.0%	$1.5	28.4%	$0.1	1.6%
West Virginia	$47.1	$21.4	45.3%	$10.6	22.4%	$15.2	32.2%
Wisconsin	$267.1	$135.7	50.8%	$54.9	20.5%	$76.6	28.7%
Wyoming	$25.6	$18.1	70.7%	$5.6	21.7%	$1.9	7.5%
US total	$8,446.8	$4,658.7	55.2%	$1,609.2	19.1%	$2,178.9	25.8%

Source: 2011 data, U.S. Department of Transportation, Freight Analysis Framework

Conclusion

Chairman Boxer, the Highway Trust Fund has faced four insolvency crises in the last five years. Congress has responded to each of these situations with temporary solutions that thankfully preserved federal highway and public transportation investment and hundreds of thousands of jobs. While ARTBA has supported each of these short-term measures, I hope we all recognize that we have been treating the symptom and not the disease.

As a result, each successive Highway Trust Fund shortfall has become more severe. According to the CBO, we are now facing a situation where the trust fund would not be able to support any new highway or public transportation investment in FY 2015.

We all know that federal transportation investment can be an economic engine that boosts job creation and overall productivity, but the uncertainty we have seen and continue to face at the federal level is diluting the potential impact of these investments. Members of the transportation design and construction industry are simply not going to make major new investments in personnel and capital until they see a long-term market outlook that will support such business decisions. In fact, we are already hearing reports of states scaling back their construction programs as a result of the looming FY 2015 crisis.

After four separate bailouts and a trust fund revenue stream that has not been enhanced in 20 years, it is hard to suggest we did not see this day coming.

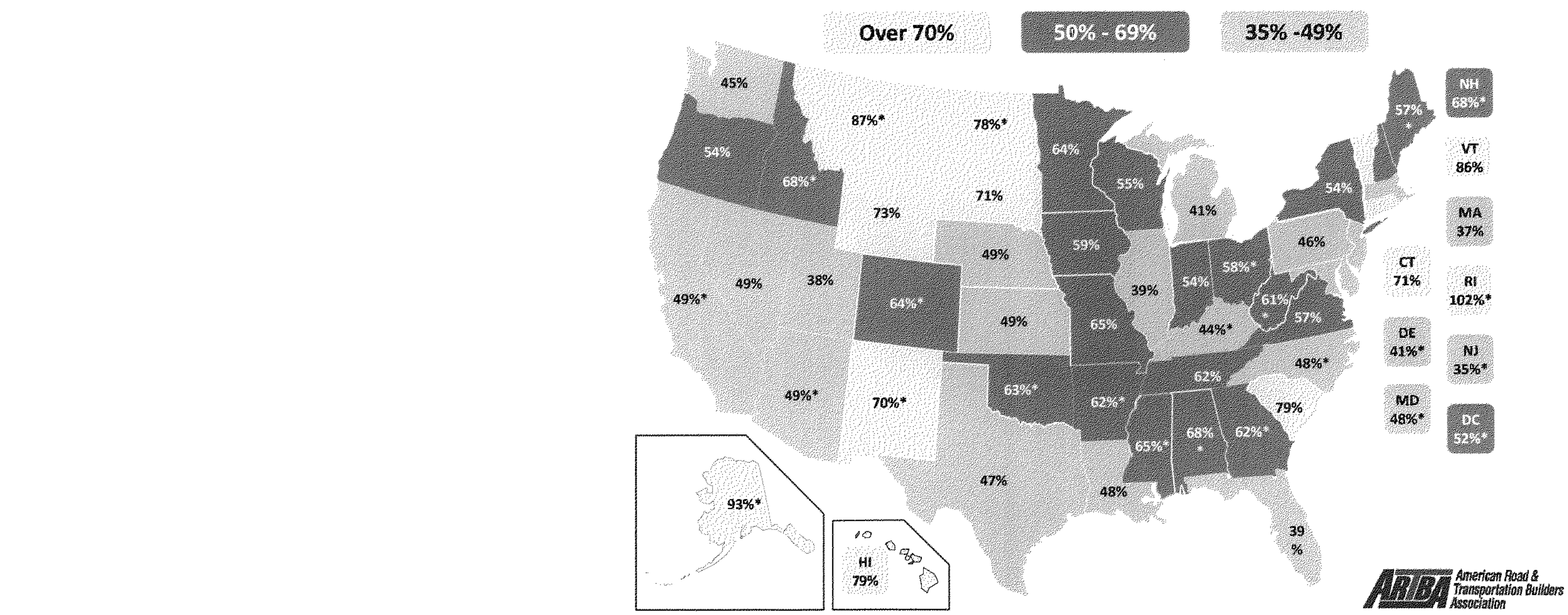
Some may quibble that MAP-21 could have gone farther in its policy reforms and some may feel that it went a little too far. The truth is that no one gets everything they want out of major legislation and MAP-21's reforms were the most substantive refocusing of federal surface transportation policy in decades. As a result of MAP-21, the common criticisms of the highway and public transportation programs—such as too much red tape, not enough state flexibility, and lack of focus—have been rectified. Furthermore, as MAP-21's vote counts in the House and Senate demonstrate, the measure accomplished these goals with overwhelming bipartisan support.

The lone remaining impediment to delivering the national transportation network the American people and the U.S. economy need is a long-term stabilization of the Highway Trust Fund's revenue foundation. While we certainly recognize the difficulty of revenue discussions in this Congress, this is a situation in which there are no alternatives without consequence. As I mentioned previously, continuing the path of reliance on General Funds to supplement existing Highway Trust Fund revenues will add $135 billion to the deficit over the next 10 years. Similarly, constraining investment to what is currently supportable would require massive investment cuts that will severely impact the construction program of every state, threaten hundreds of thousands of jobs and undermine the productivity and competitiveness of the American economy.

It is time to finish the job this Committee and your colleagues on the House Transportation & Infrastructure Committee started with the development of MAP-21 by ensuring the Highway Trust Fund's revenue stream can support the investments necessary to make your vision of a reformed federal surface transportation program a reality.

Chairman Boxer, members of the Committee, again thank you for allowing me to appear before you today. I would be pleased to answer any questions at the appropriate time.

Federal funds, on average, provide 52% of annual State DOT capital outlays for highway & bridge projects



Source: ARTBA analysis of "FHWA Highway Statistics" data, total 10-year average 2001-2011 from Tables SF-1 and SF-2. The percent is the ratio of federal-aid reimbursements to the state and total state capital outlays and is indicative of the importance of the federal-aid program to state capital spending for highways and bridges. Does not include local capital spending. Federal highway reimbursements are primarily used for capital outlays, including construction, right-of-way acquisition and engineering, but are also used for debt service for GARVEE bonds.

* States that have issued GARVEE bonds before 2011.

American Road & Transportation Builders Association

Responses to Questions for the Hearing Record
Senate Environment & Public Works Committee
September 25, 2013

1. **Mr. Ruane, there is a perception that the Federal government does not spend money efficiently, so a lot of Americans are extremely reluctant when you start talking about raising taxes to fund Federal programs.**

   How do we sell the American public on raising the gas tax or some other user fee to pay for infrastructure investments.

   Chairman Boxer, the biggest impediment facing the federal surface transportation programs is not the Highway Trust Fund's current revenue shortfall, but the fact that nobody tells the American people the value they are receiving for their contributions to the nation's highway and public transportation facilities. As such, it is hardly surprising that Americans are reluctant to contribute more money for a purpose where they are not fully informed of the benefits.

   Part of this public relations problem is structural and part of it is political. On the structural side, the federal highway and public transportation programs are reimbursable activities where states and local governments plan and manage projects, then get reimbursed as they incur expenses. As a result, very few people know the degree of federal support for the road, bridge and public transportation enhancements that occur in their area. The unfortunate reality is that to the world outside of the Capital Beltway, most surface transportation improvements appear to be entirely state and local initiatives. That is one of the reasons why my written testimony documents that over the last 10 years federal highway investment has supported on average of 52 percent of all road and bridge capital projects across the nation—with a number of states relying on federal resources for more than 70 percent for road and bridge improvements.

   Furthermore, to achieve political objectives, policy makers and stakeholder groups routinely flood this dialogue with half-truths and outright falsehoods. Claims such as "declining gas tax revenues," "Americans driving less," and "completion of the Interstate," are deliberate distortions to achieve an alternative policy outcome. The crassest example of this dynamic is the devolution concept, where presumably the federal responsibility for surface transportation improvements would be transferred to the states by reducing federal motor fuels tax rates. Supporters of this concept, however, rarely mention that states would be required to raise their own revenues in order to assume this new responsibility. It is worth noting that not one governor—the intended beneficiary of the devolution concept—has come out in support of these proposals. Furthermore, Oklahoma Governor Mary Fallin, chair of the National Governors Association, testified January 14 before the House

Transportation & Infrastructure Committee in opposition to devolution. While devolution and other unsupportable claims about the Highway Trust Fund and the federal surface transportation program are routinely debunked, the unfortunate result is a confused public.

To counter these structural and political impediments, supporters of the federal highway and public transportation programs must follow a two pronged approach: articulate the consequences of failing to make needed upgrades in the U.S. surface transportation network; and focus on the value achieved by these investments. Member of the business community are increasingly coming forward to demonstrate how their day to day operations are adversely impacted by increasing traffic congestion and declining infrastructure. These examples of how economic competitiveness hinges on efficient transportation must be a high profile complement to the traditional focus on job creation in debates about future federal transportation investments.

The 2012 Moving Ahead for Progress in the 21st Century (MAP-21) Act took positive steps toward demonstrating the value of these investments by instilling an outcome-oriented performance management approach to guide the use of federal funds and the development of metrics to quantify progress towards national goals. Unfortunately, this process is long-term and is not likely to yield sufficient results before MAP-21's scheduled reauthorization. Implementation of Section 1503(c) of MAP-21, however, provides a meaningful short-term opportunity to quantify the value of surface transportation investments. This provision simply calls on the U.S. Department of Transportation to articulate for the public in a real-time manner the impact of federal highway and public transportation funds in the same way they promoted the American Recovery & Reinvestment Act's (ARRA) highway and transit investments. Unfortunately, there has been no noticeable activity from the Department on this potentially helpful provision of MAP-21.

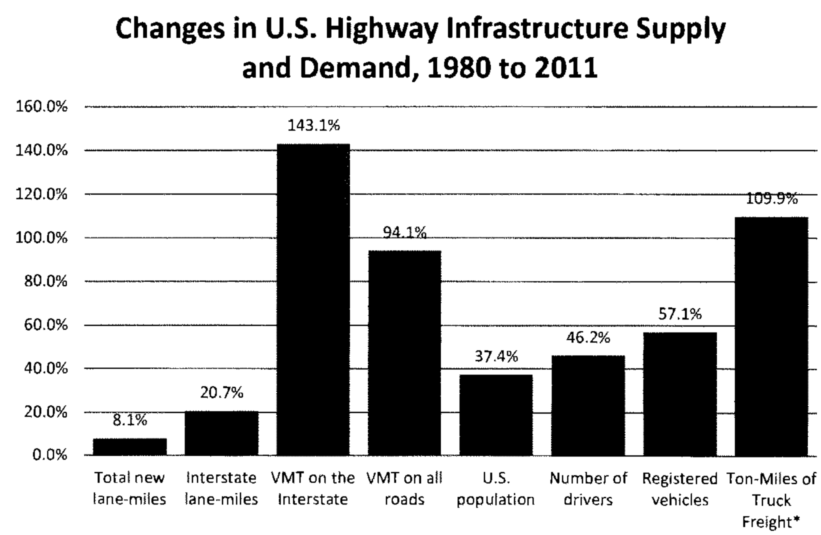
The combination of articulating the need for increased federal highway and public transportation investment with messages and examples focusing on economic competitiveness and documentation of the value of existing investments would help restore public confidence in the efficacy of these programs and build support for congressional action to stabilize and grow Highway Trust Fund revenues.

2. **Mr. Ruane, there has been a lot of talk in the trade press about the need to raise $14-15 billion in additional revenue per year in order to just maintain current investment levels in highways, bridges, and public transportation systems.**

   Is that enough? Or do you think the Federal government should be spending more than it is now? If so, why?

The simple truth is that investment in our road, bridge and transit system capacity has failed to keep pace with increased demand. With very little change in highway capacity over the last twenty years, this means more American drivers and businesses are stuck in traffic and paying the price through lost productivity, wasted fuel and less leisure time as our system is stretched to its limits. The federal government is the only institution that can ensure every state is investing in highway and bridge projects that have some national significance. These are projects that will benefit the U.S. economy and provide the key network linkages we need to create jobs, increase our competitiveness and move our economy forward.

The capacity of the U.S. highway and bridge network, in terms of total lane-miles, has grown just 8.1 percent between 1980 and 2011.[1] Meanwhile, the system is carrying nearly twice as much traffic — the total number of vehicle miles traveled has grown from 1.53 trillion miles to 2.96 trillion miles over the same time period. This increased traffic is a result of both economic growth and more drivers. The U.S. population grew over 37 percent between 1980 and 2011, the number of licensed drivers grew 46 percent and the number of registered vehicles increased 57 percent. The total ton-miles of freight shipped via truck between 1980 and 2009 more than doubled.



Source: FHWA Highway Statistics for all data but ton-miles of truck freight, from the U.S. Bureau of Transportation Statistics.
*Truck ton-miles are through 2009.

Americans have also increased their demand for transit services, according to data from the Federal Transit Administration.[2] State and local governments have added 65 rail or bus rapid transit systems since 1980, for a total of 107 systems that are in operation today. Americans are using more transit

[1] Federal Highway Administration, Highway Statistics Series
[2] Federal Transit Administration, National Transit Database

than they did twenty years ago—the number of unlinked passenger trips has grown 20.5 percent between 1980 and 2011, reaching nearly 10.3 million trips each year. Total transit vehicle miles traveled has more than doubled, from 2.3 million vehicle miles in 1980 to 5.4 million in 2011. Transit agencies have increased rail capacity to meet some of this demand. Rail miles have grown nearly 26 percent since 2002. Non-rail miles, which are largely bus route systems on mixed-use roadways, have grown just 0.3 percent over the same time period.

All public-access roads and bridges are owned and operated by state and local governments, however, the federal government has played an important role in building and preserving major roads and bridges since 1916. A robust federal highway program is crucial to improving and maintaining a transportation system that will increase safety, improve mobility and facilitate economic growth. A strong national transportation system helps connect urban and rural businesses with their customers, export markets and employees.

As I noted in my original testimony, state departments of transportation (DOTs) are highly dependent on federal funding for their highway and bridge capital programs. Federal reimbursements to state DOTs provided an average of 52 percent of total state capital outlays over the last decade. The federal government should increase investment to support a modern system that will truly meet the mobility needs of our country in the 21st century and facilitate economic growth for the future.

The original criteria for creating the National Highway Program are the same reasons for a strong federal role to maintain, expand and support the current network. In a special message to Congress on February 22, 1955, President Dwight Eisenhower outlined four reasons why a National Highway Program is vital to national interest, noting that "the uniting forces of our communication and transportation systems are dynamic elements in the very name we bear—United States. Without them, we would be a mere alliance of many separate parts." President Eisenhower cited individual safety, the cost of vehicle operations from poor roadway conditions, national security and defense and overall economic growth as key reasons for a national highway system. In particular, the Interstate Highway System "would connect by routes, as direct as practicable, the principal metropolitan areas, cities and industrial centers, serve the national defense, and connect the routes of continental importance in the Dominion of Canada and the Republic of Mexico."

The Interstate Highway System connected 90 percent of the cities with a population of over 50,000 in 1956. At that time, there were 238 cities with a population that size. Today, there are over 726 cities across America with a population of 50,000 or more. There are a number of large cities that are not served by the Interstate Highway System, including urban areas in California (Fresno, Bakersfield, Modesto, Oxnard, Salinas, Santa Rosa, Thousand Oaks, Palmdale and Santa Barbara), as well as such places as McAllen, Texas., Athens, Ga., Boulder, Colo., Albany, Ga., Bloomington, Ind. and Atlantic City, N.J.

The federal highway program identifies the kind of road improvements that provide a national benefit and give local officials a price inventive and the funds to increase the proportion of these projects in their highway improvement program. Without the federal program, state and local governments would be focused on the local benefits of projects, not taking into account the national implications of their decisions.

The tie that binds our vast network of businesses across the country with their suppliers, workers and customers is the U.S. highway system. The foundation of a modern economy is a transportation system that moves freight and people efficiently, safely and on time. And while our U.S. economy has grown and shifted over the years, our highway and bridge investment has stagnated.

According to analysis of the U.S. Department of Transportation's 2010 Status of the Nation's Highways, Bridges, and Transit Conditions and Performance report, all levels of government need to be investing $125.1 billion in highways in 2013 to simply maintain current conditions and congestion levels.[3] Governments should be investing $20 billion to achieve a state of good repair for our nation's transit system. To make all cost-beneficial improvements, federal, state and local governments should be investing $188.6 billion annually in highways and $27.2 billion in transit systems.

Assuming that the federal share of national investment stays at historic averages, the annual federal aid obligation limit for the highway and transit programs would need to be $74.9 billion to maintain current conditions and congestion levels, compared to a current obligation level of $51.6 billion under MAP-21.[4] Such an increase in spending, if financed through the federal motor fuels tax, would cost the average U.S. household an additional $10.82 per month.

To make all cost-beneficial highway improvements and significantly grow the transit program, the annual obligation limit for these programs would need to be $108 billion, which would cost the average household an additional $16.92 per month if raised through the federal motor fuel fee. To put this in perspective, households currently spend an average of $46.33 per month on state and federal motor fuel taxes combined. This is nearly 3.5 times less than monthly spending on electricity and natural gas and telephone service.[5]

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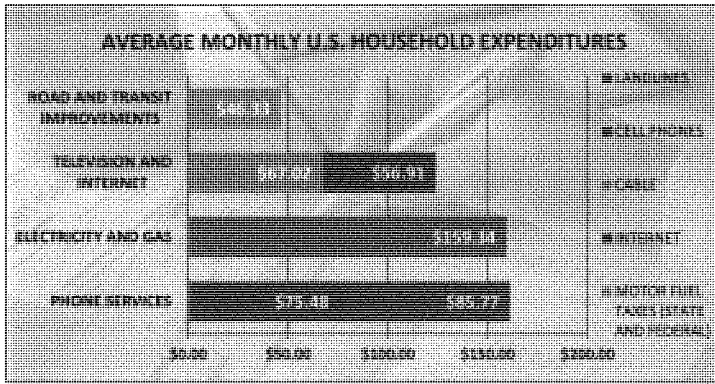
[3] The 2010 report provides an average annual funding level in 2008 dollars. ARTBA has used the consumer price index from the U.S. Bureau of Labor Statistics to put this spending level in 2013 dollars.

[4] Historically federal investment has been an average of 43 percent of total highway and transit capital outlays, including state and local spending, according to data from FHWA. The federal obligation limit, which includes funding for research and administrative costs, is about ten percent higher than annual expenditures.

[5] The number of American households (114,761,359) is an average from 2007 to 2011 from the US Census Bureau QuickFacts. Annual household expenditures for phone service, television and internet are adjusted by household usage rates. According to the U.S. Census Bureau, Current Population Survey, 71% of households have internet access (October 2011). The Center for Disease Control reports that 35.8% of households have only a cell phone, 2.1% of households have no phone service, 52.5% have a landline and cell, and 9.4% have just a landline but no cell. In all, 62% of households have a landline and 88.5% have a cell phone. The U.S. Department of Energy reports 9.1% of households do not have a motor vehicle (2010). Nielsen Reports says 90.4% of households pay for some form of television subscription (2011). Motor fuel taxes from the Federal Highway Administration (Tables FE-2010, SF-1 for the highway trust fund and motor fuel tax revenues used by states) for 2011.



We also know that Americans value their mobility. According to the key findings of a national poll conducted for ARTBA by Ipsos Public Affairs, 78 percent of Americans say that driving a motor vehicle is "very" or "extremely" important to their ability to conduct their daily lives.[6] Twenty-one percent said the same thing about using public transit. Over 88 percent say transportation infrastructure is important to maintaining a strong economy, 83 percent say it is important to ensuring national defense and emergency response capabilities.

Although $14 to $15 billion in additional revenue would support the Highway Trust Fund, it is not enough to address the needs of our transportation system. A robust increase in the federal investment would support projects of regional and national significance that foster economic growth, create jobs and increase U.S. competitiveness.

3. **Mr. Ruane, in your written testimony you discuss how no State exists in an economic vacuum and that the economic prosperity of States depend on reliable interstate commerce and access provided by connected transportation systems.**

   Could you discuss from the business perspective how important it is for goods and people to be able to travel across State lines efficiently and reliably?

   The U.S. highway network makes economic growth possible. Every business is dependent on transportation for access to suppliers, customers and employees. More than 70.9 million American jobs in just tourism, manufacturing, transportation and warehousing, agriculture and forestry,

[6] http://www.artba.org/article/are-good-roads-and-transit-worth-as-much-to-you-as-household-electricity-or-cable-service/

general construction, mining, retailing and wholesaling alone are dependent on the work done by the U.S. transportation construction industry.[7] These dependent industries provide a total payroll in excess of $2.67 trillion and their employees contribute more than $230.7 billion annually in state and federal payroll taxes.

Highway and bridge investment benefits the business community in several ways. Businesses enjoy reduced operating costs and increased market access as a result of an improved highway network. This spillover, or network effect, benefits all businesses, but is particularly important for those industries that rely more heavily on transportation, such as manufacturing, warehousing and storage, tourism and retail and wholesale trade.

Transportation investment also helps businesses stay competitive. As the overall business environment is changing, there is more likely to be a greater importance placed on logistics and global transportation networks. With a better transportation network, businesses will have greater access to potential markets, more employees and a larger market share and more customers. If a small business can rely on an efficient highway network, this will mean they could recruit from a larger pool of potential workers who may commute to their location. They can also reach more customers if travel times are reliable. Overall production costs would likely decline with access to larger markets.

Businesses will benefit from locating near one another, even if they are competitors. This is known as the agglomeration of market activity – we have seen this trend with manufacturing in the South or high-tech firms in Silicon Valley. A group of firms will attract a greater number of suppliers and customers than one company alone. Lower transportation costs are a key factor for agglomeration.

Businesses and state economies rely on a national network to ship their products. Over $11 trillion in goods, representing 75 percent of domestic freight shipments, was shipped to domestic customers in the United States via truck in 2011.[8] The value of nearly half of all domestic truck shipments includes such cargo as machinery, mixed freight, motor vehicles, foodstuffs, metals, pharmaceuticals, gasoline and electronics.

U.S. businesses rely on a national transportation network to get their goods and services to other parts of the country. Just over 40 percent of truck shipments are made to customers that live out of state. Nearly one-quarter of all truck shipments are long-haul, meaning the goods being transported are going to a non-neighboring state.

The U.S. economy continues to grow and change, and transportation costs are a key business input. A recent study by the Boston Consulting Group finds that more than half of executives at manufacturing companies with sales over $1 billion have plans to "reshore" and move some aspects of production back to the United States from China.[9] Transportation costs and access to markets are

[7] ARTBA, The 2012 U.S. Transportation Construction Industry Profile
[8] FHWA, Freight Analysis Framework
[9] Boston Consulting Group, September 24, 2013

a major factor in decisions for business location. Increasing federal investment to ensure a strong national transportation network would lower transportation input costs for these manufacturing firms, allowing them to spend more on other capital and labor investments.

With the ability to track shipments, many businesses have turned to a just in time production strategy. This includes gearing the production process more towards demand. A business can improve return on investment by reducing their inventory and carrying costs. In the commercial sector, just in time delivery has meant eliminating the inventory storage between the factory and the store, in effect using the nation's transportation system as a moving warehouse.

Transportation is vital to other key industries, such as travel and tourism. The U.S. travel association estimates that total domestic person- trips will top 2.1 billion in 2015, up from 2.05 billion trips in 2013. This includes traveling 50 miles or more or spending one or more nights away from home. Nearly 78 percent of this travel is for leisure purposes as families and individuals are visiting friends and relatives or exploring a new area. Total travel expenditures in the U.S. were $855.4 billion in 2013, and will top $1 trillion by 2016. Reducing the operating and travel costs for U.S. citizens would allow them more money to put towards travel and other leisure pursuits.

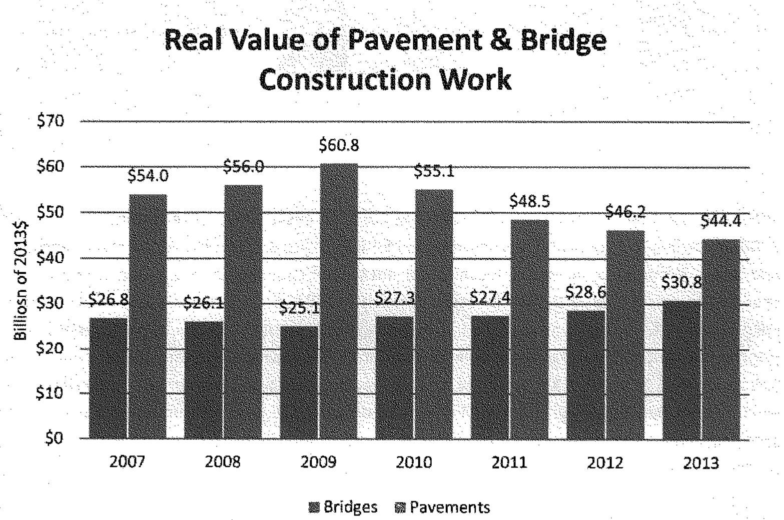
Senator David Vitter

1. **Many have described what the Trust Fund cliff might look like next year. Are you already seeing the ramifications from the potential shortfall? What does this mean in terms of employment levels? At what point over the next year do your members need to take action to address the uncertainty?**

Did the two years plus of MAP-21 funding ever get your members back to business as usual?

The U.S. highway and bridge construction market has faced significant challenges since the Great Recession of 2008. Although an increase in federal investment through ARRA and MAP-21 have helped support the market, this funding has not been enough to offset the decline in state and local investment.

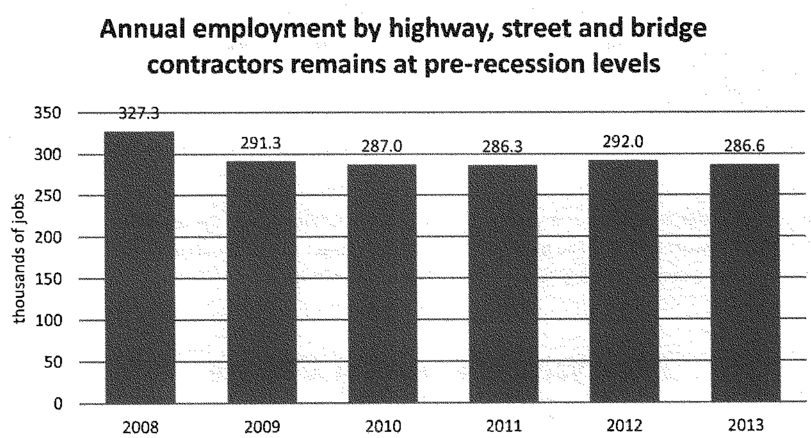
While the bridge construction market has grown over the last few years, the real value of pavement construction work on roads and highways, adjusted for project and material costs, has declined 27 percent from a peak of $60.8 billion in 2009 to $44.4 billion in 2013.[10]



Source: U.S. Census Bureau Value of Construction Put in Place adjusted with ARTBA Price Index

[10] U.S. Census Bureau Value of Construction Put in Place for pavements and bridges, adjusted for project costs with the ARTBA Price Index.

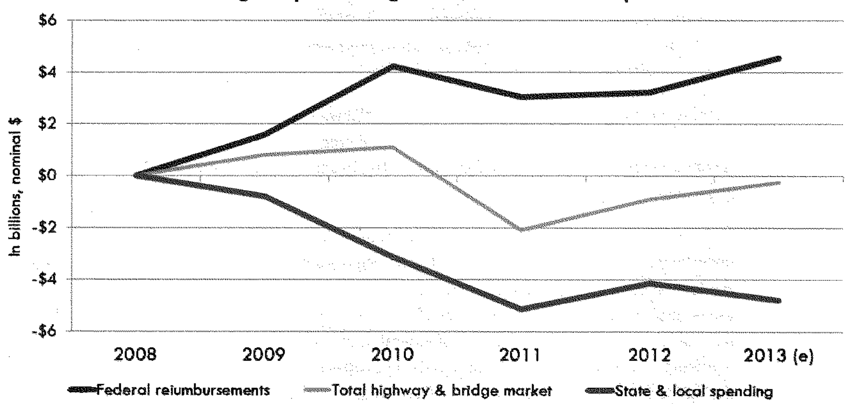
After showing some slight improvement in 2012, highway, street and bridge contractor employment is expected to be down about two percent in 2013. Business owners have cut nearly 41,000 jobs since the recession began in 2008.



Source: U.S. Bureau of Labor Statistics. Total for 2013 estimated based on data through November.

Federal investment in highways and bridges has been increasing since the economic downturn in 2008, according to data from the Congressional Budget Office and FHWA. At the same time, state and local governments, facing significant fiscal and budget challenges, have pulled back on their spending levels compared to their investment levels in 2008. Estimated state and local government spending in 2013 for highway and bridge construction was nearly $5 billion below investment levels prior to the start of the Great Recession. Overall, state and local governments have spent nearly $18 billion less, between 2009 and 2013, than if they had continued investment at the pre-recession level. Meanwhile, federal investment has increased nearly $16.6 billion compared to pre-recession spending levels. This is through additional ARRA funding and slight increases in the core federal highway and public transportation programs under MAP-21.

Difference in highway and bridge investment levels compared to 2008



Source: Total market is the US Census Bureau value of construction put in place. Federal spending is 88% of federal outlays in a given fiscal year. State and local estimate is the difference between the total market number and the federal spending.

Although MAP-21 has provided some stability to state programs, there are still a number of state and local governments that are holding back on projects. Given the uncertainty surrounding the Highway Trust Fund, we expect this to continue. Based on contract award data from McGraw Hill, there are 20 states where the real value of state and local highway contract awards in 2013 was down compared to 2012. Awards were up in 19 states and Washington, D.C., and fairly flat within plus or minus five percent in the remaining 11 states. The real value of bridge contract awards are up in 26 states and Washington, D.C., down in 22 states, and within plus or minus five percent in the remaining two states.

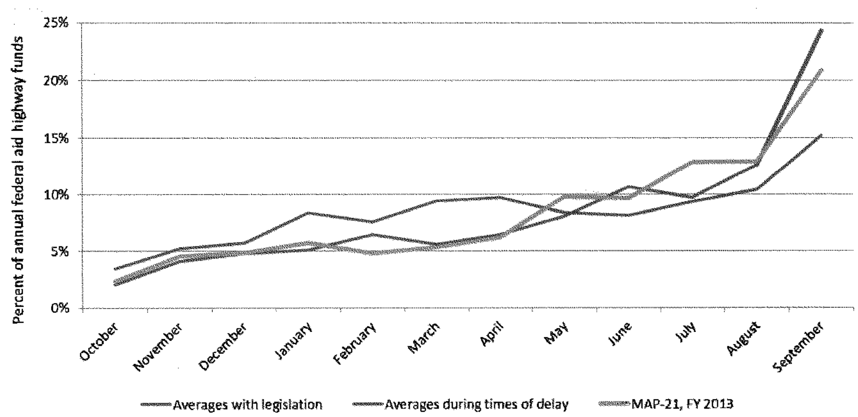
Senator James Inhofe

1) **TEA-21 was extended 12 times before we enacted SAFETEA-LU. SAFETEA-LU was extended 10 time before we passed MAP-21. MAP-21 is only a two year reauthorization.**
    a. **What impact do short-term extensions have on projects of regional or national importance?**

Short-term extensions create uncertainty in the highway and bridge construction market. Because so many state highway and bridge capital programs are dependent on federal funds, it is common for uncertainty at the federal level to disrupt the efforts of state DOTs and local governments to advance major projects.

The table below indicates state DOTs tend to hold back on obligating their funds during times of uncertainty. When a state or local DOT has an eligible project ready to go to construction under the federal-aid highway program, it enters into a project agreement with FHWA that obligates the federal government to pay its share of the project cost. The project can then proceed to bidding and construction. Obligation of federal funds can thus be a leading indicator of highway construction activity in the U.S. State DOTs must obligate all of their regular program funds during the federal fiscal year, beginning October 1.

Average Monthly Obligation of Federal Aid Highway Funds



Source: ARTBA analysis of monthly FHWA obligation data. Times with legislation include FY 1997 to FY 2003 under TEA-21 and FY 2006 to 2009 under SAFETEA-LU. Times corresponding roughly to reauthorization delays include FY 2004 to 2005 and FY 2010 to 2012.
Totals include federal aid funds to states and any exempt funds obligated, including ARRA.

Under the longer term surface transportation authorizations of 1998 and 2005, state DOTs obligated an average of 40 percent of their total federal funds in the first six months of the fiscal year, October to March, and the remaining 60 percent of funds in the second part of the year from April to September.

During periods of reauthorization that involve a series of short-term extensions, state DOTs obligated more of their money later in the fiscal year. During these periods of market uncertainty, states obligated an average of 28 percent of funds in the first six months of the federal fiscal year. They obligated the remaining 72 percent in the last six months. In fact, over 57 percent of the annual federal funding was obligated during the last four months of the fiscal year, from June through September. This is important because those projects still need to go through the bidding and award phase before actual construction work can begin. In situations like this the delay in obligations can shift projects to the next construction season.

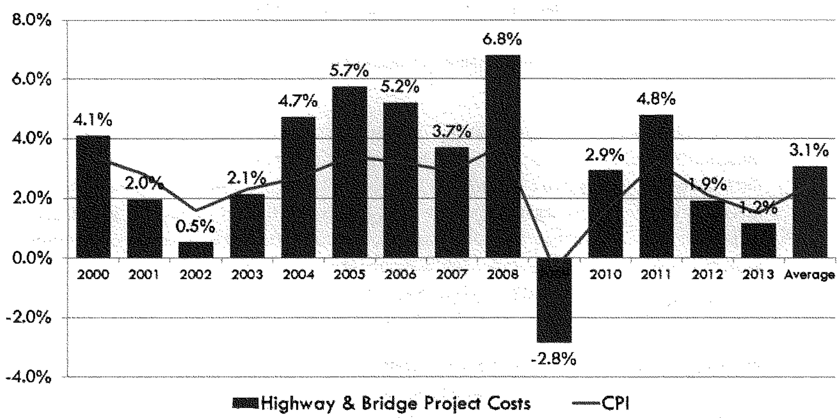
Although MAP-21 provided some market certainty in terms of federal funding, the situation with the Highway Trust Fund has created additional market uncertainty. During FY 2013 we have seen the same obligation patterns as during times of reauthorization uncertainty, with states obligating 72 percent of their funds in the last six months of the fiscal year and 47 percent of funds in the last three months alone.

b. Can you talk about the costs of extensions vs. long-term transportation bills?

Long periods of extensions for the federal aid highway program have direct and indirect costs. The indirect costs are in the project pipeline. Based on a number of in-depth state market studies conducted by our ARTBA Economics and Research team over the last decade, we know that many state DOTs make key assumptions about federal investment levels based on federal aid funding in current law. Projects move from state transportation improvement plans (STIPs) to the planning process based on state priorities. It is harder to advance projects, especially those that need substantial lead time in terms of planning and environmental reviews, when there is uncertainty surrounding federal investment levels. This may be particularly true for states that rely heavily on the federal aid program for their capital spending.

A direct cost of delay is through increasing material prices. The longer projects are delayed, the more they will cost as material prices and wages increase. The ARTBA Price Index measures changes in material prices, highway and bridge contractor wages and general inflation based on project information from FHWA. Over the last 13 years, the cost of building highways and bridges has outpaced general inflation. The average increase in highway and bridge projects costs is 3.1 percent, compared to 2.4 percent for general inflation.

Annual Change in Highway & Bridge Project Costs



Source: The ARTBA Price Index estimates total changes in project cost based on the price of materials, highway and bridge production worker wages and the consumer price index (CPI).

The table to the right illustrates the potential cost impact of a five year delay to begin construction on a $100 million project.[11] Assuming the project takes five years and project costs are increasing annually at the historical rate of 3.1 percent, a five year construction delay could increase costs as much as 16.5 percent.

Hypothetical $100 Million Federal-Aid Highway Project - Cost in 2013 $		
Year	Construction Starts 2013	Construction Starts 2018
2013	$27.0	
2014	$43.3	
2015	$19.1	
2016	$7.7	
2017	$6.8	
2018		$31.5
2019		$50.4
2020		$22.3
2021		$8.9
2022		$7.9
Total cost in 2013 $	**$103.9**	**$121.0**
Savings	**16.5%**	

[11] This example assumes that the project costs $100 million in 2013, when the engineering, environmental review and permitting process begins. Project costs are assumed to increase 3.1 percent a year, the current ten-year historical average change in the ARTBA Price Index. The ARTBA Price Index is a weighted index of material prices, industry wages and overhead, based on average project costs from FHWA. The project spend out rate is in line with historical averages from CBO of 27 percent of funds expended the first year, 42 percent the second year, followed by 18, 7 and 6 percent the remaining three years.

c. What would you consider to be an ideal length of a transportation bill?

The ideal length for a surface transportation authorization bill, from the perspective of the transportation construction industry, would be in the range of five to six years. Transportation construction is the most capital-intensive type of construction, requiring machinery that often costs in the hundreds of thousands of dollars and significant investment in job and safety training. Short one- to two-year authorizations interfere with the long-range planning required of highway and transit construction contractors. Furthermore, an authorization bill in the five to six year range allows Congress to provide necessary oversight of these programs and to make periodic adjustments in policy to reflect shifting demographics and economic realities.

However, a five or six year authorization is appropriate only if it has a sufficient revenue foundation to ensure the investment commitments made in the authorization measure can be fulfilled by the Highway Trust Fund. The trust fund has faced four separate revenue shortfalls since 2008. These dilemmas are not the result of declining gas tax revenues or increased fuel efficiency as the media and many biased stakeholders claim. The trust fund's repeated revenue shortfalls are the result of the 2005 surface transportation bill setting investment levels that incoming Highway Trust Fund revenues could not sustain. As such, a multi-year reauthorization bill is ideal if it is supported with sufficient revenues.

Furthermore, according to the latest Conditions and Performance Report from the U.S. Department of Transportation, Congress should be investing something in the range of $60 billion per year, not the current $40 billion, just to maintain current physical and performance conditions on the core highways that are critical to the growth and productivity of the nation's economy, plus billions more than at present in the nation's public transportation systems. As such, the goal of any surface transportation bill should be to provide the necessary investments to, at least, maintain current physical conditions and traffic congestion levels.

2. I know this Committee is actively working with the Finance Committee to find a solution to funding issues, but would you agree, if we have to, that general fund could be a back stop to assure state and city governments of continued funding? How important is that assurance?

Of course, general fund transfers into the Highway Trust Fund could be used to support federal investment in highway and public transportation improvements, if that were the only available option. Since FY 2008, Congress has used this approach five times to prevent significant cuts in highway and transit investment and thus preserve thousands of jobs in the transportation construction and related industries and assure state and local governments of continued funding.

But there are a number of problems with the use of general funds to support federal highway and transit investment. First, general funds do not provide the same funding assurance as dedicated user fee revenues. An excellent example is the general fund transfers enacted for FY 2013 and FY 2014 in MAP-21. The amounts transferred were calculated to assure adequate funding through the end of FY 2014 and into FY 2015. But the FY 2013 transfer was reduced as part of the sequestration, and the

FHWA now predicts that the Highway Account will run out of funds before the end of FY 2014, which means projects will have to be shut down or Congress will have to enact another emergency infusion of general funds. General fund transfers thus do not actually provide an assurance of continued funding. It should also be noted that MAP-21 established a clear precedent that any transfers into the Highway Trust Fund need to be offset with either revenues transfers from somewhere else in the federal budget or spending cuts from other discretionary programs.

Second, almost 60 years ago, when the Highway Trust Fund was created, Congress and the American people accepted the principle that highway users should pay for highway improvements, not general taxpayers. At the moment, user fee revenues into the Highway Trust Fund are not adequate to fund continued federal highway and transit investment at the current level, let alone what the federal government should be investing. Since FY 2008, general fund transfers have been used as a stopgap. But regular use of general fund transfers violates the long-accepted user-pays principle. Congress has been offered a number of options for increasing user-related revenues into the Highway Trust Fund. General fund transfers should be at the bottom of the list.

Finally, there is a misperception of the amount of revenues that would be needed. The $15 billion per year target that is frequently cited is only the amount needed to maintain current federal highway and transit investment. This, unfortunately, is far less than the federal government should be investing. As I pointed out earlier, according to the latest Conditions and Performance Report, Congress should be investing something in the range of $60 billion per year, not the current $40 billion, just to maintain current physical and performance conditions on the core highways that are critical to the growth and productivity of the nation's economy, plus billions more than at present in the nation's public transportation systems. Funding that gap with general revenues would cause an enormous increase in the federal deficit or require significant cuts in other programs.

General fund transfers can be used to fund federal investment in highways and public transportation. But that should be our last resort, not our first choice.

3. **Many members of my caucus believe we should live within our means. However, CBO reported that absent a new revenue source or general fund transfer to address the $14 billion annual shortfall in the Highway Trust Fund, we will need to cut the current highway program by almost 80%. Even though we are 12 months away from a new reauthorization, are you seeing any impacts that the report is having with your members? If so, what are those impacts?**

As noted in our answer to Senator Vitter's question, the transportation construction industry has been facing significant market challenges since the Great Recession in 2008. The uncertainty surrounding the Highway Trust Fund has our members, including contractors, suppliers and state DOTs, making contingency plans.

For over 12 years, ARTBA has received real-world feedback on the transportation construction market through our quarterly contractor survey. Despite the stability of MAP-21 and the improving overall economy, 75 percent of contractors that responded to our most recent survey did the same amount or less work in the last quarter of 2013 compared to the same time period in 2012. Sixty-one percent reported that their backlog at the end of December 2013 was equal or lower to their backlog at the end of December 2012. Construction backlogs are the value of work that a contractor has been awarded, but has not yet begun. Thus it is a leading market indicator and an important measure for businesses when making capital spending or hiring decisions. If a company has a larger backlog, they know the value of upcoming work.

When they are doing less work and have smaller backlogs, our members do not have the ability to invest more in hiring workers or making capital purchases. The uncertainty over the Highway Trust Fund compounds this situation. Forty percent of survey respondents said the total number of people employed by their company in 4th quarter 2013 was the same as 4th quarter 2012, while 28 percent reported they had fewer workers. Capital spending during the same time periods was down for 40 percent of respondents and about the same for 34 percent.

Meanwhile, there are still continued upward pressures on material prices and wages. Thirty-eight percent of respondents said wages and salaries were up in the last part of 2013 compared to earlier in the year. The cost of materials was increasing for 48 percent of respondents.

Our members are telling us they have the ability to take on more work. Currently 49 percent of survey respondents are working at 75 to 90 percent of their capacity and have the ability to take on significantly more work. Thirty-five percent are working below 75 percent of capacity.

Survey participants emphasized the difficulties created by the uncertainty around federal transportation investment through their open comments. "We have continued concern about the uncertainty in determining the future cost for operating our business," said one respondent.

In addition to the pull back in contract awards also noted in the response to Senator Vitter's question, there are at least ten states that have publicly commented on the challenges facing their program because of the Highway Trust Fund situation.

Alabama State Highway Director Scott Bennett said that if things continue "we do have a fiscal cliff of our own that we have to be concerned about." Kentucky Transportation Secretary Mike Hancock told the state legislature that if the Highway Trust Fund is not replenished "this has wide-ranging implications for all states."

The Georgia Department of Transportation commissioner, Keith Golden, has said that without a new federal transportation bill, "We couldn't do any design work. We couldn't buy any right of way. We couldn't start any new construction projects. We would continue with the projects that are already underway, but no new projects."[12]

[12] http://www.peachpundit.com/2013/10/23/transportation-fiscal-cliff-looming/

Iowa, Missouri, Oregon, South Dakota, Rhode Island and Vermont have also commented on the challenges they would face or cutting their programs if the federal aid program was reduced.

Senator BOXER. Thank you very much.

Now we will hear from Hon. Michael P. Lewis, President, American Association of State Highway and Transportation Officials. We welcome you, sir.

STATEMENT OF HON. MICHAEL P. LEWIS, PRESIDENT, AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Mr. LEWIS. Good morning, Chairman Boxer, Ranking Member Vitter, Senator Whitehouse, distinguished members of the Committee.

I am Michael Lewis, Director of the Rhode Island Department of Transportation and President of the American Association of State Highway and Transportation Officials. Thank you for the opportunity on behalf of AASHTO and the State DOTs to share our views on the need for robust Federal investment in surface transportation and the potential impacts of the impending cash shortfall in the Highway Trust Fund.

I have three brief points to make. One, if Congress does not act within the next 12 months to either increase the Highway Trust Fund revenues or provide additional General Fund support, the States will be unable to obligate virtually any new Federal funds in fiscal year 2015. Two, if Congress does not act there will be immediate and direct impacts to the States' economies, with lost jobs and permanently shuttered business. And there will be substantial additional economic, social and environmental costs associated with canceled or delayed projects. And three, if Congress does not act, the States, even with their local and private partners, simply cannot fill the infrastructure funding gap.

Let me elaborate briefly on each of these. First, the Federal Surface Transportation Program is at a crossroads, as we have all said. The Highway Trust Fund has provided stable, reliable and substantial highway and transit funding over decades since its inception in 1956. This is no longer the case. According to CBO, spending from the trust fund is estimated to exceed receipts by about $15 billion per year on average over the next 10 years, starting in fiscal year 2014.

Furthermore, the trust fund is expected to experience a significant cash shortfall in fiscal year 2015. By our estimate, States will not be able to obligate any new Federal highway funds in fiscal year 2015, a drop from approximately $40 billion a year to virtually zero.

In addition to allowing no new obligations, it is possible that this cash shortage could slow down Federal reimbursements to States for costs already incurred and from prior obligations leading to serious cash flow problems for the States. Simply put, failure to act to address the current cash shortage would result in a devastating scenario that we must do all we can to avoid, which leads to my second point.

What are the impacts, if Congress fails to act? A significant portion of much needed highway and transit projects, projects that underpin economic development and improve the quality of life in every community and congressional district will either be delayed or canceled outright. Cutbacks on contract lettings will mean missed opportunities to pare down the backlog of investment needs, causing a negative domino effect on the construction industry employment, exactly when it is starting to rebound after being one of the hardest hit segments in the recent recession.

In my State of Rhode Island, if no additional revenue are found for the Highway Trust Fund by October 1st of next year, the immediate and long-lasting impacts will be devastating. As I just mentioned, without additional revenues, States will be unable to obligate new funding in fiscal year 2015. In the worst cases, States like Rhode Island and Louisiana could be facing a cliff now, in 2014. That is because of many large projects or multi-year projects that have committed funding future obligations to address cash flow needs.

In addition, a decade ago, Rhode Island committed to a large number of regionally vital transportation projects using innovative garvee financing, which pledges future Federal funds for debt service. Without assurance that we can expect at least level funding in fiscal year 2015, Rhode Island will be facing the real possibility that all fiscal year 2014 funds will need to be pledged to cover existing obligations for both fiscal years 2014 and 2015, thereby eliminating new contract awards for 2 full years.

Not only will this have devastating effects on the local construction industry, but it comes at a time, even with level funding, when Rhode Island's bridges are expected to further deteriorate from 20 percent structurally deficient today to over 40 percent structurally deficient by 2020.

Third point, a long-term and dependable Federal partner for investing in surface transportation is essential to all States, large and small, rural and urban. Even those States that have recently increased their revenues and become leaders in infrastructure investment ultimately cannot do it alone. Robust Federal investment in surface transportation is needed today and in the future.

Going back to the founding days of this Nation, Article 1 Section B of the Constitution declares that it is a duty of the Federal Government to provide support for national transportation investment through the development of post roads, canals, railroads, highways and airways. With strong Federal support throughout history, transportation investment has an exceptional track record of creating jobs and supporting economic development throughout the country.

In summary, transportation infrastructure investment is critical for long-term economic growth, increasing productivity, employment, household income, exports and overall quality of life. The outlook for the Federal Highway Trust Fund and Federal surface transportation program is unsustainable because the current Federal revenues are simply not enough.

Congress can address this projected shortfall in one of three ways, as was mentioned earlier, by substantially reducing spending for surface transportation, not something I think that we support, by boosting revenues or some combination of the two. We know there is a long list of potential revenue options. We believe that at a minimum we need an approach that will allow us to sustain MAP–21's investment levels in real terms. We believe it is possible to reach this level without placing an unreasonable financial burden on most of the traveling public. Given the alternative, potentially devastating economic impacts from virtual elimination of Federal surface transportation funding, we believe the only solution is to find and implement a viable set of revenue solutions to the Highway Trust Fund shortfall that will work for 2015 and are sustainable over the long term.

Thank you.

[The prepared statement of Mr. Lewis follows:]

AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

AASHTO

THE VOICE OF TRANSPORTATION

TESTIMONY OF

The Honorable Michael P. Lewis

President, American Association of State Highway and Transportation Officials (AASHTO);
Director, Rhode Island Department of Transportation

REGARDING

ENSURING A STRONG HIGHWAY TRUST FUND TO SUPPORT FEDERAL SURFACE TRANSPORTATION INVESTMENT

BEFORE THE

Committee on Environment and Public Works of the United States Senate

ON

September 25, 2013

American Association of State Highway and Transportation Officials
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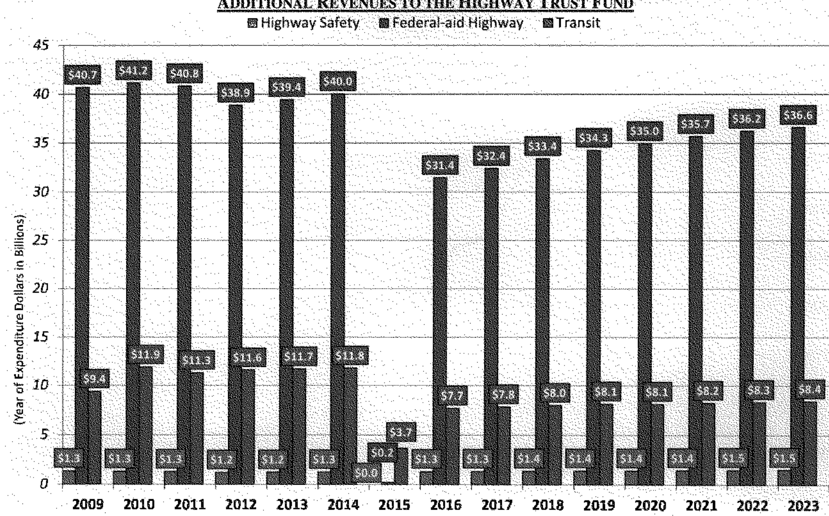
INTRODUCTION

Chairman Boxer, Ranking Member Vitter, and Members of the Committee, thank you for the opportunity to provide input on the current status of the Highway Trust Fund and how its impending cash shortfall could be addressed in order to support robust federal investment in surface transportation. My name is Michael Lewis, and I serve as Director of the Rhode Island Department of Transportation (RIDOT). Today I am testifying on behalf of the American Association of Highway and Transportation Officials (AASHTO), which represents the state departments of transportation (DOTs) of all 50 states, Washington, D.C. and Puerto Rico.

The federal surface transportation program is at a crossroads. While the Highway Trust Fund (HTF) has provided stable, reliable, and substantial highway and transit funding over decades since its inception in 1956, this is no longer the case. According to the Congressional Budget Office (CBO), HTF spending is estimated to exceed receipts by about $15 billion per year on average for the next ten years (FY 2014-2023). Furthermore, the HTF is expected to experience a significant cash shortfall in Fiscal Year 2015. By AASHTO's estimate, states may not be able to obligate almost any new federal highway funds that year, representing a 99.5 percent drop from FY 2014 (i.e., $40 billion to $0.2 billion). This situation could also impede federal reimbursements to states on existing obligations, leading to serious cash flow problems for states. Simply put, this is a devastating scenario that we must do all we can to avoid.

EXHIBIT 1. ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2014 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



As a major potential disruption to the HTF remains on the horizon, the Congressionally-chartered National Surface Transportation Policy and Revenue Study Commission has projected annual federal capital investment needs at $225 billion for the next fifty years. When compared to the current funding level of about $90 billion, there is a significant investment deficit in surface transportation infrastructure.

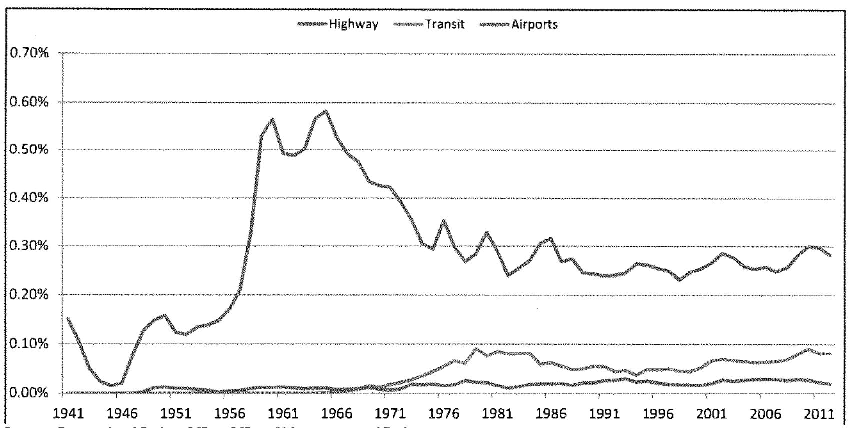
In order to sustain the long tradition of robust national investment in transportation, we must ensure the HTF's looming cash shortfall is addressed with solutions that enable sustainable program funding not just beyond FY 2015, but for the long term.

THE FEDERAL IMPERATIVE IN TRANSPORTATION INVESTMENT

Going back to the founding days of the Nation, Article I, Section 8 of the United States Constitution notes that it is a duty of the federal government to provide support for national transportation investment. Through the development of post roads, canals, railroads, highways, and airways with strong federal support throughout history, transportation investment has an illustrious track record of creating jobs and supporting economic development throughout the country.

However, in the recent decades—especially after the completion of the Interstate Highway System—federal investment in transportation has declined significantly as a share of the Gross Domestic Product (GDP).

EXHIBIT 2. FEDERAL TRANSPORTATION SPENDING AS PERCENT OF GDP



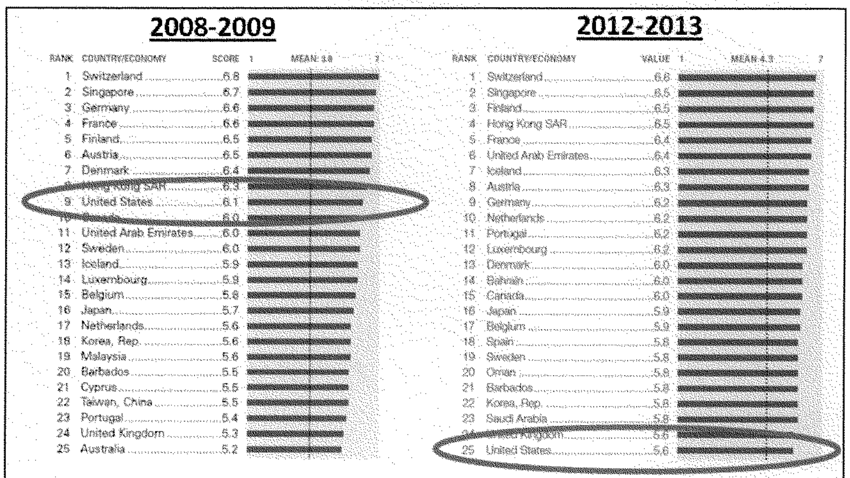
Sources: Congressional Budget Office, Office of Management and Budget

Given that much of the Interstate system has now reached the end of its design life and must be reconstructed or replaced, and there is considerable need for additional capital improvements to the broader federal-aid highway network and the country's transit system, there is a strong argument that the federal government should strive to return to this prior level of investment relative to the national economy.

While federal investment has declined, infrastructure conditions and performance continue to deteriorate, increasing indirect costs to travelers and broader economy. According to the American Society of Civil Engineers (ASCE), 66,749 of America's bridges—or 11 percent of the total—have been identified as structurally deficient, earning it a grade of C+. Road and transit system fare even worse, with a grade of D; aviation, inland waterways, ports, and rail earned grades of D, D-, C, and C+ for, respectively. Furthermore, ASCE has identified 42 percent of major urban highways as congested, costing $100 billion annually; 32 percent of roads are deemed to be poor or mediocre condition, costing the average motorist $324 per year.

At the same time, we're falling behind global peers in infrastructure quality and economic competitiveness. The recent *Global Competitiveness Report* rankings from the World Economic Forum on infrastructure quality has listed the United States at 25th place—down from ninth place just a few years ago in 2009.

EXHIBIT 3. DECLINE IN US INFRASTRUCTURE QUALITY RELATIVE TO PEER NATIONS



Source: World Economic Forum, *The Global Competitiveness Report*

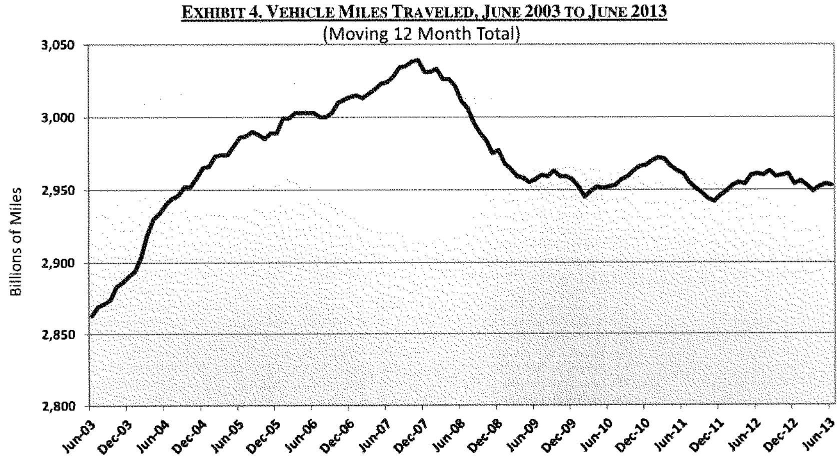
In light of continued population growth and increases in freight movements for all modes, capacity enhancements—and not just maintenance of existing infrastructure stock—must remain a key element of the national transportation investment strategy. A potentially catastrophic disruption to the federal transportation program in FY 2015 will produce serious losses that threaten the gradual macroeconomic recovery seen in the last few years after the Great Recession.

ADDITIONAL REVENUES NEEDED JUST TO SUPPORT CURRENT SPENDING

While the HTF continues to derive about 90 percent of its revenues from taxes on motor fuels, these taxes are facing an increasingly unsustainable long-term future, therefore placing the viability of the HTF in question. Three factors explain the challenges faced by the motor fuel taxes.

First is the stagnation of vehicle miles traveled (VMT) in the United States, on an aggregate basis. Steady increase in VMT has allowed the HTF to see corresponding revenue increases without necessitating constant adjustments in fuel tax rates for most of its existence. While the total VMT is expected to climb up in the future years due to increases in both population and economic activity in the post-recessionary environment, it is unlikely to see the 3.2 percent growth rate experienced on average between 1956 and 2007.

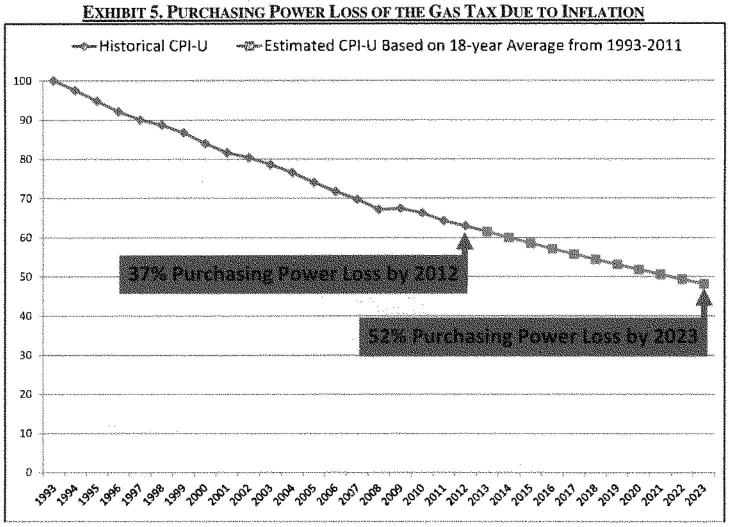
EXHIBIT 4. VEHICLE MILES TRAVELED, JUNE 2003 TO JUNE 2013



Source: Federal Highway Administration

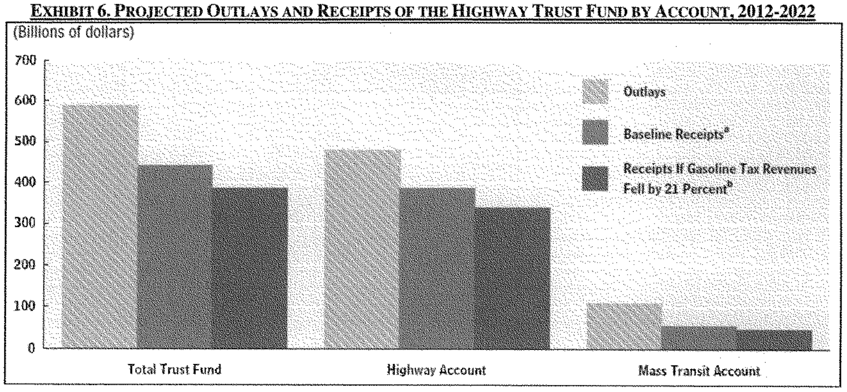
Second, motor fuel taxes at the federal level were last increased to the current rates of 18.4 cents per gallon for gasoline and 24.4 cents for diesel 20 years ago in 1993. As an excise tax levied per gallon, taxes on motor fuel have lost a significant share of its purchasing power. Compared to the Consumer Price Index, the gas tax had lost 37 percent of its purchasing power by 2012, and is expected to lose more than half of its value—or 52 percent—by 2023.

EXHIBIT 5. PURCHASING POWER LOSS OF THE GAS TAX DUE TO INFLATION



Third, according to the CBO, the recent increase in Corporate Average Fuel Economy (CAFE) standards is expected to cause a significant reduction in fuel consumption by light-duty vehicles, which would result in a proportionate drop in gasoline tax receipts. CBO expects gradual lowering of gasoline tax revenues, eventually causing them to fall by 21 percent by 2040. Just in the 2012 to 2022 period, CBO estimates that such a decrease would result in a $57 billion drop in revenues credited to the fund over those 11 years, a 13 percent reduction in the total receipts credited to the fund.

EXHIBIT 6. PROJECTED OUTLAYS AND RECEIPTS OF THE HIGHWAY TRUST FUND BY ACCOUNT, 2012-2022



Source: Congressional Budget Office

Facing these structural headwinds, CBO projects the HTF in FY 2015 to incur $53.2 billion in outlays while raising only $38.7 billion in receipts, leading to a total cash shortfall of $15.1 billion for its Highway and Mass Transit Accounts. This situation is not new, as the HTF will have—by the expiration of the Moving Ahead for Progress in the 21st Century (MAP-21) legislation in September 2014—relied on a series of General Fund transfers amounting to $53.3 billion since 2008 to close this gap. But the annual cash imbalance is only getting worse, and the HTF cannot incur a negative balance unlike the General Fund. This situation leads to three possible scenarios for FY 2015:

1. Provide additional General Fund transfers to the HTF in order to maintain the current level of spending and prevent a dramatic drop
2. Provide additional receipts to the HTF by adjusting existing revenue mechanisms or implementing new sources of revenue
3. Reduce federal highway obligations supported by the HTF by almost 100 percent

In order to support the first two scenarios where current highway and transit investment levels are maintained or increased, there is no shortage of technically feasible tax and user fee options that Congress could consider.

EXHIBIT 7. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

(all revenue estimates in $ millions)

Funding Mechanisms	Mechanism Yield 2014		Illustrative Rate	Revenues 2014	Avg Revenues 2015-2020	Total Revenues 2015-2020
Container Tax	$1 per TEU=	$ 421	$15.00	$ 6,317	$ 6,893	$ 41,361
Customs Revenues (Partial Dedication)	1% of Receipts =	$ 357	1.0%	$ 357	$ 408	$ 2,451
Drivers License Surcharge (Annual)	$1.00 Surcharge =	$ 222	$5.00	$ 1,109	$ 1,154	$ 6,926
Excise Tax on Diesel (Increase)	1¢/gal =	$ 399	15.0¢	$ 5,983	$ 6,480	$ 38,877
Excise Tax on Diesel (Indexing)	n/a			$ 440	$ 1,031	$ 6,183
Excise Tax on Gas (Increase)	1¢/gal =	$ 1,282	10.0¢	$ 12,823	$ 13,367	$ 80,202
Excise Tax on Gas (Indexing)	n/a			$ 1,046	$ 2,384	$ 14,303
Freight Bill - All Modes	1% of Sales =	$ 8,318	1.0%	$ 8,318	$ 9,236	$ 55,415
Freight Bill - Truck Only	1% of Sales =	$ 7,221	1.0%	$ 7,221	$ 8,018	$ 48,110
Freight Charge - All Modes (Ton)	1¢/ton =	$ 180	25.0¢	$ 4,492	$ 4,988	$ 29,929
Freight Charge - All Modes (Ton-Mile)	1¢/ton-mile =	$ 47,530	0.5¢	$ 23,765	$ 26,389	$ 158,334
Freight Charge - Truck Only (Ton)	1¢/ton =	$ 124	25.0¢	$ 3,098	$ 3,440	$ 20,641
Freight Charge - Truck Only (Ton-Mile)	1¢/ton-mile =	$ 13,911	0.5¢	$ 6,956	$ 7,724	$ 46,342
Harbor Maintenance Tax (Increase)	0.1% Tax =	$ 1,331	0.5%	$ 6,657	$ 7,264	$ 43,584
Heavy Vehicle Use Tax (Increase)	100% increase =	$ 852	15.0%	$ 128	$ 163	$ 977
Imported Oil Tax	$1.00/Bbls =	$ 3,528	$1.00	$ 3,528	$ 3,528	$ 21,171
Income Tax - Business (Partial Dedication)	0.1% of current taxes =	$ 440	1.0%	$ 4,396	$ 4,847	$ 29,082
Income Tax - Personal (Partial Dedication)	0.1% of current taxes =	$ 1,508	1.0%	$ 15,084	$ 18,393	$ 110,356
Registration Fee on Light Duty Vehicles (Annual)	$1.00 Fee =	$ 259	$10.00	$ 2,594	$ 2,731	$ 16,387
Registration Fee on Trucks (Annual)	$1.00 Fee =	$ 9	$15.00	$ 131	$ 133	$ 797
Sales Tax on Auto-related Parts and Services	1.0% of Sales =	$ 2,567	1.0%	$ 2,567	$ 2,883	$ 17,299
Sales Tax on Fuel - Diesel	1.0% of Sales =	$ 1,253	11.0%	$ 13,782	$ 15,839	$ 95,033
Sales Tax on Fuel - Gas	1.0% of Sales =	$ 3,711	8.0%	$ 29,686	$ 31,126	$ 186,753
Sales Tax on New and Used Light Duty Vehicles	1.0% of Sales =	$ 2,619	1.0%	$ 2,619	$ 2,619	$ 15,715
Sales Tax on New Light Duty Vehicles	1.0% of Sales =	$ 1,625	1.0%	$ 1,625	$ 1,625	$ 9,752
Sales Tax on Trucks and Trailers (Increase)	1% of Sales =	$ 268	5.0%	$ 1,340	$ 1,677	$ 10,062
Tire Tax on Light Duty Vehicles	$1.00 Fee =	$ 195	$3.00	$ 584	$ 615	$ 3,687
Tire Tax on Trucks (Increase)	100% increase =	$ 434	10.0%	$ 43	$ 54	$ 326
Vehicle Miles Traveled Fee on Light Duty Vehicles (All Miles)	1¢/VMT =	$ 26,891	2.0¢	$ 53,781	$ 55,852	$ 335,111

However, if no new revenues can be found for the HTF and the third scenario prevails in FY 2015, state departments of transportation (DOT) will be left to face two dire consequences that will severely undermine much-needed transportation investments throughout the nation: the virtual elimination of federal funding and potentially significant delays on federal reimbursements to state DOTs for costs already incurred.

DEVASTATING IMPACT TO STATES IF HIGHWAY TRUST FUND SHORTFALL MATERIALIZES IN FY 2015

Should the cash shortfall of the HTF materialize in FY 2015 due to the failure of additional revenues identified in time, every state in the nation—based on the historical federal share—will experience an average of 45 percent funding decline in their capital program for the year.

EXHIBIT 8. ILLUSTRATIVE STATE-BY-STATE ESTIMATE OF FEDERAL HIGHWAY APPORTIONMENTS FY 2015 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND

State	FY 2014 Estimated Apportionments*	FY 2015 Estimated Apportionments Based Program Reduction by 99.5%	State	FY 2014 Estimated Apportionments*	FY 2015 Estimated Apportionments Based Program Reduction by 99.5%
Alabama	$739,377,548	$3,696,888	Montana	$399,854,985	$1,999,275
Alaska	$488,657,038	$2,443,285	Nebraska	$281,687,138	$1,408,436
Arizona	$713,043,171	$3,565,216	Nevada	$353,877,660	$1,769,388
Arkansas	$504,569,278	$2,522,846	New Hampshire	$161,019,216	$805,096
California	$3,576,886,247	$17,884,431	New Jersey	$973,045,591	$4,865,228
Colorado	$521,127,428	$2,605,637	New Mexico	$357,883,246	$1,789,416
Connecticut	$489,480,629	$2,447,403	New York	$1,635,828,880	$8,179,144
Delaware	$164,854,236	$824,271	North Carolina	$1,014,526,299	$5,072,631
Dist. Of Col.	$155,498,965	$777,495	North Dakota	$241,949,914	$1,209,750
Florida	$1,846,456,138	$9,232,281	Ohio	$1,306,308,688	$6,531,543
Georgia	$1,258,346,951	$6,291,735	Oklahoma	$618,075,107	$3,090,376
Hawaii	$164,830,236	$824,151	Oregon	$487,110,616	$2,435,553
Idaho	$278,743,444	$1,393,717	Pennsylvania	$1,598,989,212	$7,994,946
Illinois	$1,385,563,679	$6,927,818	Rhode Island	$213,132,752	$1,065,664
Indiana	$928,604,225	$4,643,021	South Carolina	$611,847,012	$3,059,235
Iowa	$468,941,803	$2,344,709	South Dakota	$274,835,348	$1,374,177
Kansas	$368,281,197	$1,841,406	Tennessee	$823,529,537	$4,117,648
Kentucky	$647,523,113	$3,237,616	Texas	$3,075,425,063	$15,377,125
Louisiana	$683,994,609	$3,419,973	Utah	$313,975,586	$1,569,878
Maine	$179,896,577	$899,483	Vermont	$197,790,025	$988,950
Maryland	$584,011,433	$2,920,057	Virginia	$991,722,683	$4,958,613
Massachusetts	$591,887,074	$2,959,435	Washington	$660,662,044	$3,303,310
Michigan	$1,026,080,875	$5,130,404	West Virginia	$425,895,633	$2,129,478
Minnesota	$635,487,719	$3,177,439	Wisconsin	$733,282,767	$3,666,414
Mississippi	$471,339,174	$2,356,696	Wyoming	$249,664,972	$1,248,325
Missouri	$922,597,239	$4,612,986	**TOTAL**	**$37,798,000,000**	**$188,990,000**

This means a significant portion of much-needed highway and transit projects—projects that underpin economic development and improve the quality of life—in every community and Congressional district will either be delayed or cancelled outright. Such cutbacks on contract lettings would mean missed opportunities to pare down the backlog of investment needs, while causing a negative domino effect on construction industry employment exactly when it is starting to rebound after being one of the hardest hit segments in the recent recession. Furthermore, ramping up and down construction activities—including equipment and labor resource management—due to the instability of the federal program would represent an extremely wasteful exercise and impose heavy opportunity costs for the entire transportation industry.

Rhode Island's entire capital highway program is completely dependent upon federal highway funding. The total capital program for Rhode Island averages $250 million annually, with $210 million annually from HTF apportionments. For decades, the state match for federal highway funds was provided by General Obligation bonds, creating a debt service burden on the only other transportation revenue stream in Rhode Island – the state gas tax. The state has taken steps to move away from a bond match for federal funds; steps that would potentially lead to the creation of a dedicated funding mechanism for road and bridge preservation. These steps, however, have not established a state-funded capital program.

A decade ago, Rhode Island moved ahead with innovative financing to complete more than $600 million in large-scale projects, including the relocation of a portion of interstate, improvements to the freight rail system, and the construction of a highway interchange vital to economic growth. The GARVEE method of financing allowed for borrowing against future federal funds. The result is an immediate 25 percent reduction of the state's capital highway program. Through FY 2021, Rhode Island must repay an average of $60 million annually, with $50 million a year obligated from federal funds. The shortfall in the HTF in FY 2015 would not only eliminate Rhode Island's capital program but the state would also face a $50 million GARVEE bond repayment.

In addition to cutbacks in new obligations, the HTF shortfall in FY 2015 could potentially cause delays on federal reimbursements to states for costs already incurred on highway and transit investments. This almost took place five years ago when the HTF experienced its first cash shortfall, leading to the imposition of modified payment procedures which occurs when the Highway Account's balance falls below a predetermined threshold. The Federal Highway Administration (FHWA) had to cease its longtime practice of reimbursing state governments electronically on the same day in which the state submits a request for payment. Rather, FHWA decided to reimburse only on a weekly basis subject to availability of cash in the Highway Account. This might have led to a situation where FHWA eventually could not cover 100 percent of the bills received, leaving states to provide the necessary cash cushion for costs already incurred while facing an ever-diminishing share of reimbursements from the federal government compared to the full amount owed. Given the urgency of this situation, Congress passed emergency legislation (H.R. 6532) which provided for $8 billion to the Highway Account from the General Fund, signed into law on September 15, 2008.

With the 2008 experience as historical reference, a similar situation—even with optimized cash management techniques—may occur at some point in FY 2015 due to the magnitude of the cash shortfall. Given that cash flow projections are subject to unexpected or uncontrollable changes, the HTF shortfall could take place even prior to FY 2015 if receipts come in lower than expected or outlays come in higher than expected in the period leading up to October 2014.

Here are two tangible examples of how other states would be negatively impacted if no additional revenues are found for the HTF by FY 2015. It's important to keep in mind that even states that do want to take leadership on infrastructure investment are hampered by slow recovery from the recession that has diminished the states' own resources, thereby necessitating even greater reliance on the federal transportation program.

California

California receives approximately $3.6 billion in federal reimbursements annually for transportation projects across the state. California's statewide transportation system would experience accelerated deterioration should major rehabilitation projects be cancelled or deferred. California's ability to manage one of its greatest assets, the State Highway System, would be severely impacted by the loss of federal resources. Even if reimbursements for existing projects were to continue, California's ability to move forward with billions of dollars of planned projects would be greatly impacted.

In total, the lack of new obligations would imperil current year planned construction of $2 billion for 250 state-sponsored rehabilitation projects, about $700 million in capacity improvement projects, and billions more on local streets and roads. Some of the current state projects that could be delayed or halted due to funding shortages include:

- Interstate 80 pavement rehabilitation project in Sacramento County (northern California) costing $95 million.
- Cajon Pass design-build roadway rehabilitation project in San Bernardino County (southern California) totaling $107 million.
- Major pavement and roadway rehabilitation projects in Los Angeles County on routes 710, 210, 101, and several locations along Interstate 5 totaling $300 million.
- California has also utilized Advanced Construction on many large projects that may have to be halted if federal obligations stop.

In addition, the California Department of Transportation oversees monthly capital expenditures of nearly $500 million. Loss of reimbursement from the HTF for projects already underway would quickly deplete available cash. If reimbursements from the HTF were to completely halt, the State's primary highway account (the State Highway Account) would become insolvent in as little as two months. Even projects and maintenance activities that do not rely on federal funding would be impacted as state funds are expended without reimbursement from the HTF. In surprisingly short order, the operations of the Nation's largest transportation agency would grind to a halt.

Louisiana

Louisiana would see a reduction of over $550 million in actual construction bid lettings in its FY 2014-2015 highway priority program if the HTF is not fully funded to the current level. This cut represents a drop from $700M to $132M or over 80 percent. Louisiana Department of Transportation and Development (LADOTD) has significant concerns with what the HTF shortfall will do to delaying projects and its effect on the state's infrastructure, including impacts to heavy road and bridge contractors.

LADOTD made significant strides in the last eight years since Hurricane Katrina to improve transportation infrastructure through investment of additional state dollars to complement federal transportation funding. If the federal funds are virtually eliminated in FFY15 and then restored at a reduced level in FY 2016 and beyond, projects will suffer a significant setback, and recent gains could be lost.

Louisiana has a number of significant Interstate Highway System projects scheduled for construction in FY 2015 and beyond. These projects—critical to Louisiana's commerce—will have to be deferred along with numerous other projects if the revenue shortfall in the HTF is not addressed.

CONCLUSION

There is ample documented evidence that shows infrastructure investment is critical for long-term economic growth, increasing productivity, employment, household income, and exports. Conversely, without prioritizing our nation's infrastructure needs, deteriorating conditions can produce a severe drag on the overall economy. In light of new capacity and upkeep needs for every state in the country, the current trajectory of the HTF—the backbone of federal surface transportation program—is simply unsustainable as it will have insufficient resources to meet all of its obligations in FY 2015, resulting in steadily accumulating shortfalls.

Since 2008, the Congress has avoided such shortfalls by transferring $41 billion from the general fund of the Treasury to the HTF. It has enacted an additional transfer of $12.6 billion that is scheduled to occur in 2014. If lawmakers chose to continue authorizing such transfers, an additional $15 billion in FY 2015 and increasing amounts in subsequent years would be needed to prevent future shortfalls, if spending was maintained at the 2013 level (as adjusted for inflation).

Congress could address the projected annual shortfalls by substantially reducing spending for surface transportation programs, by boosting revenues, or by adopting some combination of the two approaches. According to the CBO, bringing the HTF into balance in FY 2015 would require the devastating action of entirely eliminating the authority in that year to obligate funds (projected to be about $51 billion for the federal highway and transit programs), raising the taxes on motor fuels by about 10 cents per gallon, or undertaking some combination of those approaches.

Whichever revenue tools are utilized, at a minimum, it is crucial to identify solutions that will sustain the MAP-21 level of surface transportation investment in real terms. Meeting this minimum funding target would not represent an unreasonable financial burden on the traveling public. For example, on a monthly basis, the amount of additional federal contribution needed to support this level of expenditure is estimated to be $10.23 per household. This favors comparatively to the monthly household spending on electricity and natural gas service ($160), landline and cell phone service ($161), and cable and satellite television, radio and internet access ($124), according to the American Road and Transportation Builders Association.

Given the devastating impact that a virtual elimination of federal surface transportation funding and potential delays on federal reimbursements to state DOTs in FY 2015 can have on economic recovery and construction industry employment, we look forward to assisting you and the rest of your Senate colleagues in finding and implementing a viable set of revenue solutions to the HTF not only for FY 2015, but that can also be sustained for the long term.

Environment and Public Works Committee Hearing
September 25, 2013
Follow-Up Questions for Written Submission

Questions from Senator Barbara Boxer:

Question #1: Mr. Lewis, I have been highlighting the impact that will result next year if new obligations from the Highway Trust Fund were cut 100%.

From the perspective of a State DOT, could you explain how this would play out on the ground and curtail the ability of States to build projects next year?

Answer: The Highway Trust Fund (HTF) that supports federal highway and transit investments is expected to have insufficient cash to meet all of its funding commitments, resulting in steadily accumulating shortfalls in Federal Fiscal Year 2015 (10/1/2014—9/30/2015). This means states would not be able to obligate almost any new federal highway funds that year, potentially representing a 99.5 percent drop from FY 2014 (i.e., $40 billion to $0.2 billion). Without Congressional action, this situation will also impede federal reimbursements to states on existing obligations, leading to serious cash flow problems for states. According to the U.S. Department of Transportation,

> "based on current spending and revenue trends ...the Highway Account of the Highway Trust Fund will encounter a shortfall before the end of fiscal year (FY) 2014. The surface transportation program continues to outlay at a greater pace than receipts are coming in. As a result, the cash balance has dropped by nearly $3.4 billion since the General Fund transfer occurred. As of the last week of December 2013, the Highway Account cash balance was $8.5 billion."

In a recent AASHTO survey of the State departments of transportation, we asked the states to provide information on the potential impact to their programs if Congress does not act to resolve the impending short fall in the Highway Trust Fund. While many states declined to enumerate project-level impacts, 36 states provided a range of 5962 to 6717 projects impacted, with project dollar values ranging from $21.6 billion to $24.5 billion. A few states noted that while the total dollar value from impacted projects could not be calculated at this time, they estimated that the reduction in transportation investments would at least equal one year's worth of federal highway obligation authority.

Question #2: Mr. Lewis, in discussing revenue options you state that meeting the minimum funding target of sustaining MAP-21 funding levels would only require an average additional household contribution of around $10 dollar per month, a fraction of what families pay for the use of services and infrastructure such as energy, internet service, phone service, and water.

Could you explain further how this figure was derived and how much that would generate nationwide?

Answer: In my testimony I stated, "For example, on a monthly basis, the amount of additional federal contribution needed to support this level of expenditure is estimated to be $10.23 per household." This illustrative example is based from our calculation that if each of the 118.7 million households in the United States (as identified by the Census for 2011) paid an additional $10.23 per month into the

Highway Trust Fund, its receipts would increase by an average of $14.6 billion per fiscal year between 2015 and 2020. This additional revenue, in turn, would allow for continuation of inflation-adjusted MAP-21-authorized funding levels for highway and transit over this six-year timeframe.

Question #3: Mr. Lewis, there has been a lot of talk in the trade press about the need to raise $14-15 billion in additional revenue per year in order to just maintain current investment levels in highways, bridges, and public transportation systems.

Is that enough? Or do you think that Federal government should be spending more than it is now? If so, why?

Answer: The gap between combined spending levels on highways, bridges and transit from the federal, State and local governments and projected levels of investment needed to maintain existing conditions remains sizable. The most recent U.S. Department of Transportation report on the state of our highways, bridges and transit infrastructure, *2010 Status of the Nation's Highways, Bridges and Transit: Conditions and Performance*, which was released in 2012, projects that "$101 billion, plus increases for inflation, would be needed annually over the next 20 years from all levels of government – local, state and federal—to keep the highway system in its current state." AASHTO's *2009 Bottom Line Report*, which is based on the same data used to produce the Conditions and Performance Report, projects annual investments of $132 billion would needed to improve the highway system if travel growth remains at approximately 1% a year. AASHTO estimates an annual investment of $46 billion for public transportation is needed to improve system performance and condition, given an expected 2.4 percent annual growth in ridership.

Given the needs estimates, all levels of government need to be spending more to maintain and improve the transportation infrastructure. We understand the critical link between a providing and maintaining a technologically modern system to support a 21st century economy that allows us to maintain our competitive global edge. However, we also recognize the realities of the fiscal constraints within which the States must operate.

We have developed illustrative information on three potential scenarios for investment:

1. Scenario One: Sustain Current Investment in Real Terms (Average of $57.1 billion per year federal investment between 2015 and 2020)
2. Scenario Two: Investment Needs Identified by USDOT Conditions and Performance Report (Average of $63.1 billion per year federal investment between 2015 and 2020)
3. Scenario 3: Return Program to 1993 Purchasing Power (Average of $73.3 billion per year federal investment between 2015 and 2020)

Questions from Senator David Vitter:

Question #1: Recently, we have seen a few States take action to address their individual revenue concerns. How would Federal action affect the states that have already taken action and the states that are currently considering action?

Answer: AASHTO has been encouraged to see recent successes in state-based revenue initiatives to increase transportation funding. Based on our discussions with leaders from these states, we understand they were able to clearly articulate how to better meet the transportation investment needs unique to their own states and the attendant economic and quality-of-life benefits associated with such actions. In general, we also understand that many of these states assume continuation of at least current federal highway and transit funding levels that complement their recently-increased state contributions. This implies that these states can only carry out their respective capital programs and long-range plans as long as the current federal share is at least maintained, and they do not intend their dollars to displace or backstop any potential reductions in federal investment.

Question #2: Several ideas have or will be discussed that place a particular onus on the states for collection. Do you have any concerns with any proposal that either utilizes a current state collection mechanism or relies on the state for collection purposes?

Answer: AASHTO believes the goal of identifying and implementing a stable source of funding for the Highway Trust Fund could be achieved through a variety of existing and proposed revenue mechanisms. Because of various strengths and weaknesses associated with such revenue mechanisms (e.g., points of collection), we do not explicitly nor implicitly identify any single approach for recommendation over others. We do have concerns that mechanisms that rely on state collection may infringe on a states' reliance on that type of fee (e.g., fees for vehicle registration or drivers licenses). In addition, requiring a state to collect a source of revenue for the Highway Trust Fund may result in additional administrative costs for the state. We do, however, absolutely remain committed to continue assisting Congress in adopting politically feasible funding and financing solutions in line with AASHTO's overall reauthorization recommendations.

Question#3: From your perspective as the Director of Rhode Island DOT and assuming the current funding baseline, how far behind will Rhode Island be in terms of scheduled project delivery if the funding issue is not addressed? What actions has your Department already taken to prepare for that possibility?

Answer: Rhode Island has begun to prepare for the possibility of Trust Fund insolvency. Remaining Federal FFY2014 funds are being reserved to cover expenses for ongoing construction work, and debt service payments on GARVEE bonds needed for large projects implemented over the last decade, as well emergency repair projects approved by Department management. With the exception of emergency contracts and projects funded through prior year earmarks and other non-program sources, funding authorization for new construction work will be postponed until the Highway Trust Fund insolvency issue is resolved.

RIDOT plans to maintain a full staff as long as possible to manage ongoing projects and prepare, in the event that Congress acts to restore federal highway funding. RIDOT also plans to maintain consultant and construction contracts during federal funding downturn, using available funding from sources such as earmarks and a limited capital program. In order to manage risk and guard against depletion of resources and possible layoffs, approximately $122 million in anticipated projects, programmed for 2014 and 2015 as part of the Transportation Improvement Program (TIP), will be delayed.

This issue is absolutely critical for Rhode Island. The state's capital highway program is entirely dependent on federal highway funding. For decades, the state match for federal highway funds was provided by General Obligation bonds. Reliance on borrowing created a debt service burden on the other transportation revenue stream in Rhode Island, the state gas tax, which provides a declining allowance for operations and maintenance expenditures.

Within the last three years, the Governor and leaders in the General Assembly have enacted fundamental reforms to address Rhode Island's transportation infrastructure funding needs. These reforms include the shift that freed the State from using General Obligation bonds as the match to federal program dollars and the transfer of existing debt service costs from gas tax to General Revenue. However, these reforms are simply not enough, particularly in light of the projected Federal Highway Trust Fund shortfall.

Continued federal funding is central to efforts to maintain and improve Rhode Island's transportation infrastructure, as is diversification of revenue at the state level. However, there is no easy source when it comes to provision of additional funding to meet transportation infrastructure needs. There are projected deficits in the state General Fund in future years, leading to increased pressure from competing interests, such as human services, education, public safety, and economic development, all vying for limited resources. RIDOT is working cooperatively with the Administration and legislative leaders to both examine alternative sources for a state-funded capital program, and to seek emergency borrowing authority to fill a portion of the gap left by the elimination of federal funding in FY2015, in the event that Congress does not act.

Question #4: Maximizing efficiencies in the current system is an important part of the financing dialogue, as it instills taxpayer trust. MAP-21 made some significant strides in that direction. However, many feel like more can be done. What are some areas that still need work and what areas can the states play a more prominent role or where should they take the lead?

Answer: MAP-21 made great strides in accelerating project delivery, however more can be done. Reauthorization legislation could replicate the flexibilities in the pre-MAP-21 planning regulations which enable planning decisions to be used in the NEPA process. Prior to MAP-21, the authority for the NEPA process to adopt analyses and decisions made by States and MPOs during the transportation planning process existed only in the transportation planning regulations. Although State DOTs welcome the statutory authority in MAP-21, the statute establishes a much more complex and cumbersome process-which may deter States from undertaking this effort under the MAP-21 framework. The statutory process could be amended to ensure that it replicates the flexibilities that are included in the pre-MAP-21 planning regulations.

Reauthorization legislation could amend Section 169(f) of Title 23 to direct federal agencies to give substantial weight to programmatic mitigation plans in carrying out their NEPA and permitting duties. MAP-21 allows States and MPOs to develop programmatic mitigation plans as part of the statewide or metropolitan transportation planning process, but this provision does not actually require environmental agencies to consider programmatic mitigation plans when making permitting decisions. Without such consideration, there is little incentive for States or MPOs to develop and negotiate agreements on the more comprehensive mitigation plans. To provide states some assurances that choosing to develop these plans will expedite environmental processes and permitting, federal agencies could be required to give substantial weight to these plans in carrying out NEPA and permitting duties.

Reauthorization legislation could clarify that under the NEPA delegation program, State DOTs may assume USDOT's responsibility for making project-level conformity determinations under the Clean Air Act. SAFETEA-LU delegated project-level conformity to the States participating in the CE delegation program along with all of the other project-level decision-making responsibilities. However, project-level conformity was omitted from the full NEPA delegation program. As a result, States that receive delegated authority under this program are authorized to make all project-level decisions except for the project-level conformity determination. Delegation of project level conformity to the states that take on the full NEPA delegation program would help ensure the streamlining potential of the delegation program is fully realized.

Reauthorization legislation could include a provision to require USDOT, at the request of a project sponsor, to initiate a NEPA review for a project that is planned to be funded with non-traditional funding sources. Federal transportation funding is increasingly being supplemented with financing and non-traditional funding programs, including for example, state and local financial mechanisms to leverage federal funds, as well as the TIFIA and TIGER programs. Applicants for TIFIA and TIGER are expected to demonstrate progress toward NEPA completion, yet federal agencies may be reluctant to initiate NEPA when the project sponsor is not proposing to use traditional federal-aid highway or transit funds. As a result, States increasingly find themselves in a catch-22: they cannot initiate the NEPA process because they lack an identified funding source, and yet they cannot obtain funding because they have not made substantial progress through NEPA. To counteract this problem, USDOT could be required, when certain criteria are met, to initiate NEPA review for these projects, upon a project sponsor's request.

Reauthorization legislation could index for inflation the dollar amounts for the CE for projects involving a low level of Federal funding. MAP-21 establishes a CE for projects involving de minimis federal funding. Those threshold amounts, set in 2012, could be adjusted for inflation, so that the value of the reform stays constant and does not diminish over time.

Finally, Congress could consider provisions that would allow routine ditch maintenance projects to proceed without the need for a jurisdictional determination or permitting under Section 404 of the Clean Water Act (CWA). EPA and the Corps of Engineers are developing regulations regarding wetlands jurisdiction. State DOTs are concerned that the new regulations may cause many more roadside ditches to be considered jurisdictional or potentially jurisdictional – and therefore would greatly expand the number of ditch maintenance projects that require CWA jurisdictional determination or permitting before the project can be completed. To reduce the amount of additional evaluations and permitting, the federal government could allow routine ditch maintenance projects to proceed without the need for a jurisdictional determination or permitting under the CWA.

Questions from Senator Inhofe:

<u>Question #1</u>: TEA-21 was extended 12 times before we enacted SAFETEA-LU. SAFETEA-LU was extended 10 times before we passed MAP-21. MAP-21 is only a two year reauthorization.

What impact do short-term extensions have on projects of regional or national importance?

Can you talk about the costs of extensions vs. long-term transportation bills?

What would you consider to be an ideal length of a transportation bill?

<u>Answer</u>: In October 2013, the AASHTO Board of Directors adopted MAP-21 reauthorization recommendations. These recommendations assumed the successor legislation will authorize the federal highway and transit programs for a six-year period between 2015 and 2020, similar to what we have seen in prior surface transportation bills since ISTEA. In addition to providing a long-term planning and investment horizon needed to effectively manage state DOTs' capital programs, we believe a six-year bill provides the necessary timeframe to successfully implement critical policy reforms enacted in MAP-21 and the successor legislation.

As you noted, the series of short-term extensions that we saw prior to MAP-21 and SAFETEA-LU present a situation for state DOTs that is far from ideal. Because of the piecemeal amounts of federal funding provided from short-term extensions (which can be further exacerbated when obligation limitation is also provided on partial basis), projects of national and regional significance that underpin economic development and improve the quality of life in communities across the country could experience delays or cancellations. Such cutbacks on contract lettings would mean missed opportunities to pare down the backlog of investment needs, while causing a negative domino effect on construction industry employment exactly when it is starting to rebound after being one of the hardest hit segments in the recent recession.

Furthermore, ramping up and down construction activities—including equipment and labor resource management—due to the lack of stability in the federal program would represent an extremely wasteful exercise and impose heavy opportunity costs for the entire transportation industry.

<u>Question #2</u>: I know this Committee is actively working along with the Finance Committee to find a solution to the funding issues, but would you agree, if we have to, that the general fund could be a back stop to assure state and city governments of continued funding? How important is that assurance?

<u>Answer</u>: AASHTO believes that Congress must at least maintain the existing MAP-21 highway and transit program investment level in real terms. This funding level could be achieved through a variety of existing and proposed revenue mechanisms—including the General Fund. These mechanisms should strive to provide program revenues that are sustainable and will thus not substantially lose purchasing power or decline over time due to inflation or other factors. As long as this minimum funding target can be met, we do not explicitly nor implicitly identify any single approach for recommendation over others. We do, however, absolutely remain committed to continue assisting Congress in adopting politically feasible funding and financing solutions in line with our overall reauthorization recommendations.

Question #3: Many members of my caucus believe we should live within our means. However, CBO reported that absent a new revenue source or general fund transfer to address the $14 billion annual shortfall in the Highway Trust Fund, we will need to cut the current highway program by almost 80%. Even though we are 12 months away from a new reauthorization, are you seeing any impacts that the report is having with your members? If so, what are those impacts?

Answer: The Highway Trust Fund (HTF) that supports federal highway and transit investments is expected to have insufficient cash to meet all of its funding commitments, resulting in steadily accumulating shortfalls in Federal Fiscal Year 2015. This means states may not be able to obligate almost any new federal highway funds that year, potentially representing a 99.5 percent drop from FY 2014 (i.e., $40 billion to $0.2 billion). This situation could also impede federal reimbursements to states on existing obligations, leading to serious cash flow problems for states.

Based on a recent survey of State Departments of Transportation, it appears that the majority of State DOTs (31) are planning to maintain a normal level of capital program activities, which assumes a continuation of MAP-21 funding levels in FY 2015. These states point to prior instances of Congressionally-directed General Fund transfers to the Highway Trust Fund totaling $53 billion between 2008 and 2013 in order to avoid cash shortfall situations in the HTF. At the same time, however, most of these states are preparing—to a varying degree—for the possibility of a greatly reduced federal highway program in FY 2015 by developing contingency plans. The possible actions include, for example, accessing standby lines of credit, increasing bond issues, increased state funding, and other measures that reduce program-spending and/or increase non-federal funding.

Senator BOXER. Thank you so much.

Next we turn to Janet Kavinoky, a friend of all of us. She is Executive Director of Transportation Infrastructure, Vice President of Americans for Transportation Mobility Coalition, United States Chamber of Commerce. We welcome you.

STATEMENT OF JANET KAVINOKY, EXECUTIVE DIRECTOR OF TRANSPORTATION AND INFRASTRUCTURE, VICE PRESIDENT OF AMERICANS FOR TRANSPORTATION MOBILITY COALITION, U.S. CHAMBER OF COMMERCE

Ms. KAVINOKY. Thank you, Chairman Boxer, Ranking Member Vitter, Senator Barrasso and members of the Committee, for the opportunity to lay out the case for Federal leadership and funding for transportation infrastructure.

Quite simply, roads and bridges, transit systems, railroads, waterways and ports, airports and air traffic control form the framework that makes economic activity possible. A national transportation network that meets current and future demand enables mobility for customers and employees and supports seamless, reliable and safe supply chains will boost gross domestic product. A system that is disjointed, unreliable, unsafe and inadequate for future economic and population growth will drag down the economy.

When transportation networks support predictable logistics, there is a positive and strong correlation with job-creating foreign direct investment. But as the United States transportation infrastructure becomes less competitive with the rest of the world, business will look to invest and employ people in other countries with more efficient physical platforms.

Market outside their borders represent more than 80 percent of the world's purchasing power, 92 percent of its economic growth and 95 percent of its consumers. More than 38 million American jobs depend on trade. One in three manufacturing jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas. The transportation system can either build and strengthen or undermine efforts to build these bridges to promising markets abroad and secure a brighter future where international commerce generates economic growth and job creation at home.

The good news is that MAP–21 reflects a belief that the Federal Government plays a role in furthering national interests, such as U.S. global competitiveness, international trade and interstate commerce. In addition, the work of this Committee provided MAP–21 with critical reforms such as ensuring accountability for spending money wisely, improving planning and prioritizing, delivering projects faster and stretching user fees farther.

Now we must focus on the money and the future of the Federal Highway Trust Fund, avoiding the impending crisis in 2015, establishing a structurally sound revenue approach for the period of 2015 to 2024, and preparing for 2025 and beyond.

There are three different paths to choose from. The first is to cut back programs to fit available resources. According to the Congressional Budget Office in July, this means zeroing out new Federal obligations for highways, transit and safety in 2015, and substantial reductions from current services levels in subsequent years.

In the last several years, Congress has repeatedly voted to reject dramatic cuts in highway and transit programs. We ask you to do so again, because this path is unacceptable.

The second is to continue General Fund transfers. We are concerned that this approach may not support economic growth competitiveness in jobs over the long term, because the user fees are the key to contract authority in multi-year Federal funding commitments.

The third is to increase existing user fees and/or find new user-related revenue sources, so that we can address the well-documented needs for today and tomorrow.

In the years through 2024, there are multiple revenue options that could work alone or in combination. But we continue to believe that the simplest, most straightforward and effective way to generate enough revenue for Federal transportation programs is through increasing Federal gasoline and diesel taxes.

In addition, we must take full advantage of private sector capital, innovation, problem-solving and collaboration. However, public-private partnerships and other forms of private sector involvement still require revenues and do not resolve the Highway Trust Fund solvency issue.

Finally, now is the time to initiate aggressive research and development in anticipation of 2025, when CAFE standards increase and revenues from excise taxes on fuel are likely to require substantial replacement as a primary source of funding.

There is no shortage of research that looks to the questions of who pays how much and by what mechanism. One thing is for certain. There is no free lunch, there is no creative option and there is no avoiding the revenue discussion.

Yes, this Nation is faced with difficult fiscal circumstances. However, without proper investment and attention to infrastructure, our economic stability, job growth, global competitiveness and quality of life are all at risk. The Federal role is at its simplest: to make sure that the Nation's transportation system functions well as a whole to support the economy. Let's seize the initiative now to set a new path that will ensure adequate funding to support that role for years to come.

Thank you.

[The prepared statement of Ms. Kavinoky follows:]

Statement of the U.S. Chamber of Commerce

ON: Investment in Infrastructure: Imperative for the Economy

TO: Senate Committee on Environment and Public Works

BY: Janet Kavinoky, Executive Director, Transportation and Infrastructure, U.S. Chamber of Commerce
Vice President, Americans for Transportation Mobility Coalition

DATE: September 25, 2013

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

Testimony of Janet F. Kavinoky
Executive Director, Transportation Infrastructure
Vice President, Americans for Transportation Mobility Coalition
U.S. Chamber of Commerce

Senate Committee on Environment and Public Works

Hearing titled:
"The Need to Invest in America's Infrastructure and Preserve Federal Transportation Funding"

September 25, 2013

Introduction

Chairman Boxer, Ranking Member Vitter and distinguished members of the Senate Committee on Environment and Public Works, thank you very much for the opportunity to discuss the importance of federal investment and leadership in transportation infrastructure. I am here today representing the U.S. Chamber of Commerce and the Chamber-led Americans for Transportation Mobility Coalition—a nationwide coalition of business, labor, highway and transit interests—because we believe strongly that federal investment in highways, public transportation and safety is a necessary ingredient in the recipe for boosting economic productivity, successful competitiveness in the global economy, and maintaining a quality of life.

I want to start by saying "thank you" to everyone who worked hard to pass the bipartisan highway, transit and safety transportation bill, *Moving Ahead for Progress in the 21st Century.* MAP-21 made smart reforms to speed up much-needed improvements to our roads and bridges, and public transportation systems; expanded the flagship federal credit program for surface transportation—TIFIA; rejected calls for significant cuts to federal investment; and ended years of short term extensions that created a great deal of uncertainty for businesses and infrastructure owners and operators.

This hearing signifies the true beginning of the MAP-21 reauthorization process. The Chamber and its members appreciate the EPW committee getting an early start, and focusing on the core issue of the importance of federal investment.

Today, I will articulate the case for federal leadership and investment in highways, public transportation and safety; present three paths to Highway Trust Fund solvency; and outline a way forward that will support the United States' global competitiveness, which depends on ensuring that we have a 21st century infrastructure to support a 21st century economy.

The Case for Federal Leadership and Investment

Without a first rate transportation system, we cannot maintain a first rate economy in the United States. The federal government must take a leading role in making sure that transportation policies, programs and investments contribute to a strong economy—including interstate commerce and international trade—rather than inhibiting economic growth.

Quantifying Economic Benefit: the U.S. Chamber Transportation Performance Index

"Infrastructure is not the end result of economic activity; rather it is the framework that makes economic activity possible."[1]

A transportation system that works for businesses can propel economic growth and, conversely, one that falls short of performing as it needs to will drag down the economy. This is the key finding of the Chamber's Transportation Performance Index (TPI). First released in 2010, the TPI demonstrates that enhancing the performance of transportation infrastructure is a vital part of creating sustainable, long-term growth—growth our nation desperately needs.

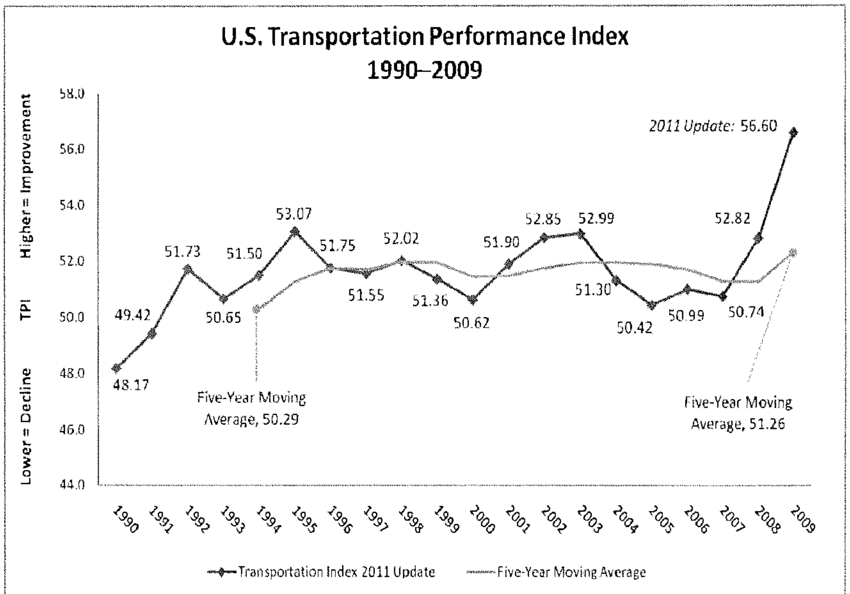
The TPI comprises roughly 20 weighted indicators in each mode of transportation falling into three categories:

- Supply, described as the availability of infrastructure, which is a key consideration for businesses when deciding where to locate their facilities;
- Quality of service, the reliability of infrastructure, whether it supports predictable and transportation services and travel; and,
- Utilization, whether current infrastructure can sustain future growth. Utilization is a key consideration for companies that look years into the future to inform the decisions and capital investments they make today.

Together, the indicators provide a snapshot of transportation system performance across U.S. geography, economic sectors and demographics.

Much like the Dow Jones Industrial Index indicates financial market performance, the TPI is an aggregate measure that is a useful snapshot of the transportation system as a whole at a point in time. By watching it over time, trends and fundamental system health are slowly revealed.

[1] Trimbath, Susanne, "Transportation Infrastructure: paving the way," STP Advisory Services, LLC, (*https://www.uschamber.com/sites/default/files/issues/infrastructure/files/LRA_Index_Economic_Analysis_2011_10_17.pdf*), 2011.



U.S. ***Transportation Performance Index*: 1990-2009**

The inaugural TPI, calculated for 1990-2008, reflected a six percent increase in performance over that period. In contrast, the U.S. population grew 22 percent, passenger travel grew 39 percent, and freight traffic grew 27 percent. Given these facts, it is a testament to business ingenuity that the TPI was not worse. Businesses work around transportation challenges by scheduling deliveries in off-peak hours, implementing flexible employee work policies, and substituting information technology for transportation services. There are also countless stories of transportation infrastructure owners using the engineering equivalent of duct tape to hold infrastructure together and crafting creative operational strategies to enhance throughput.

In the 2011 update, the data reflected a distinct uptick in the TPI. According to Dr. Susanne Trimbath,

> Much of the improvement in the TPI may be attributed, in the final analysis, to the decline in economic activity in 2009. But that begs a question: If we can improve the performance of transportation infrastructure by stopping economic growth, is that progress? Of course, the answer is 'no'. Stopping economic growth is not progress; it is not a solution to the problem of poor performing transportation infrastructure in America. Likewise, although raising gasoline prices to $11 per gallon might solve the funding issue (Appleby 2009) it would have other consequences for economic activity....The point is that a one or two year improvement in performance won't last without sustained effort. We will

need to get out of our own way if we don't want this to fall back again when the economy rebounds in 2012.[2]

The TPI and Gross Domestic Product

Failure to address the transportation problems in this country undermines economic growth, according to the econometric analysis of the TPI. There is a strong correlation between performance, which the TPI defines as the degree to which the transportation system serves U.S. economic and multi-level business community objectives, and economic growth as measured by Gross Domestic Product (GDP).

This analysis is unique because it goes beyond merely charting the effects of spending and job creation during construction. The findings of the TPI economic analysis are "different from studies on how infrastructure spending creates jobs in the construction industry or any of a multitude of cost/benefit studies in use today. By controlling for the primary factors known to impact economic development, we are able to segregate a change in the economy that is most likely attributable to the performance of transportation infrastructure."[3]

Instead, the analysis provides robust, stable results showing the overall contribution to economic growth from well-performing transportation infrastructure is fundamental to maintaining a strong economy.[4] Specifically,

> Every one point decline or increase in the TPI correlated to a corresponding decrease or increase of 0.3 percent of GDP. A status quo scenario—largely unchanged priorities, policies, regulations and investment levels—translated to $336 billion decline in GDP by 2015. But there is good news: by following the lead of the states with top transportation infrastructure performance, the country as a whole could add nearly $1 trillion annually to GDP by investing in transportation systems that meet and anticipate the needs of business.[5]

Transportation Performance, Foreign Direct Investment and Competitiveness

The U.S. Chamber works every day to build bridges to promising markets abroad, to tear down the barriers that shut U.S. exports out of foreign markets, and to secure a brighter future where international commerce generates economic growth and job creation at home. Increasing investment in transportation infrastructure is central to these goals.

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[2] Trimbath, Ph.D, Susanne, "Transportation Infrastructure: paving the way," STP Advisory Services, LLC, (*http://www.uschamber.com/sites/default/files/issues/infrastructure/files/2009TPI_Update_Economics_White_Paper_110712.pdf*), 2011.
[3] Trimbath, Ph.D, Susanne, "Transportation Infrastructure: paving the way," STP Advisory Services, LLC, (*http://www.uschamber.com/sites/default/files/issues/infrastructure/files/2009TPI_Update_Economics_White_Paper_110712.pdf*), 2011.
[4] Transportation Performance Index – Key Findings, U.S. Chamber of Commerce, (*http://www.uschamber.com/sites/default/files/lra/files/LRA_Transp_Index_Key_Findings.pdf*), 2011.
[5] Transportation Performance Index – 2011 Update, U.S. Chamber of Commerce, (*http://www.uschamber.com/sites/default/files/issues/infrastructure/files/2011%20Update.pdf*), 2011.

The TPI econometric analysis exposed a strong correlation between transportation infrastructure performance and foreign direct investment (FDI) in the United States. There is a positive relationship between FDI that opens new establishments in the United States—creating new jobs—and the performance of transportation infrastructure as measured by the index.

According to the Organization for International Investment (OFII), companies based abroad investing in the United States and creating jobs for Americans provide 4.7 percent of private sector employment. That includes approximately two million manufacturing jobs, accounting for more than 17 percent of the manufacturing workforce. Quality transportation infrastructure unleashes competitive advantage by leading to lower production costs making U.S. businesses more efficient, making the United States a desirable location for new and existing businesses, and also making U.S.-produced goods and service more competitive in the global economy.[6]

New enterprises established by FDI may be more dependent on transportation infrastructure than other types of infrastructure because of the need to move goods and people between the foreign country and the United States. According to studies done by the Bureau of Economic Analysis, most of what these firms import and about half of what they export is shipped from and to the parent company in the foreign country, making transportation infrastructure an important element of their location decision. The results indicate that a commitment to raising the performance of transportation infrastructure provides positive long-term value for the U.S. economy.

OFII's report, "Building Competitiveness: American Jobs, American Infrastructure, American Global Competitiveness" clearly indicates that a commitment to increasing the efficiency and performance of U.S. transportation infrastructure provides long-term, positive value for the U.S. economy. According to the report:

> America's infrastructure crisis is threatening America's global competitiveness because it is eroding the country's ability to attract and retain dynamic global companies that create high-productivity, high-wage jobs. America's ability to meet the infrastructure needs of dynamic global companies increasingly lags the ability of many other countries—in contrast to much of 20th century, when America's infrastructure was a strong pull attracting these companies. In the United States, global companies have long been among America's most innovative. The U.S. subsidiaries of global companies, in particular, have long created and sustained high-paying American jobs based on substantial investments in ideas, capital, and exporting—much of which is based on lessons learned around the world.[7]

While the United States has maintained its position at the top of the overall World Competitiveness Yearbook rankings, the U.S. sub-ranking for Basic Infrastructure has degraded since 2005. The World Economic Forum also performs an annual infrastructure ranking in the

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[6] Insourcing Facts, Organization for International Investment (*http://www.ofii.org/resources/insourcing-facts.html*), 2013.

[7] Slaughter Matthew, "Building Competitiveness: American Jobs, American Infrastructure, American Global Competitiveness, Dartmouth College (*http://www.ofii.org/docs/OFII_Infrastructure_Paper.pdf*), 2011.

Global Competitiveness Report. The result is similar: U.S. transportation infrastructure is falling behind.

Transportation, Logistics and Export Competitiveness

Without smart investment in U.S. infrastructure, American businesses will lose ground to major international competitors. Less-developed and emerging market competitor countries recognize the benefits of well-developed infrastructure and are preparing their transportation systems to move away from producing low-wage goods to producing the types of products that require the specialization of labor that transportation infrastructure makes possible.[8]

Markets outside of our national borders represent more than 80 percent of the world's purchasing power, 92 percent of its economic growth, and 95 percent of its consumers. They are accessed through transportation networks. More than 38 million American jobs[9] depend on trade. One in three manufacturing jobs[10] depends on exports, and one in three acres[11] on American farms is planted for hungry consumers overseas. Exports alone supported approximately 9.7 million U.S. jobs in 2011, as every billion dollars of exports supported 5,080 jobs in the United States.[12]

The Chamber promotes expanding American trade, two-way investment, and tourism through an ambitious agenda to open international markets and reduce commercial barriers at home and abroad. Our country should make a major effort to attract more global investors. High performing transportation networks draw foreign direct investment, because infrastructure supports predictable logistics, which are important to efficient trade.

> Globally, logistics costs have fallen from about 20 percent of GDP in the early 1980s to less than 10 percent. However, delays and unpredictability greatly outweigh direct transportation costs (Arvis, 2010). Delays are mostly related to the performance of road, rail and port—not border crossings, the price of fuel, service pricing, etc. The lack of intermodal-connectivity and variable transit times does more than cause delays and raise costs. They also hamper the ability of firms to compete. Longer delays in transit mean having to hold higher inventories (e.g., to avoid shortages of inputs)—bearing the higher risk associated with warehousing and tying up capital for longer periods of time.[13]

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[8] "Enterprising States: Creating Jobs, Economic Development, and Prosperity in Challenging Times," U.S Chamber of Commerce (*http://forum.uschamber.com/sites/default/files/2010_Enterprising-States.pdf*), 2010.

[9] "Trade and American Jobs: The Impact of Trade on U.S. and State-Level Employment: An Update," Trade Partnership Worldwide, LLC, (*http://www.tradepartnership.com/pdf_files/Trade_and_American_Jobs7.2010.pdf*), 2010

[10] Progress Report on the National Export Initiative, The White House, (*http://www.whitehouse.gov/sites/default/files/exports_progress_report.pdf*), 2010.

[11] Fast Facts About Agriculture, American Farm Bureau Federation, (*http://www.fb.org/index.php?fuseaction=newsroom.fastfacts*), 2012.

[12] John, Martin and Chris Rasmussen, "Jobs Supported by Exports: An Update," International Trade Administration, U.S. Department of Commerce, (*http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_003639.pdf*), 2012.

[13] Trimbath, Susanne, "Transportation Infrastructure: paving the way," STP Advisory Services, LLC, (*http://www.uschamber.com/sites/default/files/issues/infrastructure/files/2009TPI_Update_Economics_White_Paper_110712.pdf*), 2011.

Unfortunately, much of the United States' transportation infrastructure—especially that which supports interstate commerce and international trade—is becoming less competitive with the rest of the world, and our closest competitors.

> An examination of the data for the US and our nearest competitor, Canada, emphasizes the inefficiencies in [US] land transportation. A Canadian exporter typically moves their goods for export 766 kilometers, versus a substantially shorter distance for US exporters of only 484 kilometers. The difference in total cost is about 10 percent ($1,249 per container in the US versus $1,123 in Canada). The big difference is that US producers need more than 2 extra days to cover nearly half the distance. When exporting through ports and airports, US producers are able to cover 50 percent more distance in about the same amount of time as Canadian firms, but at a cost that is almost 60 percent higher (even with similar security measures in place). These inefficiencies put a burden on US companies that their global competitors do not face.[14]

Why the extra time to cover half the distance? A pervasive problem in the United States is traffic congestion, which is at an all-time high and will only get worse, according to the Texas Transportation Institute's 2012 Urban Mobility Report.[15] The study revealed that Americans spent 5.5 billion additional hours sitting in traffic in 2011. While accounting for only six percent of the nation's total freeway lane-miles and 10 percent of the traffic, 328 corridors account for 36 percent of the country's urban freeway congestion. In 2010, congestion (based on wasted time and fuel) cost about $115 billion in the 439 urban areas, compared to $113 billion (in constant dollars) in 2006.[16]

Most drivers "allow a little extra time" when driving during rush hour, especially for important trips like getting to the airport or picking up kids after school, but the message of the Texas Transportation Institute's congestion report released earlier this year was clear: give yourself more time to get places. For the first time, the TTI study calculated just how much "extra time" you might need to build in to your plans. In Washington, DC, a 20 minute trip takes almost two hours in heavy traffic.[17] That is a huge difference trying to make a flight or being late to pick up your kids. Compare this to businesses that use the transportation system every day and then start doing the math: UPS carries six percent of U.S. GDP within its system every day. If every UPS vehicle suffers a 5 minute congestion delay every day of the year, the annual operating cost to UPS increases by $105 million. Imagine if every UPS vehicle suffers congestion delays of up to two hours each day.

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[14] Trimbath, Susanne, "Transportation Infrastructure: paving the way," STP Advisory Services, LLC, (*http://www.uschamber.com/sites/default/files/issues/infrastructure/files/2009TPI_Update_Economics_White_Paper_110712.pdf*), 2011.

[15] Schrank, David, Bill Eisele, and Tim Lomax, "TTI's 2012 Urban Mobility Report," Texas Transportation Institute (*http://s3.documentcloud.org/documents/566377/2012-urban-mobility-report.pdf*), 2012.

[16] [16] Schrank, David, Bill Eisele, and Tim Lomax, "2011 Congested Corridors Report," Texas Transportation Institute, (*http://mobility.tamu.edu/corridors/report/2011*). 2011.

[17] Schrank, David, Bill Eisele, and Tim Lomax, "TTI's 2012 Urban Mobility Report," Texas Transportation Institute (*http://s3.documentcloud.org/documents/566377/2012-urban-mobility-report.pdf*), 2012.

The services sector also suffers when congestion and lack of connectivity create inefficiency and, in some cases, deterrence for travel at all. The travel and tourism industry represents another clear example of an industry with job and growth opportunities that is heavily reliant on transportation. Jonathan Tisch, Chairman of Loews Hotels & Resorts, recently highlighted the connection between infrastructure and growth in the travel and tourism sector.

> In my business, the travel industry, we see tremendous opportunities for growth in a sector that already generates $1.9 trillion in annual economic output, supplies $124 billion in tax revenue, and employs 7.5 million Americans. Over the next decade, worldwide travel from rapidly developing countries like China, Brazil and India is projected to grow by more than 100 percent—additional visitors who could generate billions to spur economic growth, job creation, and small business expansion. Yet America's infrastructure system cannot handle the travelers we already have, much less millions of new ones.[18]

Businesses place a high value on mobility—of their employees, customers and supply chains—and are solution oriented. Chamber members have grown frustrated with the repetitive debates over whether one mode is more important than another, or if one jurisdiction is receiving its "fair share." Businesses want to know if the transportation system as a whole will support reliable and predictable, cost-effective, and safe transportation of goods and people from their origin to their destination both today and into the future. They do not want to negotiate among 50 different states and myriad communities—there federal role in ensuring the national interest is realized in an interconnected, seamless, and efficient transportation system.

Three Paths to Highway Trust Fund Solvency

The Chamber and the ATM Coalition believe, and the evidence supports, that federal investment in transportation is vital for economic growth, competitiveness and jobs. Evidence is also abundant that the United States is in a period of chronic underinvestment in all modes of transportation. In order to secure our economic and demographic future, we must increase infrastructure investment levels by all levels of government, including the federal government and the private sector to address deteriorating infrastructure, inefficient systems, and inadequate capacity.

The issue of sustainable, growing revenue for the federal Highway Trust Fund is central to MAP-21 reauthorization. Over the next 12 months, elected leaders must lay a course for the future of federal investment in highways and public transportation. This is an urgent matter, given the Congressional Budget Office estimates show that the highway account and transit account of the Highway Trust Fund will have insufficient revenues to allow any new obligations in Fiscal Year 2015. CBO's projections show a $15 billion cash shortfall in 2015. In the absence of revenues from the general fund or changes to HTF user-fee receipts, "bringing the trust fund into balance in 2015 would require entirely eliminating the authority in that year to obligate funds (projected to be about $51 billion)…." The 2015 problem is only the tip of the iceberg. The cumulative

[18] Tisch, Jonathan, "Meeting the Infrastructure Challenge Requires Innovative Solutions," Huffington Post (*http://www.huffingtonpost.com/jonathan-tisch/us-infrastructure-_b_1939932.html*), Oct. 4, 2012.

shortfall in the highway and mass transit accounts of the HTF will be over $80 billion by 2020 if spending levels are not dropped significantly.[19]

The three alternative paths in front of Congress and the Administration today are identical to those that the Chamber and the ATM Coalition have presented to elected and appointed officials, and the American public, for the past several years. Each has a trade off:

Option 1: Cut transportation programs commensurate with available funding levels by narrowing the scope of federal transportation programs or by reducing the federal matching share for projects.

Trade-off: Approaches of this type simply shift responsibility to states and local communities, which will be forced to raise their own revenues to address transportation needs.

In the last several years, Congress repeatedly rejected dramatic cuts to highway and transit programs. In 2005, Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) established annual authorized funding levels for the highway and transit programs based on an estimate of the amount of annual revenue that would accrue to the Highway Trust Fund. SAFETEA-LU did not adjust user fees for inflation, meaning purchasing power continued to decline. Nor did it adjust for needs, meaning that backlogs continued to grow. When actual revenues did not meet projections, Congress reinforced its commitment to the authorized investments and reimbursed the Highway Trust Fund for monies that had been taken out in earlier years for other purposes. In passing MAP-21 last year, Congress rejected changes to user fees to bring them in line with spending, but also rejected dramatic cuts in highway and transit programs, instead choosing to use general fund offsets to maintain federal funding levels for highways and public transportation.

We strongly urge Congress to continue to reject cuts to federal program levels that would, in turn, pass the buck to states, localities and the private sector. These cuts are not acceptable to the Chamber. This option is tantamount to abdicating responsibility for interstate commerce, and ignoring the importance of connectivity and the value of a national system.

Option 2: Pay to maintain or increase transportation spending with a general fund transfer, which would require non transportation-related revenue increases, cuts to other programs, or deficit spending.

Trade-off: This approach discontinues the "user pays" basis of federal transportation policy. Instead, surface transportation programs would be paid for by increasing general taxes or by borrowing from future generations. Most important, this option eliminates the certainty of a multiyear transportation program and forces transportation investment

[19] "Testimony on the Status of the Highway Trust Fund," Kip Crawley, Congressional Budget Office, *http://www.cbo.gov/publication/44434*, July 23, 2013.

to compete with other domestic discretionary programs as part of annual budget and appropriations processes.

Although the Chamber appreciates the willingness of Congress to shore up the Highway Trust Fund through general fund transfers, this option is not a long-term solution to the structural problem of insufficient user-fee based revenues. It can provide a bridge until revenues are identified, but it will not provide sustainable, predictable and growing resources for the Highway Trust Fund and the certainty that is needed for efficient capital investment.

Option 3: Increase user fees and identify new revenue sources to address well-documented needs for today and tomorrow.

Trade-off: The simplest, most straight-forward, and effective way to generate enough revenue for federal transportation programs is through increasing federal gasoline and diesel taxes—and the one that is most often dismissed because the challenge is one of political will. This debate—particularly the revenue considerations it entails—will never be convenient. But matters of convenience are not what Americans ask of their leaders in Washington.

Tax reform, deficit reduction and debt measures present opportunities to address revenue sources for transportation, in particular by ensuring that the need for drastic cuts or additional general fund transfers for the Highway Trust Fund at the expiration of MAP-21 is avoided, and that the current sources of user-based revenues for the Highway Trust Fund produce sustainable, predictable and growing cash flows until a new revenue structure can be identified and implemented.

A Way Forward

In discussing highway, transit and safety legislation over the years, the Chamber has been clear, consistent, and repetitive on three key points:

Reform: Getting the Most Bang for the Buck out of Federal Investments

Discussions on transportation often revolve around the question of "how much?" which is not the only important question—or even the most important (although it is a vexing, and necessary issue). During SAFETEA-LU reauthorization, the Chamber pressed Congress to adopt a focused federal transportation policy framework and program structure to guide surface transportation investment and to ensure that revenues derived from transportation infrastructure or transportation activities should be dedicated to transportation investment.

Congress took steps to ensure that money invested in transportation is spent wisely. MAP-21 reforms focused on ending waste and targeting funding for the highest priority projects. The changes to programs should enable states and Metropolitan Planning Organizations to focus on a sensible mix of projects based on actual need and not on politics or ideology—more road construction in some areas, more investment in public transportation in others. MAP-21 specifically stopped diverting money intended for transportation to non-transportation projects. With these reforms, dedicated transportation funds should not be used to pay for other, unrelated projects, restoring trust and confidence with taxpayers, who expect their money to go toward the intended purposes.

As a nation, we must continue pressing decision-makers to do a better job planning and prioritizing. We must do a better job delivering projects faster. We must do a better job taking every opportunity to tap every possible source of capital so that projects that simply cannot be financed can use the limited pay-as-you-go dollars out there. Responsibility does not fall solely on the federal government—or any government—and there are effective ways to leverage limited federal resources.

Private Participation: Promote Private Investment through Public-Private Partnerships

Public dollars should be leveraged by tapping the growing interest in public-private partnerships (P3s) and other innovative financing arrangements. The private sector can bring innovative problem solving and up-front capital to bear on the nation's most complex, large transportation challenges. P3s have the potential to drive urgent and complex projects forward in order to deliver benefits sooner than under pay-as-you-go models. Significant value can also be derived from private sector innovation and creativity in problem solving, performance measures built into contracts, and establishing long-term collaborative opportunities incorporating operations and maintenance into an arrangement rather than taking the short-term view of design and construction. The topic of P3s is worthy of its own series of hearings, and all levels of government should be pursuing them at every opportunity.

There should be strong incentives for the investment of private sector resources and leveraging of public dollars to the greatest extent possible. Barriers to private investment including regulations and administrative processes that make project delivery take far too long should be removed or reformed. Every state should have laws that not only allow, but welcome, private investment.

Federal credit programs such as the Transportation Infrastructure Finance And Innovation Act (TIFIA) can bring down the overall cost of capital for projects thereby freeing up cash flows to draw in private investors. It is one of the best deals around: each dollar of federal funds can support up to $10 in TIFIA credit assistance and leverage $30 in transportation infrastructure investment.

However, public-private partnerships and federal credit programs are not a substitute for systemic user-fee based funding. Rather they are contractual arrangements for financing, project delivery, operations and maintenance and require sources of revenue (cash flows) to repay lenders and investors. Although using alternative procurement approaches like a P3 can free up pay-as-you-go funding sources for projects that do not fit into the P3 model, P3s are not substitutes for fixing the revenue problem facing the Highway Trust Fund. They do not provide easy answers to tough issues.

Federal Revenues for Systemic Investment

Even with significant reform and additional private dollars, existing resources cannot keep the Highway Trust Fund solvent or support maintaining and, ideally increasing, federal investment, to address maintenance backlogs and expanding capital and operational needs. There is no free lunch, no "creative option" that will fill the gaping hole that has emerged at the federal level.

As the Chamber testified to the House Committee on Transportation and Infrastructure, on February 13, 2008:

> The Chamber is confident in the case for increasing the systemic funding available for capital investment in infrastructure. As a nation, we must face this fundamental fact—we are a growing people and a growing country with aging infrastructure. We have to fix what we have, and then, if we want a new road, a new runway, or a new transit system, we've got to buy it. No one is giving them away for free....When it comes to funding and financing, every option must be considered to address the enormous problems of the aging transportation infrastructure.

The Highway Trust Fund is the main source of federal funding for federal highway and transit programs. The Highway Trust Fund is composed of the Highway Account, which supports highway and intermodal programs, and the Mass Transit Account, which funds public transportation. The Highway Trust Fund is funded by a federal gasoline tax of 18.4 cents per gallon and a federal diesel tax of 24.4 cents per gallon, as well as other fees. These user fees that paid for much of the nation's postwar Interstate system and enabled multi-modal and intermodal development have not been raised since 1993 and have failed to keep pace with inflation and the soaring costs of construction and materials.

Historically, user fees deposited into the Highway Trust Fund have been the simplest, most transparent and effective way of providing systemic revenue for federal highway and public transportation programs. The Chamber and the ATM Coalition believe that Congress should maintain a user-fee based Highway Trust Fund to support a strong federal role and enable multi-year funding commitments by the federal government to states and metropolitan planning organizations.

The trust fund construct is valuable, especially in absence of capital budgeting, because properly funded, it supports multi-year highway, transit and safety legislation that make use of those resources in different ways—whether leveraged through TIFIA, distributed through competitive grant programs, or allocated by formula. The Chamber and ATM want the revenues in the Highway Trust Fund used as efficiently as possible, by organizations that are focused on getting the best possible results for the investments, and with no waste, fraud or abuse.

How much is needed? The needs have been studied at length and quantified by many organizations including the U.S. Chamber, and the short answer is: a lot more than is currently being invested at all levels of government or by the private sector.

What we do know is the supportable levels of highway and transit funding with current revenue sources at their current levels, and the cost to the general fund in order to avoid those cuts.

That leaves the question of how to find the money.

There is no shortage of research that looks at the questions of "who pays, for what, how much, and by what mechanism?" The Chamber recommends to this Committee the findings of the two commissions created in SAFETEA-LU as a starting point:

> The National Surface Transportation Policy and Revenue Study Commission
> *http://www.transportationfortomorrow.com*
>
> The National Surface Transportation Infrastructure Financing Commission
> *http://financecommission.dot.gov*

These commissions looked at the full array of reports and research on the topic of federal revenues for surface transportation. The Finance Commission, in particular, took an analytical, highly structured approach to assessing revenue options. Notably, both commissions rejected the notion that the federal government should get out of the business of investing in highways and public transportation.

The Chamber looks at the funding challenge in three parts:

- 2015: The impending crisis requiring draconian cuts in order to maintain solvency.
- 2015-2024: During this period, the existing user fees could be modified to be sustainable, predictable, and in pace with inflation. This is also a critical period for conducting an aggressive research and development agenda for a long-term revenue source.
- 2025 and beyond: It is at this point, when CAFE standards increase significantly, that the revenues from gasoline taxes are likely to require substantial replacement as the primary source of funding from drivers.

We are absolutely committed to working with Congress and the Administration in a concerted effort to find a sustainable, predictable, growing source of revenue; exploring collection mechanisms that are not administratively burdensome or costly; while continuing to look for ways to address the inefficiency and problems in federal transportation policy and programs so that every dollar that does come from the federal government gets the most bang for the buck.

What the Chamber is Willing to Do

Let us seize the initiative now to set a new path—a path that will ensure adequate funding for years to come and that money is spent wisely and on projects of the greatest national benefit. The federal government should not pass the buck to states and locals, nor should it wait for money to grow on trees, or wish and hope that things will get better. There is no path to a 21st century infrastructure for a 21st century economy without increasing both public and private investment in transportation infrastructure.

The private sector can help in four significant ways.

First, we are willing to pay to support public infrastructure.

We must find revenues for the Highway Trust Fund to ensure that the federal government remains an important partner to states, locals and the private sector, to support international and interstate commerce, economic growth and demographic change.

This includes paying more in user fees to shore up the Highway Trust Fund and ensure adequate investment. As has been repeated several times, this is not a new position. The Chamber has been saying this to Congress every chance we can for years. We all know the dire condition of our highway and transit systems. It is going to take money to fix it—it is that plain and simple. With the money running out, we need to phase in a moderate increase in the gas tax over a number of years and index it to inflation. Shippers and truckers are all on board to pay a little more as long as the money goes back to where it is needed.

Second, we are prepared to invest private capital.

When it comes to private investment in public infrastructure, we are prepared to pump as much as $250 billion in private capital into P3s. In order to do that, more states must allow, by law, P3s. Governors and legislatures need to reduce the political and financial risk of private participation in these projects so investors know projects will be approved in a timely manner and will have a good possibility of a decent return.

Third, we can provide our expertise and innovations.

In order to make infrastructure work better for travelers, businesses, shippers and carriers, we can mend our expertise and innovations to creating the most efficient system. It is not all about the money. We must make the transportation infrastructure that exists today work most efficiently, in the most cost-effective way.

For example, according to Jim Bak, a spokesman for Inrix, who partnered on the Texas Transportation Institute congestion study: "There technology and the tools are there" to fix traffic congestion. Options include GPS systems that provide real-time traffic information and electronic tolling lanes such as the I-495 HOT Lanes project.[20]

And fourth, we are putting in the sweat equity.

We believe in building the case for a world-class infrastructure system that will put Americans back to work, spur our economy, enhance our global competitiveness, reduce congestion and improve mobility and safety, and prove that America can still get big things done. We are

[20] Hargreaves, Steve, "You're getting stuck in traffic less," CNNMoney, (*http://money.cnn.com/2013/02/05/news/economy/traffic-jams/index.html*), Feb, 5, 2013.

lobbying, we are educating, and we are building support. We have launched a new project to create a blueprint for investing in transportation infrastructure and engage the larger business community in the effort to articulate what the future of infrastructure needs to look like so that we can expand coalition of supporters and build the political will to reform, reinvent and reinvest in infrastructure.

It is Time for Washington to Lead

Federal infrastructure investment is about maintaining the billions of dollars in investments made over generations and making strategic, prioritized choices to grow the economy in a fundamental, ongoing way.

We cannot keep kicking the can down the road, or passing the buck to future generations, or waiting to see if the private sector or other levels to government will pick up the ball if the federal government drops it. Much of America's transportation infrastructure—roads and rails, airports and seaports, inland waterways and airways—the proud legacy of generations past, needs repair, replacement, expansion and modernization.

This nation is faced with difficult fiscal circumstances. However, without proper investment and attention to our infrastructure, U.S.' economic stability, potential for job growth, global competitiveness and quality of life are all at risk. Delaying investment will not make transportation problems go away. Instead, conditions and performance will worsen. Materials, labor, and land will get more expensive and our businesses will be less competitive. Opportunities to save lives will be missed. Americans are already paying dearly for inferior transportation, through lost productivity, wasted fuel, and tragically, more crashes.

To head off this future and have a transportation system that supports a 21st century economy, the United States needs a high level of investment targeted at improving performance across all modes and across the country. We cannot just fix a few bottlenecks or address the problems in one city or state.

Closing the gap between needs and resources is going to require leadership and political courage. When you think, "we cannot afford to do this," recall:

- The economic costs of congestion on the ground, in the air, and at our ports;
- The number of lives needlessly lost to poor roadway conditions;
- The negative impact an aging transportation infrastructure system has on our ability to compete globally;
- The lost opportunity to employ hundreds of thousands of people in construction and related industries by modernizing our highways, transit systems, airports, seaports, waterways, and rails;
- The increased costs and decreased efficiency for American businesses; and
- The hundreds of billions of dollars annually in wasted fuel, lost productivity, avoidable public health costs, and delayed shipments of manufacturing inputs, consumer goods and other items critical to the underlying growth of our businesses.

These things might not "score" for the Congressional Budget Office or the Office of Management and Budget, but the costs are real.

And so are the benefits. Our national transportation system is critical for ensuring long-term economic prosperity, and supporting Americans' high standards of living, which have driven economic expansion, and is the backbone of our business supply chain. Lasting jobs grow where infrastructure works.

The management and planning of the nation's transportation system is decentralized, and often localized, and is both public and private. The federal role is to make sure that this system functions well as a whole to support growth, competitiveness and a high quality of life. The federal role is also to look ahead and prepare for the future: the Chamber's business members large and small engage in long-term planning that relies on assumptions about the physical platform of our economy.

The Chamber calls upon all of America's leaders in and out of government to put this country first. America needs big solutions—it is time to put the smallness of politics aside. Transportation is a great opportunity to prove that Democrats and Republicans can work together, that states and the federal government can each play an appropriate role, that business can step up to help meet a major national challenge, and that all stakeholders can come together to get something done for the good of the nation. We are ready to do it, and the Chamber looks forward to working with Senate Committee on Environment and Public Works to meet the challenge.

Senator BOXER. Thank you very much.

And we are going to move ahead with Mr. Gregory Cohen. We are very happy to see him, he is President and CEO of American Highway Users Alliance.

STATEMENT OF GREGORY M. COHEN, P.E., PRESIDENT AND CEO, AMERICAN HIGHWAY USERS ALLIANCE

Mr. COHEN. Thank you, Madam Chairman, Ranking Member Vitter and members of the Committee. I appreciate this opportunity to present the views of the Highway Users Alliance.

I want to emphasize up front that we are facing an epic crisis with the insolvency of the Highway Trust Fund, and that a transportation fiscal cliff is approaching rapidly.

As America fails to keep up with investment needs, we are sliding on the economic ladder. For decades, American roads were No. 1 in the world, indisputably. According to the World Economic Forum, today we are No. 18. This is no longer the exceptional system that we inherited from the greatest generation.

The Federal highway program benefits every State, rural and urban; serves every citizen, whether they drive or not. My statement discusses the needs in detail, but I am going to select four areas to highlight:

First is congestion. We talk about $100 billion or $124 billion as the cost of congestion. That is just the cost of fuel and time lost. It scratches the surface. When you look at qualitative issues, the safety impacts of congestion, logistics, unreliability, jobs access, access to employees, stress and health effects of congestion, EMS slowing their responses, it is several times, probably, what we get from the Texas Transportation Institute.

Let me talk about bridges. Yesterday's hearing that talked about the bridge collapses in Washington and Minnesota, tragedies. But our bridges, 25 percent, as the Chairman mentioned, are now deficient. That is the equivalent of 5,000 miles of bridges. You could drive on I–10 all the way from the east coast to the west coast and back. That is the mileage of bridges that need work.

Safety. One thing we can really guarantee is that if this program can't fund new projects in 2015, that 33,000 death toll that we are facing is going to go up. We know our safety projects have a benefit to cost on average of $42 for every $1 invested. It is just crazy not to put in guardrails where they are needed. And that is the kind of thing that is going to happen.

Commerce, particularly for road needs. Four percent of the road network is our national highway system, that carries 40 percent of the traffic, 85 percent of the truck traffic and 95 percent of the tourist traffic. If nothing else is a Federal issue, these interstate commerce routes certainly are.

Let me turn to funding. As the voice of highway users, I will admit that we haven't always jumped at the idea of raising user fees. There are two main reasons we strongly support it now: First, as I mentioned, the situation is critical, and the very existence of the Highway Trust Fund is at stake. Second, the reforms in MAP–21 we really believe went a long way toward restoring public trust in Federal transportation programs and trust in the Highway Trust Fund.

At this point, the Committee is focused on preventing a catastrophic cut, but there should also be some consideration to meeting actual needs. An annualized growth rate of about 1 percent above inflation is basically what you need just to keep the situation from getting worse.

Of course, it would be better to provide enough funding to actually improve the conditions. Here are three principles on funding we think are important to consider:

No. 1, the mix of funding solutions must be focused on keeping the Highway Trust Fund solvent and robust. Any supplements that are beyond the Highway Trust Fund are good, but we need to focus on the trust fund itself.

No. 2, we need to keep the tax broad, where everyone pays and everyone benefits. And No. 3, let's solve this problem once and for all. The funding solution has to be sustainable so that future reauthorization bills can be enacted with guaranteed funding levels that are a minimum of 5 to 6 years.

Keeping these principles in mind, let's get specific. No. 1, we need to look at raising the fuel tax once or in chunks to make up for what has been lost to inflation since 1993. No. 2, we need to look at indexing those fuel taxes to one or more variables to maintain or increase the purchasing power over time.

Three, we need to look at what Maryland and Virginia have done, consider taxing fuel as a percent of wholesale fuel costs at the terminal rack and provide the additional protections to ensure stability when prices are volatile. Four, and this is really the last, I hear you, Madam Chairman, but this is sort of a last thing, if we can't do everything we need to do, we might need to supplement certain or all highway programs with either a one-time or small General Fund contribution. After all, everyone, whether they drive or not, benefits from good roads.

In conclusion, MAP–21 was a great example of doing the right thing for the American people. Still, we can do better. Fiscal sustainability can be achieved, reforms can further be strengthened where appropriate. And it is in the national interest that we solve this problem. The benefits of the Federal highway program reach every corner of the country, urban and rural, all kinds of people and businesses, farmers, office workers, truckers and tourists.

Thank you again for the opportunity to appear today and for your consideration of our views.

[The prepared statement of Mr. Cohen follows:]

Testimony of Gregory M. Cohen, P.E.
President and CEO
American Highway Users Alliance
Before the Committee on Environment and Public Works
United States Senate
September 25, 2013

Chairman Boxer, Ranking Member Vitter, and Members of the Committee, I appreciate this opportunity to present the views of the American Highway Users Alliance on the need to invest in America's transportation infrastructure and the importance of stabilizing federal transportation funding.

About The American Highway Users Alliance

The Highway Users Alliance is an advocacy group representing hundreds of national and state non-profits and businesses of all sizes, including AAA clubs, bus and truck companies, motorcyclists and recreational vehicle users, and a diverse network of companies that require a safe, efficient, and reliable national system of highways. Our members represent millions of highway users across the country and we serve as the united voice for better roads and fair taxation.

For over 80 years, The Highway Users has been an advocate for strong federal leadership on American transportation infrastructure. We believe that the federal government has an essential responsibility for ensuring safe interstate commerce, making America more connected, and increasing mobility and opportunity for all citizens while contributing to economic growth. The Highway Users has been a stakeholder on every federal highway and surface transportation bill since 1932, including the historic Federal-Aid Highway Act of 1956, which authorized the Interstate Highway System and created the Highway Trust Fund, and the most recent MAP-21 law, which we endorsed and strongly supported because of its critical reforms. As an appendix to this testimony, a list of MAP-21 reforms and programs that we supported is attached.

Surface Transportation Has Its Own "Fiscal Cliff"

Before discussing specific needs and funding options, I want to emphasize up-front that we are facing an epic crisis with the insolvency of the Highway Trust Fund and that a transportation "fiscal cliff" is approaching that could lead to full cancellation of highway funding for 2015. According to CBO, by the fall of 2014 there will be barely enough revenue in the fund to pay for the obligations already made but not yet outlaid under MAP-21 and SAFETEA-LU.

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This is truly a qualitatively more difficult situation than is faced by other programs. There is no question that many domestic discretionary programs are facing cuts due to sequestration. Yet these across-the-board cuts pale in comparison to a nearly 100% cut in highway funding, which will occur in fiscal year 2015 if Congress fails to act.

Diverse State Needs Add Up to Critical National Needs

In its most recent Conditions and Performance Report, FHWA estimates that the level of highway capital investment at all levels of government ($91.1 billion in 2008) is actually leading to a *decline* in the quality of our roads. In other words, we're falling behind already, even before we reach this transportation fiscal cliff.

As America fails to keep up with investment needs, we're sliding as an economic leader: For decades American highway infrastructure was indisputably #1 in the world. After we stopped building the Interstates, we started falling back. Since 1980, we increased highway travel by nearly 100% while increasing road miles by only 6%. By 2006, our road quality dropped to #6 in the world according to the World Economic Forum. In the seven years since, we have dropped twelve spots to #18. This is no longer the exceptional system that we inherited from the greatest generation.

In looking at needs, national statistics abound. But it is just as important (or more important) for Congress to consider the needs qualitatively and holistically. This is a program that benefits every State, and serves every citizen, whether they drive or not. Even those who are not highway users depend on the vast national network of roads and bridges to get food, medicine, and products delivered to their door –often overnight. The investment in highway infrastructure serves America's competitive interests as a whole while simultaneously improving individual lives in communities.

The 212 million licensed drivers that fund the Highway Trust Fund have very different perspectives. In both urban and rural areas, there are growing needs due to the aging of bridges and pavements – many of which were built for much lower traffic volumes and have exceeded their design life. Today, 25% of bridges are deficient. If we put them end to end, they would stretch 5,000 miles -- or long enough to go from coast-to-coast and back. These bridges are collectively getting older and States are working hard to reduce deficiencies. But if we go over the transportation fiscal cliff, bridge deficiencies will grow, with potentially catastrophic results.

We can be even more certain that there will be preventable deaths and injuries if funding is not available for systemic safety investments and hazard elimination projects funded by the Highway Safety Improvement Program (Sec. 1112 of MAP-21). These projects have an average benefit to cost ratio of more than 42 to 1, according to SAIC, and correct systemic safety problems and hazards that kill and maim people of all ages. For example, there are investments that have completely eliminated run-off-the-road fatalities where there were many and others that have helped make roads safer at all hours for the fastest growing segment of the driving population: Seniors.

Highways in rural States serve as a bridge for motorists, truck and bus drivers, motorcyclists and RVers traveling between metropolitan areas; so, the residents of the cities need the rural highways. And those highways link our rural communities and businesses to the national and international economy. Highway investments help farmers and ranchers by making agricultural trade efficient so that products are fresh for consumers. Rural highways provide safe access for truckers and construction equipment to domestic energy sources to help keep fuels affordable. Federal-aid highway funds provide critical assistance to those who live and travel in rural communities that need life-saving deployment of safety infrastructure and devices. For remote, economically challenged communities, highways are literally a lifeline.

In more urbanized States and in metropolitan areas, highway funds help address costly, frustrating traffic congestion. According to Inrix, the United States has the third most congested roads in the world. Congested bottlenecks affect the flow of logistics across the entire country. In fuel and time alone the costs exceed $100 billion per year. But the true cost of congestion may be many times that amount once safety, stress and other health impacts, unreliability in the logistics chain, emergency medical service delays, and reduced access to labor markets are figured in. If States are unable to fund congestion relief projects, the impacts will be felt far beyond individual metropolitan areas, they will affect the entire country the way blizzards affect the network of airports.

In every State, the most economically critical road infrastructure network is the National Highway System (NHS) program, which includes the Interstate Highway System. The National Highway Performance Program (Sec. 1106 of MAP-21) funds the NHS, focusing attention to the most critical 4% of our road network, which serves 40% of traffic (including 85% of truck traffic and 90% of tourism traffic). It is of critical federal interest that this system remains robustly funded by Congress.

Federal support for the Interstate routes, in particular, keeps that network safe and efficient in both rich States and poor States; free of tolls, and open for business. The benefits are extraordinary and a failure to support this system would likely pit States against one another for toll revenue, significantly harming the efficient movement of interstate commerce.

Refuting the Myth that Highway Needs have Lessened

As the economy weakened over the past decade, some have argued that teens and young adults don't want cars or that driving is losing its appeal and, therefore, America no longer needs to invest more in highways or should divert highway user fees to other modes. When VMT dropped slightly and briefly during the recession, only 1% of the drop could be attributed to growth in other modes. And while many teens are getting licenses later for a variety of reasons (e.g. more young adults living with parents, graduated license restrictions, and a general lack of employment), these may be temporary phenomena. Some have also claimed that the growth in highway travel has become irreversibly disconnected to its traditional correlation with growth in the economy. But even if highway use does grow more slowly than GDP, America's road congestion is still increasing at the fourth-highest rate compared to all other countries. At a minimum, traffic will grow at least as fast as population growth and we remain a growing country. In addition, freight traffic continues to soar. Even in a so-so economy and with an unpredictable economic future, investment in road improvements remains a smart move for America.

Funding the Needs

For obvious reasons, and unlike many transportation stakeholders, the American Highway Users Alliance has not always jumped at the idea of raising user taxes on drivers. However, there are two main reasons that we urge Congress in the strongest possible terms to raise rates now:

First, the passage of MAP-21 went a long way toward restoring public trust in federal transportation programs. Before MAP-21, it was no secret that many Americans were upset with what they heard in the press about wasteful spending. Many felt that the old "TEA"-era programs were allowing too much waste, diversion, and the construction of so-called bridges to nowhere. The reforms of MAP-21, including program consolidation and elimination, prioritization of the NHS, more funding for safety projects, NEPA process reforms, attention to the highway freight network, and permit streamlining were absolutely vital. Of course, as last week's hearing revealed, full and proper implementation of the reforms will be important to increase support for more funding.

Second, as discussed earlier, the Highway Trust Fund is in an extraordinarily bad fiscal situation. The Highway Users strongly supports user-pay/user-benefit concept that underpins the Highway Trust Fund. And as users, we agree that we are not currently paying enough to even maintain existing conditions.

At this point, the Committee is focused on preventing a catastrophic cut, but as part of a long-term reauthorization bill, there also should be some consideration to providing funding to reverse this decline and begin to meet needs. According to the most recent USDOT Conditions and Performance report, an annualized growth rate of around one percent above the rate of inflation is needed just to keep our roads from getting worse.

Of course, it would be better to actually improve conditions. Implementing the full range of cost beneficial projects would require an annual increase of between five and six percent above the rate of inflation. It would be far better for the users to pay more and actually experience improvements than to set revenue levels inadequately and have the public feel like they're paying more while the system continues to decay (albeit more slowly).

As an organization, the Highway Users is open to many options to fund the Highway Trust Fund. However, it is clear that some ideas are better than others. Here are three principles that are important to consider:

(1) **The funding solution must keep the Highway Trust Fund solvent.** Some have suggested the Highway Trust Fund has outlived its usefulness because revenue is

currently insufficient. We disagree. As the country faces growing pressure to balance the budget and reduce debt, the presence of the Highway Trust Fund locks off funding for its intended purpose. It creates the trust for the taxpayers that their use taxes will be spent primarily on roads and bridges.

(2) **Keep the base broad.** The genius of the user tax on gasoline and diesel is that everyone who uses the road pays and the users (and country as a whole) benefits. With everyone paying a little bit, no single group is singled out to pay an unreasonable amount. According to GAO, a mere $96 in federal gas taxes is collected for the annual use of a typical sedan. It's an incredible deal for unfettered access to a vast highway network.

(3) **Solve the problem once and for all.** The funding solution should be sustainable over the long-term so that reauthorization bills can be enacted with stable, predictable, and guaranteed funding levels for a minimum of five years at a time. The problem with the current, static, per-gallon gasoline tax is that it doesn't automatically adjust with the variables that impact its purchasing power.

If we cannot meet all three principles, we should get as close as possible: It may be necessary to look once again at the general fund to get us through the fiscal cliff or split the funding between the trust fund and the general fund (much like the transit program does) for a few years until revenue increases are fully sufficient. After all, highway investments provide benefits to the taxpaying public at-large, not just road users.

Specific Revenue-Raisers to Consider

In keeping with the three principles discussed above, the American Highway Users Alliance is open to a number of options for raising revenue. The most obvious solutions include:

1. **Adjust the fuel tax once to take into account inflation** lost since 1993 (the last time fuel taxes were raised).
2. **Index fuel taxes to one or more variables** to maintain or increase purchasing power over time.
3. **Tax fuel as a percent of wholesale fuel costs at the terminal rack** with additional protections to ensure stability when prices are volatile.
4. **Supplement certain or all highway programs with a general fund contribution**. After all, everyone benefits from good roads.

We are also open to other solutions such as various bonding proposals, repatriation of foreign assets, energy royalty revenues, and some of the other concepts discussed hy the National Policy and Revenue Study Commission and National Transportation Finance Commission.

Funding Options that We Oppose

1. **Tolling Existing Free Lanes on the Interstates.** The current pilot programs to do so have proven to be spectacular failures. Not a single interstate has been tolled. Where it has been tried, the public has failed to support those who claim that the tolls will be targeted primarily at visitors from other neighboring States. While interstate truckers and truck stops fought back, it was typically local community opposition that stopped these projects in their tracks. The pilot programs have failed and they should be repealed. However, Congress should keep the compromise reached in MAP-21, which allows tolling of new lanes and new roads.
2. **Raising the Federal Excise Tax on Trucks.** The 12% retail tax on trucks and truck equipment (FET) is already excessive. Unlike the rest of the cost of a truck, it cannot be financed and puts the price of trucks and equipment out of the reach of many. It is also the most unpredictable and unstable of all the sources of revenue in the fund. A higher diesel tax makes much more sense than raising this sales tax.

Conclusion

Last year, this Committee, with leadership of the Chairman and Senator Inhofe, showed that Members of Congress of all political stripes can come together when it comes to building America's infrastructure. MAP-21 was a great example of doing the right thing for the American people. Still, we can do better. Fiscal sustainability can be achieved and reforms can be further strengthened, where appropriate. But the road ahead will be a hard one to travel. As highway users, we are ready to pay more to keep the Highway Trust Fund solvent so that we can rebuild America's highways and bridges.

But – and this is important – it is in the national interest that we solve this problem. As I have noted, and as you will hear from others, the highway investments help improve safety and contribute to economic competitiveness and personal mobility. These benefits reach every corner of the country, urban and rural, and all kinds of people and businesses -- farmer and office worker, trucker and tourist.

Thanks again for the opportunity to appear today and for your consideration of our views.

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Appendix (one page)

Appendix

MAP-21 Programs & Reforms Supported by the American Highway Users Alliance

We supported:

- A strong focus on the NHS (federalism and economic growth)
- The funding increases for FHWA's safety program (but tweaks are needed)
- Bridge and tunnel inspection standards
- Development of the critical freight highway network
- Reform of and funding increases for TIFIA
- Streamlining (requires implementation, oversight, and review!)
- Inclusion of performance measures (but we are waiting to see how they're implemented)
- The compromise position on Interstate tolling (new capacity OK, no tolling of existing free lanes)
- Consolidation and elimination of low-priority programs and reform of the Transportation Enhancement program (however, we do support funding Recreational Trails)
- Consistency on elimination of earmarks (if none for Congress, then none for the Executive Branch)

Questions and Answers for the Record

Environment and Public Works Committee Hearing – September 25, 2013

Senator David Vitter

> Q1: In your testimony you credit the passage of MAP-21 for restoring public trust in the federal transportation program and thus making your members more willing to support new revenue. Specifically which MAP-21 reforms? And will full and proper implementation of those reforms be essential for your member support?

A1: The reforms we supported in MAP-21 included but are not limited to the environmental streamlining provisions, consolidation and elimination of non-essential programs, elimination of the Transportation Enhancements mandate, a greater percentage of core funding for the National Highway System (NHS) routes, and a greater percentage of funding going to safety projects. We agree that the full and proper implementation of these reforms is essential by the due dates required in MAP-21, however we do not demand that all regulations be put in place prior to passage of a new reauthorization bill. The reason we are flexible here is because many of the rulemakings are not required to be completed before MAP-21 expires on September 30, 2014. Some MAP-21 regulatory deadlines extend as far as 2017. However, when Administration policy is put forward, we agree that it must be fully and properly implemented as intended. Strong oversight from Congress is important. As an example, we were disappointed that the Administration's guidance for the Federal Highway Administration's Highway Safety Improvement Program (HSIP) permits the use of these funds for non-infrastructure purposes. This was not the intent of Congress. So, it will be important that the new reauthorization bill includes correction of Administration guidance and regulations that are not consistent with Congressional intent.

> Q1a. Others still might not be convinced even after MAP-21. What additional reforms do you think might be needed to take additional steps towards restoring confidence?

A1a. We support further streamlining and planning reforms, including the tightening of deadlines for interagency review and adjustments to the funding limits for small projects that do not require a formal NEPA process. As evidenced by a recent EPW hearing where the U.S. Army Corps of Engineers provided a witness, some agency officials appear complacent or even antagonistic about the need to stick to firm deadlines. We are pleased that both top Administration officials and Members of Congress on a bipartisan basis have voiced strong support for cutting red tape and getting projects built more quickly. In addition, while we support the "performance-based" requirements of MAP-21, we do not recommend further requirements on the State DOTs until we have an opportunity to see that make sure that the performance requirements are not adding additional delays and burdens on the States. Given the fiscal problems facing the Highway Trust Fund, we would support an effort to further tighten eligibilities of funding out of the Highway Account to ensure that these are used for highway purposes. In some cases, there may be opportunities to split-fund or general-fund projects and programs that are seen by critics as "diversions" of highway user fees.

Q2. In your testimony, you mentioned your members oppose tolling existing free lanes on the Interstate and raising the Federal Excise Tax on trucks. Why those two?

A2. Fuel taxes are spread to a very large base of road users. As a result, the financial burden of paying for roads in this way is incremental and not particularly painful at any one point in time. The 12% excise tax on the sale of new trucks and truck equipment is a significant burden, particularly for small operators. For example, the purchase of a $100,000 truck would incur a burdensome $12,000 tax. This tax, even at the current rate, is unaffordable for many, leading to slower fleet turnover and more volatility in revenue for the trust fund, particularly during recessions or when engines prices increase to meet new environmental requirements.

Tolling on the existing untolled lanes of Interstates is a major problem for highway users and businesses. People have bought homes and set up businesses along Interstate highways. Suddenly slapping tolls on a captive base of drivers would be intolerable and unpopular. In addition, the creation of the Interstate System was fundamentally a promise to the public that these were to be un-tolled roads. In addition, the tolling of this specific system disproportionately burdens interstate travelers and has been shown to create economic harm to businesses that operate at Interstate exits. Like the federal excise tax on trucks, the base of Interstate users is smaller, thus the financial burden on each toll payer can be considerably higher per mile than with a gas tax, even if the gas tax was raised substantially.

Despite these concerns, we recognize that a shortage of federal funds has led to States building new roads and adding express lanes with toll financing. We supported the compromise in MAP-21 to allow an unlimited number of these new projects to be built because the motorists are benefiting from new capacity. This is a far cry from slapping tolls on an existing free lane, an idea we remain strongly opposed to.

Senator James Inhofe

Q1. TEA-21 was extended 12 times before we enacted SAFETEA-LU. SAFETEA-LU was extended 10 times before we passed MAP-21. MAP-21 is only a two year reauthorization.

a. What impact do short-term extensions have on projects of regional and national importance?

A1a. The impact is severe and many projects of regional and national importance simply cannot be funded with a slow drip of federal funding authorized through extensions and short-term bills.

b. Can you talk about the costs of extensions vs. long-term transportation bills?

A1b. Extensions create unpredictability and doubt over the future of federal funding. Projects that can be built with extensions are typically low cost, easy-to-deploy projects, like those built under the 2009 "stimulus". These are not the major projects that improve America's logistics efficiency, replace major interstate bridges, or remove major congestion. A rule of thumb for major projects is that a 10 year delay doubles the project cost. When extensions replace long-term bills, these delays cost real money and reduce the economic, safety, and quality-of-life benefits that should be realized by the federal program.

c. What would you consider to be an ideal length of a transportation bill?

A1c. The Highway Users strongly recommends that the next bill be enacted on time and with at least six-years of stable, predictable funding so that States can get the most important projects built. This would be impossible without a financially sustainable solution to the revenue problems facing the Highway Trust Fund.

Q2. I know this Committee is actively working along with the Finance Committee to find a solution to the funding issues, but would you agree, if we have to, that the general fund could be a back stop to assure state and city governments of continued funding? How important is that assurance?

A2. We consider the general fund to be an option of last resort for traditional highway programs. As my testimony indicates, there may be some options for using a greater amount of general funds for some, less highway-oriented programs. If it is the only funding source available, we certainly wouldn't turn it down. However, we urge the Senate to remain focused on restoring the financial sustainability of the Highway Trust Fund. To a much greater degree than General Funds, a strong and stable trust fund would give state and city government much more confidence that they have a reliable federal partner for the long-term. We also believe that user fees can be increased slowly and relatively painlessly for motorists. A bipartisan approach to this revenue problem is essential.

Q3. Many members of my caucus believe we should live within our means. However, CBO reported that absent a new revenue source or general fund transfer to address the $14 billion annual shortfall in the Highway Trust Fund, we will need to cut the current highway program by almost 80%. Even though we are 12 months away from a new reauthorization, are you seeing any impacts that the report is having with your members? If so, what are those impacts?

A3. Nweer data suggests that nearly 100% of the program would need to be cut to "live within our means." This is creating uncertainty and alarm among my members. As an example, one of our top five members, an asphalt refining company, announced that they see too much unpredictability in the asphalt market and are getting out of that business. That means there will be less supply of asphalt and higher prices for taxpayers. In addition, among our truckers and other Interstate users, there is a growing fear that a catastrophic failure of the federal program could lead to a balkanization of the national network and the erection of tollbooths throughout the land. This would have enormous consequences for national productivity, economic growth, trade, and quality-of-life. Coming up with a solution as soon as possible is critical to easing these fears and restoring economic growth for our country.

Senator BOXER. Thank you. What was your No. 1 again, of your list? You said there were four things, but I missed No. 1.

Mr. COHEN. Raise the fuel tax, once or in chunks to make up for inflation lost since 1993.

Senator BOXER. Thank you.

And we now are going to hear from our friend from the National Construction Alliance, Ray Poupore.

STATEMENT OF RAY POUPORE, EXECUTIVE VICE PRESIDENT, NATIONAL CONSTRUCTION ALLIANCE

Mr. POUPORE. Thank you, Chairman Boxer, Ranking Member Vitter and distinguished members of the Environment and Public Works Committee.

The NCA2 that I represent is a partnership between four of the Nation's largest construction unions—the International Union of Operating Engineers, the United Brotherhood of Carpenters and Joiners of America, the Laborers International Union of North America, and the International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers. These four unions of the alliance represent more than 1.5 million workers, many of whom build our Nation's infrastructure.

I myself am a member of the Operating Engineers, Local 324 Michigan, where I spent a lot of time working on transportation projects as a young man, as a crane operator. These four large basic trade unions that I represent build some of the Nation's largest transportation infrastructure projects. We just are finishing up the first phase of the Dulles Light Rail project. We built the Wilson Bridge a few years ago, and we just finished up the hot lanes in this capital area.

If you move a little bit toward the midwest, right now we are just starting the Ohio River bridges in Kentucky and Indiana. We recently finished the Hoover Dam bypass bridge in Nevada and Arizona. And a couple years ago, 4 or 5 years ago, we finished building the Tacoma Narrows Bridge. We are currently underway with the Alaskan Way Viaduct replacement in the Pacific Northwest, which is in the State of Washington.

Bottom line is, Madam Chairman, we build the Nation's infrastructure. This is the most important jobs bill for construction workers that we have. And the reason we are here today is because of the crisis to the Highway Trust Fund. We thank you for bringing everybody's attention to it, and hopefully we can do something with the time. We have 1 year to get this thing fixed.

We thank you for the great work you did on MAP–21. But I would like to turn you and hopefully, I have extra copies if you don't of this graph that I included in my submission of testimony. It shows the amount of unemployment we have in construction. This is not a graph of my 401(k), it is worse. It is a graph of, we had in construction 7,490,000 jobs in 2008; we are down to 5,798,000. We have lost almost 1.7 million jobs since 2008, Madam Chairman.

I testified in front of your Committee back in January 2011. I mentioned what these numbers really mean. And I tried to paint a visual and I used a stadium analogy, the SuperBowl holds 100,000 people. Well, Madam Chairman, we could still fill 17

SuperBowl stadiums with the amount of people we have out of work. And as you know, these are friends of yours and friends of mine, and everybody on the panel here. It is important that we get our neighbors, your constituents, back to work.

Simply put, this battered industry cannot sustain the type of blow that would be inflicted if Congress fails to enact a multi-year fully funded surface transportation bill when MAP–21 sunsets. Congress cannot allow the Highway Trust Fund to deliberately run off the cliff like Thelma and Louise. The effect on the employment in the construction industry would be catastrophic.

So NCA2 offers a few ideas and suggestions on how we might be able to fix the hole in the Highway Trust Fund. We believe Congress should allow States more flexibility in opening up new transportation revenue streams, including a lifting on the ban on tolling for new capacity. In addition, programs such as the vehicle miles traveled tax, VMT, and other pilot projects, should be supported over the duration of the next authorization to explore the viability of these revenue sources.

We believe that bonding some part of the dedicated revenue stream for the Highway Trust Fund may be a useful way to sustain the program. And we believe that in order to achieve the needed level of infrastructure investment, a gas tax increase is necessary at an absolute minimum. As a long-term strategy, the gas tax must be indexed as part of the solution.

The Nation's roads and bridges are crumbling before our eyes. Millions of American construction workers have left the industry for lack of opportunity. We cannot afford to lose more construction jobs. Yet without a solution to the problems in the Highway Trust Fund, that is precisely what will happen.

The passage of a robust, multi-year transportation bill will stop the bleeding and give the industry a much-needed shot in the arm.

You have the power to make this happen. But it will require leadership. Saying no to every revenue option will not get us there. We need to say yes to investing in this country, raising new revenue. This Committee demonstrated that type of leadership in the last Congress. We are eager to continue to work with you in this 113th Congress to remedy an even bigger problem, and indeed, save the program.

Thank you, Chairman Boxer, Ranking Member Vitter, distinguished members of the Environment and Public Works Committee, for the opportunity to join you this morning, and for all the work that you do that puts construction workers to work and especially the ones that I represent, I say thank you.

[The prepared statement of Mr. Poupore follows:]

Testimony of Raymond J. Poupore Executive Vice President National Construction Alliance II

Environment and Public Works Committee United States Senate "The Need to Invest in America's Infrastructure and Preserve Transportation Funding" September 25, 2013

Thank you, Chairman Boxer, Ranking Member Vitter, and distinguished members of the Environment and Public Works Committee.

My name is Raymond J. Poupore. I am the Executive Vice President of the National Construction Alliance II – a partnership between two of the nation's largest construction unions, the International Union of Operating Engineers and the United Brotherhood of Carpenters and Joiners of America. The two unions of the Alliance represent nearly one-million workers – many of whom build the nation's transportation infrastructure.

I am a proud member of Operating Engineers Local 324 in Michigan, where I was a crane operator for thirteen years. I currently have the distinct privilege of conducting labor relations for the two unions of the Alliance on some of the nation's largest transportation infrastructure projects, from Woodrow Wilson Bridge and Dulles Light Rail here in the Capital area to the Tacoma Narrows Bridge and the Alaskan Way Viaduct in the Pacific Northwest.

Please let me turn now, Chairman Boxer, to the crisis that brings us here today. The Highway Trust Fund faces a steep cliff on October 1, 2014. If the Highway Trust Fund is allowed to go over the edge, the harm to the construction sector will be irreparable. Given the critical role that the Environmental and Public Works Committee played in driving the bipartisan effort to pass the last 27-month authorization, the Moving Ahead for Progress in the 21st Century (MAP-21), we are again looking for your leadership to stave off the dramatic harm that could be inflicted on the construction sector if new resources are not found to fill the funding gap.

The NCA II believes that investing in American infrastructure is an essential element of a national strategy to boost our economy. Without it, the NCA II is concerned that the construction sector will hit new lows, dragging down other sectors with it.

The unemployment rate in construction peaked at over 27% in February 2010. That is a depression-era level of unemployment. I have attached a graph to my testimony to give you a look at the damage done to the construction sector and the workers in it. You can see that employment levels in the construction sector seem to have bottomed out, but we are still in the trough; there has been only the slightest uptick in employment levels. Unfortunately, the data reveals what appears to be a new normal in the industry. The situation must not be allowed to worsen. We cannot plunge below the new, low normal.

It is true that the unemployment rate in construction hit a five-year low in August at 9.1%. Yet the method of calculating that unemployment rate masks the real pain experienced by workers in the construction job market, the real pain I've seen in the faces of workers when they are laid off.

The last time the unemployment rate was so low (August 2008) there were well over 7-million jobs in the construction sector. Today, there are less than 5.8-million workers in the industry. Almost 1.7-million workers – close to one-quarter of the whole industry – have left construction since the start of the Great Recession in December 2007.

As you know, those are not simply numbers on a chart. Those are the lives of hard-working Americans, hardworking Operating Engineers, Carpenters, and other workers, both union and non-union. They are your friends, your neighbors and your constituents. And when they are hurting, our communities and our economy are hurting.

Simply put, this battered industry cannot sustain the type of blow that would be inflicted if Congress fails to enact a multi-year, fully-funded surface transportation bill when MAP-21 sunsets. Congress cannot allow the Highway Trust Fund to deliberately run off the cliff like Thelma and Louise. The effect on employment in the construction industry would be catastrophic.

The frequently cited analysis by the Federal Highway Administration regarding employment impacts related to highway investments says that over 2/3 of the direct jobs created by a transportation investment are in construction. The same Federal Highway Administration study estimates that around 10,000 *direct* construction jobs are created with every $1-billion invested in transportation.

Every job counts in our beleaguered industry and we are risking the loss of tens of thousands more construction jobs if the surface transportation funding puzzle is not solved.

NCA II is open and receptive to a whole range of revenue and financing options that we believe should be pursued by the Finance Committee to remedy this crisis. The following are just a few options that transportation leaders in Congress should consider to fix the hole:

- We believe Congress should allow states more flexibility in opening up new transportation revenue streams, including a lifting of the ban on tolling for new capacity. In addition, programs such as the vehicle miles traveled tax (VMT) and other pilot projects should be supported over the duration of the next authorization to explore the viability of these revenue sources.

- We believe that bonding some part of the dedicated revenue stream for the Highway Trust Fund may be a useful way to sustain the program.

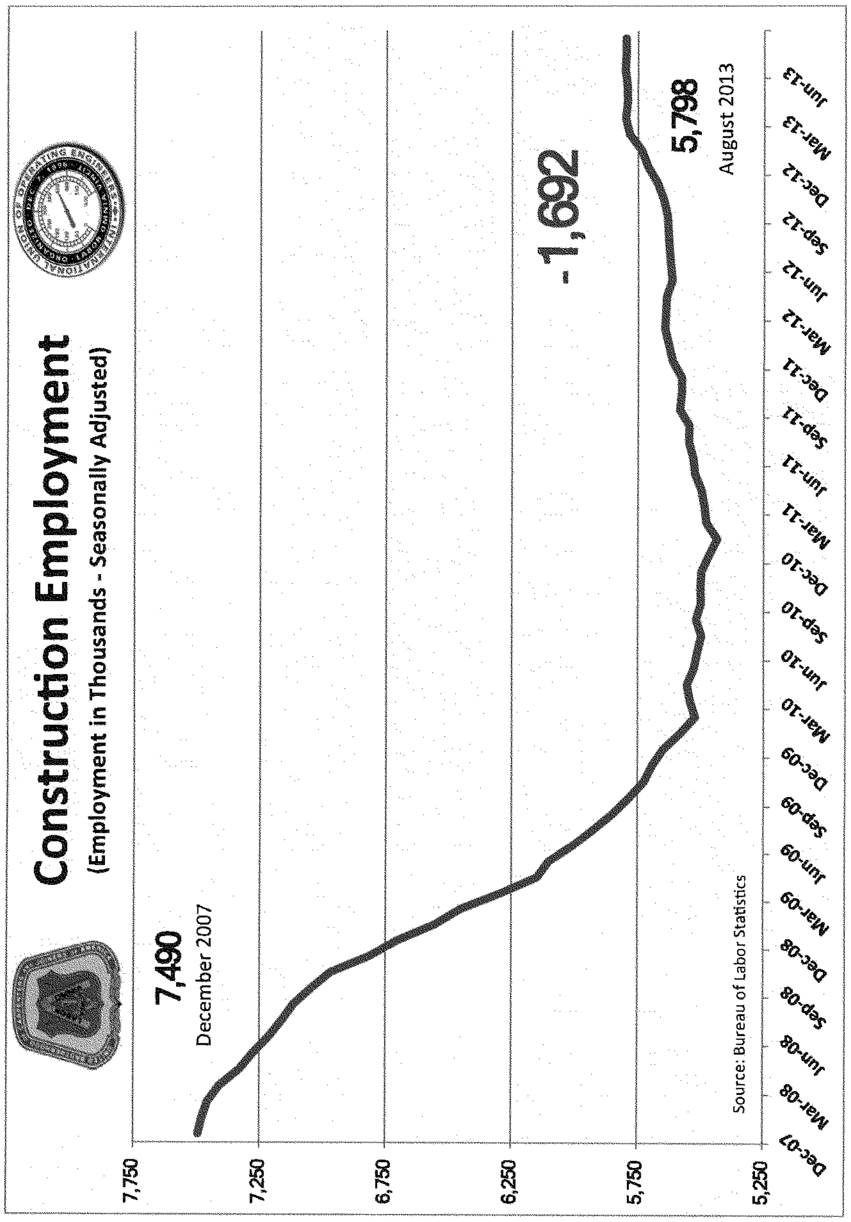
- We believe that in order to achieve the needed level of infrastructure investment, a gas tax increase is necessary. At an absolute minimum, as a long-term strategy, the gas tax must be indexed as part of the solution.

- We believe linking the revenues from existing domestic energy production with investments in the nation's infrastructure makes long-range policy sense. Even leaving controversial issues like expanding drilling and the exploration of the OCS and Arctic National Wildlife Refuge aside, depositing energy revenue in the Highway Trust Fund binds important trends in energy consumption, production, and transportation. The concept also enjoys bipartisan support.

The nation's roads and bridges are crumbling before our eyes. Millions of American construction workers have left the industry for lack of opportunity. We cannot afford to lose more construction jobs. Yet without a solution to the problems in the Highway Trust Fund, that is precisely what will happen. The passage of a robust, multi-year transportation bill will staunch the bleeding and give the industry a much needed shot in the arm.

You have the power to make this happen. But it will require leadership. This committee demonstrated that type of leadership in the last Congress. We are eager to continue to work with you in this 113th Congress to remedy an even bigger problem and, indeed, save the program.

Thank you, Senator Boxer, for the opportunity to join you this morning.


Construction Employment
(Employment in Thousands - Seasonally Adjusted)
7,490
December 2007
-1,692
5,798
August 2013
Source: Bureau of Labor Statistics
7,750
7,250
6,750
6,250
5,750
5,250
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
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Dec-10
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Jun-13

Senator BOXER. Thank you so very much.

And our last speaker is Mr. Gregory DiLoreto, President of the American Society of Civil Engineers. We just received a really in-depth letter from them, but please proceed.

STATEMENT OF GREGORY DiLORETO, P.E., PRESIDENT, AMERICAN SOCIETY OF CIVIL ENGINEERS

Mr. DILORETO. Thank you. Good morning, Chairman Boxer, Ranking Member Vitter, Senator Merkley, members of the Committee.

It is an honor for me to appear before you today to discuss the status of our Nation's infrastructure. As noted, my name is Greg DiLoreto, and I am the President of the American Society of Civil Engineers.

As you noted, Chairman Boxer, our Nation's infrastructure is in trouble due to the under-investment at all levels of government. As a result, ASCE believes that all options must be on the table as we consider long-term funding solutions to our Nation's surface transportation system.

However, as we consider funding solutions, the question arises, how have we gotten here and what can we do to fix it? The story of our transportation infrastructure in this country is a story of our American system working exactly as it should, with government meeting the needs of the free market.

So why does the system not work? I am not the only person here who has told you that our Nation's infrastructure is hurting. By looking to the past, I have to ask, now that we live in a global economy, why is our infrastructure not keeping pace with our growing demands?

I recently spent time traveling in Asia on behalf of ASCE. I met with transportation ministers and public works officials from several countries. These countries are spending billions in transportation as they race to be competitive in a global market. As has been noted this past year, ASCE released the 2013 Report Card for America's Infrastructure, which gave our country's infrastructure a D+. A committee of civil engineers, experts in the field of infrastructure, used their expertise to analyze publicly available information to assess our progress as a Nation over the last 4 years.

The good news is that we went from a D in 2009 to a D+ in 2013. However, when a D+ is good news, it is time for self-assessment.

So what does a D+ mean? Does it mean we are one stiff wind from total collapse? No. But it does mean we are not meeting our country's growing needs. We are not creating reliable funding mechanisms to assure maintenance of our transportation systems.

Now, notice, I am not even talking about all the new infrastructure we are going to need to meet new demands. No, I am talking about the maintenance and condition of the entire infrastructure system that made this country great in the last century.

Deteriorating and aging infrastructure affects our families, our local communities, our entire country. As was noted, for example, more than 40 percent of our urban highways are congested. That means Americans waste almost 2 billion gallons of gas per year and that folks spent more than $7 billion on gas idling while in traffic. The point is that indirectly, we are spending this money and we are not getting anything for it.

The Highway Trust Fund is essential for maintaining and improving our infrastructure system. Poor infrastructure hurts our quality of life, but it also hurts our economy. We also know that investing in the building and maintaining of our infrastructure creates jobs for every American, both directly and indirectly. Not just jobs for construction crews and manufacturers or even engineers, but jobs for everyone.

In fact, at ASCE, we have conducted a series of economic studies and found that deteriorating surface transportation infrastructure will cost the American economy nearly 900,000 jobs in the year 2020 alone. However, if we can increase investments for surface transportation, we can reverse this trend and instead create millions of jobs.

Since the creation of the interstate highway system in 1956, the Highway Trust Fund has been supported by revenue collected from road users. The system has served America well in the past, allowing States to plan, construct and improve our surface transportation network. Now with the trust fund going bankrupt, the States alone cannot solve our national transportation infrastructure issues.

To prevent bankruptcy of the Highway Trust Fund in 2015, Federal surface transportation investment is estimated to have to be cut by 92 percent. That is an unacceptable path. What would that 92 percent cut mean for your State? State transportation projects would be delayed. Employees would be furloughed. Families would see their infrastructures fall into disrepair, congestion would worsen while businesses would not be able to operate efficiently, thereby increasing costs to American consumers.

We need your leadership to achieve a long-term revenue solution for the Highway Trust Fund, which will help grow the economy, create jobs and improve the quality of life for all Americans. We need bipartisan, long-term solutions to ensure the Highway Trust Fund can support the transportation infrastructure improvements America needs.

ASCE wants to thank you, Chairman Boxer, and members of the Committee, for your continued commitment to our Nation's infrastructure and for the opportunity to visit with you today. We look forward to working with the Committee as it develops sustainable revenue solutions for modernizing our infrastructure. Thank you.

[The prepared statement of Mr. DiLoreto follows:]

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Statement of

The American Society of Civil Engineers

The Need to Invest in America's Infrastructure and Preserve Federal Transportation Funding

United States Senate

Committee on Environment and Public Works

September 25, 2013

The American Society of Civil Engineers (ASCE)[1] would like to commend the Senate Environment and Public Works Committee for holding a hearing on the need to invest in America's infrastructure by preserving federal surface transportation funding. Federal revenues supporting the Highway Trust Fund have not been adjusted since 1993; however, demands on the system continue to grow. As a result, current levels of highway and public transportation investment cannot be maintained solely with trust fund resources and Congress has had to rely on the General Fund to shore up resources.

ASCE strongly urges Congress to identify a long-term funding solution for the nation's surface transportation programs in order to guarantee increased revenues for the 2014 reauthorization bill. While MAP-21 reformed the federal highway and transit program, Congress was only able to cobble together two years of funding, meaning the long-term certainty that the program requires for construction projects was not provided. Holding a hearing today, a year before MAP-21 will expire, on the sustainability of the trust fund and assessing what the impacts are to the nation's roads, bridges, and public transportation systems is an important first step in the process.

An Aging Infrastructure System

Our infrastructure is the foundation on which the national economy depends, yet it is taken for granted by most Americans. While the Interstate Highway System is a shining example of a focused national vision for the nation's infrastructure, an ever expanding population and a growing economy requires these aging infrastructure systems to keep pace. Deteriorating and aging infrastructure is not only an inconvenience, it financially impacts our families, local communities, and our entire country.

While revenue for the Highway Trust Fund continues to fall short, the current lack of infrastructure investment has also weakened or nation's surface transportation system, as well as critical industries and construction employment. Our inability to keep our infrastructure efficient undermines the U.S. competitiveness and economic strength.

ASCE's *2013 Report Card for America's Infrastructure*[2] graded the nation's infrastructure a "D+" based on 16 categories and found that the nation needs to invest approximately $3.6 trillion by 2020 to maintain the national infrastructure in good condition. The following are the grades and the investment needs by 2020 for the surface transportation area:

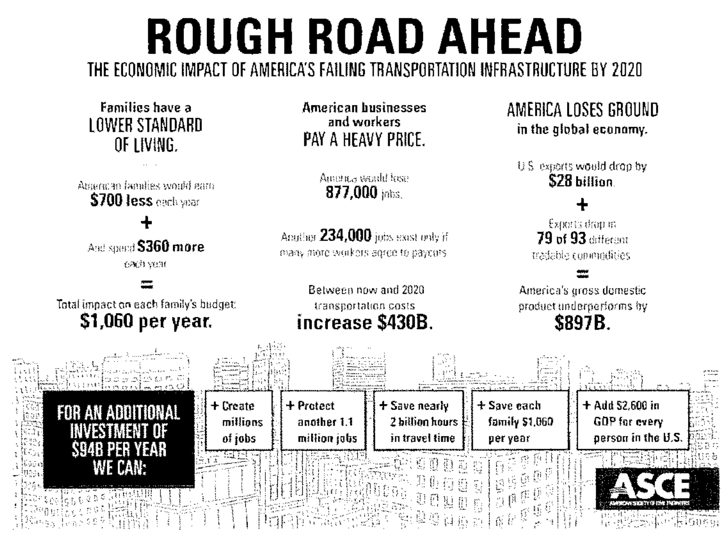
- Bridges received a grade of C+;
- Transit received a D;
- Roads received a grade of D, and combined with bridges, and transit, have an estimated investment need of $1.7 trillion; and
- Rail received a grade of C+ and has an estimated investment need of $100 billion.

[1] ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 146,000 civil engineers individually in private practice, government, industry, and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a non-profit educational and professional society organized under Part 1.501(c) (3) of the Internal Revenue Code. www.asce.org

[2] www.infrastructurereportcard.org

In an effort to see how significant investments are to the nation's infrastructure, ASCE released a series of economic studies that answer a critical question – what does a "D+" mean for America's economy and what is the return on investment we can expect to see. In 2011, ASCE released the study that measures the potential impacts to the economy in 2020 and 2040 if the nation merely maintains current levels of surface transportation investments.

The study, *Failure to Act: the Economic Impact of Current Investment Trends in Surface Transportation Infrastructure*[3], found that if investments in surface transportation are not made, families will have a lower standard of living, businesses will be paying more and producing less, and our nation will lose ground in a global economy. The nation's deteriorating surface transportation will cost the American economy more than 876,000 jobs, and suppress the growth of the country's GDP by $897 billion in 2020.The study also estimates that more than 100,900 manufacturing jobs will be lost by 2020. Ultimately, Americans will also get paid less. While the economy will lose jobs overall, those who are able to find work will find their paychecks cut because of the ripple effects that will occur through the economy. In contrast, a study from the Alliance for American Manufacturing shows that roughly 18,000 new manufacturing jobs are created for every $1 billion in new infrastructure spending.



Failure to Act also shows that failing infrastructure will drive the cost of doing business up by adding $430 billion to transportation costs in the next decade. Firms will spend more to ship goods, and the raw materials they buy will cost more due to increased transportation costs. Productivity costs will also fall, with businesses underperforming by $240 billion over the next

[3] www.asce.org/failuretoact

decade; this in turn will drive up the costs of goods. As a result, U.S. exports will fall by $28 billion, including 79 of 93 tradable commodities. Ten sectors of the U.S. economy account for more than half of this unprecedented loss in export value – among them key manufacturing sectors like machinery, medical devices, and communications equipment. On the contrary, most of America's major economic competitors in Europe and Asia have already invested in and are reaping the benefits of improved competitiveness from their infrastructure systems.

Therefore, by improving the nation's deteriorating infrastructure system both economic and job creation opportunities will be provided, however first Congress will need to identify additional revenue for the Highway Trust Fund.

A Diminishing Highway Trust Fund

Since the creation of the Interstate Highway System in 1956, the Highway Trust Fund has been supported by revenue collected from road users. This "pay-as-you-go" system has served the nation well over the past half a century, allowing States to plan, construct, and improve the surface transportation network. Additionally, the reliable stream of user-supplied revenue has been critical to the legislative process, because it has enabled Congress to guarantee the availability of multi-year funding to States.

The federal gas tax has not been changed in twenty years, creating a revenue shortfall that increases each year and which has been exacerbated by the weak economy. Currently, the Highway Trust Fund is allocating more than the revenues it receives, with the trust fund allocating $15 billion more in 2012 alone. However, the problems that the Highway Trust Fund has experienced over the past five years pale in comparison to the 10 year shortfall projected by the Congressional Budget Office (CBO).

The Congressional Budget Office recently projected that to prevent a massive shortfall for highway and transit spending in 2015, Congress will need to severely cut highway spending by 92%, transfer $14 billion to the Highway Trust Fund from the General Fund, raise the federal gas tax by at least 10 cents per gallon, or implement some combination of the three. If nothing is done to make the Highway Trust Fund solvent, forecasts show that the fund will be insolvent by October 2014, which would cut annual federal highway investment from $41 billion to $6 billion and annual transit investment from $11 billion to $3 billion. On the other hand, if current revenue and spending rates remain unchanged, the shortfall would exceed $100 billion by 2023. This is an unacceptable path.

Establishing a sound financial foundation for future surface transportation expansion and preservation must be an essential part of a reauthorization. Despite increased funding levels in the Transportation Equity Act for the 21st Century (TEA-21), the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), and Moving Ahead for Progress in the 21st Century (MAP-21), the nation's surface transportation system requires even more investment. The current spending of $91 billion per year, from all levels of government, for highway capital improvements is well below the estimated $170 billion needed annually to improve conditions.

The Federal Transit Administration (FTA) estimates a maintenance backlog of nearly $78 billion needed to bring all transit systems up to a state of good repair. Demand for freight rail transportation is projected to nearly double by 2035 requiring an estimated $148 billion in improvements to accommodate the projected rail freight demand increase. With funding as the cornerstone of any attempt to authorize the nation's surface transportation programs, it is imperative that a variety of funding issues be advanced as part of an overall strategy.

ASCE supports a reliable, sustained user fee approach to building and maintaining the nation's highways and transit systems and believes that all funding and financing options should be considered by Congress. In recent years the Simpson-Bowles Commission and the Gang of Six on the National Debt have each come to the conclusion that additional user-based revenue to needed, with each suggesting an increase in the gas tax. However, a full range of options must be considered within the context of reauthorization, but also in the context of a broader tax reform package.

Increasing Revenue for the Highway Trust Fund to Provide Adequate Infrastructure Investment

While the federal gas tax is an important element of the current revenue stream feeding the Federal Highway Trust Fund, it should be just one of many options considered. While in the short term an increase in the gas tax might be the simplest way to quickly infuse the Highway Trust Fund with additional revenue, it might not be the best method for long term viability. ASCE supports a three step process to remedy this condition. First, raise the motor gas tax in the immediate term through a broader tax reform package. This would provide a much needed infusion of funding. In tandem with raising the motor fuels user fee, ASCE believes that it is important to shore up the weakness of the motor fuels user fee and its inability to retain value over the long term by adding a provision to the law that would index it based on the Consumer Price Index (CPI). This would allow the rate to adjust, thus reflecting the current economic conditions of the nation. Finally, motor fuels other than gasoline (diesel, ethanol, bio-diesel, etc.) must be taxed in a manner equitable to the gasoline user fee, while other revenue sources are also examined.

Long-term Viability of Fuel Taxes for Transportation Finance

ASCE supports the need to address the issue of future sources of revenue for surface transportation funding. Congress should allow for the exploration of the feasibility of the most promising funding options that will ensure the viability of the Trust Fund. In particular, the impacts of increased fuel efficiency and alternate fuel technologies such as fuel cells should be studied. A mileage-based system for funding our nation's surface transportation systems also needs further study, and the recommendation of the National Surface Transportation Infrastructure Financing Commission calling for a transition to a mileage-based user fee system must be considered. A federal effort to follow up on the work done in Oregon should be executed to determine the practicality of such a program. This data will be critical in determining how to generate Trust Fund revenue as the nation's dependence on gasoline as a fuel source for automobiles is reduced.

Innovative Financing

Innovative financing techniques can greatly accelerate infrastructure development and can have a powerful economic stimulus effect compared to conventional methods. However, it must be recognized that innovative financing is not a replacement for new funding. ASCE supports innovative financing programs and the use of public-private partnerships and advocates making programs available to all states where appropriate. Additionally, the federal government should make every effort to develop new programs. These types of programs include the Transportation Infrastructure Finance and Innovation Act, National and State Infrastructure Banks, and Grant Anticipation Revenue Vehicles. It should be noted, however, that innovative financing does not produce revenue, and should not be seen as an alternative to increasing direct user fee funding of surface transportation infrastructure.

Conclusion

Transportation infrastructure is the critical engine supporting the nation's economy, national security, and public safety. It is the thread which knits the country together. To compete in the global economy, improve our quality of life and raise our standard of living, we must successfully rebuild America's public infrastructure. Faced with that task, Congress must continue to fund surface transportation projects and should approve a long-term Highway Trust Fund revenue solution to complement Moving Ahead for Progress in the Twenty-First Century's (MAP-21) policy reforms before the law expires in September 2014. This long overdue combination would maximize the ability of federal resources to build and maintain a national surface transportation network that boosts economic competitiveness and job creation.

ASCE looks forward to working with the Committee as it develops additional revenue for the Highway Trust Fund and begins work to reauthorize surface transportation programs.

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Environment and Public Works Committee Hearing

September 25, 2013

Follow-up Questions for Written Submission

Question from Senator Barbara Boxer:

1. *Mr. DiLoreto, ASCE's report on the economic impact of transportation investment trends assesses the impact in terms of dollars to families and the costs in jobs to businesses by failing to act. Would you elaborate more on the costs that impact American families?*

   Response:

   The 2011 ASCE report, *Failure to Act: The Economic Impact of Current Investment Trends in Surface Transportation* (www.asce.org/failuretoact), paints a picture of a very different America in the future. If investments in surface transportation aren't made in conjunction with significant policy reforms, families will have a lower standard of living, businesses will be paying more and producing less and our nation will lose ground in a global economy.

   The nation's deteriorating surface transportation infrastructure will cost the American economy more than 876,000 jobs, and suppress the growth of the country's Gross Domestic Product (GDP) by $897 billion in 2020.

   Our economic report on surface transportation released in July 2011 measured the impact of current investment levels in surface transportation on U.S. economic performance in 2020, and in 2040. In order to predict those future conditions, ASCE based our analysis on current levels and patterns of investment.

   The analysis found that failing to invest in our roads, bridges and transit systems has a dramatic negative impact on America's economy, job growth and family budgets. In less than 10 years, deficient infrastructure will cost businesses an added $430 billion in transportation costs, driving up expenses and hurting profits.

By 2020, more than 870,000 jobs would be lost, most of them high skilled, high paying jobs. Those job losses will be partially offset by new jobs in the few sectors that benefit from deficient transportation, such as auto repair and service deliveries. The nation's deteriorating surface transportation infrastructure will also suppress the growth of the country's Gross Domestic Product (GDP) by $897 billion in 2020.

Ultimately, Americans will get paid less and have less discretionary income. While the economy will lose jobs overall, those who are able to find work will find their paychecks cut because of the ripple effects that will occur through the economy.

Families will be directly harmed in two ways. Deficient transportation will cost American families $30 more per month in higher prices by 2020, even as their household incomes fall by $60 a month. The total cost to families is about $10,600 per household between 2011 and 2020, equal to $1,060 per year in personal disposable income on household budgets.

Households will be forced to forgo discretionary purchases such as vacations, cultural events, educational opportunities, and restaurant meals, reduce health related purchases, and other expenditures that affect quality of life in order to pay transportation costs that could be avoided if infrastructure were built to sufficient levels.

Our final report in the *Failure to Act* series released in January 2013 looked at the combined impact of underinvestment across infrastructure sectors ranging from transportation to energy to water. In that report, the cost to American families of all deficient infrastructure sectors increased to approximately $3,600 per year.

Questions from Senator James Inhofe:

1. *TEA-21 was extended 12 times before we enacted SAFETEA-LU. SAFETEA-LU was extended 10 times before we passed MAP-21. MAP-21 is only a two year reauthorization.*

    a. *What impact do short-term extensions have on projects of regional or national importance?*

    Short-term extensions mean uncertainty for the entire industry which is responsible for developing surface transportation projects – engineers, contractors, construction workers, material suppliers, equipment manufacturers, and state and local governments—as well as for projects of regional or national significance that are crucial for interstate commerce and rely on some amount of federal funding to get across the finish line. We have heard from some state transportation departments that they will not obligate new projects if they do not have a secure source of funding.

    b. *Can you talk about the costs of extensions vs. long-term transportation bills?*

    This uncertainty leaves projects vulnerable to delay which drives up costs significantly. Projects in design or construction are put on hold as state transportation departments wait to see if legislation will be renewed. Long-term authorizations provide the time necessary to plan and execute significant transportation projects.

c. *What would you consider to be an ideal length of a transportation bill?*

ASCE believes that multi-year legislation would allow states and regions the certainty to properly budget and prioritize their capital programs. We urge Congress to enact a surface transportation authorization bill with dedicated and reliable revenue sources upon which long-term public and private sector investment commitments can confidently be made. Following the models of TEA-21 and SAFETEA-LU, a minimum five-year transportation bill would be preferable to another two-year bill where the process starts again almost as soon as the bill is signed.

2. *I know this Committee is actively working along with the Finance Committee to find a solution to the funding issues, but would you agree, if we have to, that the general fund could be a back stop to assure state and city governments of continued funding? How important is that assurance?*

An assurance that the highway program will not be cut by upwards of 90 percent is absolutely critical to the health of our nation's surface transportation infrastructure. Our 2013 *Report Card for America's Infrastructure* demonstrated that we already face a total investment shortfall of $867 billion in surface transportation between now and 2020 based on current investment at all levels of government. Reducing investment further will severely exacerbate the problem, creating a drag on our nation's economic growth. The general fund could be a short-term fix, but a long-term reliable funding source is definitely needed. We stand ready to work with Congress to support an appropriate long-term reliable funding source.

3. *Many members of my caucus believe we should live within our means. However, CBO reported that absent a new revenue source or general fund transfer to address the $14 billion annual shortfall in the Highway Trust Fund, we will need to cut the current highway program by almost 80 percent. Even though we are 12 months away from a new reauthorization, are you seeing any impacts that the report is having with your members? If so, what are those impacts?*

ASCE has over 145,000 members across the country and around the world. Representing both the public and private sector, our members are alarmed that the Highway Trust Fund is rapidly heading towards insolvency and urge Congress to make this their priority over the coming months. However, the impact of this looming cliff is not limited to engineers and construction workers - it will affect every American if not addressed.

Deficient transportation infrastructure cost American households and businesses approximately $130 billion in 2010 according to ASCE's *Failure to Act* study on surface transportation. These costs will only continue to increase. In less than 10 years, deficient infrastructure will cost businesses an added $430 billion in transportation costs, driving up expenses and hurting profits.

Without continued investment, it will significantly reduce the productivity and competitiveness of American firms relative to global competitors. Business will have to divert increasing portions of earned income to pay for transportation delays and vehicle repairs, draining money that would otherwise be invested in innovation and expansion. Our nation cannot afford this drag on economic growth.

We have begun to hear from our members about state and local governments beginning to plan for the impending Highway Trust Fund insolvency. Generally this has meant slowing projects down or discussions of postponing planned projects.

Senator BOXER. I just want to thank this entire panel. Sometimes we have great splits and divides in a panel because the Democrats pick our witnesses and the Republicans pick their witnesses, and we are all in contention. This has been a very important bipartisan statement of support for making sure that we invigorate the Highway Trust Fund and we have to do it in a smart way.

So I want to start, I have so many questions, but I will stay to my 5 minutes. Mr. Poupore, thank you so much. First of all, this chart, it is not a happy read. And we are moving toward 2 million workers out.

What I wanted to ask you is, does this not also reflect on the status of a lot of our small business people? Because obviously, these workers work for the contractors. So if you could comment on not only has it been such a disturbing trend for the workers, but the businesses who employ them as well.

Mr. POUPORE. You are absolutely right, Madam Chairman. The way it works with infrastructure, if we can get the funding out there, then the contractors have an opportunity to bid the projects. What that reflects with 2 million, almost 2 million people out of work, is a lot of contractors not having work. And I am sure the AGCE and Pete's group will confirm that, that it has been a real struggle.

I would also like to put a point that I look at these million and a half, 1.7 million workers that are out of work, they are small family businesses. They support their family; if they don't have a job, they can't get anything done with that family and it is a burden on the rest of us. So anything that we can do to kind of get things moving in the right direction, rebuild America and put America to work. Again, we appreciate your support.

Senator BOXER. Ms. Kavinoky and Dr. Ruane, please comment on the impact on our business community. Because when we hear these job losses, they are enormous. I don't know how many of these businesses have been impacted, if you could address that.

Mr. RUANE. Yes, Madam Chairman. The exact number, according to Census Bureau reports, in the last 5 years we have lost about 740 business in this space. Our employment is down by over 50,000, this is transportation construction I am talking about, not construction generically. And that alone is a measure of, some of that is consolidation and mergers. But a lot of this is folks going out of business. Because I think what is not understood is, everyone at this table and in this room, I am sure, is very grateful for the leadership of the Congress and the Administration on the stimulus program. The fact today is the States, because of their own challenges, many of them are spending much less than what they were spending prior to 2008. In fact, the majority are not.

So that is what is not understood by the general public. It is not a situation where it is a robust, we are still at a 9 percent unemployment rate in construction, down from 20, which is a great Improvement, but it is still a very serious problem.

Senator BOXER. So it is fair to say we are looking at hundreds of businesses?

Mr. RUANE. Yes, absolutely.

Senator BOXER. Just in this, as you call it, this space.

Mr. RUANE. Yes.

Senator BOXER. Janet, do you have anything to add to that?

Ms. KAVINOKY. I would take a step further to the suppliers into the construction industry. You realize that without a long-term view of where transportation funding is going in this country it ripples through that pipeline as well. So I think it is safe to say, and I would be happy to work with ARTB and others to look more closely at this, that there is that direct impact on the individuals, on the businesses directly in the construction industry, but then extending out through the economy as well.

Senator BOXER. I wanted to talk to Mr. Lewis for a second. Could you elaborate on what would happen to States like Rhode Island that have prior financing obligations that must be met? How would they fare under a 100 percent cut to Federal transportation funding in the year 2015? Because that is where we are looking. We need to be very clear. This is a crisis, and we pushed that crisis down the road with a very good reform bill. I am so proud of members on both sides, by the way.

And if I could just say, as a result of our work on the reform side, I say to my ranking member and Senator Inhofe, and of course my Democrats, we really don't have that much work to do in terms of more reforms. We just want to make sure these reforms are working. Our work can all be focused on the financing, and doing it in a way that we can all support. But tell us what it would be like if we fail. Because frankly, I don't want to mince words here. What would it be like if we fail and there is no Federal contribution?

Mr. LEWIS. That is a very critical question, and I don't think there is a lot of awareness of this out there. In Rhode Island we are at opposite ends of the spectrum from California in terms of scale and in geography. In Rhode Island, because of our past obligations and because of using garvee financing to do big regional projects over the past decade—long-term multi-year projects that require multi-years of obligations—with our existing commitments if we can't rely on 2015 level funding, we will be basically in a position of not being able to obligate any new funds even next month for fiscal year 2014. This is a huge impact to a small State like Rhode Island. I believe Louisiana and some other smaller and rural States may be in the same situation we are in.

But even a State like California, which has a huge program, without obligations in 2015, is facing planned construction of 250 State-sponsored rehabilitation projects costing $2 billion that will be put at risk. So it is not just the small States that are dependent upon Federal funding for a large portion of our program. It is the big States too.

Senator BOXER. And you are saying it is already being felt?

Mr. LEWIS. It is being felt, and I don't think that the immediacy of the impacts are truly understood because we have all been talking about the cliff in fiscal year 2015. We are at the edge now.

Senator BOXER. That is why we are having this hearing. And I am grateful to colleagues on both sides for their interest.

Senator Inhofe said he got permission from you, Senator Whitehouse, to go before you.

Senator WHITEHOUSE. Absolutely.

Senator BOXER. That is very kind of you. So we will go to Senator Vitter, Inhofe, Whitehouse, then we will go to Senators Fischer and Boozman.

Senator VITTER. Thank you, Madam Chair, and thank you again, witnesses.

I guess this is to any or all of you. There is a pretty broad consensus that the gas tax is really not sustainable, middle and long-term. And yet there is still a lot of focus on the gas tax for this next bill. Do any of you have a concern that if we do a pretty big heavy lift in this bill and still focus on the gas tax, we are still not getting to a fully sustainable system?

Mr. COHEN. Senator Vitter, I appreciate that question. I think that there are two things going on. One is that the current gas tax, the flat gas tax that has existed since 1993, is not sustainable. But I do think there is some hype out there that gas taxes in general are not sustainable, or that the whole country is not going to be using gasoline or diesel in the near or long-term future or medium term future.

That is really just not correct. Set at the right rate and adjusted for the right variables, and we know that the fleet is going to become more efficient, you have to adjust for that. If you adjust for the right things, then I think the gas tax and the diesel tax have a great ability to continue to serve as a proxy for a good user fee for all.

There are of course some vehicles that don't pay any fuel tax at all, battery electric, and the Chairman has talked about this in the past. At some point they are going to have to pay, once they are more prevalent in the marketplace. But for the vast majority, I think the gasoline tax set at the right rates, adjusted for the right variables, will work.

Senator VITTER. Does anybody else have any reactions on that point?

Mr. RUANE. I would say, Senator Vitter, that the gas tax remains as the most viable, efficient, reliable source of funding for the surface transportation program across the board. Nonetheless, I think what is not understood is what makes up the problem. The drop in revenue to the trust fund in recent years primarily came from the trucking industry's diesel fuel purchases going down and their purchases of equipment. The actual drop in gas tax revenues from the average user was about 1 percent. And that is all coming back as the revenue from the trucking-related fees as well.

So our position has always been that needs to be sustained, and many people here, everyone, I think there is unanimity about the idea of indexing that. The real issue is we are not doing what needs to be done with our existing infrastructure, let alone the need for new infrastructure. And the purchasing power that has been lost, several people mentioned that, I would like to underscore that again, is that we have lost a third, and over the next 5 years it is going to get up to some 50 percent of the purchasing power since 1993, the last time this was dealt with.

Then again, the reason I have used that chart of the States, well, some pundits and cynics like to joke about this as a fact-free zone in this city. Those facts are undeniable. I don't think people get lost in the shuffle sometimes, the dependence of the States for capital improvements, real world construction and improvements, is heavily reliant, over 50 percent for all States. And some, you saw the yellow States, my God, it is way, way up there.

So the removal of any kind of funding source, a gas tax or whatever, or diminishment of that, is going to have a devastating impact across this country.

Senator VITTER. Let me ask a related question to my first. There are some users now who aren't paying through that core mechanism. That is at the margin, but that is going to grow over time. If you all have specific ideas about how to address those alternative vehicle users?

Mr. LEWIS. If I could, Senator, I think we are referring to alternative fuels, whether it is natural gas or electric vehicles. I think there is a way to factor in on a stepped basis how they will contribute on a user fee. I think that it is a relatively simple approach.

Senator VITTER. Describe how that might be done.

Mr. LEWIS. There may be vehicle miles traveled as a way of addressing use by an electric vehicle that doesn't purchase any fuel. There could be a different rate for a natural gas vehicle. I think those are a relatively small percentage of system users now, but I think there are pilot programs that could be targeted specifically at those vehicles.

Senator VITTER. A final question, I am running out of time. Mr. Poupore, in your submitted statement, you supported linking revenue from domestic energy production with Highway Trust Fund infrastructure investment. Would you also support that, I think you supported that for present or past. Would you support that for future or expanded energy production if we could achieve some consensus on some expansion?

Mr. POUPORE. The organizations I represent have been on record supporting that type of revenue. We want to find solutions to fixing the revenue need for mass transit and the highways. So the answer is yes.

Senator VITTER. Thank you. Thank you all very much.

Senator BOXER. We are going to move to Senator Inhofe by the graciousness of Senator Whitehouse, then we will go to Senator Whitehouse, then we will go to Senator Boozman, then we will go to Senator Carper.

Senator INHOFE. Thank you, Madam Chairman. I appreciate Senator Whitehouse letting me go in front of him. We have a conflict I really can't get out of. But I have a message I have to deliver here, and I will need your help in doing this.

One of the frustrating things that I went through a year ago when we did our small 27-month reauthorization was not the Democrats, but the Republicans. And I can say this, others can't say it, because I have been ranked as the most conservative Republican, more than anybody else has. Yet we had a lot of born-again conservative Republicans using this issue down on the floor to sound like this is a huge liberal versus conservative issue.

And it wasn't. Because very clearly, as I mentioned, Gary Ridley back there, and he will nod with approval, it is hard to say just how much more it costs if we rely on extensions. We don't get any of the reforms.

Now, I was in shock, and I want to applaud the Chairman, there are a lot of things that Senator Boxer went along with that I know she personally disagreed with. But we got the reforms in there, and there are no reforms when you operate on extensions.

Second, the fact that you can't plan ahead, and we have been using, without being challenged, about 30 percent more than it costs. It costs about 30 percent more to do extensions versus a reauthorization.

That is what the issue is right now. Because the alternative to our passing something that we all up here want to pass is it is going to go back to extensions.

Now, when I listened to a lot of the Republicans on the floor, I didn't respond to them because I knew we had the votes to pass it. But I went right over, I walked right out the door and went over to the House side. I got the T&I Committee, Transportation and Infrastructure Committee, all the Republicans, 36 of them, in one room and sat down with them and explained why the conservative position, and thank goodness for the ACU, they came out, and I know Mr. Lewis, you mentioned the Constitution, actually Article 1, Section 8 of the Constitution says that is what we are supposed to be doing here. And what the conservative position was.

As a result of that, I am sure that had something to do with it, because I talked to them before and after, every single one of the 36 Republicans voted for it. Now, what does that tell you? It tells you that when you really sit down and talk to them, this is something that is not liberal, conservative, Democrat or Republican.

And I say that with one other part, and that is where you come in. If we are able to go to some of these States where we have someone who is opposing this, because of spending, transportation, all we have to do is go there and get the people, get the Gary Ridleys in each one of these States and talk about how this is the conservative position. I have yet to hear one Republican in one of these States not change his or her mind and say yes, transportation is important.

But this has to be done at the grass roots. I know, Peter, you are tired of hearing me say this. But that is where you folks come in, that we are going to have to be able to go back to the States and let them lean on their own people. And I think we can get something passed. We are going to work hard to come up with a robust bill, and this is something that should be rallied around by both conservatives and liberals.

So the only question I have, would any one of you want to validate what I just said in terms about, of the extensions versus a reauthorization bill? Anyone want to comment?

Mr. LEWIS. Senator, I absolutely agree with that. Not knowing some years ahead the funding you can plan for, we can't plan, we can't engineer, because we don't know what level of funding we are going to have in order to implement the construction. Any dollar spent today on the planning or designing of projects that we don't know we can build is a wasted dollar. It is just money that we are throwing away.

In Rhode Island we have an interchange just west of Providence, which is critical to our capitol city. It is a structurally deficient structure, and it is close to a half a billion dollar project. I can't even begin to invest in the planning, because I have no idea where that construction money is going to come from.

Senator INHOFE. All right. Since I have to go now, I would like to have the rest respond to that for the record. Let me thank Senator Whitehouse and the Chairman.

Senator BOXER. Senator Inhofe, what you said was really music to my ears. Because this is a non-ideological issue. If we can't move people and goods, our economy isn't going to keep up with the rest of the world. I think in the Chamber of Commerce explanation they said that Canada is moving the goods so much more efficiently than we are, we have work to do. And I look forward to continuing our work, along with the ranking member and Senator Barrasso.

And how we will hear from Senator Whitehouse, followed by Senator Carper, if we don't have a Republican present at the time.

Senator WHITEHOUSE. Thank you, Chairman.

I wanted to follow up on the question that Senator Vitter raised about the gas tax. Correct me if I am wrong, but it strikes me that our vehicles are going to become increasingly more fuel-efficient. So for the same amount of miles that they roll over our highways, the gas tax will generate less and less and less revenue. That is the direction of technology, it only makes sense. I think we can foresee considerable growth in both the electric and the hybrid vehicle markets for a whole variety of reasons.

So given that, I share his worry that if we go back to just a gas tax, we are putting ourselves on a glide slope that ends back in a bad place all over again. I know Mike mentioned the possibilities of finding other ways to generate revenue for use of the highways from different types of vehicles that burn less gas or no gas or whatever.

But I am wondering, we are going to have to be looking at this pretty quickly. Is there anything out there that is pretty well developed about how one might go about doing this? Are we going to have to do a lot of original research in this Committee to try to sort these questions out? So two questions, and I will start with Greg Cohen, because I see his head up, and I will go to Ray Poupore after that, because he was nodding energetically. Is this a real problem about the declining and vanishing gas tax? And if so, what are the best sources to go to to look at alternatives that have been pretty well developed and had their consequences and their economics thought through? Mr. Cohen.

Mr. COHEN. Thank you for the question. We have in the tax code a number of different equivalents to the gasoline tax for E85, CNG, LNG, ethanol. Basically almost any form of fuel can be taxed an equivalent energy rate.

The one exception I think at this point, and maybe there is a way to do it, is the battery electric vehicle. And some States have experimented with ideas, and I think we should continue to look at that.

Senator WHITEHOUSE. Let's just stick with gas. There is the tax. Even if you don't move anything on it, as whatever the fuel is, as cars become more efficient, which they are naturally going to do, the amount of whatever fuel it is that they consume is going to be reduced, and that means that the revenues would fall. I don't see our maintenance costs falling in line with that. So you end up with the two lines crossing again and there you are at the point of crisis.

Mr. COHEN. AASHTO I believe has done a chart that shows if we get to 54 miles per gallon, at that point I think we lose about 22 percent in revenue from the gas tax. So it is a valid concern. That is why what I am suggesting is that we look at all the variables to index to, so that we don't lose purchasing power.

Senator WHITEHOUSE. So the answer is, using the existing methods, but index them up?

Mr. COHEN. Right, index to all of them, yes.

Senator WHITEHOUSE. Mr. Poupore, then Mr. DiLoreto.

Mr. POUPORE. Senator Whitehouse, I really don't have a good answer for you except that no matter how much more fuel efficient the cars get, they still wear out the roads. That is what we have to look for, a revenue source to maintain and fix and expand. We have some good suggestions out there, I believe, and I know Senator Boxer has been supportive of the vehicle miles traveled. I believe Oregon is using that, so I will turn it over to Greg.

Senator WHITEHOUSE. OK, Mr. DiLoreto. I have 1 minute left, so you will wrap up for us.

Mr. DILORETO. Chairman Boxer, Senator Whitehouse, I am from the State of Oregon . As you may know, several years ago the State did do a vehicle miles traveled research project on whether or not we could generate revenue from vehicle miles traveled as opposed to a gas tax. We showed actually we could.

Now, part of the issue is reconfiguring the cars so you can do that. So it doesn't happen overnight. It is not a device that is going to happen overnight.

Senator WHITEHOUSE. A GPS-type technology?

Mr. DILORETO. It is a module under the car, when you go to the gas station, it reads off the number of miles. It doesn't read where you went, it doesn't know that you went to the store 10 times. It just knows how many miles you traveled and then it gets added on to the price you pay, so it gets collected.

This last legislative session in the State of Oregon they did authorize the State to expand it. It has an opt-out program, where you would pay a higher flat fee, and people don't want to do that. It is certainly a technology that can be added to everything else that we have. I think ASCE's position is there are lots of solutions, we probably shouldn't settle on just one, but we ought to put together a whole bunch of them, so when one does have a problem, the other one steps up and fills the void.

If you are interested in more information, Oregon can certainly provide that to you.

Senator WHITEHOUSE. Thank you. Thank you, Chairman.

Senator BOXER. Thank you. Senator Fischer.

Senator FISCHER. Thank you, Chairman Boxer. Mr. DiLoreto, you just said you were from Oregon and you have the VMT there. When I was a State legislator, I met a representative in your legislature, Bruce Starr, who worked on the VMT. How many vehicles did you have involved in that, do you know?

Mr. DILORETO. No.

Senator FISCHER. You said you were looking to expand it. Do you know how many are there?

Mr. DILORETO. I do not.

Senator FISCHER. Do you know what the cost of the program was?

Mr. DILORETO. No, but I can get you all that information. I am not an expert in it. I can get you everything you need on that.

Senator FISCHER. Do you know how long it would take to set it up?

Mr. DILORETO. I would estimate, if you were to do it fully, you are looking at probably 10 years or more, because you are going to have to either retrofit existing vehicles or you are going to have to wait until you turn over your entire fleet.

Senator FISCHER. Thank you. As a civil engineer, I know that Senator Inhofe, I was told, asked a question about planning, I believe, to Mr. Lewis when I had stepped out. For you, sir, as a civil engineer, on planning, and the uncertainty of planning when you don't know what the funding is, can you tell us a little bit about how you deal with that when you are looking at double digit percentage increases in construction costs and how that kind of throws a wrench in things, plus then dealing with red tape of government to move forward on planning?

Mr. LEWIS. It is certainly difficult when we don't have a funding source to know how we are going to plan projects in the future. There is no question about that. Now, we did benefit over the last few years from the economic recovery program. We were able to take advantage of that and do a number of projects that we probably couldn't have done otherwise. But those days are over, and we are seeing that now in our construction bids. They are starting to come in a little bit higher.

So if you don't have a revenue source, you cannot plan long-term, as was stated by my colleague at the table here. And he will stop making those kinds of plans until he knows that he has the money to do it. Otherwise, as he mentioned, he is really wasting his money. If you hire engineers to come in and design it, it costs money. Then to put the project on the shelf doesn't make really any sense.

Senator FISCHER. Thank you. Mr. Lewis, did you have anything you wanted to add on that? I guess I am interested in knowing if you think the current gas tax that we have now, does that provide you with certainty? I see the math is back up where we look at how the big division on how the revenue from a Federal gas tax is sent back to States.

Mr. LEWIS. I think the certainty is that with the existing level of revenues going into the Highway Trust Fund, the certainty is that the Highway Trust Fund is going to go bankrupt a year from now. That is a certainty. We won't have the money to obligate funds for new programs. When it does rebound, it will rebound to a point that is considerably less, maybe two-thirds of what we are used to. So it is a certainty that we will have less to invest in transportation.

Senator FISCHER. It might be due to your position, maybe.

[Laughter.]

Mr. LEWIS. It is a challenge that the level of Federal investment overall for the States is actually, on a percentage basis, on average, dropping, and more States are stepping up to raise revenue and fill the void. But all States cannot. Speaking for Rhode Island, we just don't have the opportunity to raise revenues, because of the size of the State, in order to fill that void. Our State gas tax is already 10 cents higher than our neighbors' in Massachusetts, and a big percentage of our population lives within a few miles of the Massachusetts border. You don't have to buy gas in Rhode Island.

Senator FISCHER. In Nebraska, we have a variable portion of a gas tax, too. We are kind of unique in that, where it moves, it fluctuates due to budgeting and how we handle that in our legislature.

Do you know if that has ever been looked at by other States or by the Federal Government?

Mr. LEWIS. Others may have a comment on that. I do know that Virginia, for example, and Maryland reformed how they collect their gas tax. Rather than a flat excise tax, they changed to a percentage basis sales tax. I think that is the kind of reform that can address perhaps some of these issues we have talked about and the variability.

Senator FISCHER. Did you want to speak to that, Janet?

Ms. KAVINOKY. I am not able to recall a serious discussion at the Federal level where we actually tie the rate of taxation or the level of taxation to needs. However, that would certainly get us closer to figuring out how to address those needs, rather than attempting to address or take some of the needs off the table based on what the available revenue would be.

Senator FISCHER. If you went through a prioritization process on needs for each State on the Federal projects and then tie a variable to that, do you think that would be something your group might be interested in looking at?

Ms. KAVINOKY. Actually, I think that is a very interesting comment. I certainly can't comment on what the Chamber policy would be in terms of that. However, I think that a clear understanding of what the Federal priorities, national interest level projects are in States, then could help drive where we need to be with revenues. If you look back to when the interstate system itself was created, it was actually designed to be on a cost to complete basis, here is what we need to build, here is what it is going to cost, and we move forward.

So I think that that is, from a planning concept and from a financing concept, something that is worthy of further consideration.

Senator FISCHER. OK. Thank you so much.

Thank you, Madam Chair.

Senator BOXER. Thank you.

We are going to turn to Senator Carper, followed by Senator Baucus, and we are thrilled that he has joined us, because he will be in that seat making these decisions. Senator Carper, who is also on the Finance Committee.

Senator CARPER. And we will be looking forward to making these decisions with you, Mr. Chairman.

[Laughter.]

Senator CARPER. I want to come back to what you mentioned, the VMT, as one of the user fees that we should consider. Before I do that, though, let me just ask for a show of hands, how many of you think that part, not necessarily all of the solution here to making sure that our resources meet the needs, how many of you believe that it is not a gasoline tax, some kind of user fee that relates to motor or fuel taxes is part of the solution, would you raise your hand?

[Show of hands.]

Senator CARPER. All right, thank you very much.

I have been interested for a while in the VMT proposal, in fact, when we considered MAP–21, I proposed a suggestion that we might create a research program to explore how we might structure a VMT fee. Unfortunately, the provision that was included in the Senate bill was taken out in conference.

I'd like to ask Mr. Lewis, and Mr. DiLoreto, tell us how you think USDOT could help us support a long-term transition to a VMT fee? Take a shot at that.

Mr. LEWIS. I think the States would certainly support a very robust study on how we could transition to a vehicle miles traveled tax. I think there are some technical issues involved, and there are social issues involved. These are issues that need to have some light put on them. Then we really need a quantified assessment of how and when a VMT tax could be implemented over time. What about the fleet turnover? What about privacy issues? What about the way it gets collected?

One thing about the gas tax today is we have a very well-established means of collection. Does the VMT tax change that?

But those are solvable issues. They just have to be identified. Put some good, smart people behind them and then air them publicly.

Senator CARPER. Mr. DiLoreto.

Mr. DILORETO. I think my colleague said it absolutely right. Those were the issues that Oregon faced when it went through its experimental project with the Federal Highway Administration several years ago. So he is absolutely right, it is solvable. But it would take time.

Senator CARPER. One of the pieces of legislation I worked on quite a bit was the 2007 CAFE legislation with Senator Feinstein and a number of others. During that discussion we talked a bit about all-electric vehicles, they are going to use the roads, highways, bridges. And if they never are going to use any gasoline, then are they really contributing to the upkeep. So there is a fairness for an equity question here that I think needs to be addressed.

Others have suggested that by the time we get to 2025 we will have a lot of new vehicles coming onto the road that are even more energy efficient than the ones today. For somebody who is driving 25,000 miles a year on a vehicle that gets 50 miles per gallon and somebody who is driving a vehicle that gets 20 miles per gallon, there are a number of miles there, there is a fairness and equity issue there.

Anybody else have some thoughts for us on a VMT fee? Anybody else, just some thoughts you think are appropriate for us to keep in mind? Mr. Cohen.

Mr. COHEN. I always take an opportunity to speak if it is open to everyone. I think the Oregon example is worth continuing to look at, and that the States are really the best laboratories right now for studying it. Oregon is not the only State. Right now their pilot is 5,000 vehicles. I think it is worth looking at that. I think there are three different ways of collecting revenue that they are looking at.

And it may be that in time, this is an interesting way to go, there are positives and negatives, the point of collection is a very good point. Right now we have about 1,100 terminal racks that pay the gas tax, 250 million vehicles paying individually would be an interesting difference in terms of enforcement and administrative costs.

But on the other hand, it is a more direct user fee. Potentially it could obviate the need for toll roads, because you are basically collecting from everybody, so you don't have to collect twice on certain roads. So it is something we might want to continue to study.

Senator CARPER. Thank you. A quick note, I used to be Governor, used to be the Chair of the National Governors Association for a while. One of the things we had was a center for best practices, clearinghouse for good ideas that worked. And we used to share those ideas. One of the great things about States, there are 50 of them, 50 laboratories of democracy. And we have the opportunity to test a lot of ideas and to see what works and what works best and try to incorporate that in our own plans going forward.

Thank you all very, very much. Thank you, Madam Chair.

Senator BOXER. Thank you. Chairman Baucus.

Senator BAUCUS. I thank you, Madam Chair.

I am just curious, does anyone on the panel disagree with the proposition that the highway reauthorization, highway program has to be a national program? That is, a lot of States, some States are donee States, some are donor States. And some of the donor States get a little upset because they are donor States. A lot of donee States say hey, we wouldn't exist if we weren't a donee State. That chart, the map over there makes that point. If you look at the States over there that are yellow, where 70 percent of highway funding is Federal, it is not State, but it is Federal, those are States that are donee States. Those are States where there aren't very many people.

My State of Montana, for example, used to be first, maybe it is second in the Nation in the number of highway miles per capita. We have a very high State gasoline tax to try to contribute our match to the Federal.

And General Eisenhower, as you know, when he put together the interstate system, recognized right off the top, we need a national system, not a sectional, but national. Some States say, let us forget this, let our State take care of it. Those are States that tend to be wealthier States, they have a lot more people. They are so-called donor States, they don't like being donor States.

Is there anybody who disagrees with the proposition that we need a national program and not a sectorial or regional program if we are going to have the highway system that we need? Raise your hand if you disagree with that, or disagree with anything I said.

[Laughter.]

Mr. LEWIS. Senator, I am certainly not going to disagree with that. I just want to add a point. I had an opportunity this year as president of AASHTO to visit many States around the country and talk with all my colleagues. To a person, that is an issue that we talk about as a group. It matters to Florida that Wyoming has I–80 in good condition, because it has to get its orange juice to Seattle. It matters to Boston that we don't have posted bridges on I–95 in Rhode Island because of the commerce between Washington, New York and Boston.

Senator BAUCUS. What about Montana and 90?

Mr. LEWIS. I was saving the best for last, but I ran out of time. [Laughter.]

Senator BAUCUS. That does come up, frequently. And that point is well understood.

Mr. RUANE. Senator, in our statement is a chart from the Census Bureau on the actual shipments between States that shows the dependency of one State to the adjacent State or several States away for the flow of goods. It is something that they put out every 5 years, and it makes a convincing case of the importance of every State to have a strong interstate system.

Senator BAUCUS. Good. I have no more questions. Thank you.

[The prepared statement of Senator Baucus follows:]

STATEMENT OF HON. MAX BAUCUS,
U.S. SENATOR FROM THE STATE OF MONTANA

Thank you, Madam Chair. You are a strong advocate for our Nation's infrastructure. This hearing is an important step forward in addressing one of our country's biggest challenges.

As President Eisenhower once said, "Together, the united forces of our communication and transportation systems are dynamic elements in the very name we bear—United States. Without them, we would be a mere alliance of many separate parts."

If we do not make a national commitment to our infrastructure, America will fall behind.

We need a national system of highways.

Rural highways are crucial to our Nation's economy. Nearly 70 percent of federally supported highway lane miles are in rural areas.

Earlier this month I brought the top diplomats from Canada, China, Germany, Japan and Peru to Montana. They met with ranchers, farmers, workers and businesses. Seeing five cities in 4 days, these Ambassadors traveled on 675 miles of Montana's highways. Driving along Flathead Lake, down through the Blackfoot Valley, and ending in the heart of the Rockies, let me tell you, they appreciated Montana's strong network of rural highways.

Make no mistake, American jobs depend on a strong, reliable highway system. And nowhere is that more evident than Montana.

Montana has nearly 4,000 miles of National Highway System. Every year these highways transport more than $10 billion of Montana goods. And more than 10 million visitors will use Montana highways this year to enjoy our great State and spend tourist dollars Montana jobs depend on.

Our infrastructure system drives the economy. Domestic commerce, job growth, and international trade simply cannot progress without a strong, national infrastructure system.

How do we ensure that we make the investments we need in the future? The Highway Trust Fund is projected to be near a zero balance in fiscal year 2015.

The Trust Fund is primarily funded by fuel taxes.

But vehicles today are becoming more fuel efficient, miles traveled are down, and over the past 20 years, the gas tax has lost more than a third of its purchasing power to inflation. In recent years, we have only been able to maintain necessary investments through transfers from the General Fund. We're robbing Peter to pay Paul.

In the last Highway Bill we came together and found bipartisan consensus around responsible offsets to fund the Highway Bill without adding one dime to the deficit.

Once again we must join together to responsibly fund future transportation investments. The Highway Trust Fund needs sustainable funding so State and local transportation officials will have the certainty they need to engage in long-term planning. We cannot continue to kick the can down the road. American jobs depend on it.

The Finance Committee has begun this process. Earlier this year, as part of a plan to overhaul the Nation's tax code, we published a white paper on transportation funding options. We are moving toward a markup on tax reform this fall. As part of this process, we'll be ensuring that our Nation's infrastructure is sustainably financed.

A fairer tax code will create a better environment for American competitiveness, innovation, and opportunity.

Ensuring the long-term solvency of the Highway Trust Fund will require input and collaboration from both sides of the aisle, from both urban and rural States, from East to West and North to South. President Eisenhower was right to emphasize that these are the United States of America. We have a responsibility to get this right for the entire country.

Senator BOXER. OK. I just want to say, while Senator Baucus is here, that this panel, representing a very broad brush of American thought on this, I would say the whole political spectrum and the rest, they have told us that we are just getting to grips with this problem out there, that there will be no money in the trust fund by 2015. It is just zero.

Senator BAUCUS. That is right.

Senator BOXER. So we have to act. And they also make the point that we need to solve this problem for the long term. And so we have an opportunity to do that. If it is not solved, we are really talking about, as Mr. Poupore pointed out, millions of jobs, and as Janet pointed out, and actually Pete as well, literally hundreds and thousands of businesses. So the country is counting on us, and Senator Baucus, I know that you have a lot on your shoulders. But we are going to share with you our ideas, so that we give you all of them, and then you and Mr. Camp and Senator Hatch and I guess, who is Camp's ranking, Sander Levin, will have the benefit of this Committee's work, of which you have been a part, and your staff has been a part. And all the people here have been so extremely helpful. They are not just saying, it is up to you, we are out of here. Each of them has come forward with a way to handle this, for which we are all very grateful.

So thank you, panel one. We thank you very much.

Senator BAUCUS. I would like to back up, if I might.

Senator BOXER. Go ahead, please.

Senator BAUCUS. Is there a prevailing view on how to address the deficit? Is there a prevailing view? Is there a tendency toward consensus on what we have to do? Not dotting the Is or crossing the Ts.

Senator BOXER. Let me try to answer what they told us through this thing.

Senator BAUCUS. Sure.

Senator BOXER. Tell me if I have misstated it. They want to see a user fee. They don't want to see, although there was one exception, maybe you can patch a small amount with the General Fund. That is not the consensus of the group.

The consensus of the group is, we need a user fee, we need a long-term solution, and it should be pretty much related to oil and gas, that fee, whether it is collected the way it is now and we increase the gas tax, or as I understand it, follow the lead of a State like Virginia which is looking at a tax, but it is at a different level, it is wholesale, it would be at the refinery level and as a percentage of the cost.

Senator BAUCUS. I appreciate that. Anybody want to add a little texture to Chairman Boxer's statement, add a little context?

Mr. RUANE. Senator, I think moving it up the food chain in terms of some of the States who have looked at this and collection points, you can go further up instead of the individuals paying this, at the refinery or at the whole sale level. Some States have looked at that very closely.

I think there is an efficiency argument there from a collection standpoint. So with most of us, I think it is all of the above. And whatever combination is obviously, work can be done both economically and politically and everything else.

But one of the points we want to underscore, and it is a little redundant here, is let's not throw the baby out with the bath water. There is a reliable source already there, and if you are going to change that, that is fine, but keep the buying of that source and whatever new method the Congress might come up with.

Senator BAUCUS. Thank you. Mr. Cohen, did you raise your hand?

Mr. COHEN. Let me just add that the sustainability issue is I think something that we all also talked about. This last bill, we ran out of money, so we wrote a bill that can only be funded for 2 years. What would be nice and what would be preferable, so that Congress doesn't have to deal with this every few years, is to chart a course that includes an index so that reauthorizations can be done for 6 years at a time so that the States can do their plans, projects can be done and we can achieve greatness again and not just try to get the point where we run out in, say, 2020 or 2021.

Senator BAUCUS. How do you deal with the anti-tax crowd that raises its voice around here?

Mr. COHEN. I represent the highway users. And as I mentioned in my testimony, the users pay and we have not always been in favor of raising the tax.

Two things I think have changed. One is MAP–21. Tremendous reforms, and I didn't stress this, but the streamlining provisions, and this certainly came up at least week's hearing, are absolutely critical to taxpayers' support for paying more. We are going to have to look at them, because they haven't been fully implemented, obviously.

And second, just the dire nature of the situation right now. It is not like the old days when we had a big balance and we could simply draw from the balance. So we represent the users, AAAs, truckers, bus companies, and we all agree that we have to pay more.

Senator BAUCUS. Your goal is to sustain current levels of construction and repair, or do you want to boost? What is the prevalent view here?

Mr. LEWIS. I defer to ASCE on this. But I think sustaining is the absolute floor. I think the country does need to think and talk and debate additional investment. I think we are falling behind, as Janet has pointed out. Other countries are investing more on a percentage basis than we are. But perhaps the enemy of good is better. We need to get to where we can at least maintain a level funding.

Mr. RUANE. Senator, I would say that we have to do both and we have to do them simultaneously. That may seem like a huge leap for some, but this Congress is more than capable of doing that. And what you showed in MAP–21, the bipartisan nature of the vote, proved it can be done. Getting financing is obviously a bigger lift.

But the Nation is growing by 3 million people a year, 2 million new users, new drivers on our Nation's roads in a year. We are growing, we are a growing country. And to accommodate that growth, we have to not only take care of our existing system, we have to enhance our system to accommodate that growth alone.

Senator BAUCUS. You are right.

Mr. DILORETO. Let me just follow up. The American Society of Civil Engineers gave roads a grade of D. We estimate you need $1.7 trillion over the next 8 years to get it into good condition. We have about half of that, assuming the Highway Trust Fund was to maintain current funding levels.

So the question of do we need more, well, if our goal is to get our transportation system into good condition, meet capacity needs, meet the condition needs, then we are going to have spend more as Americans on it.

Senator BOXER. Mr. Chairman, I am going to give you more time to do your opening statement. And I wanted to make a point here.

Senator BAUCUS. You may regret that.

[Laughter.]

Senator BOXER. No, I don't. I don't regret it at all.

But I just want to say this point. Your question is important, sustaining the current levels for actually moving forward. I wanted to point out, because of our work together, all of us, on TIFIA, we had a way that was able to dramatically leverage existing funds. So for example, just by using a billion dollars for TIFIA, which we agreed upon, is going to stimulate the economy up to $30 billion, there were other proposals, I think, that your committee will look at.

So one idea is to do the basic funding and then look for ways that we can leverage the Federal investment, it is just a thought, without putting so much pressure on the user fee.

In any case, you have the floor for 5 minutes.

Senator BAUCUS. I am fine.

Senator BOXER. OK. Thank you very much. And we will call up panel two.

Senator WHITEHOUSE. Madam Chair.

Senator BOXER. Yes.

Senator WHITEHOUSE. While the panels are changing, I just wanted to emphasize the point that Mike Lewis was making very well to Senator Baucus' question that a lot of places have big projects that are out there that are looming because of the surge of infrastructure that was built 50 years ago and is now sort of reaching the end of its natural life. Those have never been in any baseline. Because they have always been unmanageable, because we have always been just scraping by with basic maintenance.

At some point, those become things that we absolutely have to do. In Rhode Island, Route 10, Route 6 and Route 95 all come together in the center of our capital city. If the Route 10 and Route 6 connectors fail, we have a problem that is going to affect the entire eastern seaboard. Never got into the budget of the Rhode Island Department of Transportation, it was too big to fit in a year's budget. There has always been the hope that someday.

Well, I think there is a lot of that out there. We need to make sure we have the scope in this to take on those big projects that are coming due.

Senator BOXER. All right.

First of all, thank you to our second panel, a very distinguished panel. Thank you for waiting around here. It is my pleasure to start it off with Jack Basso. I know it is Peter J., but I call you Jack. Principal, Peter J. Basso and Associates, a very important part of my world in advising me. So please go right ahead, sir.

STATEMENT OF PETER J. "JACK" BASSO, PRINCIPAL, PETER J. BASSO AND ASSOCIATES, LLC

Mr. BASSO. Thank you, Madam Chairman, for those kind comments. Thank the Committee, Senator Baucus and Senator Whitehouse and other members of the Committee.

I am going to be brief but hit on what I think are some important points. While others on the panel will discuss in some detail what might be considered to address the funding crisis, and I think it has been discussed heavily with the first panel, what I want to do is discuss first what is the magnitude of the problem. I think it has been stated, it is a 100 percent reduction in fiscal year 2015 in the highway program. And also, for that matter, the transit programs.

I want to talk a little bit about the evolution of that problem and contrast traditional funding grants and direct funding with the financing tools, such as the TIFIA program, and how those in combination are critical to infrastructure investment. The Highway Trust Fund, and in my written testimony I show, faces a dramatic shortfall. In fact, the fund has been spending about $50 billion per year while the revenue averages about $35 billion a year. Through the good offices of the Congress, we have been able to put in the $4 billion from the General Fund that has kept, so to speak, bankruptcy staved off.

Thus, in fiscal year 2015, if the programs receive no new revenue, we are literally out of business. I think the impacts are dramatic and very bad for the country.

The reduction in capital programs, of which the Federal funding averages 45 percent in the States, is devastating to both capital investment and jobs. In fact, for every billion dollars of investment, about 28,000 jobs are supported. So we are talking about hundreds of thousands of jobs lost in fiscal year 2015 on the back of an already dramatic decline in construction employment.

So how do we get there? A combination of factors created that situation. Let's give a little credit to the great recession, because it did impact it. For the first time in 50 years, vehicle miles traveled dropped in 2008. They had been growing at a rate of 2 to 3 percent a year for 50 years.

That translated into a dramatic decline in revenue, combined with another factor, heavy truck taxes from the sales tax on trucks took a nose dive during that same period. Thus the fund approach to deficit and potential similar program reductions in 2008. The Congress responded, as I said, by making a series of General Fund transfers that have been critical and much appreciated by those of us in the transportation community.

However, the real problem lies in the fact that no rate adjustment has been made since 1993, 20 years. And I might note, that adjustment was made actually in the incomprehensive balanced budget agreement in 1993 as to how this got addressed. So I think that is important to note.

A quick word about financing. Early 1993, the Federal Government began promoting a series of tools to allow financing for programs with revenue streams, garvee bonds, State infrastructure banks and in particular, Madam Chair, I want to note your role in the dramatic 20-fold expansion of the TIFIA program, which is hugely important and hugely useful. Also Build America bonds, at one time the program was useful and very helpful to our infrastructure investments.

But these things alone cannot substitute for direct funding. So the time has come, and causes me to conclude, as we approach reauthorization programs and address funding and to continue the successful financing programs such as TIFIA and so forth is absolutely imperative to the Nation's well-being and to the improvements that can be made in our infrastructure investment. And are as important to maintain our international competitive position.

Thank you.

[The prepared statement of Mr. Basso follows:]

WRITTEN TESTIMONY OF PETER J. BASSO

PRINCIPAL
PETER J. BASSO AND ASSOCIATES, LLC
TRANSPORTATION FINANCE CONSULTANTS

HEARING ON THE NEED TO INVEST IN AMERICA'S INFRASTRUCTURE AND PRESERVING FEDERAL TRANSPORTATION FUNDING

BEFORE THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

SEPTEMBER 25, 2013

Chairman Boxer, Ranking Member Vitter and other members of the Committee, I am Peter J. Basso, Principal of Peter J. Basso and Associates, LLC, Transportation Finance consultants. I am pleased to have the opportunity to testify here today on the critical need for infrastructure investment and how the current crisis facing the Highway and Transit program funding might be addressed.

The Federal government is a key player in partnership with the State and local governments and the private sector for advancing investment in infrastructure and a critical funder of transportation infrastructure. We all face an immediate crisis because of the shortfall in revenue to maintain the solvency of the Highway Trust Fund; this comes at a time when we must start to address the reauthorization of these major infrastructure programs.

In my testimony I will discuss: the serious condition of the Highway Trust Fund revenues and the negative impact on the Highway Program if we fail to address the issue. The following issues are discussed:

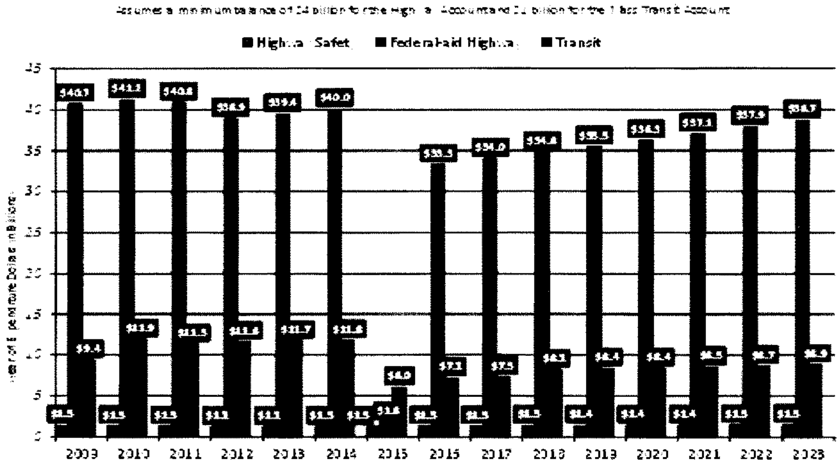
- provide background on the dimensions of the revenue shortfall and its impact on Surface Transportation Programs.
- provide information on the differences between funding and financing.

THE CURRENT CRISIS IN SURFACE TRANSPORTATION INFRASTRUCTURE INVESTMENT

While the Highway Trust Fund has served as the backbone of Federal Surface Transportation programs since 1956, it is now expected to reach a shortfall situation where almost all new obligations will have to be eliminated in FY 2015. According to the Congressional Budget Office, this is due to the structural deficit between receipts and outlays which averages around $15 billion and will continue to increase over time. The following chart based on CBO projections illustrates the depth of the shortfall.

The Congressional Budget Office (CBO) projects ever growing deficits in the subsequent years leading to a drastically diminished program. To highlight, if no new revenues are identified for the Highway Trust Fund, highway obligations are expected to be reduced by almost 99 percent from $40 billion in FY 2014 to $0.2 billion the following year transit obligations are expected to also experience a significant funding reduction.

ESTIMATED FEDERAL HIGHWAY AND TRANSIT PROGRAM FUNDING LEVEL WITH NO NET NEW REVENUES TO HTF



The chart above shows the reductions that would be required for the Surface Transportation Programs if no new revenue is found. **While there appears to be a recovery in funding levels in the subsequent years it is brought about by a critical reduction in program levels in fiscal year 2015.**

HOW THE SHORTFALL DEVELOPED

Beginning in 2005 with the passage of SAFETEA: LU Congress authorized the maximum program levels for the Highway and Transit Programs that the revenue projections at that time sustained. Subsequently for the first time in five decades Vehicle Miles Traveled by Americans declined substantially below historic levels. VMT is a key proxy for revenue to the Highway Trust Fund.

Coming on the heels of this decline was the impact of the Great Recession with the combined impact being a major shortfall in revenue compared to outlays. That gap was approximately $35 billion in revenue vs. $51 billion in outlays. In 2008 the balances in the Highway Trust Fund Highway account were not sufficient to pay upcoming outlays.

Congress starting in 2008 enacted a series of General Fund transfers totaling $55 billion. These transfers allowed the programs to continue at current levels and made possible the necessary passage of MAP-21.

FUNDING AND FINANCING

Starting in the early 1990's The Federal government enacted new tools to allow for credit financing. These programs include the State Infrastructure Bank programs, The TIFIA program and GARVEE bonds to name a few.

While these new developments have markedly helped advance infrastructure investment, they require revenue streams since funds must be paid back. Given the magnitude of the short-fall in investment in infrastructure financing is most valuable but it is not a substitute for direct revenue. Both funding and financing increases are sorely needed.

However, financing is not a substitute for direct revenue but rather is a compliment to it. The financing tools require revenue streams to pay back financing and thus alone cannot satisfy investment needs.

Conclusions

- It is clear that the U.S. investment levels as documented by two national commissions, the American Society of Civil Engineers and AASHTO are inadequate to meet the nation's needs.
- A further erosion of investment will come about in Fiscal Year 2015 if the revenue question goes unaddressed.
- The American economy and jobs could be negatively impacted if no solution is found to the need to fund the Highway Trust Fund.

Senator BOXER. And we turn to Kathy Ruffalo, President, Ruffalo and Associates. Welcome.

STATEMENT OF KATHY RUFFALO, PRESIDENT, RUFFALO AND ASSOCIATES, LLC

Ms. RUFFALO. Thank you, Chairman Boxer, Chairman Baucus and Senator Whitehouse, for the opportunity to address you today regarding the shortfall in the Federal Highway Trust Fund and possible solutions to this transportation funding crisis.

As a former staff member to this Committee, I fully understand the challenges that you face regarding reauthorization and the need to fill the current funding gap. I applaud your leadership and that of the other committees to address this situation.

Before I begin, I want to let you know that any opinions I express are mine and mine only and not any group or entity. Jack has done a good job of telling you and the other panel about the trust fund shortfall, what that picture looks like. So I am not going to go over it again, except to reiterate that the crisis is fast approaching and it is important for Congress to find the appropriate vehicle to address it through tax reform or a broader agreement on spending and taxes, which recent history has shown to be a good option or through other appropriate legislation.

I am going to cover two areas in my oral statement, an overview of the types of funding options that Congress can consider. I am also going to end with some questions that I believe are key policy and implementation questions for Congress as well.

If Congress agrees that we need to find additional revenue, there are three general ways in which to do so. My written testimony includes some specific examples of each.

No. 1, raising the rate of taxation or fees of existing Federal revenue streams into the trust fund. No. 2, identifying and creating new Federal revenue sources into the trust fund. And No. 3, diverting current revenues and possibly increasing the rates from other Federal sources into the trust fund.

As Congress looks at individual funding options, of which there are many, you may wish to evaluate each option based upon how much money could realistically be raised, how much would it cost and how long would it take to put in place the structure to collect revenue in a new way, and what administrative, legal and enforcement issues would need to be addressed, what is the impact to urban and rural users of the system, and what is the applicability to other levels of government. If finding the revenue for transportation were easy, it would have been done already. Each funding option has supporters, opponents and each has policy considerations.

So given that, here are my key questions for you today. No. 1, with the Highway Trust Fund balances nearing zero in early 2015, which funding options can be implemented most quickly? If Congress wants to prevent dramatic cuts to State DOTs, transit agencies and other transportation partners, the time necessary to collect revenue from any option becomes critical.

You can't forget the new revenue has to be collected prior to 2015, while possibly another General Fund transfer would have to take place. In other words, the time to implement any funding option has to be considered. As you explore any list of options, you may want to categorize them into short-term, intermediate term and long-term in order to accurately calculate the time necessary for any new funding scenario to be fully implemented.

Question two, how might any new Federal revenue option impact our State and local funding partners? Several possible funding solutions are currently used by States, local governments and transit agencies to collect revenue. If the Federal Government would add a new fee onto this existing non-Federal funding sources, the Federal Government might crowd out the ability of transportation partners to raise revenue from these sources in the future.

Question three, should we retain the user fee concept? We had some discussion about that on the previous panel. Do we see the benefit of having the funding source tied in some way to the users of beneficiaries of the transportation system? Or is it now the case that funding from anywhere is what matters most? What would the lack of a user fee basis mean in retaining contract authority? Of course, as has been talked about, contract authority is what makes this program unique, and it allows the States and local governments to plan and construct transportation projects with limited funds on a long-term basis.

Finally, what is the public appetite for multiple funding sources? Given how controversial and difficult it is to raise almost any tax or fee, you may wish to consider the implications of choosing multiple sources of revenue and the level of opposition that may entail. Some funding options raise very little revenue and others would necessitate new collection, administrative and enforcement systems.

At the end of the day, we are all trying to do what is best for this country. We need to remember there are real men and women behind all the numbers and statistics that we use. Thousands of jobs depend upon Federal transportation funding, not just direct jobs but indirect ones as well, whether it is to get to work, to move goods across this country to maintain our quality of life, the Federal Government is an important partner in transportation investments.

I know that with your leadership, Madam Chairman, Senator Baucus' leadership on the Finance Committee and other committees, Congress will resolve the insolvency of the Highway Trust Fund and provide the funding necessary to continue valuable Federal transportation investments.

Thank you again for holding this hearing and for providing me with the opportunity to share my thoughts and perspectives with you today.

[The prepared statement of Ms. Ruffalo follows:]

Statement of

Kathy Ruffalo

President, Ruffalo and Associates, LLC

Before the Committee on Environment and Public Works

United States Senate

September 25, 2013

Chairman Boxer, Ranking Member Vitter and Members of the Committee – I appreciate the opportunity to address you today regarding the shortfall in the federal Highway Trust Fund (HTF) and possible solutions to the impending federal transportation funding crisis.

I spent nearly eleven years as a staff member to this Committee and during that time, I had the opportunity to work on ISTEA, TEA-21 and SAFETEA-LU. I was also appointed to serve as a member of the National Surface Transportation Infrastructure Financing Commission, one of two commissions created in the SAFETEA-LU legislation. The Commission released its final report to Congress in 2009 and many of the issues I will discuss today originate from the Commission's work.

This experience has shaped my perspective on the situation we face today. I have a very real respect for the difficult work facing you, your staff and other Senators as you explore various funding options and consider the policy and implementation issues surrounding them.

Before I begin, I'd like to state that I am not here representing any particular group or entity and that all of the opinions I express are mine and mine only.

I'd like to cover three areas with you today. First, I will touch on the current funding sources and current financial condition of the federal Highway Trust Fund in order to provide context to our discussions. Second, I will provide an overview of various funding options to close the current shortfall in the Highway Trust Fund. And finally, I will discuss the implementation and policy issues you may wish to consider as you explore various funding options.

Funding versus financing

The goal of today's discussion revolves around future funding options for the Highway Trust Fund. As part of that discussion, it is important to remember the differences between funding and financing.

Funding options are those that generate revenue streams and financing options are those that leverage revenue streams. For example, the fuel tax is a funding option – raising revenue from the assessment and collection of the tax.

Financing options are programs such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) program, infrastructure banks or any program that provides direct loans or loan guarantees to support transportation projects. These loans require repayment from an identified revenue stream – i.e., a funding source.

Financing options play a key role in moving many projects forward – especially significantly large (expensive), regional and multi-state projects. Having said that, we cannot view financing options as the "silver bullet" or the solution to the impending shortfall in the Highway Trust Fund. Financing options may not be practical in all parts of the country or for every infrastructure project.

Current funding sources into the Highway Trust Fund

In order to provide context to the discussion of future funding, it may be helpful to restate the current sources of funding into the Highway Trust Fund.

The sources of revenue into the HTF fall into two separate categories – motor vehicle fuel taxes and various non-fuel taxes and fees. Highway Trust Fund revenues are:

• Gasoline and other fuels	18.3 cents/gallon
• Diesel	24.3 cents/gallon
• Retail tax on trucks	12.0% on retail sales
• Highway-type truck tires	9.45 cents/100 lbs capacity
• Heavy vehicle use tax	$100 + $22/1000 lbs

Motor fuel taxes account for the vast majority of revenue into the HTF – approximately 90% of the HTF net receipts. Other revenues (not based on motor fuel consumption) account for only about 10% of the HTF net receipts.

The staff of the Joint Committee on Taxation have estimated that one cent per gallon of motor fuel taxes during the 10-year period beginning with FY2015 will yield about $1.7 billion per year – of this amount, $1.3 billion is attributable to the gasoline tax and $400 million is attributable to the diesel tax.

Growth in motor fuel tax receipts is driven by two factors: tax rates and fuel consumption. Federal motor fuel tax rates were last raised in 1993, when Congress added an across-the-board 4.3-cent increase. The proceeds from this increase, however, initially were directed to the General Fund and were not credited to the HTF until October 1997 (fiscal year 1998). Because the tax rate has remained constant since 1993, inflation has significantly eroded the value of the tax receipts – the purchasing power of the motor fuels tax has declined by about 38 percent.

In addition, we have seen volatility regarding receipts into the HTF from non-fuel tax receipts – especially those related to truck trailer sales and the heavy vehicle use tax.

Financial condition of the Highway Trust Fund

The Highway Trust Fund has served as the means to fund federal highway and transit programs in this country for many years. Unfortunately, the revenue into the Highway Trust Fund has not kept pace with the spending. The Congressional Budget Office baseline assumption estimates the spending from the Highway Trust Fund will exceed receipts on average about $15 billion per year for the next ten years (FY2014-2023). If no action is taken, this funding shortfall will have an extraordinary impact in FY2015 – a little over a year from now – when states and transit agencies across the country will have to significantly reduce their transportation investments. For the federal highway program, this shortfall would effectively prevent states from obligating any new federal funds – reducing the current federal highway program from $40 billion to less than $500 million in new obligations in FY2015. The federal transit program would see similar reductions as well.

There are serious implications from this kind of reduction – highway and transit projects across the country that are currently planned may have to be delayed or cancelled. These are projects that states, communities and even regions have been waiting for many years to see completed to improve congestion, increase capacity or address other transportation issues.

Funding options

Given the current funding picture – the question becomes – what do we do about it? One can address this in a number of ways (or some combination thereof) – do nothing and reduce federal transportation investments; increase current taxes and fees or continue transfers from the General Fund; or identify and implement new, dedicated revenue streams into the HTF.

For the purpose of today's hearing – I'm going to presume that Congress is unwilling to drastically reduce federal transportation investments and the federal government will remain a viable funding partner. Therefore, I will focus on possible funding options and policy considerations.

The National Surface Transportation Infrastructure Financing Commission (Commission) completed its work in February of 2009. While I'm not here on behalf of the Commission, we released a comprehensive report that details short and long-term funding options. While four years may seem like a long time, the funding options we explored still remain relevant to today's discussions. In addition, since the release of our report, a number of new ideas have been discussed either in Congress or in the broader transportation community – oil and gas leasing fees and a non-truck (passenger vehicle) tire tax for example.

So while not an exhaustive list of ideas, the Commission examined close to 40 funding options and this list has served as the basis for much of the conversation currently taking place in and out of Congress. We evaluated each of these funding options using criteria such as revenue raising potential (funding stream considerations); implementation and administration considerations; economic efficiency and impact considerations; equity considerations and applicability to other levels of government.

This list of options is very diverse and while the Commission did not recommend every one of these options, they are all listed in our final report. The report lists how much revenue each option could raise along with some pros and cons for the funding options.

There are three general types of funding or revenue options for the HTF – if Congress determines new or additional revenue/funding is needed:

- Raising the rate of taxation or fee rates of existing federal revenue streams into the HTF – for example the gasoline and diesel tax (including indexing); the heavy vehicle use tax; the truck and trailer sales tax; and the truck tire tax.
- Identifying and creating new federal revenue sources into the HTF – for example a container tax; drivers license surcharge; vehicle registration fee; imported oil fee; sales tax on fuel; carbon tax; vehicle sales tax ; sales tax on auto-related components, oil and gas leasing fees; and a tire tax on light-duty vehicles.
- Diverting current revenues (and possibly increasing the rates) from other federal sources into the HTF – for example, custom duties; the Harbor Maintenance Tax; or revenue from the General Fund.

The Commission spent over two years working on this report and what we submitted to Congress was the best effort of a diverse group of 15 individuals. As a former staffer, I'm well aware that Congress may have a different opinion and may choose a different set of options to fund our transportation system. It is my hope that the Commission report proves useful to this Committee, other relevant Congressional Committees and to the Congress as a whole.

Implementation and policy issues for consideration

If any of these funding options were easy, they would have been done already. Each funding option – whether increasing a current tax or fee; identifying a new funding source or even continuing General Fund transfers – has supporters and opponents and each has policy implications.

Given that, it is important that Congress consider the following key questions:

1. *With the HTF balances nearing zero sometime in early FY2015, which funding options can be implemented most quickly?*

   If Congress wants to prevent dramatic funding cuts to state DOTs, transit agencies and other transportation partners, the time necessary to collect revenue from any option becomes critical. You can't forget that new revenue would have be collected prior to FY2015 or possibly another General Fund transfer would have to take place. In other words - the time to implement any funding option has to be considered. If the implementation will take months or years, that has to be taken into account. Short of raising current taxes or fees – which have the administrative, collection and oversight processes already in place – many funding options can take significant time to put into place. As you explore any list of options, you may want to categorize them into short-term, intermediate-term and long-term in order to accurately calculate the time necessary for any new funding scenario to be fully implemented.

2. *How might any new federal revenue option impact our state and local funding partners?*

   Several possible funding options are currently used by states, local governments and transit agencies to collect revenue. The Commission was concerned that if the federal government were to add a new fee onto these existing non-federal funding sources, the federal government might "crowd out" the ability of transportation partners to raise revenue from these sources in the future.

3. *Should we retain the user-fee concept?*

   Do we still see a benefit of having the funding source tied – in some way – to the users or beneficiaries of the transportation system? Or is it now the case that funding – from anywhere – is what matters most? What would the lack of a user-fee basis mean in retaining contract authority? Contract authority is what makes the federal transportation program somewhat unique among federal programs and allows for the long-term planning and certainty that states, local governments and transit agencies need to plan and construct transportation projects with limited funds. If the federal transportation program were to lose contract authority and become reliant on an annual appropriations process, there are serious implications that would need to be considered.

4. *What is the public appetite for multiple funding sources?*

   Given how controversial and difficult it is to raise almost any tax or fee, you may wish to consider the implications of choosing multiple sources of revenue and the level of opposition that may entail. Some funding options raise very little revenue and others would necessitate new collection, administrative and enforcement systems. I would encourage the Committee and Congress to fully evaluate the steps that would have to take place to create any new funding option so that you have all of the information you need to make your decisions – a thorough evaluation can highlight any implementation, administrative or enforcement challenges ahead of time and allow Congress to thoughtfully take the necessary steps to successfully put in place any new mechanism.

Conclusion

At the end of the day, we are all trying to do what is best for this country. We need to remember that there are real men and women behind all of the numbers and statistics that we tend to use in our discussions. We can't get caught up in national statistics and forget the impacts of the decisions being made. Thousands of jobs depend upon federal transportation funding – not just direct jobs but indirect ones as well. Whether it is to get to work, to move goods across this county or maintain our quality of life, the federal government is an important partner in transportation investments.

I know that with your leadership, Madam Chairman, and the leadership of this Committee and other Committees, Congress will resolve the insolvency of the Highway Trust Fund and provide the funding necessary to continue valuable federal transportation investments.

Thank you again for holding this hearing and for providing me with the opportunity to share my thoughts and perspectives with you today.

Questions

Senator Barbara Boxer:

1. Ms. Ruffalo, you state in your testimony that, in looking at potential revenue options, it is important to categorize them into short-term, intermediate-term and long-term.

   Could you elaborate on that point and what it means for us as we approach the insolvency of the Highway Trust Fund next year?

   With the insolvency of the Highway Trust Fund (HTF) possibly occurring some time during the summer of FY2014, it is important to look at revenue options in terms of how long it would take to collect any new revenue. If Congress chooses to increase an existing tax rate, i.e., the fuel taxes, the revenue can be collected in a more immediate time frame. If, however, Congress chooses to create a new revenue stream or funding option, it may take some time to actually collect any revenue if the time frame to implement the revenue stream is sizeable. Therefore, it will be important to factor in the time to implement any new funding option when making any decisions to address the immediate insolvency of the HTF.

   As I mentioned in my testimony, if Congress wants to prevent dramatic funding cuts to state DOTs, transit agencies and other transportation partners, the time necessary to collect revenue from any option becomes critical. Any new revenue would have to be collected prior to FY2015 or possibly another General Fund transfer would have to take place. In other words - the time to implement any funding option has to be considered. If the implementation will take months or years, that has to be taken into account. Short of raising current taxes or fees – which have the administrative, collection and oversight processes already in place – many funding options can take significant time to put into place due to regulatory, administrative and legal challenges.

2. Ms. Ruffalo, you mention the importance of contract authority and the connection to a user-fee concept. Can you discuss why that authority and certainty is important to the Highway Trust Fund and transportation investment?

   Contract authority is a feature that makes the federal transportation program unique – it allows Congress to provide the funding levels to state DOTs and other transportation stakeholders (with multi-year authorization legislation) on a longer-term basis than that provided through the annual appropriations process. By providing the funding levels on a multi-year basis, advance understanding of future funding commitments (ie, contract authority) allows *state DOTs and other transportation stakeholders to do long-term planning – the type of planning that is imperative in order to undertake large, complex construction projects and to appropriately manage the timing of a program of projects.*

Senator David Vitter

1. What are the potential middle to long-term effects on the Trust Fund of continuing to fill the gaps between HTF receipts and outlays with offset general funds? Are those concerns heightened as general funds make up a more significant portion of the Trust Fund?

   I believe there are two key effects of continued general fund transfers to the Highway Trust Fund – impact to the ability of the federal-aid highway program to utilize contract authority and a further erosion of public support and trust in the federal transportation program. Because the federal transportation program is funded from a federal trust fund, the Congressional Budget and Impoundment Control Act of 1974 allows for the use of contract authority as long as 90 percent or more of the trust fund receipts are derived from user-fees. Further transfers into the trust fund could jeopardize this requirement and jeopardize the further availability of contract authority. In addition, losing or eroding the nexus or tie between the users of the system (while not perfect) and the improvements to the system may cause taxpayers to continue to resist providing additional resources to meet the nation's transportation needs at the federal level.

2. There seems to be some consensus from the panel that the gas tax is unsustainable for the middle or long-term. Yet many have recommended the gas tax as a possible short-term solution. Knowing nothing around here is for the short-term does that change your view of being a short-term solution?

   I do agree that if we continue to increase the fuel efficiency of the motor vehicle fleet, increase the use of alternative fuels or sources (natural gas, electricity) and/or experience a further decline in vehicle miles traveled, there will be a decline in the revenue collected from the motor fuel taxes on a per gallon basis. At a time when we are encouraging drivers to use less gas and diesel fuel, it doesn't make sense to continue to rely (in the long-term) solely on a funding mechanism that is based on the use of that motor fuel. Having said, that – I do believe the fuel tax can continue to be a funding mechanism for some time. The issue becomes the rate of the taxation – should it be increased or not.

3. You make a point to differentiate between financing and funding. Can you speak to how reliant financing programs are on the Highway Trust Fund and what those programs look like without the steady revenue provided by the

Trust Fund? Do you think it's inappropriate to expand these types of programs before addressing the Trust Fund?

The Highway Trust Fund does provide support for some financing programs – TIFIA being the largest such program. The HTF provides the credit subsidy needed to support the credit enhancements available to project sponsors under the TIFIA program. It is possible for some TIFIA eligible projects to pay their own federal subsidy – but not having the HTF support for the TIFIA program would limit, if not erase, the ability of the program to continue. I believe that financing programs, such as TIFIA, can be useful tools for some projects in certain parts of the country. But financing programs are not a solution to the insolvency of the HTF and are not viable solutions for every transportation project/need. And it is important to remember that projects funded through financing tools generally need a revenue (funding) stream and not every project is capable of producing such a revenue stream. Therefore, I argue that we don't necessarily have a "financing" problem in this country, we have a "funding" problem. I do believe finding a solution to the insolvency of the HTF is critical and cannot be solved just by creating new and innovative financing mechanisms.

Senator James Inhofe

1. Members of my caucus are reluctant to spend money on our nation's infrastructure despite the fundamental federal responsibility we have to provide for it. How would you suggest we address those who would not be willing to address the catastrophic shortfalls to the Highway Trust Fund? What impacts would a lapse in federal funding have on not just our infrastructure, but also on the economy as a whole?

   If we are going to ask for additional revenue – whatever the source – we need to do a better job of convincing the American people – and their Congressional representatives – that the funding will be used wisely, efficiently and improve their every day lives. Too often, in Washington DC, we use national statistics to try and make our case for additional investment. I believe that is the wrong way to approach this issue. We need to make the case at a more local level. What will any additional spending mean to the average person – their daily commute, their community and their quality of life? What transportation improvement can be made in their local community that can be seen, felt and understood? Without that connection - between asking for more money and the benefit to be received - I believe it will continue to be difficult (and rightly so) to convince taxpayers and Congress to make the tough decisions to raise revenue. We need to better engage local businesses, local elected officials, local media and other "non-traditional" stakeholders in this discussion. There is no doubt that a lapse in federal transportation funds to states, local governments and transit agencies would result in many important transportation projects across the country being halted, delayed or put back on the shelf. This would certainly impact the national economy and state economies as well.

Senator BOXER. I think it was very helpful.

Our next speaker is Jack Schenendorf, Of Counsel, Covington and Burling, LLP. Welcome, sir.

STATEMENT OF JACK SCHENENDORF, OF COUNSEL, COVINGTON AND BURLING, LLP

Mr. SCHENENDORF. Thank you, Madam Chairman. You have already heard from a number of witnesses today, so I will be brief. It is a special honor to appear before this Committee. Almost 60 years ago, it was the leaders of this Committee, Democrats and Republicans, together with President Eisenhower, who had the vision, the wisdom and the political will to make a major investment in America's future by creating the interstate system.

If there was ever a time to take a similarly daring look at our Nation's surface transportation system, it is now. In recent decades the United States has under-invested in the national surface transportation network. As a result, the aging, congested network is in need of repair and does not have adequate capacity to accommodate future population and economic growth.

How did we get from having one of the world's preeminent transportation systems to an overburdened system that is steadily falling into a state of disrepair? The heart of the problem is this: while we have been benefiting from the expenditures of the generation that helped build the interstate highway system, we have failed to make adequate investments of our own. It is time for Republicans and Democrats to come together again and put in place a vision for the next 50 years that will ensure U.S. prosperity and global preeminence for generations to come.

MAP–21 took an important first step by modernizing our Nation's surface transportation policies for the 21st century. My testimony today will focus on what MAP–21 left undone: ensuring an adequate level of investment in our national surface transportation network.

I would like to make three points for your consideration today. Point one, fixing the Highway Trust Fund and increasing investment in our national surface transportation network must be a foundational element of any pro-growth economic agenda.

According to a recent report by McKenzie Global Institute, our inadequate infrastructure imposes unnecessary additional costs on the U.S. economy and American taxpayers. They have estimated that increasing road congestion is costing the Nation $85 billion a year. On a per traveler basis that works out to a little over $1,000 per traveler in urban areas and about $400 in suburban and rural areas. At a time of increasing global competition and uncertain economic growth, the United States can't afford to undermine the benefits that a well-functioning transportation system provides or allow inaction to impose additional costs on U.S. travelers. U.S. jobs, the U.S. economy and this Nation's position as a global economic leader are at stake.

Point No. 2, I want to emphasize one of the principles I identified in my written testimony for evaluating appropriate solutions. That is the need for a truly national investment policy. Modernizing the 233,000-mile national highway system which makes up just 5.7 percent of the Nation's road mileage but carries 55 percent of the vehicle miles traveled annually will require significant sustained investment over a considerable period of time. The Highway Trust Fund is uniquely suited for this type of investment.

The focus in creating the Federal aid highway system and the national highway system in particular was the concept of a country unified by a nationwide infrastructure. In today's highly competitive global economy, this vision is more important than ever. Only a strong Federal role will help realize this unity, allowing for systemic improvements in both high traffic and low traffic States.

Point three, we must not underestimate the magnitude of this problem. According to CBO, it will take the equivalent of a 10 cent gas tax increase just to close the hole in the Highway Trust Fund. The Policy and Revenue Study Commission that I served on as vice chair estimated that we should be spending about 25 to 40 cents additional on the gas tax in order to start meeting the needs of the Nation going forward, to rehabilitate the existing system and provide the additional capacity.

In my written statement I have identified a number of options for raising these revenues. I subscribe to both what Jack and Kathy have said about the revenue options. I want to bring your attention particularly to the first page of the chart in Attachment A, which is a color chart which shows a lot of these options and the way that we evaluated them. I also want to call your attention to a paper that I have also attached that an associate at Covington and myself write on Federal user fees, an alternative way to raise funds if you are unable to raise any of these other taxes.

Thank you.

[The prepared statement of Mr. Schenendorf follows:]

Testimony of
Jack Schenendorf
Before the
Committee on Environment and Public Works
United States Senate
Wednesday, September 25, 2013

Thank you, Chairman Boxer, Ranking Member Vitter, and other members of the Committee, for giving me the opportunity to testify on our Nation's surface transportation needs and financing.

I am Jack Schenendorf. I am Of Counsel with Covington & Burling LLP in Washington, D.C. Prior to joining Covington, I served on the staff of the House Transportation and Infrastructure Committee for 25 years. I also served as Vice Chair of the National Surface Transportation Policy and Revenue Study Commission (hereinafter referred to as the "Policy and Revenue Study Commission") from 2005 until 2008.

The views I express here today are my own. They do not reflect the official position or views of Covington, the T&I Committee, or the Policy and Revenue Study Commission.

It is a special honor to appear before this distinguished Committee. For almost 60 years ago, it was the leaders of this Committee, in cooperation with President Eisenhower, who had the vision, the wisdom, and the political will to make a major investment in America's future. As is often the case with major transportation initiatives, Democrats and Republicans came together to put America's interests first.

By authorizing construction of the Interstate Highway System, by establishing the Highway Trust Fund that would make the Interstate a reality, and by almost tripling the federal motor fuels tax, Congress took an action that was instrumental in making America strong and in developing the world's largest economy and most mobile society.

As President Eisenhower stated:

> *"Our unity as a nation is sustained by free communication of thought and by easy transportation of people and goods...Together the unifying forces of our communication and transportation systems are dynamic elements in the very name we bear—United States. Without them, we would be a mere alliance of many separate parts."*

In the 1950s, there was only a small amount of travel that was truly long distance in nature. Most travel was relatively local and at low speeds (20 to 40 mph) on narrow, two- or four-lane undivided roads that were often congested, poorly maintained, and unsafe, especially in populated areas.

The Interstate changed travel in America. It provided greater capacity and made long-distance travel practicable. It made travel faster, safer, and less expensive on a per mile basis. It has become one of the foundations of America's competitive success in the global marketplace. And it made America stronger and more secure.

Now we have outgrown this system and the rest our national surfaee transportation network. It is time for new leadership to step up with a vision for the next 50 years that will ensure U.S. prosperity and global preeminence for generations to come.

MAP-21 took an important first step by modernizing our Nation's surface transportation policies for the 21st century. The leaders of this Committee—Chairman Boxer, Ranking Member Vitter, Senator Baucus, and Senator Inhofe—are to be commended for that effort.

My testimony today will focus on what MAP-21 left undone—ensuring an adequate level of investment in our national surface transportation network.

The Challenge

In recent decades, the United States has underinvested in the national surface transportation network. As a result, the aging, congested network is in need of repair and does not have adequate capacity to accommodate future population and economic growth.

According to estimates of the Policy and Revenue Study Commission, we need to invest at least $225 billion annually from all sources (federal, state, local, and private sector) for the next 50 years to upgrade our existing system to a state of good repair and create a more advanced surface transportation system to sustain and ensure our international competitiveness and strong economic growth for our families. We are spending less than 40 percent of this amount today.

Even if the Commission's estimates were off by 25 percent, we would nevertheless still need a substantial increase in investment from all sources, including the federal government.

These findings should not come as a surprise. Commission after Commission, study after study, and report after report have identified serious deficiencies in the Nation's surface transportation network—aging and deteriorating infrastructure and reduced operational efficiency of key assets.

Action, Inaction, and Economic Growth

The increased investment required to maintain and improve our highways is not only needed for the convenience and the safety of individual drivers—although these are important concerns. A deteriorating public highway system also powerfully impacts the well being of the U.S. economy.

Our national highway network is a critical driver of our national economy. It is a rare example of a physical government infrastructure that reaches *every* American – if not individual drivers, then individuals who consume goods and services that could only be provided thanks to state-to-state transportation. It increases productivity and lowers transaction costs. It has been instrumental in enhancing mobility, and thus providing access to jobs, education, and other opportunities that have increased the quality of life in the United States. If no action is taken—that is, if no investments are made to maintain and improve the highway system to accommodate greater demand for access to goods and services—access to these benefits will be limited.

A recent report by the McKinsey Global Institute shows just how far behind the U.S. has fallen in terms of building a 21st-century infrastructure. Compared to the 139 countries examined by the World Economic Forum's *Global Competitiveness Report 2010-2011*, the U.S. ranks 23rd on overall quality of infrastructure, behind countries such as France, Germany, Canada, and Japan. This represents a precipitous drop over the past decade: in 2000, the U.S. ranked 7th.

Worse still, our inadequate infrastructure imposes unnecessary additional costs on the U.S. economy and American taxpayers. The McKinsey report goes on to estimate that increasing road congestion in the United States already costs more $85 billion year. On a per traveler basis, this cost ranges from $1,084 in very large urban areas to $384 in suburban and rural locations.

At a time of increasing global competition and uncertain economic growth, the United States can't afford to undermine the benefits that a well-functioning transportation system provides or allow inaction to impose additional costs on U.S. travelers. U.S. jobs, the U.S. economy, and this country's position as a global economic leader are at stake.

To put it bluntly, failure to adequately fund the maintenance and expansion of this system should not be an option. As a country, we can't avoid making the choice to address this problem—and inaction is the wrong choice.

Highway Trust Fund Solvency

In 1956, the Congress established the Highway Trust Fund ("HTF") to help build the Interstate Highway System while continuing to invest in the national surface transportation network. Created by the Highway Revenue Act of 1956, the HTF is a financing mechanism that accounts for tax receipts dedicated for expenditure on highways and transit needs. Currently, the HTF houses two accounts: one for the highway program, and one for public transit.

Since its inception, the HTF has been funded by taxes on motor fuels and vehicles. By linking transportation-related taxes with transportation-related funding, the HTF ensures that the costs of the federal highway system are primarily borne by its users. Through the ample revenue they provided to the HTF, the Eisenhower generation helped build not only a state-of-the-art highway system, but also one that included extra capacity for generations of drivers to come.

How did we get from having one of the world's preeminent transportation systems to an overburdened system that is steadily falling into a state of disrepair? The heart of the problem is this: while we have been benefiting from the expenditures of the generation that helped to build the Interstate Highway System, we have failed to make adequate federal investments of our own.

Though national surface transportation expenditures have increased over time, they have not kept pace with national growth. Expenditures on highway maintenance and improvements are shared by local, state, and federal governments. When growth in vehicle miles traveled is taken into account, real highway spending across all these levels of government has fallen by nearly 50 percent since the creation of the HTF. The federal contribution to highway spending, in particular, has remained fairly constant, falling behind rather than responding to additional infrastructure demand.

Currently, about 90 percent of HTF revenue is derived from excise taxes on motor fuels. These taxes are set at 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel, but are not indexed for inflation and have not been raised for almost two decades. The tax has lost about 33 percent of its purchase power since it was last raised.

Moreover, as a result of the economic downturn, declining real receipts, and more efficient vehicles, the HTF is in a solvency crisis. Since, by law, the HTF cannot incur a negative balance, Congress has been forced to authorize emergency funding infusions totaling about $54 billion since 2008. Yet short-term and long-term shortfalls still loom – and investment needs continue to grow.

What the HTF truly needs is a significant and immediate increase in revenues. The current level of funding is not adequate to maintain the operational performance and physical condition of the highway system.

According to CBO, the HTF needs additional annual revenues equivalent to a 10-cent gas tax increase just to maintain current, inadequate levels of investment.

The Policy and Revenue Study Commission concluded that the HTF needs additional annual revenues equivalent to a 25- to 40-cent gas tax increase (5 to 8 cent increase annually for 5 years) to start meeting the future needs of our national surface transportation network.

The question is: what is the best and fairest way to raise the additional revenues needed?

Evaluating Appropriate Solutions

Public policy groups and government commissions have proposed dozens of solutions with respect to raising HTF revenue. In evaluating these solutions, three principles should be considered. All three of these principles are important for creating revenue-raising mechanisms that are efficient, viable, and best reflect the scope of the federal highway system and its role in the U.S. economy.

First, proposed solutions should approximate a true user fee as closely as possible. The HTF's major revenue stream – motor fuel taxes – are an example of a revenue-raising solution that attempts to place the responsibility for maintaining and improving the highway system on its actual users. Revenue options that hew as closely as possible to user fees are fairer and more economically efficient, causing the individuals who impose costs on the system (for example, by increasing the need for repairs through a high level of use) to pay those costs, rather than obligating non-users to shoulder the burden.

Second, the solutions should be relatively easy to implement. The problem of federal highway funding requires an urgent response. Moreover, ease of implementation usually—though not always—translates into less costly and more politically viable programs.

The third and most important principle is the need for a truly national investment policy. Highway Account funding can be used on the federal-aid eligible highways that make up about 25 percent of the nation's 4 million miles of roads but carry more than 85 percent of the vehicle miles traveled annually.

Most of the Highway Account funding is focused on the 233,000-mile National Highway System (which includes the Interstate Highway System). It makes up just 5.7 percent of the Nation's road mileage but carries 55 percent of the of the vehicle miles traveled annually. Significant investment in the National Highway System (NHS) is needed to:

- Restore the Interstate Highway System, which is reaching 40 to 50 years of age, to a state of good repair though an aggressive program of preservation, including projects to—
    - Substantially rehabilitate, or in some cases replace, many of its 55,000 bridges; and
    - Reconstruct major portions of its 210,000 lane miles.
- Improve system performance by applying the full range of intelligent transportation systems (e.g., navigation systems, traffic signal control systems, real-time parking guidance and notification systems, and vehicle detection and notification systems) and aggressive systems of operation and management strategies.
- Replace aging interchanges that have become major bottlenecks with interchanges that have wider lanes and geometric designs to allow higher volumes of cars and trucks to exit and merge more safely at higher speeds.

- Reduce congestion by adding additional lane miles to urban and rural Interstates, where appropriate.

- Expand the Interstate Highway System, where appropriate, to provide connections to new and emerging centers of population and commerce.

- Preserve and modernize the non-Interstate National Highway System, including important corridors such as the Avenue of the Saints, Transamerica Corridor, Hoosier Heartland Industrial Corridor, Great Lakes/Mid-Atlantic Corridor, Heartland Expressway, U.S. 395 (CA, NV, OR, WA), CANAMEX, Ports-to-Plains, Wisconsin Development Corridor, Capital Gateway Corridor, East-West Corridor, SPIRIT Corridor, Theodore Roosevelt Expressway, and Camino Real Corridor, among others.

- Address urban congestion through operational improvements and, where necessary, increased NHS capacity.

- Improve rural NHS highways to keep U.S. agriculture competitive, especially lower-classification Federal-aid roads that link farm and local roads with the National Highway System.

- Upgrade narrow, two-lane, rural NHS roads that cannot safely carry the kind of trucks now moving across the United States to support the renewable fuels industry, wind farm energy production, and the development of other energy resources.

- Improve rural NHS highways to handle the growth in international and domestic trade moving through the heartland of America.

- Preserve and upgrade, where necessary, the Strategic Highway Network (STRAHNET), a network of highways that are important to the United States' strategic defense policy and that provide defense access, continuity, and emergency capabilities for defense purposes. STRAHNET Connectors—highways that provide access between major military installations and ports—would also be maintained and upgraded where appropriate.

- Provide NHS connectivity between urban and rural America, and address seasonal congestion and bottlenecks associated with interstate tourism, especially at national parks.

- Provide adequate NHS access to new and emerging cities and towns so that our highway system will be the unifying network that President Eisenhower envisioned.

Modernizing federal-aid eligible highways, especially the major highways that make up the National Highway System, will require significant, sustained investment over a considerable period of time. The HTF is uniquely suited for this type of investment.

Previous reports on the issue of highway funding often raise solutions such as credit enhancement programs, bonding, state-level tolling, national or state infrastructure banks, and private-public partnerships. These options, while worthwhile and clearly part of the overall solution, are not the complete solution. Such programs will not generate enough revenue for the system-wide, sustained investment that is needed over the long term. Moreover, they tend to reside at the local- and even project-level. State and local governments are subject to different and more narrowly-focused political pressures than the federal government. If funding fixes were aimed only at changes on the state- and local-level, there is a danger that the transportation system would become balkanized—to the detriment of the national network.

The focus in creating the federal-aid highway system was the concept of a country unified by a nationwide infrastructure. In today's highly competitive global economy, this vision is more important than ever. Only a strong federal role will help realize this unity, allowing for systemic improvements in both high-traffic and low-traffic states. There is also the issue of fairness. A very costly project in State A may be needed because of traffic destined for other distant states. It is not fair to ask the citizens of State A to pay the whole tab for a project that benefits millions of people across the network. The costs of modernizing the national network should be borne by all of the users of the network.

This approach is consistent with federal role in transportation throughout our nation's history. From President Washington's support for federal construction, maintenance and repair of existing and future lighthouses, buoys and public piers for rendering navigation "easy and safe"; to Henry Clay's support for capital improvements; to President Lincoln's support for the transcontinental railroad; to President Theodore Roosevelt's support of the Panama Canal; to President Franklin Roosevelt's support for a cross-country high level road system; to President Eisenhower's support of the Interstate Highway System and the Highway Trust Fund; and to President Reagan's support for increased motor fuel user fees to preserve and modernize the federal-aid highway network, the federal government has been instrumental in the development of our Nation's strong surface transportation network.

Thus, the solutions discussed below focus on increasing the receipts of the HTF for countrywide distribution.

Possible Solutions

Before discussing a number of possible solutions, I want to bring to your attention the options that the Policy and Revenue Study Commission evaluated and the results of the Commission's analysis. These are set forth in Appendix A. The color chart can be particularly helpful in providing an overview of the merits of each option.

In my testimony, I want to focus on the following options:

Future Replacement for Current Motor Fuel Taxes

It is imperative to find a long-term replacement for motor fuel taxes as soon as possible. There is a growing recognition that supplies of conventional petroleum-based fuels will get tighter in the future, leading to the possibility of higher fuel prices, greater disparities in vehicle fuel economy, increasing use of alternative fuels, and greater concern about energy security. However, many technical and institutional questions remain to be answered, especially with respect to mileage-based fees like VMT. The replacement for the motor fuel tax will not be available in the near term and probably the medium term as well, so it cannot be relied on to serve as a source of HTF revenues for in the near future. It is important, however, to aggressively conduct research in this area. Pilot projects should be encouraged. We must make transitioning to a replacement fee a priority.

Increased Motor Fuel and Diesel Fuel Taxes

One obvious solution that meets the three criteria outlined in the previous section is an increase in the motor fuel and diesel fuel excise taxes and indexing them to inflation.

As mentioned above, motor fuel taxes on diesel and gas constitute about 90 percent of HTF receipts. These taxes are charged at a flat rate per gallon that is set by Congress. The current tax rates on motor fuels are 18.4 cents per gallon for gasoline and 24.4 cents per gallon for diesel fuel. An increase in these rates is long overdue; Congress has not changed the rates since 1993, and because they are not indexed for inflation, their efficacy as a revenue-raising tool has diminished substantially over the past 18 years. Had the federal gas tax rate of 18.4 cents per gallon been indexed using the Consumer Price Index for all Urban Consumers beginning in 1993, the tax rate in 2008—the year of the HTF's first emergency infusion—would be 27.5 cents per gallon.

Because the motor fuel tax is already in place as the primary funder of the HTF, implementation of a tax increase or an indexing solution is straightforward and could be easily accomplished, at least technically. Moreover, the motor fuel tax approximately places the cost of maintaining and improving the highway system on users of that system. Although the tax is collected at the fuel terminal level, it is passed on to drivers at the pump.

If Congress does not increase the current motor and diesel fuel taxes, it should, nevertheless, consider indexing them to inflation. This would at least preserve the current purchasing power of those taxes and be a part of the solution to the transportation investment crisis.

It should be noted that the Policy and Revenue Study Commission recommended a 5- to 8-cent per gallon increase in motor fuel and diesel fuel taxes annually for a five-year period. It also recommended indexing. This would result in a total increase of 25- to 40-cents per gallon, plus indexing.

It should also be noted that the Simpson-Bowles Commission recommended a 15-cent increase in the motor fuel and diesel fuel taxes, along with indexing.

Targeted Federal User Fees

Another possible solution is based on federal user fees and is derived from a paper written by Beth Bell, an associate at Covington, and myself. The paper is attached as Appendix B.

The paper proposes the following user fees:

> (1) a Federal Interstate User Fee for all vehicles using the Interstate Highway System, with its revenues dedicated to modernizing the Interstate to meet the demands of the 21st century; and
>
> (2) a Federal Motor Carrier User Fee, with its revenues dedicated to freight-related transportation improvements benefiting the trucking industry.

These targeted user fees have three characteristics in common: they appropriately place the costs of maintaining and improving the federal-aid highway system on its users, they can be implemented relatively easily, and most importantly, they tackle the problem of highway funding on a comprehensive, national level.

Registration Fee Increase

All states impose an annual vehicle registration fee, and at least half the states raise more than a quarter of their dedicated transportation revenues through this mechanism. One possible way to raise additional HTF revenues would be to impose a flat federal registration fee in addition to any state charges. The fee would be set by the Congress and would flow to the HTF. Because the fee would be collected through states' existing systems, this option could be implemented with little additional cost. Unless fees become particularly high, however, the revenue potential of this solution may be limited. And although vehicle-related, the registration fee is not as user-based as some of the other possible solutions being discussed.

Oil-related solutions

Various oil-related taxes and tariffs could be imposed on producers and importers in order to raise funds for the HTF. For example, a straightforward tariff on oil, charged as either a fixed amount per barrel or as a percentage of the value of imported oil, could be imposed.

A more complex system, but one which would more directly affect oil consumption, would involve imposing a tax on oil consumption plus a tariff on imports of refined petroleum. The oil tax would be constructed as a percentage tax on each barrel of oil consumed in the United States. The rate of the tax would be adjusted on an annual or semi-annual basis (primarily to ensure that consumers are not penalized during periods when oil prices spike). The tax would be collected at the refinery level. To prevent international refiners from obtaining an undue advantage, imports of refined petroleum products would incur a tax equivalent to the oil tax. Similarly, exporters would receive a tax credit or rebate equivalent on the oil used to produce exported products.

As other studies have noted, an oil tax or tariff could be set so as to internalize various external costs associated with the consumption of petroleum products—including environmental and national security costs. An oil tariff alone could also promote U.S. energy independence. While these may be desirable policy outcomes, one drawback to a broad oil tax is that it is not user-based; the tax on barrels of oil that are not eventually used as fuels (or as asphalt) would nonetheless flow to the HTF. While it may be possible to apportion the revenue raised by the oil tax according to use, such a system may be administratively difficult and lead to delays in implementation. Additionally, because a tax on oil would necessarily place a greater burden on certain households (for example, because of regional weather differences) and businesses that consume more oil, political opposition to an oil tax may be heavy or insurmountable.

Use of royalties flowing from existing or new oil production is also a possibility.

Existing Revenue Streams

A portion of international customs fees could be dedicated to the HTF to cover the costs of improvements related to the movement of goods into and out of ports of entry. It would also be possible to dedicate a portion of corporate taxes from industries reliant on truck transportation. Increasing these fees and taxes is also an option.

General Treasury option

A final option that would offer little by way of user-targeting, but would be fairly simple to implement, involves using General Treasury funds to supplement the HTF's existing revenue streams. Again, however, a General Treasury option would move away from user-based taxation, and would potentially be an unstable source of funding.

Conclusion

During the debate on the Fiscal Year 2012 budget on the floor of the House of Representatives, one member said of the 2008 financial crisis: "Let me ask you this"—

> What if your President and your member of Congress saw it coming? What if they knew why it was happening, when it was going to happen, and more importantly they knew what to do to stop it and they had time to stop it but they

> didn't, because of politics? . . . We cannot avoid this choice. To govern is to choose. We are making a choice even if we don't act. And that's the wrong choice.

These remarks could apply equally, if not more so, to the impending transportation crisis facing the United States.

For decades, the United States has underinvested in the national surface transportation network. As a result, the aging, congested network is in need of repair and does not have adequate capacity to accommodate future population and economic growth. Despite the persistent calls of policy groups, as well as independent, government-sponsored commissions and studies, for increased investment, the Highway Trust Fund—the primary vehicle for federal surface transportation funding—has been perpetually underfunded.

Should this pattern of government inaction continue, our economy, which depends on the efficient and safe transportation of goods and people, will suffer as our surface transportation network literally grinds to a halt. U.S. businesses will become less competitive in the global marketplace. U.S. companies will be forced to locate plants in other countries where transportation services are adequate. U.S. private sector jobs will be lost. And the American people will suffer, in terms of lost job opportunities, longer and more stressful commutes, and a lower standard of living.

In other words, this transportation crisis is predictable. We can see it coming. We know why it is happening. We know when it is going to happen, and we have time to stop it. Most importantly, we know what to do to stop it – and, in fact, revenue-raising solutions to maintain and improve our surface transportation network can be implemented almost immediately. The problem has been politics. There has not been the political will to raise the federal motor fuel or diesel fuel taxes that comprise the majority of federal surface transportation funding, even though study after study, and report after report, has recommended doing so.

In the mid-1950's, this Committee and President Eisenhower had the foresight to understand how a system of Interstate Highways would transform the Nation. If there was ever a time to take a similarly daring look at our nation surface transportation network, it is now. The Nation faces challenges similar to those of the Eisenhower era. However, due to the global economy, the imperative for change is even stronger.

It is time to act.

ATTACHMENT A

"TRANSPORTATION FOR TOMORROW"

Exhibit 5-20. Evaluation of potential transportation revenue sources against generally accepted evaluation criteria

	Revenue Adequacy	Stability/ Predict-ability	Respon-siveness to Inflation	Flexibility	Appropri-ateness of Dedication	Com-pliance Costs	Admin-istrative Costs	Equity by Vehicle Class	Equity by Income Group	Equity by Geography	Relation-ship to Economic Efficiency	Point of Taxation and Incidence	Evasion Potential	Ease of Implemen-tation	**Average**
Fuel Tax	Very Good	Good	Very Poor	Very Good	Excellent	Very Good	Very Good	Not Good	Not Good	Not Good	Not Good	Excellent	Good	Good	Good
Indexed Fuel Tax	Excellent	Good	Excellent	Very Good	Excellent	Very Good	Very Good	Not Good	Not Good	Not Good	Not Good	Excellent	Good	Good	Very Good
Motor Fuel Sales Tax	Very Good	Not Good	Very Good	Very Good	Excellent	Excellent	Excellent	Not Good	Not Good	Not Good	Not Good	Excellent	Good	Poor	Good
Value Added Tax	Not Good	Not Good	Very Good	Not Good	Poor	Poor	Poor	Very Poor	Not Good	Poor	Poor	Poor	Poor	Very Poor	Poor
Registration Fee	Good	Very Good	Poor	Good	Excellent	Good	Not Good	Very Good	Poor	Very Good	Poor	Not Good	Good	Very Good	Not Good
Personal Property Tax	Poor	Very Good	Good	Not Good	Very Good	Not Good	Poor	Good	Poor	Very Good	Poor	Not Good	Not Good	Poor	Not Good
Vehicle Sales Tax	Good	Poor	Very Good	Very Good	Very Good	Very Good	Very Good	Very Good	Very Good	Very Good	Poor	Very Good	Very Good	Very Good	Good
Traditional Tolls	Not Good	Good	Not Good	Not Good	Excellent	Not Good	Not Good	Good	Not Good	Poor	Good	Not Good	Very Good	Not Good	Good
Tolling New Lanes	Poor	Not Good	Excellent	Not Good	Excellent	Not Good	Not Good	Good	Not Good	Poor	Good	Not Good	Very Good	Not Good	Good
Tolling Existing Lanes	Not Good	Good	Excellent	Not Good	Excellent	Not Good	Not Good	Good	Not Good	Poor	Good	Not Good	Very Good	Very Poor	Good
VMT Fees	Very Good	Very Good	Very Poor	Very Good	Excellent	Not Good	Not Good	Very Good	Not Good	Not Good	Good	Very Poor	Not Good	Poor	Good
Indexed VMT Fees	Excellent	Very Good	Excellent	Very Good	Excellent	Not Good	Not Good	Very Good	Not Good	Not Good	Good	Very Poor	Not Good	Poor	Good
Congestion Pricing	Not Good	Not Good	Good	Poor	Excellent	Not Good	Poor	Good	Poor	Excellent	Excellent	Not Good	Not Good	Poor	Not Good
Local Option Sales Tax	Poor	Not Good	Very Good	Not Good	Not Good	Good	Very Good	Very Poor	Poor	Excellent	Poor	Very Good	Very Good	Not Good	Good
Impact Fees	Poor	Poor	Very Good	Not Good	Good	Not Good	Poor	Very Poor	Good	Excellent	Good	Not Good	Good	Not Good	Not Good
Innovative Finance*	Poor	Poor	Very Good	Not Good	Excellent	Not Good	Not Good	Good	Not Good	Poor	Good	Not Good	Very Good	Not Good	Not Good
Public-Private Partnerships*	Poor	Poor	Very Good	Not Good	Good	Not Good	Not Good	Good	Not Good	Poor	Good	Not Good	Very Good	Poor	Not Good
Container Fees	Not Good	Not Good	Poor	Not Good	Very Good	Poor	Poor	Not Good	Good	Good	Good	Poor	Good	Very Poor	Not Good
Customs Duties	Not Good	Good	Very Good	Not Good	Good	Very Good	Very Good	Poor	Good	Poor	Not Good	Very Good	Very Good	Very Poor	Good

* Assumes repayment from tolls

Legend: Excellent, Very Good, Good, Not Good, Poor, Very Poor

This chart provides a subjective evaluation of a series of alternative revenue sources against a set of criteria.

Source: Commission Staff analysis.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources	
Motor Fuel Taxes, Excise Tax (per Gallon)	
Source and History	Motor fuel taxes have been the most important revenue mechanism for highway programs at the Federal and state levels. Most states have traditional "cents per gallon" excise taxes on the highway use of motor fuel. Some also have variable rates based on an inflation adjustment or a fuel price. Several alternative fuels currently are taxed on an energy equivalent basis to gasoline or diesel. Fuel taxes also support transit programs at the Federal level and in some states.
Yield, Adequacy and Stability	Historically motor fuel taxes have been attractive because of their high yield (currently about $1.9 billion per penny of tax at the Federal level), their adequacy to support highway construction programs, and their stability. In recent years the adequacy of the fuel tax has come into question because it does not increase with inflation and because voters at all levels of government have been less willing to approve fuel tax increases
Cost-Efficiency and Equity	Motor fuel taxes are inexpensive to administer and have low compliance costs. Evasion has been a major issue, especially for diesel fuel, but states and the FHWA have reduced evasion levels. Motor fuel taxes at rates sufficient to fund all needs would not add enough to fuel prices to significantly impact travel volumes. Fuel taxes vary with highway use, but this relationship will become less direct as we move toward more fuel efficient vehicles and greater use of alternative fuels. Raising fuel taxes without at the same time raising truck taxes reduces the equity of the overall highway user fee structure because trucks would pay a lower share of their overall highway cost responsibility.
Economic Efficiency	Motor fuel taxes are not economically efficient because they do not vary as the cost of travel increases. They do vary with vehicle fuel efficiency, but the decline in fuel efficiency when vehicles operate in congested traffic does not reflect the full costs of travel in congested conditions.
Potential Applicability at Program or Project Level and by Different Levels of Government	Motor fuel taxes are applicable to financing programs of improvements, but not individual projects. All levels of government can and do impose motor fuel taxes. Recent studies suggest the fuel tax will be a viable revenue source for highway and transit programs for at least 15 to 20 years, but after that moves to alternative fuels and more fuel efficient vehicles will increasingly erode the ability of the fuel tax to serve its current role as the major revenue source for Federal and State highway programs.
Potential Acceptability	About 20 States have increased their fuel taxes since 2000, but the general aversion to tax increases has made it difficult to increase fuel taxes. The Federal tax has not been increased since 1993. High fuel prices make it even more difficult to raise fuel taxes, even though the tax represents a smaller share of the total price of fuel when prices are high.
Implementation Issues and Potential Strategies to Overcome Barriers	Based on history, adjustments through legislation to the motor fuel excise tax have been the method of choice in most states for major new funding resources to fill funding gaps for state highways. Flat rate fees per gallon have not been adjusted fast enough to keep pace with needs. Motor fuel taxes may be higher per gallon in some States than in neighboring states. Opponents of fuel taxes generally raise the issue of diversion of purchases to neighboring states with lower tax rates.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Motor Fuel Taxes - Indexing of Fuel Taxes	
Source and History	About 5 States currently index their fuel tax to some measure of inflation.
Yield, Adequacy and Stability	The yield and adequacy of motor fuel taxes could be enhanced by indexing to inflation or, in some cases to fuel prices. They could also be indexed to needs estimates or to construction prices, making it responsive to anticipated program costs.
Cost-Efficiency and Equity	Motor fuel taxes by themselves are not equitable among vehicle classes, since the largest vehicles pay less in fuel taxes relative to the costs imposed on highways
Economic Efficiency	Indexing the fuel tax does not make the tax more economically efficient.
Potential Applicability at Program or Project Level and by Different Levels of Government	Indexing the fuel tax does not affect its applicability.
Potential Acceptability	Many argue that simply indexing the fuel tax to some measure of inflation does not constitute a tax increase and thus is more acceptable than a tax increase. Others disagree and say that changes due to indexing are tax increases.
Implementation Issues and Potential Strategies to Overcome Barriers	A ceiling and floor on the change in the indexed rate may be desirable to prevent large changes in tax rates. Many see indexing as just a backdoor way of increasing the fuel tax.
Motor Fuel Taxes - Sales Tax on Fuel	
Source and History	Several States impose a tax on the sales price of fuel.
Yield, Adequacy and Stability	A sales tax on fuel is likely to be more volatile, but could be subject to limits in terms of the maximum or minimum or the rate of change each year.
Cost-Efficiency and Equity	Motor fuel taxes are mildly regressive among income groups. Basing the rate on the sales price of fuel would make them more regressive.
Economic Efficiency	Basing the fuel tax on the price of fuel rather than on a gallonage basis would not improve the efficiency of the tax.
Potential Applicability at Program or Project Level and by Different Levels of Government	Basing the fuel tax on the price of fuel rather than on a gallonage basis would not affect its applicability.
Potential Acceptability	The volatility of fuel prices would adversely affect the public acceptability, especially when fuel prices are rising.
Implementation Issues and Potential Strategies to Overcome Barriers	Sales taxes on fuel have recently been of greater interest due to the increase in fuel prices

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Other Types of Petroleum Taxes	
Source and History	
Yield, Adequacy and Stability	Other types of motor fuel taxes could be utilized.
Cost-Efficiency and Equity	
Economic Efficiency	Other types of petroleum taxes would be no more efficient than the current tax.
Potential Applicability at Program or Project Level and by Different Levels of Government	Fuel taxes by their nature are applicable only at the program level.
Potential Acceptability	Pennsylvania has an oil company franchise tax to collect fees on petroleum fuels.
Implementation Issues and Potential Strategies to Overcome Barriers	Some believe that petroleum taxes have more voter appeal because of a perception that they are imposed on petroleum companies rather than on individual drivers; however, such taxes are normally passed through to drivers the same as other types of motor fuel taxes.
Value Added Tax	
Source and History	The U.S. is one of the few countries that does not have a value added tax. The tax is similar to a sales tax, but is levied at every stage in the production process, not just on final consumption as the traditional sales tax.
Yield, Adequacy and Stability	The yield could be high and would be fairly stable, fluctuating with changes in the national economy.
Cost-Efficiency and Equity	Administrative costs would be higher than for the fuel tax since there are many taxpayers and considerable documentation involved. This potentially could also make it subject to evasion.
Economic Efficiency	The economic efficiency would not be as great as the fuel tax since a VAT would not directly reflect transportation requirements or use.
Potential Applicability at Program or Project Level and by Different Levels of Government	The VAT could be applicable to general transportation purposes. It would be applicable to financing programs of transportation improvements, but not individual projects. It almost certainly would be limited to the national level.
Potential Acceptability	Like any new tax it would face opposition from taxpayers and from businesses.
Implementation Issues and Potential Strategies to Overcome Barriers	A general VAT has been discussed for many years, but rejected. Estimating just the value added by transportation could be difficult.
Registration and Other Vehicle Fees	
Source and History	All states have traditional types of registration fees for light vehicles and somewhat higher and graduated fees for heavy vehicles. At the Federal level the Heavy Vehicle Use Tax is similar to a registration fee but it applies only to the heaviest trucks.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued

Registration and Other Vehicle Fees, continued	
Yield, Adequacy and Stability	Registration fees provide major revenue sources for states and local governments (through state allocations) and must be adjusted through legislation. In addition to adjusting rates, other options include revising the type of registration fee.
Cost-Efficiency and Equity	Registration fees are relatively inexpensive to administer in relation to potential yield, but not as inexpensive as fuel taxes. The fact that registration fees do not vary by miles traveled is a major source of inequity and inefficiency. Registration fees allow for collections from vehicles using alternative fuels without establishing new mechanisms for collection.
Economic Efficiency	Registration fees can be varied by vehicle size and can be set in rough relation to highway cost responsibility, except for the impacts of different mileage by similar sized vehicles. Thus for trucks they may be somewhat more efficient than fuel taxes, but for passenger vehicles they likely are less efficient because they do not vary by mileage and they do not capture costs of congestion.
Potential Applicability at Program or Project Level and by Different Levels of Government	Like fuel taxes registration fees are applicable at the program level, but not the project level. The federal Heavy Vehicle Use Tax is similar to a registration fee and all States have registration fees.
Potential Acceptability	Registration fee adjustments are promising as both a short- and long-term option for funding highways.
Implementation Issues and Potential Strategies to Overcome Barriers	Equity among vehicle classes would indicate that parallel adjustments in registration fees should be made applicable to all vehicles.
Registration Fees Based on Value - Personal Property Taxes	
Source and History	A registration fee based on value can be structured as a personal property tax and be deductible from Federal income.
Yield, Adequacy and Stability	A fee on the value of a vehicle could raise substantial revenue, and could be structured to be deductible for Federal income tax purposes, thus increasing the state's revenue yield without an equal increase in net total tax payments.
Cost-Efficiency and Equity	Registration fees for light vehicles, if collected on a flat basis, are somewhat regressive by income class. Registration fees for light vehicles on the basis of value are progressive.
Economic Efficiency	Basing registration fees on value could improve their efficiency somewhat since newer vehicles tend to be driven more than older vehicles.
Potential Applicability at Program or Project Level and by Different Levels of Government	Levying fee on the basis of a vehicle's value would not change the overall applicability of registration fees.
Potential Acceptability	Registration fees (in actuality, personal property taxes on vehicles) based on value have the best revenue generating potential and are less costly to taxpayers in the state.
Implementation Issues and Potential Strategies to Overcome Barriers	Some states have recently eliminated or reduced such fees despite their advantages in comparison to collecting other state taxes that are not deductible for federal income tax purposes.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Sales Taxes on Vehicles	
Source and History	The Federal Government and many States have sales taxes on vehicles. The Federal tax applies only to heavy trucks, but formerly had been applied to all vehicle sales.
Yield, Adequacy and Stability	Sales taxes on vehicles can be useful revenue sources. They can bring in relatively large amounts of money but their stability is threatened by trends toward the purchase of smaller, more fuel efficient vehicles that cost less than large cars and SUVs.
Cost-Efficiency and Equity	Sales taxes on vehicles will be fairly progressive. Administrative costs are relatively low, but especially with trucks there are issues concerning what specialized equipment should be exempt from taxation.
Economic Efficiency	Sales taxes do not vary with the amount of travel or other factors that affect the costs of travel and thus have poor efficiency.
Potential Applicability at Program or Project Level and by Different Levels of Government	Sales taxes are much more applicable to the program level than the project level. They are particularly applicable at the local level, but could be used at the State level as well.
Potential Acceptability	Sales taxes on vehicles have substantial revenue raising potential.
Implementation Issues and Potential Strategies to Overcome Barriers	All sales taxes already may be deposited into general revenue accounts.
Traditional Tolls	
Source and History	Selected highways and selected bridges have historically been toll facilities.
Yield, Adequacy and Stability	Existing toll facilities have been proven to be reliable and stable generators of revenue. The bonds of toll agencies are highly marketable.
Cost-Efficiency and Equity	Administration and compliance costs for tolling are greater than for motor fuel taxes, although these costs are reduced greatly through electronic toll collection.
Economic Efficiency	Traditional tolls vary by miles traveled and the size of trucks so are more efficient than fuel taxes, but traditional tolls do not vary with congestion levels.
Potential Applicability at Program or Project Level and by Different Levels of Government	Traditionally tolls have been used to finance individual projects. Several States allow tolls from one project to be used to provide front-end financing for other toll roads and thus tolls can be applicable to systems of toll roads or to transit facilities as well. Tolls are applicable at the State and local level, but have not been used at the Federal level.
Potential Acceptability	Tolls may be considered to be highly promising options for application to new highway capacity in the longer term with perhaps some limited short-term opportunities.
Implementation Issues and Potential Strategies to Overcome Barriers	A few existing toll facilities have been leased to international companies, substituting short-term revenue gains by public agencies for lesser longer-term revenues.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Tolling New Lanes	
Source and History	In the past 10 years, 30-40 percent of new limited access highway mileage has been financed at least in part through tolls.
Yield, Adequacy and Stability	Legislation may be necessary to enable new types of tolls or pricing initiatives. Electronic pricing could significantly expand future opportunities. Toll revenues have been relatively stable at from 5-7 percent of total revenues for highways. If tolls are indexed to inflation revenues could increase substantially. Variable pricing would also increase toll revenues.
Cost-Efficiency and Equity	Tolls collected at traditional toll booths are expensive to administer, but electronic tolling is much less costly. Tolls can be set to achieve equity among vehicle classes. Concerns about the impacts of tolling on equity among income groups continue, but HOT lanes have been supported by all income groups.
Economic Efficiency	Variable tolls are much more economically efficient than fuel taxes.
Potential Applicability at Program or Project Level and by Different Levels of Government	Tolls are predominantly facility-based revenue sources used to finance individual projects. Tolls are applicable at the State and local level, but have not been used at the Federal level.
Potential Acceptability	Major positive opportunities exist to toll new future capacity. Sometimes this could be accomplished with tolls covering only a portion of needed revenues, which provides more total revenue and capacity than no tolling new facilities. Special types of toll facilities such as for truck lanes or HOT lanes could be promising.
Implementation Issues and Potential Strategies to Overcome Barriers	Acts allowing Regional Mobility Authorities (RMA) and a PPP act could expand future possibilities for tolling. Some states do not yet have a PPP act parallel to that of other states, which would enable private parties to initiate proposals to develop new facilities or to add toll lanes to existing facilities.
Tolling Existing Lanes	
Source and History	There currently are restrictions on tolling existing Interstate Highways but that can be done under several pilot programs for either pricing purposes or reconstruction of existing Interstate Highways.
Yield, Adequacy and Stability	Tolling existing lanes could provide very substantial additional revenues.
Cost-Efficiency and Equity	Tolling existing lanes could provide for greater equity than other sources of new revenues, but is widely perceived as inequitable ("paying twice"). This perception is false, however, since funds are needed for the continued maintenance and operation of the facilities.
Economic Efficiency	Variable tolls are much more economically efficient than fuel taxes.
Potential Applicability at Program or Project Level and by Different Levels of Government	Tolls are predominantly facility-based revenue sources used to finance individual projects. Tolls are applicable at the State and local level, but have not been used at the Federal level.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Tolling Existing Lanes, continued	
Potential Acceptability	Opposition to tolling existing lanes is greater than to tolling new lanes. The greatest opportunity for tolling existing lanes may come with tolling Interstate facilities when they must be reconstructed.
Implementation Issues and Potential Strategies to Overcome Barriers	Sentiment is against tolling any currently free highway lanes. Likewise, little opportunity exists for tolling existing free bridges.
VMT Fees	
Source and History	Fees on VMT could be longer-term options that could supply revenues without being directly tied to fuel consumption. VMT fees could be weighted by fuel economy, weight, emissions, or other factors to support other policy goals.
Yield, Adequacy and Stability	VMT fees could be set to yield any level of desired revenues, but unless indexed to inflation their purchasing power would erode over time as does the fuel tax currently. VMT fees do not conflict with the need to reduce energy costs, reduce the balance of payments, or reduce fossil fuel consumption.
Cost-Efficiency and Equity	VMT fees would be more costly to collect and administer than fuel taxes, but long term costs are uncertain.
Economic Efficiency	VMT fees are more directly related to vehicle use than fuel taxes or registration fees. VMT fees, especially if applied as congestion pricing fees or weight-distance taxes can send strong pricing signals to users.
Potential Applicability at Program or Project Level and by Different Levels of Government	VMT fees are primarily for program financing rather than project financing – the counterpart at the project level is the toll. VMT fees could be used at the Federal, State, or local levels.
Potential Acceptability	A 2005 study of highway and transit revenue options for the U.S. Chamber of Commerce's National Chamber Foundation identified VMT fees and congestion pricing fees as promising options in the long term (15 years or more). VMT fees do not reward use of fuel efficient vehicles as does the fuel tax, but incentives for fuel efficient vehicles could come through registration fees
Implementation Issues and Potential Strategies to Overcome Barriers	VMT fees or congestion pricing fees require the technology to collect those fees reliably and also the political will to implement a new approach. There are privacy concerns associated with VMT fees but concerns are not substantiated. Transitioning away from fuel tax and to a VMT tax will require substantial coordination and consensus building.
Congestion Pricing	
Source and History	Could be applied as a special kind of VMT fee, with fees varying based on the level of congestion on the road. Pricing can also be implemented on an area-wide basis or a cordon basis. While the primary goal of congestion pricing is demand management rather than revenue generation, pricing can generate substantial revenues as well. Pricing can be either facility-based or area-wide. Oregon is demonstrating the technologies for collecting VMT fees at the fuel pump.
Yield, Adequacy and Stability	To maintain purchasing power congestion-related fees would have to be indexed to respond to inflation, but such indexing might not result in the level of congestion tolls desirable to efficiently manage demand. The yield and adequacy of congestion pricing revenues depend on where and how they are implemented. In some cases facility-based charges may cover facility construction and operations costs, but in other cases they may not.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued

Congestion Pricing, continued	
Cost-Efficiency and Equity	Congestion pricing is more expensive to administer and enforce than motor fuel taxes. Concerns have been raised about the equity of congestion pricing. Equity is strongly influenced by the availability of good alternatives to driving on the priced highways. Rebate programs have been suggested as one way to reduce adverse impacts on lower income groups.
Economic Efficiency	Congestion pricing is more economically efficient than fuel taxes or most other revenue sources because users directly pay all or part of the costs their driving imposes on others. Congestion pricing could be combined with a weight-distance tax to capture the costs associated with operations of heavy trucks.
Potential Applicability at Program or Project Level and by Different Levels of Government	In the long run, VMT fees and congestion pricing could replace all or a portion of current user fees. Congestion pricing is applicable at either the project level or an area-wide level, but it generally would not be applicable to financing entire statewide transportation improvement programs.
Potential Acceptability	In the U.S. pricing generally has been limited to individual bridges and to HOT lanes and express lanes. The HOT lane and express lane applications have generally been well accepted since they provide drivers the choice of whether to pay to avoid congestion or not. Acceptance of pricing entire facilities or entire areas of a city is more controversial.
Implementation Issues and Potential Strategies to Overcome Barriers	The ability to apply pricing on the Interstate System is limited by federal law. Good transit alternatives also must be available for those who cannot afford the congestion toll and cannot change their trip destination or time of day.
Local Option Taxes	
Source and History	Have been widely used in many states to support highway and transit investments. Local governments in most states have implemented some type of local option tax, which must be specifically allowed by state enabling legislation. Local option taxes for transportation investments include motor fuel, vehicle, property, sales, and income taxes.
Yield, Adequacy and Stability	Sales taxes tend to have the highest yield compared to other local option taxes. Motor fuel and vehicle taxes tend to generate less revenue compared to other local option taxes. Except for motor fuel and vehicle taxes, other local option taxes tend to be indexed with inflation. Sales taxes respond to economic growth. Fluctuations in economic conditions tend to affect sales tax yield. Gasoline taxes and income taxes also could be impacted to some level by fluctuations in the economy.
Cost-Efficiency and Equity	Collection mechanisms already are in place to levy these taxes at the state or local level. Most local option taxes are regressive (except for income taxes). However, sales taxes tend to receive stronger support than other local option taxes. People consider that sales taxes are more "fair," since everyone pays, whether they are vehicle or transit users.
Economic Efficiency	Most local option taxes do not reflect the costs associated with highway use and thus are not economically efficient.
Potential Applicability at Program or Project Level and by Different Levels of Government	Local option taxes may be applicable to a major project, but are more applicable to a program of transportation improvements. By definition these fees are applicable only at the local level.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Local Option Taxes, continued	
Potential Acceptability	State legislation must be in place that allows local option taxes. Sales taxes have been widely used by transit agencies to support operations and capital investments. Rates of success with ballot measures to fund transportation have been increasing, as documented by the Center for Transportation Excellence.
Implementation Issues and Potential Strategies to Overcome Barriers	Commonly, local option taxes require voters' approval. While an expenditure plan that specifies projects and/or programs to be funded with the new local option tax levies is not always required, local option taxes have better chances of success for implementation where expenditures and uses are clearly defined. Implementation plans that are well designed have resulted in very high success rates for ballot measures to enhance transportation revenues.
Beneficiary Charges: Impact Fees	
Source and History	Impact fee legislation exists in 26 states (excluding Florida). Impact fees for transportation improvements are widely used in California and Florida.
Yield, Adequacy and Stability	Revenues from impact fees are typically dedicated for certain road and transit improvements that would serve the new development. In addition, revenues from impact fees will be highly dependent on development opportunities in the area where implemented. Value capture tools are subject to increases in property value realized by infrastructure improvements.
Cost-Efficiency and Equity	These charges can be relatively equitable if properly structured. Benefit districts can target the specific beneficiaries. While impact fees are directly charged to developers, they pass those charges to buyers, increasing the cost of real estate. TIF allocates a portion of the additional property taxes resulting from the increase in property values. Communities and local agencies could argue that implementation of TIF would take away revenues that otherwise would be used to meet other public needs.
Economic Efficiency	Beneficiary charges send modest pricing signals to encourage better transportation and land use integration.
Potential Applicability at Program or Project Level and by Different Levels of Government	Beneficiary charges may be applicable to a major project, or to a program of transportation improvements in a local area. These fees are applicable only at the local level.
Potential Acceptability	Implementation is subject to enabling legislation that allows the collection of impact fees and the formation of assessment districts. These tools tend to be most applicable in higher growth state or localities.
Implementation Issues and Potential Strategies to Overcome Barriers	Impact fees are only applicable to new development. TIF and other property assessments may require the formation of districts, where property tax levies are dedicated for transportation improvement. This may require voters' approval from district residents and business owners. Beneficiary charges have been the subject of numerous lawsuits in many areas.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Innovative Finance	
Source and History	Most states have used one or more forms of the IF financing tools. Innovative finance is not a source of new revenues, but rather a method of financing projects or programs of projects. It usually involves borrowing that must be repaid from other sources of funds such as fuel taxes, tolls, or other revenue sources.
Yield, Adequacy and Stability	IF financing tools are used to leverage capital in the form of debt or equity. They rely on existing or new revenue sources to pay the indebtedness.
Cost-Efficiency and Equity	Incurring longer-term debt helps advance programs and projects that would otherwise take years to develop if at all. Innovative finance may be more equitable than financing high-cost projects out of current revenues because it spreads the cost to future users who will also benefit from the investment.
Economic Efficiency	The economic efficiency will depend on the source of revenues from which indebtedness is repaid.
Potential Applicability at Program or Project Level and by Different Levels of Government	Innovative finance is more often used at the project level, but it also is applicable to the program level as well. It is most applicable to the State and local levels of government.
Potential Acceptability	Innovative finance is usually well accepted since it spreads the cost of projects over time.
Implementation Issues and Potential Strategies to Overcome Barriers	States may require enabling legislation to issue GARVEE bonds. Most innovative finance grant management tools are codified under Title 23 U.S.C. and require no special action from states to be used. To test new grant management tools, states may apply to U.S. DOT under the SEP-15 or TE-045 programs. Debt mechanisms must be balanced against long-term revenue sources. Many states cap the amount of debt that can be issued.
Public-Private Partnerships	
Source and History	PPPs are commonly used in Europe to reduce public-sector costs to construct, operate, and maintain highway facilities but are not yet widely used to support similar projects in the United States. PPPs are primarily financing and project delivery mechanisms, but like innovative finance they may help accelerate project delivery. Highway improvements are now eligible for financing with private activity bonds.
Yield, Adequacy and Stability	States and other public sponsors increasingly consider private-sector involvement as a way to spur implementation of large projects. Since these projects typically are supported by tolls, the yield, adequacy, and stability will depend on characteristics of the specific project.
Cost-Efficiency and Equity	PPPs can facilitate access to private capital and bring innovative cost-saving projects delivery methods. Cost-efficiency and equity will be similar to other types of tolls. Since the private sector often handles toll collection and must deal with enforcement, public agency costs for those items are low.
Economic Efficiency	The economic efficiency of PPPs as a financing mechanism is similar to other toll facilities, although PPPs are more likely to use electronic toll collection and other methods for improving operational efficiency. Other efficiencies unrelated to financing may also be realized through the use of PPPs.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Public-Private Partnerships, continued	
Potential Applicability at Program or Project Level and by Different Levels of Government	PPPs that involve private sector capital generally are implemented at the project level. Several states are using PPPs to operate and maintain portions of their highway systems, but those do not all involve tolling. PPPs are applicable at either the State or local level.
Potential Acceptability	PPPs have become quite controversial. Several States routinely consider PPPs for certain types of projects while uncertain public acceptance has prevented other States from doing so.
Implementation Issues and Potential Strategies to Overcome Barriers	Specific project proposals need to be evaluated to determine if it will be cost-effective. May require enabling legislation. More than 20 states have explicit PPP acts that provide means to bring the private sector into funding and management of highways. Virginia's act has fostered a wide range of proposals.
Container Fees	
Source and History	A number of current and emerging trends are driving the exploration of container charges and other direct user fees as a transportation revenue source. These include the rapid growth in international and domestic freight volumes and recognition that new revenue sources will be needed to fund freight-specific transportation improvements.
Yield, Adequacy and Stability	Container fees represent a potentially large source of revenue. A recent NCHRP report estimated that a $30/TEU fee applied at all U.S. ports, would generate average annual revenues of $2.2 billion through 2017. A study performed in 2005 for the Southern California Association of Governments (SCAG) found that a container fee of $192 per TEU assessed on every inbound loaded container at the San Pedro Bay ports could fund about $20 billion in access infrastructure improvements.
Cost-Efficiency and Equity	Container fees offer a way to tie freight system users more directly to the resources and infrastructure they use. These fees are seen by many as a more equitable method to raise revenue that can be dedicated specifically to freight system improvements.
Economic Efficiency	Economic efficiency will depend on the extent to which the container fees reflect the costs associated with the freight facility. If congestion costs are not significant and container traffic represents the preponderance of traffic on the facility, container fees may be relatively efficient, although they would not capture differences in the container weights.
Potential Applicability at Program or Project Level and by Different Levels of Government	There are limited options to fund or finance non-highway freight improvement projects. Current federal programs may be applicable to small, localized freight system improvements, but are not well suited to larger regional intermodal freight improvements. Container fees could provide substantial revenues for such large-scale projects and would be appropriate for both rail and highway components of intermodal projects. Container fees could be applicable to either State or local projects.
Potential Acceptability	It will be challenging to develop consensus among competing jurisdictions and other stakeholders on the types and locations of projects to be developed.
Implementation Issues and Potential Strategies to Overcome Barriers	Implementing a container fee that equitably links costs and potential benefits for the mix of freight traffic using any given gateway may be difficult.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Customs Duties	
Source and History	The majority of customs duties currently are deposited into the U.S. General Fund, although a portion is used to support costs of Customs and Border Patrol operations.
Yield, Adequacy and Stability	In FY 2002 customs duties amounted to $23.8 billion in gross revenue, three quarters of which was collected from marine sources. This would be a very stable source of revenues.
Cost-Efficiency and Equity	Fees based on the value of cargo are not as equitable as those on the volume because they do not reflect the transportation requirements as well.
Economic Efficiency	The economic efficiency of customs duties is poor since the value of cargo has little bearing on costs associated with moving the cargo. The efficiency of customs duties would also depend on the type of facilities financed from those fees.
Potential Applicability at Program or Project Level and by Different Levels of Government	Customs duties would be most appropriately used for improvements to waterside or landside port or airport facilities, to improve the connections between these facilities and the highway and freight rail systems, or to improve freight facilities serving large volumes of international shipments. They would be applicable to the Federal level only.
Potential Acceptability	One key disadvantage is the likely resistance by the Congress and federal agencies to the diversion of Customs duties to offset freight transportation investments.
Implementation Issues and Potential Strategies to Overcome Barriers	Some will argue that gateway improvement programs already exist and point to SAFETEA-LU's Coordinated Border Infrastructure Program (Section 1303), but finding from that program currently is inadequate.
Tax Credit Bonds	
Source and History	Like innovative finance, tax credit bonds are a financing mechanism and not a new source of revenue. Tax credits would represent reductions of income taxes owed by bond holders.
Yield, Adequacy and Stability	Tax credit bonds could provide a large and stable source of funds to finance transportation improvements for a fixed period of time.
Cost-Efficiency and Equity	Tax credit bonds would have low administrative and enforcement costs since those costs would be small increments of costs associated with processing Federal income tax returns. Bonds would be relatively progressive with income since bond interest would be paid from general tax revenues.
Economic Efficiency	Income tax from which bond interest would be "paid" has no relationship to costs of transportation system use.
Potential Applicability at Program or Project Level and by Different Levels of Government	This financing mechanism would be applicable at the program level and would apply to the Federal Government.
Potential Acceptability	Implementing such a financing mechanism would be difficult since it could represent a loss of General Fund revenues.
Implementation Issues and Potential Strategies to Overcome Barriers	Several tax credit bond proposals for surface transportation have been introduced in recent years (e.g., Build America Bonds, Amtrak, other rail infrastructure), but none has yet been enacted.

Exhibit 5-21. Advantages and disadvantages of alternative revenue sources, continued	
Infrastructure Bank	
Source and History	Over the years various forms of infrastructure bank have been proposed as mechanisms to provide funds for infrastructure investment. These banks are not necessarily limited to transportation investment. Like other financing mechanisms, funds borrowed from the infrastructure bank would have to be repaid from some other general or project-related revenue source.
Yield, Adequacy and Stability	Infrastructure banks can provide large and stable sources of funds for a limited period of time.
Cost-Efficiency and Equity	Administrative costs generally would depend on the revenue source from which borrowed funds were repaid.
Economic Efficiency	The relative economic efficiency would depend on the source of revenues from which borrowed funds were repaid. Tolls would tend to be more efficient than fuel taxes or other general revenues.
Potential Applicability at Program or Project Level and by Different Levels of Government	This financing mechanism would be applicable to either the program or project level. Revenues to repay loans would come from the State or local level of government.
Potential Acceptability	Borrowed funds would likely come from the Federal General Fund. Getting agreement to allocate General Funds for this purpose could be difficult.
Implementation Issues and Potential Strategies to Overcome Barriers	As noted, there have been several proposals for infrastructure banks over the years, but it is not believed any have been enacted.
This table provides details supporting the summary evaluation of alternative revenue sources presented in Exhibit 5-20.	

Source: December 2006 NCHRP study, *Future Financing Options to Meet Highway and Transit Needs* and Commission Staff analysis.

ATTACHMENT B

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Transportation

America's national surface transportation network is in crisis, writes Jack L. Schenendorf, of Counsel, Covington & Burling LLP. Without additional transportation investment, the United States economy will suffer. While raising motor fuel taxes, which comprise the majority of federal transportation receipts, would be one solution, there does not seem to be the current political will to do so. Schenendorf proposes two alternative solutions, a Federal Interstate User Fee and a Federal Motor Carrier User Fee, to supplement current federal transportation revenues in order to restore and modernize the transportation network.

Modernizing U.S. Surface Transportation System: Inaction Must Not Be an Option

BY JACK SCHENENDORF AND ELIZABETH BELL

Jack L. Schenendorf, of Counsel, Covington & Burling LLP, concentrates on transportation and legislation with a particular focus on legislative strategy, legislative procedure, and the federal budget process. For nearly 25 years, Schenendorf served on the staff of the Committee on Transportation and Infrastructure of the U.S. House of Representatives. Elizabeth Bell, associate, Covington & Burling LLP in the firm's Washington, D.C. office, practices in the tax and government affairs practice groups.

On April 15, 2011, Rep. Paul Ryan (R-Wis.) stood on the floor of the House to discuss the financial health of the U.S. economy. "Let me ask you this," he said of the 2008 financial crisis:

> What if your President and your member of Congress saw it coming? What if they knew why it was happening, when it was going to happen, and more importantly they knew what to do to stop it and they had time to stop it but they didn't, because of politics? . . . We cannot avoid this choice. To govern is to choose. We are making a choice even if we don't act. And that's the wrong choice. [1]

Ryan asked these questions during the debate on the fiscal year 2012 budget. But his remarks could apply

[1] 157 Cong. Rec. H2900 (Apr. 15, 2011).

equally, if not more so, to the impending transportation crisis facing the United States.

For decades, the United States has underinvested in the national surface transportation network. As a result, the aging, congested network is in need of repair and does not have adequate capacity to accommodate future population and economic growth. Despite the persistent calls of policy groups, as well as independent, government-sponsored commissions and studies, for increased investment, the Highway Trust Fund (HTF)—the primary vehicle for federal surface transportation funding—has been perpetually underfunded.

Should this pattern of government inaction continue, our economy, which depends on the efficient and safe transportation of goods and people, will suffer as our surface transportation network literally grinds to a halt. U.S. businesses will become less competitive in the global marketplace. U.S. companies will be forced to locate plants to other countries where transportation services are adequate. U.S. private-sector jobs will be lost. And the American people will suffer, in terms of lost job opportunities, longer and more stressful commutes, and a lower standard of living.

In other words, this transportation crisis is predictable. President Obama and members of Congress can see it coming. They know why it is happening. They know when it is going to happen, and they have time to stop it. Most importantly, they know what to do to stop it—and, in fact, revenue-raising solutions to maintain and improve our surface transportation network can be implemented almost immediately. The problem has been politics. There has not been the political will to raise the federal motor fuel or diesel fuel taxes that comprise the majority of federal surface transportation funding, even though study after study, and report after report, has recommended doing so.

To make meaningful improvements to the national surface transportation system, Congress must raise additional revenues. Ideally, Congress would do so by implementing the independent, bipartisan recommendations regarding motor and diesel fuel taxes. If this does not happen and no new revenue is raised, a reduction in spending will result, further exacerbating the transportation crisis. Thus, it is imperative that Congress develop alternative mechanisms to supplement existing revenues in the Highway Trust Fund. The primary purpose of this paper is to propose two such alternative mechanisms. They are:

1) a Federal Interstate User Fee for all vehicles using the Interstate Highway System, with its revenue dedicated to modernizing the interstate to meet the demands of the 21st century; and

(2) a Federal Motor Carrier User Fee, with its revenue dedicated to freight-related transportation improvements benefiting the trucking industry.

These targeted user fees have three characteristics in common: they appropriately place the costs of maintaining and improving the federal-aid highway system on its users, they can be implemented relatively easily, and most importantly, they tackle the problem of highway funding on a comprehensive, national level.[2]

The next section of this paper provides background information on state of the Highway Trust Fund and its funding challenges. These challenges mandate significant, rather than patchwork, policy changes. After the challenges are described, the paper discusses the importance of the national surface transportation network to our economy, and the key principles necessary to creating viable funding solutions. Especially important is the need for a consistent federal policy that is truly national, rather than focused on state- or local-level fixes. The two solutions noted above are then discussed, including details of design, administration, and policy advantages.[3]

The federal surface transportation network is a crucial and dangerously neglected driver of our economy. To put it bluntly, failure to adequately fund the maintenance and expansion of this system is not an option. As a country, we can't avoid making the choice to address this problem—and inaction is the wrong choice.

State of Highway Trust Fund: Burning Platform In the 1950s, President Dwight D. Eisenhower had a vision of a unified nation. Without a robust, federally-supported transportation system, he stated, the United States "would be a mere alliance of many separate parts."[4] In 1956, the federal government established the Highway Trust Fund (HTF) to help realize President Eisenhower's vision. Created by the Highway Revenue Act of 1956, the HTF is a financing mechanism that accounts for tax receipts dedicated for expenditures on highways and transit needs. Currently, the HTF houses two accounts: one for the highway program, and one for public transit.

Since its inception, the HTF has been funded by taxes on motor fuels and vehicles. By linking transportation-related taxes with transportation-related funding, the HTF ensures that the costs of the new federal highway system are primarily borne by its users. Through the ample revenue they provided to the HTF, the Eisenhower generation helped build not only a state-of-the-art highway system, but also one that included extra capacity for generations of drivers to come.

The number of drivers using the highway system since the HTF was created has increased drastically, especially over the last 30 years. From 1980-2006, vehicle miles traveled increased 97 percent for automobiles and 106 percent for trucks. In 2007, drivers traveled about 3 trillion vehicle-miles and 5 trillion passenger-miles on public highways, along with 1.3 trillion ton-miles of freight (about 30 percent of the total).

In the past three decades or so, however, the total number of highway lane miles grew only 4.4 percent. As a result, hours of delay per traveler almost tripled from 1982-2005, and total hours of delay increased fivefold. In urban areas alone, congestion resulted in 4.8 billion hours of traveler delays and consumption of an additional 3.9 billion gallons of fuel in 2009. Freight movements have been similarly affected: the top 25 truck bottlenecks in the U.S. (primarily at interstate inter-

[2] Though mechanisms for investing in public transportation (such as buses and rail transportation) are beyond the scope of this white paper, a user fee or use tax could also be imposed to raise funds for public transit systems. See, e.g., National Surface Transportation Policy and Revenue Study Commission, Transportation for Tomorrow 5-18 (Dec. 2007).

[3] Should the reader want information on even more potential solutions, Appendix I briefly describes other, short- to medium-term revenue-raising possibilities. Appendix II provides a comprehensive list of federal revenue options from recent government studies.

[4] Remarks of February 22, 1955.

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changes) account for about 37 million truck hours of delay each year.

These problems aren't only the result of a steadily growing usage, but also of deteriorating conditions. As of 2006, more than half of total vehicle miles traveled on the federal highway system occurred on roads that were not in good condition. More than one-quarter of the nation's bridges are structurally deficient or functionally obsolete.[5]

How did we get from having one of the world's preeminent transportation systems to an overburdened system that is steadily falling into a state of disrepair? The heart of the problem is this: while we have been benefiting from the expenditures of the generation that helped to build the Interstate Highway System, we have failed to make adequate federal investments of our own.

Though national surface transportation expenditures have increased over time, they have not kept pace with national growth. Expenditures on highway maintenance and improvements are shared by local, state, and federal governments. When growth in vehicle miles traveled is taken into account, real highway spending across all these levels of government has fallen by nearly 50 percent since the creation of the HTF.[6] The federal contribution to highway spending, in particular, has remained fairly constant, falling behind rather than responding to additional infrastructure demand.[7]

The vast majority of federal-level highway funding is provided through the HTF. Currently, about 90 percent of HTF revenue is derived from excise taxes on motor fuels.[8] These taxes are set at 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel, but are not indexed for inflation and have not been raised for almost two decades. The tax has lost about 33 percent of its purchasing power since it was last raised.[9] At the same time, recent legislation—most notably the Transportation Equity Act for the 21st Century and the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users—substantially boosted federal highway spending.[10]

As a result of the economic downturn, declining real receipts, and increasing outlays, the HTF is in a solvency crisis. Since, by law, the HTF cannot incur a negative balance, Congress has been forced to authorize three emergency funding infusions totaling $34.5 billion since 2008.[11] Yet short-term and long-term shortfalls still loom—and investment needs continue to grow.

In both business and government, many managers and executives recognize the term "burning platform," a crisis so severe that it necessitates radical and immediate change. The term's origins are traced back to the story of a man working on an oil platform in the North Sea. One night, a fire erupted, forcing the worker to the end of the platform. As the fire approached, the worker had to make a decision: submit to the fire, or jump into the waters of the North Atlantic. Although a dive into the sea is a drastic move, the worker simply couldn't wait until the fire engulfed the entire platform.

It is the position of this white paper that, in terms of funding our national surface transportation system, we are standing on a burning platform. Drastic action is necessary.

The first step is to reform federal surface transportation programs. Existing programs should be thoroughly reviewed, consolidated to the maximum degree possible, reoriented toward performance, and refocused on the national interest. Project delivery must be streamlined. And at the very least, a multi-year reauthorization bill should ensure that receipts are in line with outlays.[12]

As needed as it is, reform alone will only throw a bucket of water on the conflagration. What is really feeding the fire is increased transportation demand and usage. For example, both passenger and truck travel are anticipated to grow at an annual rate of approximately 2 percent through 2035.[13] Current federal policies will not be able to keep pace with that growth.

What the HTF truly needs is a significant and immediate increase in revenue. Even if every dollar raised for transportation needs by our financial and institutional structures is utilized in the most effective manner, the current level of funding would not be adequate to maintain the operational performance and physical condition of the highway system.[14] Indeed, revenues generated by current law will only provide enough resources to cover less than half of what is needed to maintain our highways through 2035. Similarly, those revenues will only meet about 35 percent of what is needed to *improve* our highway system.[15]

We can no longer take advantage of the investments of prior generations. Instead of struggling to meet the bare minimum requirements for maintenance, we should anticipate the future needs of the highway system and ensure those needs are met. Instead of watching the fire consume the current policy platform, we need to jump off.

Action, Inaction, and Economic Growth

The significant changes required to maintain and improve our highways are not only needed for the convenience and the safety of individual drivers—although these are important concerns. A deteriorating public

[5] For these and other statistics, see, for example, National Surface Transportation Infrastructure Financing Commission, *Paying Our Way: A New Framework for Transportation Finance* 22 (Feb. 2009); Congressional Budget Office, *Alternative Approaches to Funding Highways* 1-3 (Mar. 2011).

[6] National Surface Transportation Infrastructure Financing Commission, supra n.5, at 34.

[7] *Id.*

[8] The remaining revenue comes from a sales tax on certain trucks and tractors, taxes on truck tires, and a heavy vehicle use tax. See, e.g., Congressional Budget Office, supra n.5, at 2.

[9] *See, e.g.,* American Association of State Highway and Transportation Officials, *The Forum on Funding and Financing Solutions for Surface Transportation in the Coming Decade: Conference Report* 2 (Jan. 2011).

[10] National Surface Transportation Infrastructure Financing Commission, supra n.5, at 43.

[11] American Association of State Highway and Transportation Officials, *supra* n.9, at 4.

[12] Of course, without additional revenues, balancing receipts and outlays would require a reduction in funding, which would further exacerbate the investment crisis.

[13] National Surface Transportation Policy and Revenue Study Commission, *supra* n.2, at 5-16.

[14] *Id.* at 4-3.

[15] American Association of State Highway and Transportation Officials, *supra* n.9, at 6.

highway system also powerfully impacts the wellbeing of the U.S. economy.

The remainder of Rep. Paul Ryan's April 15 remarks, cited at the beginning of this white paper, emphasized the need for budget reform as a necessary aid to economic growth. Ryan considered budget changes crucial to the preserve America's promise of prosperity to the next generation. Without providing for the future, he argued, the United States will slide into decline.

Again, these remarks apply, and urgently, to our transportation infrastructure.

Our national highway network is a critical driver of our national economy. It is a rare example of a physical government infrastructure that reaches *every* American—if not individual drivers, then individuals who consume goods and services that could only be provided thanks to state-to-state transportation. It increases productivity and lowers transaction costs. It has been instrumental in enhancing mobility, and thus providing access to jobs, education, and other opportunities that have increased the quality of life in the United States.

If no action is taken, that is, if no investments are made to maintain and improve the highway system to accommodate greater demand for access to goods and services, access to these benefits will be limited.

A recent report by the McKinsey Global Institute shows just how far behind the U.S. has fallen in terms of building a 21st-century infrastructure. Compared with the 139 countries examined by the World Economic Forum's Global Competitiveness Report 2010-2011, the U.S. ranks 23rd on overall quality of infrastructure, behind countries such as Canada, France, Germany, and Japan. This represents a precipitous drop over the past decade: In 2000, the U.S. ranked 7th. [16]

Worse still, our inadequate infrastructure imposes unnecessary additional costs on the U.S. economy and American taxpayers. The McKinsey report goes on to estimate that increasing road congestion in the United States already costs more than $85 billion a year. On a per traveler basis, this annual cost ranges from $1,084 in very large urban areas to $384 in suburban and rural locations.[17]

At a time of increasing global competition and uncertain economic growth, the United States can't afford to undermine the benefits that a well-functioning transportation system provides or allow inaction to impose additional costs on U.S. travelers. U.S. jobs, the U.S. economy, and this country's position as a global economic leader are at stake.

Evaluating Appropriate Solutions

In response to the pending transportation crisis, dozens of solutions have been proposed by public policy groups and government commissions with respect to raising HTF revenue.[18] Rather than repeat that litany of options, this white paper proposes two *new* solutions, based broadly on concepts found in previous studies, which meet three general principles. All three of these principles are important for creating revenue-raising mechanisms that are efficient, viable, and best reflect the scope of the federal highway system and its role in the U.S. economy.

First, proposed solutions should approximate a true user fee as closely as possible. The HTF's major revenue stream, motor fuel taxes, is an example of a revenue-raising solution that attempts to place the responsibility for maintaining and improving the highway system on its actual users. Revenue options that hew as closely as possible to user fees are fairer and more economically efficient, causing the individuals who impose costs on the system (for example, by increasing the need for repairs through a high level of use) to pay those costs, rather than obligating non-users to shoulder the burden.

Second, the solutions should be relatively easy to implement. As this white paper suggests, the problem of federal highway funding requires an urgent response. Moreover, ease of implementation usually—though not always—translates into less costly and more politically viable programs.

The third and most important principle is the need for a truly national investment policy. Highway Account funding is focused on the federal-aid eligible highways that make up about 25 percent of the nation's 4 million miles of roads but carry more than 85 percent of the vehicle miles traveled annually.[19] Modernizing these highways, especially the major highways that make up the National Highway System (which includes the Interstate System) will require significant, sustained investment over a considerable period of time. The HTF is uniquely suited for this type of investment.

Previous reports on the issue of highway funding often raise solutions such as credit enhancement programs, bonding, state-level tolling, national or state infrastructure banks, and private-public partnerships. These options, while worthwhile and clearly part of the solution, are not the complete solution. Such programs will not generate enough revenue for the system-wide, sustained investment that is needed over the long term. Moreover, they tend to reside at the local- and even project-level. State and local governments are subject to different and more narrowly-focused political pressures than the federal government. If funding fixes are aimed only at changes on the state- and local-level, there is a danger that the transportation system would become balkanized—to the detriment of the national network.

The focus in creating the federal-aid highway system was the concept of a country unified by a nationwide infrastructure. In today's highly competitive global economy, this vision is more important than ever. Only a strong federal role will help realize this unity, allowing for systemic improvements in both high-traffic and low-traffic states. There is also the issue of fairness. A very costly project in State A may be needed because of traffic destined for other distant states. It is not fair to ask the citizens of State A to pay the whole tab for a project that benefits millions of people across the network. The costs of modernizing the national network should be borne by all of the users of the network.

[16] McKinsey Global Institute, *Growth and Renewal in the United States: Retooling America's Economic Engine* 52 (Feb. 2011).

[17] *Id.* at 53.

[18] For the breadth of options reviewed by these government commissions, please see Appendix II.

[19] *See, e.g.*, Congressional Budget Office,*supra* n.5, at 1.

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This approach is consistent with the federal role in transportation throughout our nation's history.[20] From President George Washington's support for federal construction, maintenance, and repair of existing and future lighthouses, buoys and public piers for rendering navigation "easy and safe";[21] to presidential hopeful Henry Clay's support for capital improvements; to President Abraham Lincoln's support for the transcontinental railroad; to President Theodore Roosevelt's support of the Panama Canal; to President Franklin Roosevelt's support for a cross-country, high-level road system; to President Dwight Eisenhower's support of the Interstate Highway System and the Highway Trust Fund; and to President Ronald Reagan's support for increased motor fuel user fees to preserve and modernize the federal-aid highway network, the federal government has been instrumental in the development of our nation's strong surface transportation network.

Thus, the solutions recommended below focus on increasing the receipts of the HTF for countrywide distribution.

Motor Fuel Excise Tax: Missed Opportunity

One obvious solution that meets the three criteria outlined in the previous section is an increase in the motor fuel and diesel fuel excise taxes. Political opposition to any such increase, however, would appear to make this solution unlikely, at least in the near term.

As mentioned above, motor fuel taxes on diesel and gas constitute about 90 percent of HTF receipts. These taxes are charged at a flat rate per gallon that is set by Congress. The current tax rates on motor fuels are 18.4 cents per gallon for gasoline and 24.4 cents per gallon for diesel fuel. An increase in these rates is long overdue; Congress has not changed the rates since 1993, and because they are not indexed for inflation, their efficacy as a revenue-raising tool has diminished substantially over the past 18 years. Had the federal gas tax rate of 18.4 cents per gallon been indexed using the Consumer Price Index for all Urban Consumers, beginning in 1993, the tax rate in 2008—the year of the HTF's first emergency infusion—would be 27.5 cents per gallon.[22]

Because the motor fuel tax is already in place as the primary funder of the HTF, implementation of a tax increase or an indexing solution is straightforward and could be easily accomplished, at least technically. Moreover, the motor fuel tax approximately places the cost of maintaining and improving the highway system on users of that system. Although the tax is collected at the fuel terminal level, it is passed on to drivers at the pump.

Despite enjoying widespread support as the best and most appropriate HTF fix, at least for the short- and medium-term, a motor fuel tax increase is unlikely to happen.[23] Historically, motor fuel taxes have received a reasonable degree of public and political acceptance.[24] In the face of the current political opposition to any tax increases, however, the viability of this solution seems too low at this time.

If Congress does not increase the current motor and diesel fuel taxes, it should, nevertheless, consider indexing them to inflation. This would at least preserve the current purchasing power of those taxes and be a part of the solution to the transportation investment crisis.

Recommended Solutions: Targeted Federal User Fees

If there is not the political will for a motor fuel tax increase, other solutions exist that could avoid or minimize the pushback against raising taxes. This white paper suggests two such solutions: (1) a Federal Interstate User Fee (FIUF) and (2) a Federal Motor Carrier User Fee (FMCUF). Note that in both cases, these targeted user fees are meant to supplement, rather than replace, existing motor fuel taxes and other HTF revenue sources. If the solutions are adopted, these existing HTF revenue sources could be used to repair and modernize other portions of the national surface transportation network.[25]

Federal Interstate User Fee

The Federal Interstate User Fee (FIUF) would impose a user fee on interstate highway users.

FIUF Design

The FIUF would impose a use-based fee on all interstate highway users. This fee would be collected through a system like E-ZPass that would detect entry onto and exit from interstate highways. No tollbooths or other major structures would be constructed in order to collect the user fee. Rather, the system would be completely electronic. Standardized transponders could be included on newly manufactured vehicles and retrofitted to older models. Entry and exit data would be collected by electronic readers stationed at highway on- and off-ramps.

Fees would be set at the level necessary to reimburse states for the federal share of the costs of restoring the Interstate Highway System to a state of good repair and the costs of expanding and modernizing the system, including projects for the improvement of international points of entry and exit. Personal and commercial travelers would pay for use of the interstate system in proportion to the costs associated with that use while maintaining the current allocation of highway cost responsibility. In addition, fees could be set at rates that differ by geographic areas to account for costs associated with repair and modernization. For example, the fee on

[20] The federal role in transportation policy is rooted in the U.S. Constitution itself. Article I, Section 8, clause 3 provides that Congress has the power to regulate interstate commerce, a power which includes the regulation of interstate transportation. In terms of highways themselves, the Constitution is even more explicit, granting Congress the power to "establish . . . post Roads" in Article I, Section 8, clause 7.

[21] An Act for the establishment and support of Lighthouses, Beacons, Buoys, and Public Piers, ch. 9, 1 Stat. 53 (1789).

[22] *See* National Surface Transportation Infrastructure Financing Commission, *supra* n.5, at 41.

[23] We recognize that an increase in motor fuel taxes would not be a sustainable, long-term solution. *See, e.g., id.* at 102-103, 106 (discussing factors that would make motor fuel taxes less effective, such as fuel efficiency improvements and environmental concerns). Our recommended solutions, discussed in the next section, provide long-term revenue-raising options that are not exposed to the weaknesses of the motor fuel taxes.

[24] *See id.* at 106.

[25] Examples of FIUF, FMCUF, and base revenue projects can be found in Appendix III.

less-congested portions of the interstate might be less than the fee on highly-congested portions.[26] The fees would *not* be designed to control the level of traffic or to "price out" drivers from using the interstate.

FIUF revenue would be collected automatically on a periodic basis, for example, monthly. Interstate Highway users would, likewise, receive periodic statements detailing their highway use and the resulting charges. Fees for commercial vehicles would be collected through businesses; individual drivers would receive personal statements. All fees would be deposited into a newly created subaccount within the existing Highway Account of the HTF.

Administration and use.

All FIUF fees collected would be used to repair and, more importantly, modernize the Interstate Highway System. Fees would be used to reimburse states for the federal share of funds expended on the interstate. Revenues in the HTF's Highway Account would no longer be used on interstate projects but instead would be used to upgrade the remaining federal-aid highways, including the major non-interstate highways on the National Highway System.

Under the FIUF program, no other policy changes with respect to interstate highway projects would be made. Projects would be developed, planned, approved and constructed hy states in the same manner as they are today.[27] In other words, the federal-state partnership would remain unchanged. The only structural difference would be the source of federal funding. FIUF revenues, rather than HTF Highway Account revenues, would be used to reimburse states for the federal share of interstate highway projects.

[26] Exemptions or credits for low-income drivers could also be incorporated into the administration of the FIUF, depending on the costs and complexities involved. The cost of the exemptions or credits should, however, be borne by the General Treasury, not the HTF.

[27] As stated earlier, it is the position of this white paper that, as a crucial first step, the federal surface transportation system must be reformed, including by consolidating projects, reorienting the federal program towards performance, refocusing on the national interest, and streamlining project delivery. The projects that the FIUF and FMCUF fund, like all other federal-aid projects, would be done in accordance with such reforms.

To ensure that interstate users pay only at the level necessary for repair and improvement of the Interstate Highway System, user fee rates would be adjusted annually. To facilitate fair and precise fee-setting, Congress would create an independent entity to set or adjust the fees in accordance with the policies established by Congress. The entity would be comprised of experts, including stakeholders such as representatives from the motor carrier industry, passenger vehicle groups like AAA, and state highway departments, and would be responsible for the ministerial task of periodically adjusting the user fee rates to ensure adequate revenue to reimburse the states. This process would be transparent and would include reports to Congress and the executive branch.

Aside from setting fees, the independent entity described above could also make recommendations to the states and the Department of Transportation regarding interstate projects of national priority, such as interstate expansion, the improvement of international points of entry and exit, and freight improvements of national commercial importance. Finally, the entity could serve a public affairs and educational role by keeping the public informed of the goals and accomplishments of FIUF investment.

Federal Motor Carrier User Fee

The second recommended alternative solution, the Federal Motor Carrier User Fee (FMCUF), is similar to and meant to the complement the FIUF. Since the FIUF program reaches all drivers, trucks, too, would be responsible for paying the FIUF. Unlike the FIUF, which is limited to only interstate highways, the FMCUF would be imposed on commercial trucks' usage of all roads.

FMCUF Design.

The FMCUF would be imposed on the same use-basis as the FIUF. Unlike the FIUF, however, the FMCUF program would take advantage of tracking equipment already installed on most trucks for fleet management purposes. Monitoring equipment (usually, though not always, GPS-based) allows companies in the freight industry to efficiently monitor vehicle location, direction, and speed. This technology would be used to calculate FMCUF liability. Importantly, trucks would not be double-charged for use of the interstate; rather, that use would be recorded through the FIUF program.

FMCUF fees would be collected on a monthly basis. Fee payers—primarily freight-related businesses—would receive detailed statements on vehicle usage. Collected FMCUF fees would flow to a dedicated subaccount within the existing Highway Account of the HTF.

Administration and use.

The FMCUF program would be administered by the same entity as the FIUF. This entity would set FMCUF fees on an annual basis in accordance with the policies established by Congress. Ideally, FMCUF fees would vary based on geographical location.

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As with the FIUF program, no other policy changes with respect to freight projects would be made.[28] Funds disbursed from the FMCUF subaccount would be allocated solely to freight improvements, especially freight bottlenecks, high-cost freight projects, and freight projects of national significance, including intermodal facilities. These projects would be over and above the freight projects funded under the base program by existing HTF revenues. The FMCUF funds would not be geographically restricted, but would be used for freight projects throughout the country. The expert body that sets the FMCUF fees could also make recommendations regarding projects to which FMCUF receipts should be directed.

Use of Existing Revenue

As mentioned above, if the FIUF and the FMCUF are adopted, existing HTF revenues would be freed for other uses. Specifically, existing HTF revenues would no longer be used on interstate projects, since the new FIUF program would fund all interstate projects. Likewise, freight projects funded by the FMCUF would no longer be funded from that revenue.

Using the FIUF and FMCUF programs as a supplement, rather than a replacement, is a crucial part of the transportation funding solutions described above. While the interstate is the backbone of the U.S. highway system, carrying about a quarter of all vehicle miles traveled annually, all federal-aid eligible highways combined carry approximately 85 percent. These non-interstate highways will need to be repaired and upgraded to meet current and future transportation needs. By guiding existing HTF revenues from the motor fuel excise tax and other sources towards these non-interstate roads, the FIUF and FMCUF programs will aid the improvement of the *entire* National Highway System.

Advantages of FIUF, FMCUF Solutions

The FIUF and FMCUF, if designed and implemented as described, clearly meet the three principles that this white paper considers important to successful HTF funding solutions and would have a number of other economic and policy advantages. Specifically, an HTF revenue-raising framework that incorporates the FIUF and FMCUF:

- *Is based on a true user fee principle.* The FIUF and FMCUF are true user fees. While the motor fuel tax and the other current revenue sources of the HTF reach users indirectly—they tax vehicles and transportation-related goods, not highway use—the FIUF and FMCUF place the burden of funding interstate highway improvements squarely on individual drivers, based on their highway travel.[29]

- *Is based on a true user fee principle.* The FIUF and FMCUF are true user fees. While the motor fuel tax and the other current revenue sources of the HTF reach users indirectly—they tax vehicles and transportation-related goods, not highway use—the FIUF and FMCUF place the burden of funding interstate highway improvements squarely on individual drivers, based on their highway travel.

- *Is relatively easy to implement.* The FIUF and FMCUF could be implemented in the medium-term, if not the short-term. Implementation of the FIUF and FMCUF would require a non-negligible amount of investment, but the technology and even some infrastructure (existing structures at highway entry and exit points in the case of the FIUF, for instance) are already present.

- *Represents a truly national investment policy.* FIUF and FMCUF revenues would be distributed to projects across the Interstate Highway System and would not be restricted to certain states or localities. By design, the FMCUF would be dedicated to national freight projects, and the FIUF program would generate sufficient revenue to upgrade the Interstate Highway System to once again be the crown jewel of the U.S. transportation system. The interstate is the backbone of this system: even though it makes up a little more than 1 percent of our road mileage, it carries more than 24 percent of the vehicle miles traveled annually.[30]

- *Modernizes our national transportation network.* The revenue from the FIUF and FMCUF programs would be specifically tailored and dedicated to meet interstate and freight improvement needs. The additional revenue would not only allow the U.S. to modernize these parts of its surface transportation system, but would also free up existing HTF resources for the rest of the national network—allowing for improvement of the entire federal-aid highway system.

- *Modernizes federal financing mechanisms.* Aside from helping to modernize our highway system, the FIUF and FMCUF programs would also modernize the way our government collects revenue: namely, through automated, electronic means. This collection system could provide an important policy model for future programs. In addition, given increased concerns about fuel prices and oil dependence, a move to targeted highway user fees represents a much-needed step towards post-gas tax revenue strategies. And, by setting a national policy regarding Interstate Highway usage, the programs will prevent the balkanization that could occur as a result of state and local tolling policies.

- *Minimizes individual driver privacy concerns.* Unlike revenue-raising proposals based on tracking all vehicle miles traveled, the FIUF minimizes individual privacy concerns by only recording entry and exit points onto the interstate system. Similar systems, such as E-ZPass, I-Pass, and FasTrak, are already used by and have gained widespread acceptance in many states.

- *Represents a politically feasible and fair solution.* As explained above, the FIUF and FMCUF are user fees, not taxes. Moreover, the FIUF and FMCUF are strongly linked to increased expenditures—the fees are set only to meet freight and interstate modernization needs. There is no demand-pricing component to the fees,

[28] As with the FIUF program, FMCUF projects would be implemented in accordance with the federal transportation program reforms mentioned in the previous footnote and earlier in this white paper.

[29] The concept of implementing targeted user fees to pay for certain transportation costs is not new. For example, President George W. Bush's administration opposed an increase in the gas tax, but proposed to raise billions through transportation user fees such as an aviation security fee, a rail safety fee, and an aviation cost-based fee.

[30] *See* National Surface Transportation Policy and Revenue Study Commission, *supra* n.2, at 4-8.

which are geared towards current investment, not paying debt. The link between fee payment and use of revenues not only makes economic sense, but also allows users to know what they are getting for their fee payments, which should increase public acceptance of the fees.

■ *De-politicizes the fee adjustment process.* The technical fee-adjustment authority under the FMCUF and FIUF programs would reside in the expert body described above, not in Congress. Unlike the motor fuel tax, then, the FIUF and FMCUF would not be held hostage to political inertia, and could be more easily adjusted to meet the needs of the surface transportation system.

■ *Will lead to increased revenues without increasing the federal debt.* The FIUF and FMCUF would not require an increase in existing taxes, the deficit, or debt. The FIUF and FMCUF programs are based on a pay-as-you-go principle: Because current user fees would pay directly for any increased investment, after implementation costs are covered, no new taxes or general fund appropriations would be necessary to support the modernization of the highway system. In fact, increased infrastructure investment will in the long-term lead to robust economic growth, which will generate greater revenue—a result recognized by deficit-reducing plans like the Bowles-Simpson Commission.[31]

■ *Helps solve the short- and long-term HTF crisis.* Without further action, looming HTF spending cuts will likely be enacted in the near future. These cuts will further exacerbate the HTF crisis without making a single step towards a long-term solution. The FIUF/FMCUF framework, on the other hand, will not only help solve this short-term fiscal problem, but lead to increased investment in the longer term. The FIUF and FMCUF programs would restore the mission and the vision of the federal surface transportation program, with its focus on interstate and freight projects of broad national importance.

Conclusion

At a time when the financial well-being of this country is in the political spotlight, one crucial piece of U.S. economic health has been consistently ignored—the quality of our federal highway system. Once one of the preeminent transportation systems in the world, these roads have fallen into disrepair, and the federal account through which they are funded has faced years of solvency crises. By continuing to neglect our highways, we are essentially neglecting the functioning—and the future—of our economy.

Solutions exist, however, that can reverse the decline of the highway infrastructure. Given the political resistance to proposals to raise the motor fuel excise tax, this paper recommends two new, alternative solutions—in particular, user fees to improve the interstate and that are dedicated to national freight projects—that are available to be implemented in the short term or medium term.

Given the urgency of the transportation crisis, inaction is no longer an option. Rather than wait for this wholly predictable crisis to descend on our country, enacting solutions now to balance the Highway Trust Fund and expand the highway system will restore our transportation infrastructure to its rightful and necessary place as the world-class, unifying network that its builders envisioned.

Appendix I

In addition to the recommendations in the primary text of this white paper, the following four options are also viable solutions. These options, however, fail to fully meet the principles outlined above. Nonetheless, due to their potential as revenue-raising mechanisms, they warrant brief discussion below.

Registration Fee Increase

All states impose an annual vehicle registration fee, and at least half the states raise more than a quarter of their dedicated transportation revenues through this mechanism.[32] One possible way to raise additional HTF revenues would be to impose a flat federal registration fee in addition to any state charges. The fee would be set by the Congress and would flow to the Highway Account of the HTF. Because the fee would be collected through states' existing systems, this option could be implemented with little additional cost. Unless fees become particularly high, however, the revenue potential of this solution may be limited. And although vehicle-related, the registration fee is not as user-based as the FIUF and FMCUF programs detailed in the main body of this paper.

Infrastructure Bonds

Debt-financing, particularly via the use of tax-exempt bonds offered by state and local governments, is a traditional source of funds for transportation infrastructure. This solution would expand the state and local bond concept to the national level by attracting investors through an issuance of federal infrastructure bonds. Federal infrastructure bonds would essentially function as war-bond-like debt instruments that would allow the public to invest in the federal highway system. While a targeted infrastructure bond issuance is a viable revenue-raiser, this solution lacks a direct link to highway users.

Oil-related solutions

Various oil-related taxes and tariffs could be imposed on producers and importers in order to raise funds for the HTF. For example, a straightforward tariff on oil, charged as either a fixed amount per barrel or as a percentage of the value of imported oil, could be imposed.[33]

A more complex system, but one which would more directly affect oil consumption, would involve imposing a tax on oil consumption plus a tariff on imports of refined petroleum.[34] The oil tax would be constructed as a percentage tax on each barrel of oil consumed in the

[31] The National Commission on Fiscal Responsibility and Reform, *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform* 12 (Dec. 1, 2010). In terms of investment in the U.S. transportation system, the Commission recommended a 15-cent per gallon increase in the gas tax dedicated solely to transportation funding. *Id.* at 24.

[32] National Surface Transportation Infrastructure Financing Commission, *supra* n.5, at 75.

[33] *Id.* at 81.

[34] RAND Corporation, *The Option of an Oil Tax to Fund Transportation and Infrastructure* 5-6 (2011).

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United States. The rate of the tax would be adjusted on an annual or semi-annual basis (primarily to ensure that consumers are not penalized during periods when oil prices spike). The tax would be collected at the refinery level. To prevent international refiners from obtaining an undue advantage, imports of refined petroleum products would incur a tax equivalent to the oil tax. Similarly, exporters would receive a tax credit or rebate equivalent on the oil used to produce exported products.

As other studies have noted, an oil tax or tariff could be set so as to internalize various external costs associated with the consumption of petroleum products, including environmental and national security costs.[35] An oil tariff alone could also promote U.S. energy independence. While these may be desirable policy outcomes, one drawback to a broad oil tax is that it is not user-based; the tax on barrels of oil that are not eventually used as fuels (or as asphalt) would nonetheless flow to the HTF. While it may be possible to apportion the revenue raised by the oil tax according to use, such a system may be administratively difficult and lead to delays in implementation. Additionally, because a tax on oil would necessarily place a greater burden on certain households (for example, because of regional weather differences) and businesses that consume more oil, political opposition to an oil tax may be heavy or insurmountable.

[35] *See, e.g., id.* at 10-14.

Existing Revenue Streams.

A portion of international customs fees could be dedicated to the HTF to cover the costs of improvements related to the movement of goods into and out of ports of entry. It would also be possible to dedicate a portion of corporate taxes from industries reliant on truck transportation.

General Treasury Option.

A final option that would offer little by way of user-targeting, but would be fairly simple to implement, involves using General Treasury funds to supplement the HTF's existing revenue streams. Again, however, a General Treasury option would move away from user-based taxation, and would potentially be an unstable source of funding.

Appendix II

Summary Chart: Highway Trust Fund Revenue Sources

POTENTIAL FEDERAL REVENUE OPTIONS

Categories based on evaluations by the National Surface Transportation Policy Commission and Financing Commission.[1]

Strong to Moderate	Weak	Not recommended
Automobile tire tax	Auto-related sales tax	Federal tax on local parking fees
Carbon tax/cap and trade	Bicycle tire tax	Federal tax on local transit fares
Container fee	Congestion pricing	Minerals severance tax
Customs duties	Dedicated income tax	Petroleum franchise tax
Freight waybill tax	Driver's license surcharge	Value-added tax
General fund transfer	Freight ton-mile tax	Vehicle inspection and traffic citation surcharge
Harbor maintenance tax	General sales tax	Vehicle personal property tax
Heavy vehicle use tax	Innovative finance	Windfall profits tax
Motor fuel excise tax		
Sales tax on motor fuels		
Tariff on imported oil		
Truck tire tax		
Truck/trailer sales tax		
Vehicle miles traveled fee		
Vehicle registration fee		
Vehicle sales tax		

[1] National Surface Transportation Policy and Revenue Study commission, *Transportation for Tomorrow*5-38 (December 2007); National Surface Transportation Financing Commission, *Paying Our Way: A New Framework for Transportation Finance* 96(February 2009). Note that the solutions above are *federal*, rather than state or local, options.

Appendix III

Examples of FIUF, FMCUF, and HTF Projects

Federal Interstate User Fee (FIUF).

The FIUF would be used on projects to modernize the Interstate Highway System and make it, once again, the crown jewel of our national surface transportation network and the envy of the world. For example, FIUF revenues would be used to:

- Restore the Interstate Highway System, which is reaching 40-50 years of age, to a state of good repair though an aggressive program of preservation, including projects to substantially rehabilitate, or in some cases replace, many of its 55,000 bridges; and reconstruct major portions of its 210,000 lane miles.
- Improve system performance by applying the full range of intelligent transportation systems (e.g., navigation systems, traffic signal control systems, real-time parking guidance and notification systems, and vehicle detection and notification systems) and aggressive systems of operation and management strategies.
- Replace aging interchanges that have become major bottlenecks with interchanges that have wider lanes and geometric designs to allow higher volumes of cars and trucks to exit and merge more safely at higher speeds.
- Reduce congestion by adding additional lane miles to urban and rural interstates, where appropriate.
- Expand the Interstate Highway System, where appropriate, to provide connections to new and emerging centers of population and commerce.

Federal Motor Carrier User Fee (FMCUF).

The FMCUF would be used exclusively on freight projects that benefit the trucking industry. For example, FMCUF revenues would be used to:

- develop a national strategic freight plan;
- create and fund a national freight program;
- reduce congestion on national and regional non-interstate freight corridors; and
- invest in intermodal connectors (access roads and other systems that efficiently connect the shipment of goods involving more than one mode of transportation) to the nation's ports, rail terminals, and air cargo hubs.

Base Highway Trust Fund (HTF) Program.

Since the FIUF would be used to fund all interstate projects, existing HTF revenues would be freed to invest in the non-Interstate portion of the federal-aid highway system, which is no less important to the national transportation network. These base HTF revenues would be used to:

- Preserve and modernize the 115,000 miles of the non-Interstate National Highway System, including important corridors such as the Avenue of the Saints, Transamerica Corridor, Hoosier Heartland Industrial Corridor, Great Lakes/Mid-Atlantic Corridor, Heartland Expressway, U.S. 395 (Calif., Nev., Ore., Wash.),

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CANAMEX, Ports-to-Plains, Wisconsin Development Corridor, Capital Gateway Corridor, East-West Corridor, SPIRIT Corridor, Theodore Roosevelt Expressway, and Camino Real Corridor, among others.

■ Address urban congestion through operational improvements and, where necessary, increased capacity.

■ Improve rural highways to keep U.S. agriculture competitive, especially lower-classification federal-aid roads that link farm and local roads with the National Highway System.

■ Upgrade narrow, two-lane, rural roads that cannot safely carry the kind of trucks now moving across the United States to support the renewable fuels industry, wind farm energy production, and the development of other energy resources.

■ Improve rural highways to handle the growth in international and domestic trade moving through the heartland of America.

■ Preserve and upgrade, where necessary, the Strategic Highway Network (STRAHNET), a network of highways that are important to the United States' strategic defense policy and that provide defense access, continuity, and emergency capabilities for defense purposes. STRAHNET Connectors—highways that provide access between major military installations and ports—would also be maintained and upgraded where appropriate.

■ Provide connectivity between urban and rural America, and address seasonal congestion and bottlenecks associated with interstate tourism, especially at national parks.

■ Provide adequate access to new and emerging cities and towns so that our highway system will be the unifying network that President Eisenhower envisioned.

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RESPONSE TO QUESTIONS
FROM
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE

[NOTE: These views are my own and do not necessarily reflect the views of Covington & Burling LLP, the National Surface Transportation Policy and Revenue Study Commission, or any other person or entity.]

Questions from Senator Vitter

Question #1: What are the potential middle to long-term effects on the Trust Fund of continuing to fill the gaps between HTF receipts and outlays with offset general funds? Are those concerns heightened as general funds make up a more significant portion of the Trust Fund?

Answer #1: I start from the premise that the best and fairest way to finance federal investment in the national surface transportation systems is through the principle of user financing. Personal and commercial travelers should pay for the transportation systems and services they use in proportion to the costs associated with that use.

User charges on fuel, motor vehicles, and other elements of the transportation system have been the backbone of surface transportation finance for decades. The revenues generated by these user charges are deposited in the Highway Trust Fund and made available to the states for reimbursement of the federal share of the costs of federal-aid projects on a pay-as-you-go basis. Through what is termed "contract authority" (a special type of budget authority), authorized amounts become available for obligation according to the provisions of the authorization act without further legislative action. This gives the States advance notice of the size of the Federal-aid program at the time an authorization act is enacted and eliminates much of the uncertainty contained in the authorization-appropriation sequence. Reducing this uncertainty is critical because it allows states to plan for, and make the political and financing decisions necessary for, investment in large transportation projects that are expensive and take years to complete.

This federal-state partnership and user-based financing system built the Interstate Highway System. It is well suited--and necessary--to meet the challenges of modernizing the national surface transportation network for the 21st Century.

Against this background, the use of offset general funds to "fill the gaps between HTF receipts and outlays" is very troublesome. And the greater the amount of the general fund transfers, and the longer the duration of such transfers, the more troublesome it becomes. It could undermine the user financing principle, the Highway Trust Fund, and the use of contract authority. This would have a devastating impact on efforts to modernize America's national surface transportation network.

Given that federal investment in the national surface transportation network should be increased substantially, it would also be devastating if federal investment were reduced below current levels. Congress should prevent this from happening by increasing Highway Trust Fund user receipts. This could be accomplished by increasing and indexing existing user charges, adopting new user charges, dedicating a portion of the revenue from existing transportation-related charges--such as customs fees--to the Trust Fund, and ensuring the Trust Fund receives the full amount of the charges levied on highway use by shifting the cost of exemptions and refunds to the General Fund of the Treasury. However, if Congress were unable to increase user revenues before MAP-21 funding expires, a limited general fund transfer--despite its downsides--would be preferable to a reduction in funding below current levels.

Question #2: There seems to be some consensus from the panel that the gas tax is unsustainable for the middle or long term. Yet many have recommended the gas tax as a possible short-term solution. Knowing that nothing around here is for the short-term does that change your view of being a short-term solution?

Answer #2: As mentioned previously, user charges on motor fuels (gas tax and diesel fuel tax) have been the backbone of highway finance for decades. Fuel taxes are a particularly attractive source of surface transportation revenues because of their (1) low administrative and compliance costs, (2) ability to generate substantial amounts of revenue (each penny generates nearly $2 billion annually), (3) relative stability and predictability, and (4) ease of implementation. While the direct relationship between the amount of travel and the amount of fuel taxes paid has diminished somewhat in recent years as disparities in vehicle fuel efficiencies have grown, the fuel tax still bears a reasonable relationship to the amount of travel. In the short to medium term--over the next 15 to 20 years--revenue needs can be addressed through significant increases to existing taxes and fees and taxing of alternative fuels, where possible, and through greater use of innovative financing like public-private partnerships.

It is imperative, however, to explore alternates to the fuel tax as a medium- to long-term revenue source to fund the surface transportation programs. Increasing disparities in vehicle fuel efficiency will gradually erode the equity of the fuel tax, and in the long run many vehicles may be operating on fuels such as electricity that are difficult to tax. A strong case can be made that the current financing structure will be viable until at least 2025, especially if Congress ensures to the extent possible that vehicles not using traditional motor fuels nevertheless pay their fair share. After that date, uncertainties concerning the ability of the fuel tax to serve as the financial base for the surface transportation programs are great enough that it is important to start developing and testing alternatives. None of the potential alternatives identified to date, however, will likely be ready for implementation in the short- to medium-term as a financial base for the federal and state surface transportation programs.

Question #3: In your testimony, you advocate for a strong federal role. Can you expand more on what the strong federal role that you envision? Can you have strong but still limited federal role? What types of solutions embody that federal role or if it's easier which ones don't? Does our current system reflect either a strong or limited federal role?

Answer #3: America's national surface transportation system is at a crossroads. Commission after commission, study after study, and report after report has concluded that the future of our well-being, vitality, and global economic leadership is at stake. As a nation, we must take significant, decisive action now to modernize our surface transportation system to meet the challenges of the 21st Century.

Addressing these challenges will require a strong federal role. What I mean by a "strong federal role" is strong leadership, the kind of leadership that the federal government has provided in the past. From the First Congress' support of lighthouses, buoys and public piers to make navigation "easy and safe;" to Henry Clay's support for internal improvements; to President Lincoln's support for the transcontinental railroad; to President Teddy Roosevelt's support of the Panama Canal; to President Franklin Roosevelt's support for a cross-country, high-level road system; to President Eisenhower's support of the Interstate Highway System and the Highway Trust Fund; and to President Reagan's support for increased motor fuel user fees to preserve and modernize the federal-aid highway network; the federal government has been instrumental in the development of our nation's surface transportation system. It must once again provide the leadership necessary to ensure U.S prosperity and global preeminence for generations to come.

A strong federal role can nevertheless be limited, and it should be limited. Historically, the highway program has been focused on the highways important to the interstate movement of people and goods. During the latter half of the 20th Century, the federal government, in partnership with the states, built the Interstate Highway System and provided assistance to the rest of the federal-aid system, which comprises about 25 percent of the nation's road mileage. These are the roads most important to interstate travel. The remaining 75 percent of the nation's road mileage was the full responsibility of state and local governments.

Congress took a critical first step toward providing the necessary federal leadership in MAP-21, which made many important and long overdue policy changes in the federal surface transportation programs. The programmatic reforms in MAP-21 further limited the federal role by eliminating or greatly reducing the eligibility of activities that should be the primary responsibility of state and local governments. And importantly, MAP-21 focused about 75 percent of highway funding on the National Highway System, which comprises just 5.7 percent of the nation's road mileage but carries over 55 percent of the vehicle miles travelled. These are the highways most important to the national interest.

MAP-21 did not, however, provide the necessary resources to make the system-wide improvements in the national network necessary to ensure U.S prosperity and global preeminence. Without significantly increased resources, the condition of national surface transportation network will continue to decline and congestion will get worse. The United States will become less competitive in the global marketplace. The challenge for Congress in the reauthorization process is to provide the necessary resources, in partnership with the states, to bring the national network into a state of good repair and provide the capacity to meet future population and economic growth. This is the strong federal role I advocated in my testimony.

<u>**Questions from Senator Inhofe**</u>

Question #1: Members of my caucus are reluctant to spend money on our nation's infrastructure despite the fundamental federal responsibility we have to provide for it. How would you suggest we address those who would not be willing to address the catastrophic shortfalls to the Highway Trust Fund? What impacts would a lapse in federal funding have on not just our infrastructure, but also on the economy as a whole?

Answer #1: Commission after commission, study after study, and report after report has concluded that (1) underinvestment in the national surface transportation network is threatening the nation's well-being and global economic leadership, and (2) the federal government, in partnership with states, local governments, and the private sector, must take bold action to address this investment shortfall in order to modernize our surface transportation system to meet the demands of future population and economic growth.

The problem of underinvestment is exacerbated by the fact that the Highway Trust Fund is facing insolvency and cannot support even the current levels of funding, much less increased funding. The financing challenge is two-fold: (1) at a minimum, fill the hole in the Trust Fund so that there are no reductions in the current levels of funding, and (2) ideally, further increase Trust Fund revenues to support the increased levels of funding needed to modernize the national surface transportation network.

Yet, despite the overwhelming evidence, some remain unconvinced and apparently "would not be willing to address the catastrophic shortfalls to the Highway Trust Fund." I have four suggestions for addressing this situation.

<u>First, continue to highlight the historic federal role.</u>

From the First Congress' support of lighthouses, buoys and public piers to make navigation "easy and safe;" to Henry Clay's support for internal improvements; to President Lincoln's support for the transcontinental railroad; to President Teddy Roosevelt's support of the Panama Canal; to President Franklin Roosevelt's support for a cross-country, high-level road system; to President Eisenhower's support of the Interstate Highway System and the Highway Trust Fund; and to President Reagan's support for increased motor fuel user fees to preserve and modernize the federal-aid highway network; the federal government has been instrumental in the development of our nation's surface transportation system. It is important to continue hammering home this message.

It is also important to highlight the fact that historically Republicans and conservatives have been leaders in the development of our national transportation assets. Democrats have been supportive as well. The reason why this has not been a partisan issue is that the Constitution so clearly lays out federal responsibility for interstate commerce, post roads, navigable waters, and ports. Moreover, our national transportation systems are critical to our national defense and national security, both of which are primary federal responsibilities.

Second, emphasize the support of the business community.

American businesses understand the need for increased federal investment in the national surface transportation network. They understand the important and necessary role of the federal government in modernizing the network. That is why they not only support the improvements, they also support increased federal user charges to pay for the improvements. They realize there is no free lunch. They are willing to pay for the increased investment. It's that important. The fact that shippers—the ones who pay the freight bills—are willing to pay more should help the unconvinced understand the criticality of increased investment.

Third, make clear the consequences of inaction.

Today all levels of government and the private sector are spending only about 40 percent of the amount needed annually for the next 50 years to upgrade our existing surface transportation system to a state of good repair and provide the additional capacity necessary to sustain and ensure our strong economic growth and our international competitiveness in the global marketplace. The National Surface Transportation Policy and Revenue Study Commission, as well as many other commissions and studies, have thoroughly documented the consequences of inaction, i.e., the consequences of continuing to invest at current levels. And, of course, these consequences would be even more dire if funding lapsed or was reduced significantly from current levels.

Here are some of the key consequences of inaction:

- **Continued deterioration.** The nation's aging surface transportation systems are already in disrepair. At current investment levels, they will continue to deteriorate. As a result, the performance of the transportation system will decline. Individuals and businesses will face higher vehicle maintenance costs.

- **Greater congestion.** At current investment levels, congestion will increase as a result of the mismatch between growing demand and limited capacity. This will disrupt household and business activities across the country, and will exact a large and expanding penalty on business productivity and the quality of life of American families.

- **More highway casualties.** Continued deterioration of the highways, and greater congestion on the highways, will result in more accidents, fatalities, and injuries, exacting a considerable cost on society.

- **Lower economic growth.** The declining performance of the national surface transportation network--as a result of both increased congestion and continued deterioration--will choke economic progress, preventing the U.S. economy from growing to its full potential. Our national surface transportation systems will be a drag on economic growth.

- **Reduced international competitiveness.** America's economic leadership in the world will be jeopardized when we cannot reliably and efficiently move our goods. It is not an overstatement to say that the Nation's potential for the creation of wealth will depend in great part on the success of its freight efficiency. Without changes, countries like China and India, with much greater investment in transportation, will challenge the United States in economic power and world influence.

- **Fewer jobs.** Inaction will cost American jobs. Lower economic growth means fewer new businesses and less expansion of existing businesses. This means fewer private sector jobs over the long term.

Inaction is a *decision* to not act. It has consequences. It will hurt America. It is the wrong decision.

<u>Fourth, let the unconvinced—and the convinced—know what they will get for their money.</u>

Since completion of the Interstate Highway System, there has been no clear federal vision. Federal resources have not been sufficient or adequately targeted to produce overall systemic improvements to the national network. In effect, we have been applying patches to the network--projects here and there--during this period. Consequently, no one is really sure what would be achieved with increased federal investment. In my view, this is one reason why some may not be convinced of the need to act.

To remedy this situation, the next bill should show the convinced and unconvinced what they will get for their money. As was the case with the Interstate Highway Construction Program, the bill should provide substantially increased resources in a targeted way to achieve a national goal over a reasonable period of time.

For example, a significant portion of existing highway funding and all of the increase in highway funding from increased resources could be dedicated to modernizing a subset of the National Highway System over a reasonable period of time. This "core NHS" would probably be about 1/3 to 1/2 of full NHS mileage. These would be the corridors representing the highest national interest. It would include the Interstate Highway System and other key NHS corridors important to national defense, national security, and the movement of international and domestic freight, agricultural produce, and energy resources.

The goal would be to modernize the "identified core NHS" over a reasonable period of time. Significant investment would be needed to:

- Restore the Interstate Highway System, which is reaching 40 to 50 years of age, to a state of good repair though an aggressive program of preservation, including projects to—

   - Substantially rehabilitate, or in some cases replace, many of its 55,000 bridges; and
   - Reconstruct major portions of its 210,000 lane miles.

- Improve system performance by applying the full range of intelligent transportation systems (e.g., navigation systems, traffic signal control systems, real-time parking guidance and notification systems, and vehicle detection and notification systems).

- Replace aging interchanges that have become major bottlenecks.

- Reduce congestion by adding additional lane miles, where appropriate.

- Expand the Interstate Highway System, where appropriate, to provide connections to new and emerging centers of population and commerce.

- Preserve and modernize the non-Interstate National Highway System corridors included in the "core system."

   - Improve rural agricultural corridors to keep U.S. agriculture competitive.

   - Upgrade narrow, two-lane, rural corridors that cannot safely carry the kind of trucks now moving across the United States to support energy development and production.

   - Improve rural corridors as necessary to handle the growth in international and domestic trade moving through the heartland of America.

- Preserve and upgrade, where necessary, the Strategic Highway Network (STRAHNET), a network of highways that are important to the United States' strategic defense policy and that provide defense access, continuity, and emergency capabilities for defense purposes. STRAHNET Connectors—highways that provide access between major military installations and ports—would also be maintained and upgraded where appropriate.

- Provide NHS connectivity between urban and rural America, and address seasonal congestion and bottlenecks associated with interstate tourism, especially at national parks.

This is just one example. There are many different ways to do it. The key is to identify a goal and then provide sufficient resources, in partnership with the states, to accomplish the goal over a reasonable period of time. In this way, everyone would know what would be accomplished with increased investment. And importantly, some of the unconvinced may become convinced.

Senator BOXER. Thank you very much.

In closing, Hon. Sean Connaughton. We are very interested in hearing from you, because you have looked at a new way to fund your transportation in Virginia, you are the Secretary of Transportation. We are very pleased you are here. Thank you, sir.

STATEMENT OF HON. SEAN T. CONNAUGHTON, SECRETARY OF TRANSPORTATION, COMMONWEALTH OF VIRGINIA

Mr. CONNAUGHTON. Chairman Boxer, members of the Committee, thank you very much for opportunity to be here and tell you a little bit about what we have done in Virginia.

First, I will preface it by saying, every State is a little bit different in their transportation programs and some of their challenges. But one thing that is the same for the States and for the Federal Government has been about what has happened to the gas tax. In Virginia, we have not raised the gas tax since 1986. The buying power of the gas tax had gone down 54 percent in that time period. We are seeing the impacts of much more fuel-efficient vehicles. In fact, we can actually track that we have in Virginia more cars registered, more vehicle miles being driven, yet our gas tax revenues are actually going down.

Another thing is the increase in the cost of materials. Asphalt binder, which is a basic construction material, maintenance material that we use, has gone up alone 350 percent over the last 10 years. Revenues are flat, costs are going up and we just saw, obviously, like everyone else, some major problems with our major source of revenue.

Virginia is what we call a maintenance first State. By State law, we must use any of the revenues coming in to our transportation fund first for maintenance, then for construction. We have had to take, just in the last 10 years, $3.3 billion of construction money, move it over just to do basic maintenance. And so everyone knew that there was a problem in the State.

And the legislature has been looking at this for almost 10 years. One of the challenges is, something that you are very familiar with, we had a House that had one position and the Senate had another. The House is very, very strongly conservative Republican and wanted to see more diversion of existing revenues to transportation. The Senate Democratic Majority, now it is tied, but essentially the position of the body was that they wanted to see additional revenues come in.

So in other words, we didn't have anything happen for almost 10 years. We took office and, this is one of the things we really took on as an administration on how we were going to deal with transportation. The first thing is, we want to take all the excuses off the table. We have done everything that anybody has ever talked about regarding transportation funding and reform in our program. We have done audits, we load off people, we ended up becoming a model I think for the country for public-private partnerships. Last year we were the most projects closed in the country. In fact, if we were a country, we would have the second most projects closed in the world.

We have ended up doing bonds, issued over $3.3 billion worth of bonds. We ended up establishing our own infrastructure bank to lend money to our localities to help them move projects forward. We have done all types of IT and better traffic management including our express lanes you can see on 95 with dynamic tolling. We have even proposed a very controversial toll on 95. We also look for ways to maximize some of the revenues coming out of, well, everything from naming rights to sponsorships to everything else.

We did all that over 3 years. And even with all that, we were able to show to our legislature that we were not going to have enough money even to do our Federal match by 2017.

By taking essentially all these arguments off the table, showing that we were serious about reform, and as renewing public trust in our program, we came forward with a very, very bold program or legislative proposals here, and that was to essentially do away with the gas tax, move over to a revenue source that we see growing. In Virginia, that is the sales tax. That actually passed our House, the Senate took it, replaced it all with a big increase in the gas tax. The conference committee came together and we came to a compromise. And it was a compromise that ended up having, essentially we lowered our gas tax and switched over to a sales tax. We split off the diesel and actually increased the diesel tax and made that a sales tax.

We ended up increasing the State's sales tax statewide. We ended up putting in an alternative vehicle fee on all vehicles, whether electric or other alternative fuels. We took a little bit more general revenues and devoted it to transportation. And so we ended up a little bit of everything. It was a little piece of legislation I think that in many ways, no one was happy with the complete package, but it was a true compromise. And it ended up getting the majority of Democrats and Republicans to support it in the legislature.

The bottom line is that this will mean about $1.5 billion a year more to our transportation modes in Virginia. That is everything from highways to transit to our airports to our ports and to passenger rail. We are actually putting in money and are dedicating these to passenger rail.

So this is a piece of legislation that I think has become talked about throughout the country. And it is something that we think will solve our transportation problems out into the future. Thank you.

[The prepared statement of Mr. Connaughton follows:]

Written Testimony

Of

The Honorable Sean T. Connaughton, Secretary of Transportation

Commonwealth of Virginia

Before

The Committee on Environment and Public Works

United States Senate

On

The Need to Invest in America's Infrastructure and Preserve Federal Transportation Funding

September 25, 2013

Secretary Connaughton Bio

Sean T. Connaughton is Secretary of Transportation for the Commonwealth of Virginia serving in the cabinet of Governor Bob McDonnell. As Secretary, he oversees seven state agencies with more than 9,700 employees and combined annual budgets of $5 billion.

Connaughton was named U.S. Maritime Administrator by President George W. Bush in 2006. As Maritime Administrator, he was head of the Maritime Administration, U.S. Department of Transportation, and responsible for the daily management of that agency and its promotional programs for the marine transportation industry. Connaughton was appointed by the President and confirmed by the Senate.

Prior to joining the McDonnell administration, he served as Corporate Vice President, Government Affairs for the American Bureau of Shipping, one of the world's leading ship and marine classification societies.

Connaughton is a graduate of the U.S. Merchant Marine Academy and served in the U.S. Coast Guard as both a commissioned officer and as a civil servant in the Office of Marine Safety, Security, and Environmental Protection. After gaining a Master's degree from Georgetown University, he joined the American Petroleum Institute, representing companies involved in the energy and marine transportation industries, during which time he also earned a law degree from George Mason University.

As a lawyer in private practice he specialized in maritime and international law. He has appeared before the United States Supreme Court and is a member of the Virginia Bar Association and the District of Columbia Bar Association. He served in the U.S. Naval Reserve from 1986 until retiring in 2006. He is a graduate (with honors) of the U.S. Naval War College.

Connaughton was elected Chairman At-large of the Prince William County (Va) Board of Supervisors in 1999 and overwhelmingly reelected in 2003. Connaughton served on numerous regional boards and commissions, including the Metropolitan Washington Council of Governments and the Northern Virginia Transportation Authority. In 2004, he was recognized by the National Association of Counties with its Distinguished Service Award for his efforts on workforce development.

Written Testimony
Of
The Honorable Sean T. Connaughton, Secretary of Transportation
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Before
The Committee on Environment and Public Works
United States Senate

The Need to Invest in America's Infrastructure and Preserve Federal Transportation Funding

September 25, 2013

Madam Chairman and distinguished members of the Committee thank you for the opportunity to appear today to discuss the need to invest in America's infrastructure and, in particular, what states such as the Commonwealth of Virginia are doing to address this difficult challenge.

Introduction

The Virginia General Assembly, lead by Governor Bob McDonnell, earlier this year enacted the first comprehensive transportation funding reform legislation in Virginia in nearly 27 years. Not since 1986 – when the General Assembly increased the motor fuels tax to 17.5 cents per gallon – had the legislature taken such bold steps to help fund our transportation infrastructure. The 2013 legislation – entitled *Virginia's Road to the Future* – not only provides approximately $1.5 billion in additional funding per year for Virginia's roads, bridges, rails, transit systems, airports and seaports, but it fundamentally alters how Virginia pays for its infrastructure by tying future revenues to funding streams that grow with economic activity.

Background

The Virginia General Assembly last raised the Commonwealth's motor fuels tax to a rate of 17.5 cents per gallon during a 1986 Special Session. The legislature also enacted a one-half percent increase in the sales tax and imposed and increased several other taxes and fees to help fund transportation infrastructure. In increasing the motor fuels tax, the legislature opted for a flat, fixed-rate excise tax and chose not to annually adjust the tax to account for inflation – a practice commonly referred to as indexing. Since 1986, Virginia's transportation funding streams have remained largely unchanged, despite numerous attempts to provide additional revenues.

Due in large part, but not solely, to the lack of indexing, the value of our gas tax was declining. Today, a tax of 17.5 cents per gallon equates to approximately 8 cents per gallon once adjusted for inflation to 1986 dollars. In other words, the purchasing power of Virginia's motor fuels tax has declined by approximately 54 percent. At the same time the costs of constructing and maintaining our infrastructure have grown dramatically. Fuel prices have continued to rise, and the price for materials such as asphalt binder – an oil based derivative utilized for paving – have grown by nearly 350 percent.

Further exacerbating this decline are the current and future increases in Combined Average Fuel Economy (CAFE) Standards and the growing popularity of alternative fuel vehicles. As vehicles continue to become more fuel efficient, the data in Virginia demonstrates that, despite annual increases in the number of registered vehicles and the number of vehicle miles traveled on our roadways, we have not seen a corresponding increase in motor fuels tax revenues.

Until this past session of the General Assembly, the motor fuels tax served as the Commonwealth's single largest source of funding, with 85 percent of the revenues dedicated to our Highway Maintenance and Operating Fund (HMOF). Virginia is a "maintenance first" state; that is, by state law we must utilize available revenues to maintain existing infrastructure before building new infrastructure. As a consequence, due to the aforementioned decline in the gas tax, since 2003 the Commonwealth Transportation Board (CTB) has transferred over $3.3 billion in revenues from the Transportation Trust Fund (TTF) – which supports capital projects for roads, transit, airports and seaports – to the HMOF to supplement our maintenance budget and maintain our existing infrastructure. If left unaddressed, the amount transferred each year was projected to reach over $500 million.

These transfers – referred to as "crossover" – were indicative of growing maintenance needs and inadequate revenues. Crossover reduced funding available for capacity expansion, major bridge and highway reconstruction, and safety improvements. In essence, we were robbing Peter to pay Paul, and, if crossover transfers were left unchecked, we would have ultimately reached the point where the amount of construction funding spent on maintenance would have left Virginia with little or no money to meet federal matching requirements.

Against this backdrop, addressing the growing need to invest in Virginia's infrastructure has been among the top priorities – if not the top priority – of the McDonnell Administration. Since taking office, we conducted four separate audits of the Virginia Department of Transportation (VDOT) to improve efficiencies and focus, the most successful of which identified over $1.4 billion in underutilized funds that have since been invested in projects. We utilized every available option to leverage our existing revenues, including issuance of approximately $3 billion in state and federal bonds, expanding our state-local Revenue Sharing Program, creating a new state-funded infrastructure bank, and procuring over $6 billion worth of public private partnership projects. We moved aggressively to invest in technology and active traffic management programs and dynamic tolling express lanes on I-95 and I-495. Further, we sought and received legislative approval for nearly 100 pieces of legislation aimed at improving agency operations, reducing costs, and streamlining programs. Additionally, we implemented new programs such as the Sponsorship, Advertising, and Vending Enhancement (SAVE) program and developed a naming rights program to generate additional revenues through our existing assets. We also proposed tolling Interstate I-95 under the Interstate System Reconstruction and Rehabilitation Pilot Program. Finally, VDOT is one of the only state agencies to undergo any significant personnel restructuring, having laid off over 1,000 personnel to right-size the agency to its current mission.

While these initiatives resulted in tremendous progress towards addressing the current transportation challenges facing Virginia, they did not, however, address the long-term challenges facing our revenues. In other words, we still needed to find a path forward that provided the dedicated, sustainable revenues necessary to ensure Virginia's continued economic prosperity and quality of life.

Virginia's Road to the Future

Early in his Administration, the Governor pledged that before leaving office he would submit comprehensive legislation to address Virginia's transportation funding crisis. Heading into the fourth and final legislative session of his term in office, the Governor held true to his commitment.

The Governor's proposed solution had three fundamental elements. First, the Governor called for a reduction, if not a complete elimination, of Virginia's reliance on the motor fuels tax as the principal state source of transportation funding. Second, he called for tying future transportation funding to the state's far more sustainable sales tax. Third, and finally, believing transportation to be a true core function of government, he called for dedicating an increased portion of general fund revenues to help pay for our transportation infrastructure.

These fundamental principles were based upon the goal of providing a long-term solution to the challenges associated with the motor fuels tax while at the same time minimizing the impact on Virginia taxpayers. Unlike the motor fuels tax, the sales tax inherently accounts for inflation and reflects underlying economic activity. In fact, historical data show that sales tax revenue growth – even in years where it did not meet projections – grew at a steady rate annually while the motor fuels tax revenues did not. For example, in Fiscal Year 2013, sales tax revenue grew at slightly over three percent while motor fuels tax revenues actually saw a one percent decline.

The Governor's introduced legislation passed the Virginia House of Delegates largely unchanged. The Senate of Virginia, however, undertook a nearly wholesale rewrite of the legislation and passed a significant increase in the motor fuels tax along with several other tax and fee increases. Therefore, the legislation proceeded to a Committee of Conference.

Following negotiations between the House, the Senate and the Governor, the Committee of Conference put forward a proposed compromise, which was approved by over 60 percent of the legislature. Forty-four Repuhlicans and 41 Democrats in both bodies of the General Assembly voted for final passage of the legislation. While the conference report differed from the legislation originally introduced, the compromise met the fundamental principles outlined by the Governor at the beginning of the legislative session.

Specifically, the legislation:

- Eliminated the Commonwealth's 17.5 cents per gallon excise tax on motor fuels and replaced it with a 3.5 percent sales tax on gasoline and a 6 percent sales tax on diesel fuel;
- Increased the statewide sales tax by 0.3 percent and dedicated the revenues to transportation;
- Imposed a $64 alternative fuel vehicle fee;
- Increased the titling tax, or sales tax, on motor vehicle sales;
- Dedicated an additional 0.175 percent of existing general fund sales tax revenue to transportation;
- Dedicated any future revenues derived from the Marketplace Fairness Act to transportation; and
- Imposed additional taxes and fees in regions meeting certain population, registered vehicle, and transit ridership criteria.

The legislation will generate over $6 billion in additional funding for transportation over the next six years. Revenues are specifically dedicated to roads, transit, intercity passenger rail, aviation, and the seaports. The legislation fundamentally alters how Virginia pays for its transportation infrastructure.

Benefits of *Virginia's Road to the Future*

The long-term benefits for the Commonwealth of Virginia generated by this year's transportation funding reform are enormous. First and foremost, the additional revenues will eliminate maintenance crossover transfers. Further, the additional $6 billion will grow Virginia's overall modal Six-Year Financial Plan to $33.2 billion, with $11.9 billion dedicated to highway maintenance, $9.2 billion dedicated to construction, and $3.1 billion dedicated to mass transit. The sales tax now becomes the single largest source of Virginia transportation funding, while the gas tax falls to number four.

Additionally, the regional taxes and fees, which based on current criteria will apply in Northern Virginia and Hampton Roads, will enable some of Virginia's most congested regions to address their top priorities. The Texas Transportation Institute ranked the Northern Virginia/Washington, D.C. metropolitan area as the most congested region in the nation, and

Hampton Roads is in the top 25. *Virginia's Road to the Future* will provide approximately $300 million per year and $150 million per year, respectively, in additional to other funding to address this congestion.

The legislation also benefits Virginia's economy. According to a recent economic impact analysis conducted by Chmura Economics of Richmond, *Virginia's Road to the Future* will generate up to $8.1 billion in economic impact and annually sustain 10,133 jobs. Further, with the establishment of a dedicated funding stream for passenger rail, Virginia is now the first state in the nation to provide funding for the provisions of Section 209 of the Passenger Rail Investment and Improvement Act.

Perhaps most immediately important to Virginia's citizens, the reduction in the gas tax – approximately 6.4 cents per gallon – is leading to lower prices at the pump. According to AAA, the average price for a gallon of regular unleaded fuel in Virginia was $3.38 per gallon, 21 cents below the national average of $3.59 per gallon as of August 30, 2013. That is 6 cents – nearly equal to the reduction in the gas tax – below our national average as of August 30, 2012. In other words, the growing difference between the state average and the national average demonstrates the positive impact reducing the gas tax has had on gas prices in Virginia. Virginia now has the lowest gas tax rate in the continental United States and some of the lowest gas prices in the country.

Why Virginia Was Successful

Virginia was successful in passing funding legislation this year for a number of reasons. First, we had pursued and implemented numerous reforms, improved efficiency, reduced costs, and maximized our ability to leverage existing resources. However, even with these initiatives, it was clear that additional revenues were still needed to maintain and expand our infrastructure.

Second, due to the various reforms implemented during the first three years of the Governor's term in office, we were able to build public trust in Virginia's transportation leadership and program. Public trust bred confidence that additional revenues would be managed and invested wisely. That confidence led to political will and public support to pass legislation.

Third, the legislation, as introduced as well as enacted, addressed both current and long term problems across all modes of transportation and in all regions of the Commonwealth. We introduced concepts and proposals that were out of the box and caused a reevaluation of previously held positions. The legislation embodied the spirit of compromise and good public policy. There is not a single person involved in this legislation who agreed with every element of it, but they supported it because it addressed the Commonwealth's statewide and regional transportation problems today and into the future.

Finally, it took leadership. That leadership was demonstrated by the Governor and those voting for the legislation in the House of Delegates and the Senate. Leadership was also exhibited by the public, businesses and stakeholders who stepped forward to support the legislation getting passed. Many put their political and professional futures on the line in order to address this critical issue.

Conclusion

This year's historic transportation funding compromise is a tremendous, long-term step towards addressing the growing infrastructure challenges facing Virginia. However, unless Congress acts on the challenges facing the Highway Trust Fund, the impact of Virginia's historic achievement as well as actions in other states will be diminished. Our nation's transportation infrastructure has long been a partnership between the states and the federal government. Moving forward, it is imperative that Congress maintain this partnership and take steps to ensure the ongoing viability of the Highway Trust Fund, while maintaining the flexibility brought about by MAP-21.

We very much recognize that there is no silver bullet to addressing investment in our nation's infrastructure. The solutions that are working in Virginia may not work in other states, and the options available to the states may not be available to Congress. One common thread, however, is the need to craft solutions that address the challenges, can pass the legislature, and can be signed by the executive. The future economic competitiveness of our nation depends on it.

Madame Chairman and members of the committee, thank you again for the opportunity to be here today. I look forward to our continued partnership as we work towards providing the infrastructure network our great nation demands and deserves.

Senator BOXER. Thank you. Thank you very much for that.

Senator Baucus.

Senator BAUCUS. Thank you, Madam Chair.

I would like you all four to give us advice on how we proceed. I think everybody agrees, we have to fill up this hole. But the question is how, and how quickly. Ms. Ruffalo gave several criteria, one is how quickly, how it affects dates, move quickly to raise revenue and whether to unmorph the funding from users, what is the effect of that.

But a deeper question is how we politically proceed. Some suggest that we are more likely to get the funding, which I think we all agree in this room, mostly in this room, agree is necessary, maybe through tax reform, maybe through an omnibus vehicle, some other vehicle, some larger legislation, rather than standalone, rather than straight highway legislation. The need to fill the gap in the trust fund is clear. But sometimes it is easier to address revenue questions in the context of larger legislation.

Could any of you give us advice here, what is the history? My recollection is that increases in the gasoline tax in the past have been part of larger bills. It is not just straight highway. Could somebody else try a little bit? I don't have a lot of time here.

Senator BOXER. You can have more time.

Senator BAUCUS. Jack, you go ahead, then Kathy, you can go next.

Mr. BASSO. Thank you, Mr. Chairman. Yes, in fact, I can factually recollect in 1990 the Andrews Summit, which I worked on, the staff worked for, which actually increased the gas tax and addressed deficit reduction. In 1993, President Clinton and the Congress similarly addressed it. They came together and frankly, the last time we actually standalone raised the fuel tax was 1982 in the Reagan era at that point in time.

So that is informative or instructive to me as to how one could move this forward. The thing that we face though I think, and here is the problem, we don't have in front of us 2 or 3 years to deal with this. We have a situation where the opportunity presented itself and a comprehensive solution. To my mind, we ought to take that, and take it as quickly as possible.

Beyond that, we run out of money at the end of fiscal year 2014 to sustain the program. We are going to have to have a backup solution as well. But I commend to basically the Congress the question, what is the best way to take this on politically. And I am not unmindful how difficult this is.

Senator BAUCUS. Ms. Ruffalo.

Ms. RUFFALO. Mr. Chairman, I agree with what Jack said. Certainly recent history has shown that being able to use these revenues as part of a larger comprehensive package of spending and revenue discussions is what makes sense. I would agree, I totally defer to Congress as to which vehicle presents itself and when it presents itself.

I would just say that as an industry, and I say myself as part of that industry, probably most people sitting behind me and the people who are at this table, we have done a really lousy job of explaining to the American people what they pay today at the Federal level for transportation. People think they are paying thousands and thousands of dollars each year in Federal fuel taxes to pay for transportation. And that is just not the case. I think the average is $250, maybe $300 a year for an average family of four.

So when you look at what you are receiving for that amount of money, I just think we have not done a good job providing that push from the grass roots for this kind of investment. I do think as an industry we have to do a better job of providing you with that political cover at home when you do make some of these tough decisions, whether it is part of tax reform or some other vehicle that may present itself. I think that is the charge that you need to give all of us as we move forward, is to give you that grass roots support for this kind of investment.

Senator BAUCUS. Mr. Schenendorf.

Mr. SCHENENDORF. I want to add a couple of points on this. The first is, not only is it I think politically easier to include it in a larger, more comprehensive bill. But I do think that larger, more comprehensive bill allows you to do some other things which help, to the extent that you are raising revenues, which will need to be done in the transportation sector. You can do other things in the larger bill to help offset that and the impact that that would have on various classes by the business or individuals.

So I think there is a real policy advantage to including it in that larger bill and it will make it easier to sell to some of your colleagues in the Senate.

The only caveat I make is I don't think anybody knows when that big bill is going to come. And if it doesn't come before the end of next year, then something is going to have to be done for the trust fund in a standalone bill, because there won't have been this mini-grand bargain or grand bargain or tax reform bill. So part of it is just going to depend on the timing.

Senator BAUCUS. That is true. Chairman Dave Camp, chair of the House Ways and Means and I and many others here are working on tax reform and have been for a couple of years. It has not been on the radar screen, but a lot of staff work has been done, working with the Administration, the Treasury on technical details and how these various provisions work.

It is my goal to have a markup this year on tax reform. I know Chairman Camp has the same goal. It is going to be difficult to pass tax reform this year, but I think it is quite possible to get tax reform passed in this Congress, next year. The last year was 1986, and that was an election year. So elections didn't get in the way. In fact, it became quite popular to pass tax reform as a fall, maybe late summer or early fall of 1986 for an election.

And certainly, the degree of tax reform does reduce complexity, does close a lot of loopholes. And also helps with growth and jobs in and of itself, makes America more competitive, and freight reduction and all that can become quite popular.

Now, you make a good point: can we get all this wrapped up in time to fill the gap in the trust fund. Well, there are a lot of ways to skin a cat around here. For example, we could have another transfer, a temporary transfer. There are all kinds of things we can do pending final approval of tax reform.

Other thoughts any of you have? Secretary.

Mr. CONNAUGHTON. Senator, we in Virginia have been fighting about this for 13 years, every session fighting about this. And a few things looking back on it, the first was, we had to take all the excuses off the table. People wanted toll facilities, everyone want toll facilities until we started putting toll booths up, and then everyone started saying, well, maybe gas tax increases or other increases might not be a bad thing.

People were complaining about our program was too top heavy. We made those reforms. We took essentially all the excuses off the table. I think we did some very good things so the public had confidence that if we were to put more money into the system it was going to actually lead to transportation improvements.

And then we were very clear from the executive branch that this problem, this problem, we were heading toward a cliff. I think if we did all these other things when we said that and we could show them numbers, people bought into it. It took an enormous amount of leadership. I think we had a lot of national groups coming in, getting very active and trying to stop this, our proposal, just basically because of the implications nationally.

So it took leadership, it took some bold proposals, some different proposals. And it just really took getting all these excuses off and making sure people understood. I will tell you one thing that is a challenge for us all. You hear it when we talk about this issue, we talk about trillions of dollars' worth of needs out there. It is very hard for the public to get their arms around that. When we could very much articulate what the immediate problems are, what we could raise, what we could do, it made a major difference in getting public acceptance.

Senator BAUCUS. May I just ask one more question?

Senator BOXER. Yes, Senator.

Senator BAUCUS. So in Virginia, was transportation reform part of a larger effort or was it standalone in the State of Virginia?

Mr. CONNAUGHTON. It was a standalone. We actually have a standalone special fund.

Senator BAUCUS. It changes? That change in how you finance your transportation system?

Mr. CONNAUGHTON. Yes, sir.

Senator BAUCUS. That was just purely focused on transportation, nothing else? Was it part of a budget? Did the State have a budget and that was part of it?

Mr. CONNAUGHTON. There was some discussion about making part of a bigger reform effort for tax reform in the State generally. We actually fought to keep it standalone, because we didn't know where the broader tax reform would go. Whereas we felt very confident that once we could get the tax reform for transportation isolated, we could get it through.

Senator BAUCUS. One question, I know it is something that you have been interested in, Madam Chair, and that is these funds that are one-off. Everybody talks about, not everybody, a lot of people talk about trapped cash overseas. Very large multinationals have lots of trapped cash overseas, given our current tax estimate.

And so the question is, shall we bring that back, tax at a lower rate, not current 35 percent, which is the current U.S. corporate

rate, bring it back to a lower rate and dedicate that to the Highway Trust Fund. What do you think of that? Anybody.

Mr. CONNAUGHTON. We are trying to do that with supporting your Marketplace Fairness Act, just for internet sales taxes.

Senator BAUCUS. That is a whole different subject.

Mr. CONNAUGHTON. Yes, sir. But we are dedicated that any new revenues that come from, once we can start to collect those Internet sales taxes would all be dedicated to transportation?

Senator BOXER. How much revenue from that?

Senator BAUCUS. From the Marketplace Fairness Act?

Senator BOXER. No, I am talking about repatriation.

Senator BAUCUS. Well, it depends. I mean, there is $2 trillion overseas. So it depends on the rate. You can set any rate. In fact, the early repatriation rate is like five and a quarter, something like that. I don't think that is going to fly right now. It might be a higher rate than that. But yes, it is a one-off, it is not continual. That is the real question here.

But my time is expired. The point I am making is, we need to figure out politically how to get the revenue we need and clearly, we need to put the amount of revenue in that you are all talking about. I sense that the Highway Trust Fund could be an engine that pulls the train here. Because people do want to solve this. They know it has to be solved.

Madam Chairman, you saw this article. I was just stunned when I saw this article 4 or 5 days ago. Stunned. It is surface transportation, not highway, but surface. How China is building, and has, is up and running now, these massive high speed passenger train systems that go 180 miles an hour, connecting China. More people have traveled trains in China than by air. You go to China, as you know, oh, my God, all the airlines around and all the planes and so forth. It has done what many of you said, their highways have helped create growth. People get on a train, go 2 hours, go someplace, different business set up. It is efficiency and speed, top notch passenger transportation system.

So if we can get our highways going here, clearly it is going to have a big impact, second and third degree, on growth in jobs. We have to break the gridlock around here and figure out how best to do it.

Senator BOXER. Senator, I want to thank you for being here. I don't have any questions for the panel, but I want to kind of wrap up that way. Senator Inhofe was here, and he was just a very strong proponent of doing something here. And you may be right, maybe this pulls the train. But if it doesn't pull the train, I think we have to be prepared to separate it out. Because what is at stake here, as you know, well, in your State particularly, the rural States, everything is at stake in terms of roads.

The other aspect of all this too is with the extreme weather conditions, it is even putting more stress on our roads than we ever used to have. We have to get this done.

Now, what I want to say is, we are so fortunate to have Senator Baucus here, because he is the chairman of the subcommittee that deals with highways, plus he is the chairman of the Finance Committee. So it is a very important thing. I am going to do my part as Chairman of this Committee to just give as many ideas as I can over to Senators Baucus and Camp, Levin and Hatch. And I just want to thank all of you, you have been terrific, I wanted to look at your paper to see the other ideas that you have come up with.

But we are meeting and we are going to do everything we can. To me, failure is not an option, period. This is on our backs. This is our responsibility. We have to be here at this particular time.

And I would say, Mr. Schenendorf, I would take exception with a tiny bit of your critique. You made it sound like we haven't done anything since President Eisenhower, and I do think we have picked this up. I do think we have kept it going. I do think despite all odds we were able to keep this going.

So I am feeling certainly part of that segment of the Congress that believes that this is an absolute obligation. But this is a no turning back point, and we have to come through.

I would love to see a part of a big package, I say to my colleague, it would be wonderful. Because there are lots of other reforms that are important. But I think we have to be prepared, as you said, if we have to go a separate route.

And on repatriation, count me in. Thank you very much everybody, we stand adjourned.

Senator BAUCUS. If you don't mind, may I just make one comment?

Senator BOXER. Yes, you can.

Senator BAUCUS. We don't have any more low-hanging fruit to backfill the General Fund to reimburse the trust fund.

Senator BOXER. I made that point, for sure. We are struggling.

Senator BAUCUS. We have run out of stuff.

Senator BOXER. You can't pull out that magic trick that you did the last time. Remember?

Senator BAUCUS. That was just smoothing, that did it.

Senator BOXER. Smoothing and all these things I thought I would never hear of. Thank you all for being here. You have all been very helpful. Be prepared, because we are going to work together as never before. And thank you to Virginia for setting an example on how to move forward.

We stand adjourned.

[Whereupon, at 12:35 p.m., the Committee was adjourned.]

[An additional statement for the record follows:]

STATEMENT OF HON. JOHN BOOZMAN,
U.S. SENATOR FROM THE STATE OF ARKANSAS

Chairwoman Boxer and Ranking Member Vitter, thank you for holding today's hearing on highway and infrastructure funding issues. We have broad bipartisan support for smart spending on infrastructure. Senator Inhofe often points out that he is one of the most conservative members of the Senate, but he supports investments in our national defense and spending on infrastructure. I agree that these must be priorities. I compliment both of you for your work on WRDA earlier this year. The bill passed the Senate, with over 80 votes. In the last Congress, MAP–21 passed the Senate, with well over 70 votes, thanks to the work of our Chair and then-Ranking Member Inhofe. I think we can build on this progress, but there is a cautionary tale here.

After decades of growth, the level of revenue coming into the Highway Trust Fund has begun to decline. This is due to good news and bad news. The good news is that all of our vehicles, from tractor-trailers to passenger vehicles, have become significantly more fuel efficient. People are also changing their driving patterns, and driving less. The bad news is that our sluggish economy has also contributed to declining revenues over the last 5 years.

We've used General Fund transfers to supplement highway spending, but that practice cannot continue. Again, I was proud to support MAP–21, and our Committee leadership did a remarkable job putting that bill together, but when MAP–21 expires, we will still continue to rely on "pay-fors" in the bill for another 8 years. In other words, it was a 2-year bill, with 10 years of "pay-fors." This practice of borrowing from the future is simply unsustainable. That's why today's hearing is so critical.

We really are coming to a major turning point in the way that highway and infrastructure projects are financed. It's time to carefully reevaluate our programs in a serious and comprehensive way. In order to sustain the support of the public and of fiscally conservative members—like me—we must continue to make progress on accelerated project delivery, State and local control, programmatic reforms, and the elimination of costly and counter-productive bureaucracy. The highway program should supplement the work of States and encourage local and State investment.

Our infrastructure really sets our country apart. It helps American factories and farms to compete on the global stage. We need to maintain this competitive advantage. To do this, we must reevaluate how programs designed in the mid-20th century can be reformed for the 21st century.

I am very encouraged that we are getting started now, and I appreciate the testimony of our witnesses. Thank you.

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