SURFACE TRANSPORTATION: INVESTMENT NEEDS AND THE BUDGET

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COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

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THURSDAY, OCTOBER 25, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to call, at 10:05 a.m., in room 210, Cannon House Office Building, Hon. John M. Spratt, Jr. [Chairman of the Committee] presiding.

Present: Representatives Spratt, Doggett, Blumenauer, Etheridge, Moore, Ryan, Garrett, Hensarling, Porter, Alexander, and Smith.

Chairman SPRATT. The Committee will come to order and we will proceed with our hearing this morning, and, first of all, welcome our witnesses and thank them for coming.

This is a hearing on the surface transportation system of this country, the investment needs and the budgetary resources to meet those needs.

Our witnesses include the Honorable Mary Peters, who is the Secretary of U.S. Department of Transportation. And, Ms. Peters, to you particularly, we wish to thank you for taking time from your schedule to come.

Robert Sunshine, the Deputy Director of the Congressional Budget Office, Janet Kavinoky, who is the Director of Transportation Infrastructure for the U.S. Chamber of Commerce, Robert Puentes, Fellow at the Brookings Institution Metropolitan Policy Program.

We will hear from Secretary Peters first. You are a panel by yourself. Then we will have a second panel of the other witnesses, and we will have questions for each panel after your testimony.

As this Committee continues to consider the nation's fiscal challenges, our nation's infrastructure, its highways, its bridges, its transit systems are a vitally important topic.

Surface transportation programs affect our economy. They affect our safety. They affect our quality of life. So it is important to understand what the needs are and what the options are for meeting these needs. With a new highway bill on the not-too-distant horizon, these issues take on an even greater element.

This Committee in particular will need to examine this issue when resolving our decisions about our fiscal year 2009 budget resolution.

The collapse of the I-35 bridge in Minneapolis in August raises the question of what level of resources do we need to be sure that our infrastructure is up to minimal standards. The collapse of the bridge was a gruesome reminder that when we talk about providing resources for public purposes, it is not merely a question of dollars and cents. It is not an abstract question. It is a question of decisions that have direct impact on the lives of our people.

So we need to consider the question of the appropriate level of resources, but we also have to be sure that federal dollars are being spent wisely.

We also today will focus on a looming budgetary issue, perhaps less traumatic, but important nevertheless, namely the projected imbalance in the Highway Trust Fund. Under current estimates, there will be a $4.3 billion shortfall in the year 2009, not far away, between projected collections coming into the account by way of the Highway Trust Fund and projected outlays from that account.

The shortfall is projected to grow to more than $26 billion in the year 2012. Clearly this imbalance, shortfall, call it what you will, raises critical questions of how and at what level we will fund our infrastructure needs and puts pressure on our ability to bring the federal budget into balance.

I hope that today's hearing will bring this Committee up to speed on these important issues and some of the options for addressing them.

Before turning to you, Secretary Peters, let us turn to Mr. Ryan for any opening statement he cares to make.

Mr. Ryan.

Mr. RYAN. Thank you, Chairman. Thank you for holding this hearing. I think it is a timely hearing that we talk about our transportation investment needs and the federal budget.

Like most everyone, I believe that our transportation network is the backbone of our economy and it plays a vital role in the movement of people and goods. So it is obvious that we need a world-class transportation infrastructure that meets the challenges and conditions of the 21st century.

I am concerned, however, that our current spending and revenue structure for surface transportation is not delivering that. It is essentially a revenue-sharing program with states and localities.

One of the key problems of the current structure is that it lacks a clear federal mission and fails across most modes to ensure that scarce transportation dollars are wisely and effectively allocated.

In other words, that careful use of taxpayer resources simply is not happening. Instead, as we have seen with the last three surface transportation authorization bills, the allocation of federal transportation dollars has as much, if not more, to do with politics as it does with actual need.

And with the reauthorization of the Multi-Year Surface Transportation Bill just around the corner, which this Committee will be first to address in its budget resolution, we need to start the process of fundamentally reexamining our current path now. And that is why this hearing is very timely.

I understand that our witness today will share the view that a comprehensive review of our current program and revenue structure is certainly a wise use of this Congress' time. I can think of no better example of what is wrong with our current structure and regrettably examples are plentiful from the bridge to nowhere to many earmarks.

And if you take a look at the currently projected shortfall in the highway account of the Highway Trust Fund for which CBO recently projected a $4.3 billion shortfall in 2009 and which is rising thereon after, I think addressing this will be a good place to start as we reassess the federal government's role in surface transportation.

Given the importance of transportation infrastructure to our economy and our way of life and given the magnitude of the challenges we face, I look forward to the testimony of the distinguished panelists and I am very happy to have Secretary Peters here with us as well.

Thank you.

Chairman SPRATT. Thank you, Mr. Ryan.

Now, a few housekeeping details before we get started. First of all, I want to acknowledge Mr. Earl Blumenauer who was one of those who instigated, initiated, and requested this hearing because of his long-term interest in the infrastructure of this country.

Earl, we will give you some extra time to ask any questions you would like to ask.

I also want to ask unanimous consent that all members be allowed to submit an opening statement for the record at this point.

[The prepared statement of Mr. Blumenauer follows:]

PREPARED STATEMENT OF HON. EARL BLUMENAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Over the past several years, Americans have witnessed the practical effects of the decline of American infrastructure: New Orleans remains a shadow of its former self since the floodwaters receded; the I-35 bridge collapsed—just one of the 6,000 bridges on the National Highway System with a rating of "structurally deficient;" in our cities, steampipes explode and sinkholes form; and everywhere Americans are stuck in traffic for longer periods and with few options to avoid such congestion.

Looming over these known challenges are the twin—and inter-related—threats to our communities of global warming and energy supplies.

In 2005, Congress passed SAFETEA-LU, which authorized the spending of $244.1 billion over five years on transportation infrastructure. Yet this Act, sizeable as it was, was woefully short of the Department of Transportation's own estimate of the need, which was $375 billion. DOT, however, failed to request that amount, undercutting its own programs. Today, the American Society of Civil Engineers estimates that an investment of $1.6 trillion is necessary to update our public infrastructure. At the same time, the balances in the Highway Trust Fund are eroding and will run a $4 billion deficit in 2009. The Mass Transit Fund will be exhausted by 2011.

Leaders on both sides of the aisle agree that the United States must update its public infrastructure. The failure to do so puts all users of our transportation systems at risk, puts the nation's environment at risk, and puts the economic foundations of the country at risk.

For all of these reasons, we face some critical questions: What are the appropriate levels our society should invest in transportation? How do we provide individuals with access and how are we going to move freight in an increasingly complex urban environment? How can we better allocate the billions of dollars in investments we make to better maximize our society's returns?

Answering these challenges will call forth the best in American ingenuity, craftsmanship, and foresight. To harness these abilities, we must articulate a new national vision of transportation infrastructure. This vision must be sufficiently inclusive to meet the challenges presented by the threat of global warming, a growing population, and an expanding economy. Resolving these challenges will bring tremendous benefits. Reorienting our antiquated infrastructure around efficiency, sustainability and reduced greenhouse gas emissions represents one of the preeminent engines for innovation, job creation, and economic productivity growth in coming decades.

Fortunately, America has surmounted similar challenges before. In 1808, Albert Gallatin and the president he served, Thomas Jefferson, developed a plan that guided economic development for the 1800s. Almost exactly one hundred years ago, President Theodore Roosevelt recognized the need to invest in and preserve our natural resources and he called forth national efforts that guided land-use and transportation policy for decades beyond his presidency. Today, America faces similar challenges and requires similar leadership. Our hearing should be part of the effort for Congress to begin laying the groundwork for a vision that will guide infrastructure investment for this century that will overcome the challenges we face.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF HON. ADRIAN SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Good morning and thank you, Mr. Chairman. This hearing is necessary and timely, and I am pleased we are holding it today.

Safe and efficient transportation is tremendously important to the Nation's economy and to the Third District of Nebraska.

The Federal surface transportation spending and revenue structure needs improvement. This is especially troubling to me since Nebraska is one of 25 donor states; putting more money in gas tax revenue into the Highway Trust Fund than we get back. As currently structured, funds are not targeted to most effectively address current and future challenges.

Some of the these challenges in Nebraska relate to changing economic activity. For example, we still face significant transportation issues in the ethanol industry. As we see changes resulting from bioenergy development, transportation demands are changing and I question whether or not we are prepared to meet this challenge.

I want to thank our witnesses for coming here today to provide testimony for the Committee, and I look forward to hearing from you.

Mr. Chairman, I look forward to continuing to work with you, and I thank you for your time.

And, finally, Secretary Peters and the other witnesses, we have your prefiled testimony. We will, if there is no objection, make those statements part of the record so that you can summarize them in any way you see fit.

The floor is yours. Thank you again for coming. We look forward to your testimony.

STATEMENT OF HON. MARY E. PETERS, SECRETARY, U.S. DEPARTMENT OF TRANSPORTATION

Secretary PETERS. Mr. Chairman, thank you so much and thank you for the opportunity to be here.

Chairman Spratt, Ranking Member Ryan, members of the Committee, it is truly an honor to appear before you here today.

Since I had the opportunity to return to Washington last year, I have sought to ensure that the Department is focused on the most pressing transportation challenges facing our system. We must reverse the decline in overall transportation system performance. American families and American businesses pay a very high price for this decline by way of delays, unpredictability, wasted energy, and other costs.

And we must continue to reduce transportation fatalities and injuries even as traffic volumes grow. We can do this by emphasizing comprehensive, data-driven approaches and new crash prevention technologies.

This Committee will play a very important role, a vital role in reforming federal transportation spending policies and practices to respond to these challenges.

The core problems plaguing America's aviation highway and public transportation systems are strikingly similar. The current federal tax and spending structure that underpins each is increasingly ineffective at targeting resources where they are needed the most to respond to growing transportation congestion.

This is true for two basic reasons. First, federal transportation taxes are not direct user charges and do not reflect the true cost of using transportation facilities. And, second, federal transportation programs are not sufficiently focused on stimulating the type of innovation necessary to lower the cost of transportation.

By relying on an array of taxes on gasoline, diesel, jet fuel, airline tickets, heavy truck sales, and truck tires, as well as general taxpayer funds, the federal government invests approximately $61 billion a year in highways, bridges, airports, transit systems, and in our air traffic control system.

These taxes are then deposited into dedicated trust funds and reallocated based on formulas, special designations, and earmarks, a significant level of earmarks.

Current programs, regulations, and policies discourage the proper pricing of transportation infrastructure. They fail to sufficiently reward innovation and technology development. They do not prioritize investments based on economic returns and they blur the relative responsibilities of federal, state, and local authorities and the private sector.

Because transportation users do not pay directly for providing and managing the nation's transportation infrastructure, they have relatively little input into federal program and policy decisions and they are largely unaware of what it costs to provide transportation infrastructure or what they are paying to use it.

This contrasts very sharply with the structure that the country has adopted for most other major network utilities such as telecommunications, electricity, pipelines, and railroads.

The negative consequence of this flawed structure were not particularly important when our transportation infrastructure in this nation was greatly exceeded by travel demand. We had much more infrastructure than we had demand. However, thanks to the robust economy and population growth over many decades, transportation policy complacency is no longer acceptable.

There is an intense focus right now on the sustainability of the federal trust funds that support this increasingly flawed model. On the highways and transit side, we currently spend billions more than we collect in tax revenue every year. And as a result, the highway account of the Highway Trust Fund is projected to experience a substantial cash shortfall the first time in 2009. The mass transit account will go negative in 2011.

This impending shortfall should be viewed not as a crisis, but as an opportunity. It is an opportunity to redefine the federal government's role in surface transportation following the completion of the interstate system.

And thanks to technology developments in the last five to ten years, it is also an opportunity to start to shift away from today's tax and spend model to a direct pricing and investment model. This model can and should embrace a larger role for the private sector in financing, managing, and operating the nation's infrastructure.

In just the last three years literally billions of dollars of private capital have been amassed with the main purpose of investing in U.S. transportation infrastructure. These resources stand waiting for our country's political leadership to establish policies and parameters that would attract this investment.

In the aftermath of the tragic collapse of the I-35W bridge in Minneapolis, several members of Congress have introduced legislation calling for an increased investment in highways and bridges. I strongly believe that any discussion about the amount of our investment would be misguided without a discussion about the quality of our investment and where we are spending money today.

Contrary to the prevailing view, the DOT 2006 Conditions and Performance Report based on 2004 data indicates that the physical condition of our transportation infrastructure has been improving in recent years. Ninety-one percent of travel on the nation's highway system takes place on roads that are considered acceptable ride quality.

Similarly, we have seen a noticeable decline in the percentage of bridges considered to be structurally deficient over the last ten years. The same does not hold true when it comes to congestion or overall system performance.

Despite substantial increases in federal spending since 1982, average rush hour delays in our nation's urban areas have increased from 14 hours to 38 hours. Rush hour is no longer a true term. It is rush hours. Total hours of delay in those areas have increased from 800 million to 4.2 billion hours.

Increases in federal taxes and spending would likely do little, if anything, to reverse these trends without a much more basic change in how we analyze competing spending options and manage existing systems more efficiently.

Mr. Chairman, I greatly appreciate the intense budgetary pressures that this Congress and this Committee are charged to address. With growing entitlement obligations and major national security needs, among other priorities, it is clear that this country will need to reassess many components of the federal budget and we have the opportunity to do so with transportation before us.

Thank you, Mr. Chairman. I would be pleased to answer any questions that you have.

[The prepared statement of Mary E. Peters follows:]

PREPARED STATEMENT OF HON. MARY E. PETERS, SECRETARY, U.S. DEPARTMENT OF TRANSPORTATION

Chairman Spratt, Ranking Member Ryan, and Members of the Committee, I am honored to be here today.

The United States has the world's largest and most capable transportation systems. Those systems have enabled unprecedented growth in domestic and international trade, have brought our diverse States closer together, and have provided a critical foundation for the amazing wealth creation and economic prosperity that have taken place in the U.S. and around the world in the last 60 years.

When I returned to Washington last year, I sought to ensure that the Department was focused on the challenges that were most pressing and the solutions to those challenges that would have the most impact. In my view, those challenges are: 1) reversing the decline in overall transportation systems performance that is increasingly imposing costs on American families and businesses by way of delays, unpredictability, and wasted energy, among other costs, and 2) ensuring a continued reduction in transportation system fatalities and injuries, even as traffic volumes grow, by emphasizing comprehensive, data-driven approaches and new crash prevention technologies. We have made significant strides forward in the past year.

I was excited to receive the opportunity to testify here because I believe this Committee can play a vital role in reforming Federal spending policies and practices to respond to these challenges. I will focus the bulk of my testimony on surface transportation, but the core problems plaguing America's aviation, highway, and public transportation systems are strikingly similar. All are plagued by a Federal tax and spending structure that is increasingly ineffective at targeting resources and addressing declining performance.

This is true for two basic reasons. First, Federal transportation taxes are not direct user charges, and do not reflect the true costs of using transportation facilities, including the costs of congestion. Second, Federal transportation programs are not sufficiently focused on stimulating the type of innovation necessary to lower the costs of transportation.

Relying on an array of taxes on gasoline, diesel, jet fuel, airline tickets, heavy truck sales, and truck tires, as well as general taxpayers, the Federal Government currently makes investments of approximately $61 billion in America's highways, bridges, airports, transit systems, and in our air traffic control system. These taxes are deposited into dedicated trust funds and then re-allocated based on formulas, special designations and earmarks. Over the last 20 years, we have witnessed substantial increases in Federal transportation spending and simultaneous deterioration in the performance of the systems that are intended to benefit from this spending.

Today's Federal investment strategy for transportation often appears more focused on rewarding status quo constituencies than it does on improving the Nation's transportation infrastructure. Current programs, regulations, and policies discourage the proper pricing of transportation infrastructure, fail to sufficiently reward innovation and technology development, do not prioritize investments based on economic returns, and blur the relative responsibilities of Federal, State, and local authorities and the private sector. And of course, they encourage the 6,000 plus earmarks we witnessed in the 2005 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

Because transportation system users do not pay directly for the costs of providing and managing the nation's transportation infrastructure, they have relatively little input into Federal program and policy decisions. Polls confirm that users of our transportation systems are largely unaware of what it costs to provide transportation infrastructure or what they are paying to use it. This contrasts sharply with the structure the country has adopted for our other major network utilities such as telecommunications, electricity, pipelines, and railroads.

For years, the negative consequences of this flawed structure were not particularly important as transportation infrastructure supply greatly exceeded travel demand. Thanks to robust economic and population growth over many decades, however, that era has ended. Transportation policy complacency is no longer acceptable if our transportation systems are to accommodate the type of growth that is projected for our economy.

There is intense focus right now on the sustainability of the Federal trust funds that support this increasingly flawed model. On the highways and transit side, we are currently spending billions of dollars more than we collect in tax revenues. As a result, the Highway Account of the Highway Trust Fund is projected to experience a substantial cash shortfall for the first time in 2009. The Mass Transit Account will go negative in 2011.

This impending shortfall should be viewed as an opportunity, not a crisis. By encouraging a shift away from a tax and spend model to a direct pricing investment model, dramatic transportation system improvements are possible. In fact, it is a rare moment indeed to have the chance to implement major economic policy changes that can benefit individuals, families, corporations, and the environment simultaneously.

In the aftermath of the tragic collapse of the I-35W Bridge in Minneapolis, Minnesota, it is important that I provide an assessment of the overall condition of the Nation's highways and bridges and provide further detail on some of the issues raised above. Recently, several members of Congress have introduced legislation calling for increased investment in highways and bridges. While I agree with these members of Congress that our financial model needs to be reexamined, I strongly believe that any discussion of the amount of our investment would be misguided without a discussion of the quality of our investment.

As a preliminary matter, it is important to understand that while we must do a better job of improving the Nation's transportation systems, the Nation's infrastructure is not crumbling when compared to previous periods. The DOT 2006 Conditions and Performance (C&P) Report, based on 2004 data, indicates the physical condition of our transportation infrastructure is good and has been improving. This report describes the current highway, bridge and transit systems and provides an assessment of the condition of these systems as of the relevant reporting year. Highways are assessed to determine what percentage of the highway system provides ride quality that is at least acceptable. Bridges are assessed to determine the percentage of bridges that are structurally deficient and/or functionally obsolete. Transit is assessed to determine the condition of each transit asset on a five-point scale ranging from excellent to poor.

The 2006 C&P Report indicates that the percentage of vehicle miles traveled on pavements with "good" ride quality rose from 39.4 percent in 1997 to 44.2 percent in 2004. Similarly, the percentage of bridges considered to be structurally deficient dropped from 16.0 percent in 1998 to 13.1 percent in 2004. The 2006 C&P Report also indicates that physical conditions for most transit assets have improved.

Despite these increases, the percentage of travel occurring under congested conditions rose from 27.4 percent in 1997 to 31.6 percent in 2004. The average length of congested conditions per day rose from 6.2 hours in 1997 to 6.6 hours in 2004. Since 1982, average rush hour delays in our nation's urban areas have increased from 14 hours to 38 hours. Total hours of delay in those areas have increased from 800 million to 4.2 billion hours. Because the underperformance in the highway sector is fundamental, not incremental, I have come to believe strongly that increases in Federal taxes and spending would likely do little, if anything, to reverse these trends without a more basic change in how we analyze competing spending options and in how we manage existing systems.

A review of the 2006 C&P Report highlights the following numbers. In 2004, capital investments in highways and bridges (across all levels of government) amounted to $70.3 billion. The annual capital investments required from 2005 to 2024 to maintain these highways and bridges at roughly their current condition and performance level would be $78.8 billion and the maximum economically justifiable investment during this period would be $131.7 billion per year.

Although not expressed this way, it is important to differentiate between the costs to maintain the quality of the Nation's infrastructure and the cost to improve the performance of the Nation's infrastructure. In order to ensure that existing infrastructure quality is maintained, DOT estimates that approximately $40 billion a year in properly targeted highway and bridge expenditures would be sufficient. In order to substantially improve existing highways and bridge quality, DOT estimates that approximately $60 billion a year in properly targeted highway and bridge expenditures would be sufficient. These estimates are based on construction costs from 2004. Substantial construction cost escalations since 2004 will probably result in significant increases in these estimates and will be reflected in the next C&P Report.

Because advocates of higher taxes and spending frequently cite the C&P Report incorrectly, it is important to explain its limitations. One of the most important traditional limitations of the C&P Report has been that while it identified the amount of capital investment required to maintain or improve highway and transit systems, it has not directly assessed the impact that alternative financing mechanisms could have on the total amount of investment required.

For example, increased funding for highways from gas taxes and other general revenue sources would have different implications than increased funding for highways from tolls or other direct user charges. While increased funding from taxes does little, if anything, to address congestion specifically, direct road pricing corresponding to the economic cost of congestion would reduce peak traffic volumes and increase net benefits to all users.

To begin to address this limitation, the 2006 C&P Report includes a preliminary analysis of the application of universal congestion pricing to our highways and the effect this would have on the calculation of capital investment needs. Congestion pricing involves charging drivers more to use a facility or system during peak congestion periods. It works by shifting discretionary rush hour highway travel to other modes of transportation or to off-peak periods.

As expected, the preliminary analysis included in the 2006 C&P Report confirmed that universal congestion pricing, by improving the performance of our current highway system, could significantly reduce the level of future highway investment that would be required to maintain or improve the condition of our highways. The 2006 C&P Report suggested that applying congestion tolls to all of the congested roads in the system could reduce the cost to maintain the system by $21.6 billion per year, or 27.5 percent, leaving it at $57.2 billion, which is well below the current level of capital spending.

This preliminary analysis affirms the Department's conviction that the costs of our Nation's transportation systems are intrinsically linked to the types of investments that we make. If we make investments that will increase system performance, such as congestion pricing, we can reduce costs and bring down the amount of investment required to maintain our system by billions of dollars.

As the Committee on the Budget is aware, while cost-benefit analysis should be a minimum condition to investment, it is by no means sufficient to justify additional spending. Cost-beneficial highway projects need to be compared and prioritized with other investment options. A project with a benefit/cost ratio just above one is likely to rank very low when compared to other conceivable investment options. In fact, most private corporations employ "hurdle rates" that imply benefit/cost ratios far in excess of one.

All levels of government, including the Federal Government, have limited resources to fund programs. Transportation spending needs to compete with health care, the environment, social services, and many other important programs. Moreover, all forms of government spending compete with private sector spending. We should not tax our citizens and spend the proceeds for government purposes—even those whose benefits exceed their costs—if taxpayers have even more compelling needs to spend those funds in the private sector.

In addition, while the models used for the C&P Report assume that projects are prioritized based on their cost-benefit ratios, this assumption is not consistent with actual patterns of project selection and funding distribution that occur in the real world. As noted above, in the real world, major spending decisions often have nothing to do with underlying economics. Real world process and legal limitations also constrain the ability to make cost-beneficial investments. For example, a Federal Environmental Impact Statement currently takes over sixty months to complete, regardless of how cost-beneficial a certain project may be. In fact, many of the urban highway expansion projects that would be embedded in a $131.7 billion national cost-beneficial spending figure would not obtain the political support or environmental approvals needed to move the projects forward.

Another important characteristic of the C&P Report is that while it suggests how much money could be spent cost-beneficially across all levels of government for capital investment in transportation, it does not make any recommendation as to the percentage of that investment that should be provided by the Federal Government. The 2006 C&P Report, in fact, reports that Federal highway capital investment is increasing more rapidly than State and local highway capital investment. Between 1997 and 2004, Federal capital investments in highways rose 52.9 percent, while State and local capital investment increased by only 39.9 percent. The Federal Government's portion of total capital outlay increased from 41.6 percent in 1997 to 43.8 percent in 2004. In 2002, the Federal Government's portion of total capital outlays was 46.1 percent, the highest level since 1986.

This trend was noted by an August 2004 report from the Government Accountability Office (GAO), Federal Aid Highways: Trends, Effect on State Spending, and Options for Future Program Design (GAO-04-802). The GAO report noted that while "the Nation's capital investment in its highway system has doubled in the last 20 years, and during that time period as a whole, state and local investment in highways outstripped federal investment in highways," nevertheless, "since the early 1990s, state and local investment in highways has increased at a slower rate than federal investment in highways."

According to the GAO report, from 1991 through 2002, State and local investment increased by 23 percent while Federal investment increased by 47 percent.

The GAO report concluded that "federal-aid highway grants have influenced state and local governments to substitute federal funds for state and local funds that otherwise would have been spent on highways." This substitution limits the effectiveness of Federal aid to achieve important highway program goals, because increases in Federal aid do not translate into increased overall highway capital investment.

One way to improve the emphasis on investment quality and efficient system pricing is to expand the involvement of the private sector in the construction, financing, and operation of our transportation systems. Public-private partnerships (PPPs) for transportation projects reduce their costs, provide incentives for better pricing of transportation assets, accelerate project delivery, reduce public sector risk, and bring increased innovation and competition to the industry. To the extent capital investments in our highways and bridges facilitate PPPs, they are likely to reduce the total amount of investment required to maintain and improve our highways and bridges.

There is no clearer evidence of this failure to prioritize spending than the disturbing evolution of the Federal highway program. This program has seen politically designated projects grow from a handful in the surface transportation bill enacted in the early 1980s to more than 6,000 enacted in SAFETEA-LU. The cost of these earmarks totaled $23 billion—a truly staggering figure.

The real cost of these earmarks is much higher. Looking at a sample of various recent earmarks, we found that the Federal earmark amounts themselves comprised on average only 10% of the total project cost. Because of this, State departments of transportation will typically either delay the earmarked project indefinitely or reallocate resources from higher priorities to fill the funding gap. In addition, earmarks present administrative burdens for States that must dedicate scarce personnel resources to managing lower priority projects that are subject to earmarking. In short, earmarks ripple through the entire Federal-aid program structure.

In addition to earmarks, there are a number of special interest programs that have been created to provide funding for projects that may or may not be a State and local priority. As a former State DOT director, I have had first-hand experience with the difficulties created when Washington mandates override State priorities. While it is true that not all earmarks or special interest investments are wasteful, it is also true that virtually no comparative economic analysis is conducted to support these spending decisions. No business could survive for any meaningful period of time using a similar investment strategy. Not surprisingly, new economic literature reveals that the returns on our highway investments have plummeted into the low single digits in recent years.

The Department is working with States to encourage them to regularly use benefit-cost analysis (BCA) when making project selection decisions. Currently, approximately 20 States make some use of BCA, while 6 States use the technique regularly. The GAO recently conducted two studies to identify the key processes for surface transportation infrastructure planning and decisionmaking, with a particular emphasis on the role of economic analysis methods and the factors that affect the use of such methods.

These studies are Highway and Transit Investments: Options for Improving Information on Projects' Benefits and Costs and Increasing Accountability for Results (GAO-05-172); and Surface Transportation: Many Factors Affect Investment Decisions (GAO-04-744). The former report noted that "the increased use of economic analytical tools, such as benefit-cost analysis, could improve the information available to decision makers and, ultimately, lead to better-informed transportation investment decision making" (GAO-05-172, p. 6).

Among other reasons, GAO cited "political concerns" for why BCA is not more widely used in U.S. public sector surface transportation decisionmaking. GAO observed that projects may be important for a particular interest group or constituency even though they are not efficient from an economic standpoint. At a minimum, BCA would provide additional transparency to decisions that are less cost-beneficial. Ideally, BCA would actually begin to prevent inefficient decisions from being made in the first place.

GAO also noted that BCA results are rarely reviewed in light of actual project outcomes. In other words, not only is BCA underused in the project planning process, it is also rarely used to assess the efficacy of a previous investment. This is in stark contrast to typical capital investment models employed in the private sector. It is important that Congress and the Department work together to establish far more productive means to ensure that scarce resources are flowing to projects that benefit the public the most. BCA is likely to be one of our most effective tools to advance that objective.

Moreover, since Federal transportation funding levels are not linked to specific performance-related goals and outcomes, the public has rightfully lost confidence in the ability of traditional approaches to deliver. The use of performance measures, by helping to identify weaknesses as well as strengths, can improve the transportation project selection process and the delivery of transportation services.

In addition to an insufficient performance and cost-benefit focus, the current gas tax-dependent model does virtually nothing to address directly the growing costs of congestion and system unreliability. Taxes on gasoline, diesel fuel, motor vehicles, tires, property and consumer products—the dominant means of raising revenues for transportation—are levied regardless of when and where a driver uses a highway. This leads to a misperception that highways are "free," which in turns encourages overuse and gridlock at precisely the times we need highways the most. Consistent with the views of almost every expert who has looked at the issue, GAO recently released a report arguing that gas taxes are fundamentally incapable of balancing supply and demand for roads during heavily congested periods.

The data simply do not lie in this case. Relying extensively on gas and motor vehicle taxes, virtually every metropolitan area in the U.S. has witnessed an explosion in traffic delays over the last 25 years. Meanwhile, in recent years, the increase in surface transportation funding has significantly outpaced the overall growth of non-defense, non-homeland security Federal discretionary spending. And, since 1991, capital outlays at all levels of government have nearly doubled. Economists have long understood the connection between payment mechanisms and system performance, but technology and administrative complexities limited the ability of policymakers to explore alternatives. Today, those barriers no longer exist.

This is one of the main reasons that our Department has been strongly supporting States that wish to experiment with electronic tolling and congestion pricing. Nationwide, the majority of projects in excess of $500 million currently in development are projected to be financed at least in part with electronic tolls. In the middle of August, we announced Federal grants of more than $800 million to some of the country's largest cities to explore fully the concept of electronic tolling combined with expanded commuter transit options and deployment of new operational technologies. Nationwide, the trends are inescapable and encouraging.

We believe that, to the extent feasible, users should finance the costs of building, maintaining, and operating our country's highways and bridges. What is increasingly clear is that directly charging for road use (similar to the way we charge for electricity, water, and telecommunications services) holds enormous promise to generate large amounts of revenues for re-investment and to cut congestion. Equally important, however, prices send better signals to State DOTs, planners, and system users as to where capacity expansion is most critical. Prices are not simply about demand management; they are about adding the right supply.

The current financial model is also contradictory to other critical national policy objectives. As a country, we are rightly exploring every conceivable mechanism to increase energy independence, promote fuel economy in automobiles, stimulate alternative fuel development, and reduce emissions. President Bush has urged Congress to pass laws that will substantially expand our alternative energy capabilities and increase Corporate Average Fuel Economy requirements for automobiles and light trucks. The Federal Government should be strongly encouraging States to explore alternatives to petroleum-based taxes and not to expand the country's reliance upon them.

Before reaching the conclusion that additional Federal spending and taxes is the right path, we should critically examine how we establish spending priorities today. We need a data-driven, performance-based approach to building and maintaining our Nation's infrastructure assets—a process where we are making decisions based on safety first, economics second, and politics not at all. And we need an underlying framework that is responsive to today's and tomorrow's challenges, not those of the 1950s.

I look forward to working with you and would be pleased to answer any questions you may have.

Chairman SPRATT. Thank you, Madam Secretary.

We have ten minutes to go vote. But before we do that, what I am going to do is yield my time and open time to Mr. Blumenauer to make a statement he cares to make and then we will go to you, Mr. Ryan, if that is agreeable.

Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman. I appreciate your courtesy and I also appreciate your having this hearing.

And what I would do is just briefly suggest a slight alternative to the vision that has been advanced by our distinguished witness because I think Congress is in the midst of a fundamental assessment of our role of infrastructure and the role that the three percent of the $2 trillion that is spent each year on transportation that is federal will play.

Some say tax and spend. We have not kept pace with inflation with the gas tax. And the Department of Transportation itself gave us an assessment of what should have been in the last Transportation Bill, $375 billion, a figure, by the way, that was embraced unanimously by the Republicans and the Democrats in the House Transportation Bill.

We are losing the infrastructure race in this country. The rest of the world is spending not tens of billions but trillions of dollars on modernizing a system of transportation, roads, bridges, mass transit, pipelines, aviation, looking at ways to integrate it.

I would suggest that the bridge issues is just the tip of the iceberg. We have looming over us twin challenges, interrelated threats to our communities of global warming and energy supplies that are further going to throw our current system of transportation funding heavily reliant on a fixed gas tax into a downward spiral.

We did SAFETEA-LU in 2005 at a $244 billion level when the Department itself in its analysis said we needed 375. The American Society of Civil Engineers estimates that an investment of $1.6 trillion is necessary to update our public infrastructure while, as the Secretary points out, the balances are eroding and we cannot even support the current level of system.

We ought to be asking a fundamental question about the appropriate role for investing in infrastructure, how are we going to provide individuals with access, how are we going to move freight through an increasingly complex urban environment, how do we better allocate billions of dollars in investment to maximize returns.

Congestion pricing and other mechanisms, I think, or market signals are appropriate, but they are certainly, I think, by no stretch of the imagination going to be sufficient.

I hope that this hearing and the work that we can do looks at the big picture, not on a bike path or even the Republican bridge to nowhere, but what the big picture should be. How are we going to reorient our antiquated infrastructure around efficiencies, sustainability, reducing greenhouse gases?

We have done this in the past. We are coming up on the 200th anniversary of the Galiton plan from Thomas Jefferson that guided development for a century. Ninety-nine years ago, a Republican President, Teddy Roosevelt, convened a national conference on infrastructure that set the stage for decades to come on the interstate freeway system and dam construction, a whole host of other things.

Mr. Chairman, I hope that our Committee continues out this bigger picture about what role that is going to play in both how we budget for it, the appropriate role, what it means, and how we deal with the big picture rather than slogans and ideology. We have got a massive problem before us and I am hopeful that this Committee can help unlock it by looking at it in a factual way.

Chairman SPRATT. Thank you, Mr. Blumenauer.

And we have about five minutes to make it to the floor to vote on a motion to adjourn. That is not a good sign. I am not quite sure what is afoot today.

But in any event, we have got to go vote and we will get back as quickly as possible. To the best of my knowledge, there is no vote following this, so we should be back shortly.

The Committee stands in recess.

[Recess.]

Chairman SPRATT. Thank you for your patience. I call the hearing and the Committee back to order.

And we turn next to the Ranking Member, Mr. Ryan, for any questions he may have.

Mr. Ryan.

Mr. RYAN. Thank you, Chairman. I think just two areas I want to get into.

Secretary Peters, the National Surface Transportation Policy and Revenue Study Commission was created by SAFETEA- LU. The Commission is tasked with creating the 50-year vision for our country's surface transportation system. Frank Busalacchi, our own

Secretary of Transportation in Wisconsin, is a member of this 12-person Commission. It is my understanding that they are supposed to send their report to Congress December 31st of this year.

I was wondering if you could share with us your views on the Committee's work to date and any sneak peek that you can give us. And then I have a question about earmarks I want to ask you as well.

Secretary PETERS. Thank you so much. Mr. Chairman, Congressman Ryan, yes, I would be happy to share.

The Commission has been diligently working since May of last year and we have accomplished a lot. We have looked at a lot of research and draft report writing is now being developed.

What the Commission is looking at are a variety of areas. One is what the federal role should be vis-a-vis state, local government, and private sector roles, what various funding sources might be and what the yield of those funding sources would be over time, and then also looking at governance, how should this system be managed in the future, who should make recommendations and decisions on how much funding, where the funding should go, things like that, and then, finally, looking toward the future, 50 years out, what are going to be the best methods for financing and managing the system during that time.

I will tell you we have had very robust policy conversations within the Commission and we are not all on the same page yet, which I think is good to have that kind of robust conversation. But, again, we are committed to issuing a report to Congress by the end of this year.

Mr. RYAN. No consensus has yet been reached then about——

Secretary PETERS. No, sir. And perhaps it is a little early because we are just in draft report writing right now. Some of the things we are discussing are whether or not we have a specific recommendation or set of recommendations or options. And if we are not able to reach consensus, I suspect it will be the latter.

Mr. RYAN. Okay. On to earmarks. How many earmarks do we have in SAFETEA-LU? Sixty-three hundred——

Secretary PETERS. Yes.

Mr. RYAN [continuing]. Earmarks in SAFETEA-LU. Is it not true that many of these earmarked projects are never obligated or advance at a slower rate than usual because they were not ready to move forward when the money was earmarked in the Highway Bill? That is question one.

Question two, can you give us just sort of a summary of the Clyburn report, the IG report, and give us your views, which you touched on in your opening statement, on whether or not this is the right way to go given the fact that we have all of these infrastructure problems as highlighted from the bridge collapse in Minnesota and whether priorities could be met otherwise, in better ways than the earmark process?

Secretary PETERS. Congressman, I would be happy to. And I would be very happy to address those areas.

I think misallocation of resources is one of the biggest problems we have today and it is something we really have to look at before we say we do not have enough money.

And the earmarking, as you pointed out, takes a substantial amount of the program. Some $23 billion were associated with those over 6,000 earmarks.

But the what I call the dirty little secret of earmarking is several things. One, it usually only represents about ten percent of the total cost of a project. And so what the total value of funding that is pulled out of the process is well in excess of what the actual earmarks are.

Mr. RYAN. So that $23 billion of earmarks that were actually in the bill leveraged about $230 billion——

Secretary PETERS. That is correct.

Mr. RYAN [continuing]. Of earmarks away from other priority projects?

Secretary PETERS. That is correct. That is based on our analysis. And as you said, in many cases, these projects are not ready to go. They are not on the state's priority transportation list, the TIP or the STIP.

And as a former administrator in the State of Arizona, I can attest to that fact that when we got an earmark for a project that was not included in the priority list but there was an expectation that that project would be funded, then we had to go find money from other projects that had already been prioritized and move them to that project.

Let me move now to the IG's findings and a report on earmarks that had been requested by Congressman Clyburn. The IG found several things. He identified over 8,000 earmarked projects within the DOT programs that had received more than $8.54 billion just since fiscal year 2006. And 99 percent of the earmarks that they studied were either not subject to agency review or the selection process bypassed the state's normal planning and programming process.

Earmarks can reduce the funding that states have for core transportation programs because, as I said earlier, they pull funding away from other prioritized projects. Airports do not always coincide with strategic goals, especially research goals. In fact, none of the 46 earmarked projects valued at $40 million in FTA's National Research Program addressed FTA's research goals to deliver solutions and improve public transportation.

Many low priority earmarked projects are funded over high priority earmarked projects. Many, many times that is the case. And earmarks provide funds, and this is very important, for projects that would otherwise be ineligible. Sometimes the earmark comes with a notwithstanding any other provision of law phrase and it funds projects that would not even be legally eligible for funding under the earmarked categories.

And so these are just a top level look at what the problem with earmarking is.

Mr. RYAN. All right. Thank you.

Chairman SPRATT. We just had the bell ring for another vote. I am not going to that vote. I am going to miss the vote. So members who would like to stay and ask questions can run, vote, and come back.

In the meantime, I will recognize Mr. Doggett because he is next on the pecking order.

Mr. DOGGETT. Well, thank you, Mr. Chairman.

And thank you, Madam Secretary, for your testimony and your service.

I must say that I am a bit surprised by your use of the term tax and spend because, of course, as you know from your long career, the tax and spend approach had its origin under Dwight David Eisenhower who felt the "National Interstate and Defense Highways Act" should be paid for as you go and that the pay as you go approach was the appropriate one as the "Highway Revenue Act" was enacted at the same time in 1956.

It is true that in the last seven years, on everything, this Administration has preferred a borrow and spend approach for all of our national needs, but it would seem to me that the more fiscally responsible one is to pay for our highways as we determine we need them.

Now, there is an alternative model that Texas has really been pioneering with. And as you know, we have a Governor in Texas who seems to have never met a highway that he did not think he could toll. If he had his way, we would have toll roads blossoming in Texas like the wild flowers in the spring.

I have some concerns about the fact that the Administration in its budget proposal really seems to want to incentivize more toll roads such as by its proposal to tax and spend for grants for high-tech electronic toll booths that would encourage states to use that means of finance.

Let me ask you if you support the requirement that no tolling occur on federal highways in the State of Texas or anywhere else.

Secretary PETERS. Congressman, I would be happy to answer your question. The answer is, no, the Administration does not support that provision and let me explain why.

Mr. DOGGETT. Well, because my time is short, and I will give you an opportunity to elaborate at the end, but do you support prohibiting states from buying back federal highways that the taxpayers have already paid for in order to toll those highways?

Secretary PETERS. Congressman, we prefer to let states make those decisions. And I think one of the fundamental problems that we have today is decision making in too many cases has been moved away from state and local governments and decisions are being made at the federal level.

Mr. DOGGETT. Well, I guess the concern is that these highways were paid for with federal tax dollars. You are proposing in your budget to encourage the states to toll more highways and you just indicated by your answers that you do not support restricting tolls on federal taxpayer financed highways and that you approve of the practice of the states coming and buying back highways taxpayers have already paid for and tolling them.

And I find that to be very problematic and something that I am hearing from many people in Texas is not the way to go. And the partner to the toll way on every highway that the taxpayers have already paid for in Texas is, of course, the very controversial trans-Texas corridor where the same Governor is proposing to take swaths of land as wide as ten miles that would separate someone's century-owned farm or ranch home from their pastures and their field. This has been a very secretive process. As you know, the

House has also passed bipartisan language concerning the trans-Texas corridor.

Is there any federal money of any type going into the planning of the trans-Texas corridor at present?

Secretary PETERS. Congressman, I will have to check on that. I know at one time, there was, but let me check on that and get back to you.

Mr. DOGGETT. All right. The approach of doing so much of this in secret and treating our farmers and ranchers as just so much road kill when it comes to participation in the process is one that I know bothered not only me but bothers members on both sides of the aisle here. That is why the House overwhelmingly approved legislation directed to the so-called NAFTA super highway.

I know the Administration does not concede there is such a highway. But as relates to participation in working groups concerning the trans-Texas corridor and the NAFTA super highway if it is to extend beyond Texas, does the Administration support the amendment that the House overwhelmingly approved in that regard?

Secretary PETERS. Congressman, I would say that we have not taken a position on that issue yet, but let me explain——

Mr. DOGGETT. We passed it a long time ago. Do you plan to take a position as this measure moves through conference one way or the other? Do you object to the restrictions that the House approved by a vote of 362 to 63 in July concerning this matter?

Secretary PETERS. Congressman, we believe that state government should have much more latitude than they have today to make decisions.

Mr. DOGGETT. So it sounds to me like you want to give them the authority to have a secretive process to build a ten-mile wide highway, tearing up farms and ranches and rural communities where these people will not even be able to access the toll way perhaps built by a foreign firm, that as long as that is the state decision, you are content to let them do whatever they want to do.

I think we have some responsibility for federal tax dollars to try to safeguard property rights and involve the public in participation in these decisions.

Let me just close, because I can see my time is up and I know the vote is underway, by also commenting about what you call your dirty little secret on earmarks. It is not a dirty little secret that both of the Federal transportation authorization acts were approved by Republican Congresses with Republican Chairs, that the so-called bridge to nowhere was the project, a totally Republican project.

There is not one earmark in either of these transportation acts that would be there if this Administration and the Republican leadership had wanted to cut them out.

Why is it that the Administration has been so quiet for so long and has not done anything about these earmarks until the fact that we now finally have a Democratic Congress?

Secretary PETERS. Congressman, let me take two answers. First of all, with all respect, you misinterpreted my comments about the trans-Texas corridor. Second, there is no NAFTA super highway. There is no NAFTA super highway at all. And we certainly believe in public disclosure as projects are developed.

This Administration also has a long record, a long, long record in speaking out against earmarks, speaking out against using the public's money in a way that is not publicly disclosed. And we will continue to stand behind that opposition.

Mr. DOGGETT. Just specifically on the NAFTA super highway then, is there any things that you believe in letting the states do essentially whatever they want in this area to prevent the trans-Texas corridor when it goes from Mexico to the Oklahoma border from being connected to a trans-Oklahoma corridor and then a trans-Kansas corridor all the way up to the Canadian border?

Secretary PETERS. Congressman, there are restrictions about connecting to interstate highways, access points to interstate highways. Any time that a road accesses or intersects with an interstate highway, that does have to be approved.

Mr. DOGGETT. But you have put money in the past into the trans-Texas corridor.

Secretary PETERS. As I said, sir, I will research that and get back to you.

Mr. DOGGETT. I think you said you had done it in the past. You were not sure if you were doing it now.

Secretary PETERS. I said I thought we had, sir.

Mr. DOGGETT. And you said that I have not correctly interpreted your comments about the trans-Texas corridor. Would you just elaborate on what your position is on the trans-Texas corridor?

Secretary PETERS. I would be happy to, sir. We believe that there should be a full disclosure process, a process that involves not only the potential users of a highway but those who are affected by the highway. This is required by the "National Environmental Protection Act" and those types of processes, those open public processes, so the public has an opportunity to participate in decision making is absolutely something that we do support.

Mr. DOGGETT. Thank you very much.

Thank you, Mr. Chairman.

Thank you, Madam Secretary.

Chairman SPRATT. Mr. Garrett.

Mr. GARRETT. Thank you, Mr. Chairman.

And before I begin, are there any other points that you wish to clarify on the question that was just made?

Secretary PETERS. Congressman Garrett, thank you so much. And I would like to briefly clarify on that.

When the interstate highway system was proposed, actually Dwight David Eisenhower proposed it be a toll system, but the technology did not exist at that time. But that type of taxing collected on a cost to complete basis the interstate highway system at that point in our nation's history was appropriate.

It is not appropriate today. It is not appropriate today to have 40 some odd highway programs and 20 some odd highway programs that divert this money in many, many different ways from where the American public believes it should be spent.

Mr. GARRETT. I appreciate that.

And I will say this on one point. I do agree, I think, where Mr. Doggett is going with regard to his concern about earmarks. As a conservative on these earmark issues over the last five years, I have stood out and spoken out against them.

I understand the President has a difficult time in vetoing an entire bill where this percentage of the bill is earmarks and the rest of the bill is something that everybody else in the Congress and the country wants.

I will suggest, however, that the other side of the aisle repeatedly is given the opportunity. As you well know, we have a champion in this cause in the form of Congressman Jeff Flake who goes to the floor on a daily basis when the appropriation bills are here, puts up amendments to strike down some of these earmarks.

And generally speaking, and I cannot speak to where Mr. Doggett is on this, we get no support from the other side of the aisle when Mr. Flake is on the floor to try to strike down some of these earmarks.

And if he was here today, I am sure he would extend an invitation to the other side of the aisle the next time we have an appropriation bill up and next time we have an amendment to try to strike any of these earmarks, we will be looking now to see whether they will support him in this cause.

I would like, first of all, to thank you again for coming here. And I would just like to get your thoughts on something actually that Mr. Blumenauer was saying before, that the big picture, and I think his comment was, we need to take a step back and look at the appropriate federal role for infrastructure investment.

The idea that I would like to get your opinion on was once championed years ago back in 1996 by a former Chairman of this Committee, John Casik. In 1996, Chairman Casik and also the current Appropriations Committee Chairman Obey proposed a bill at that time which would basically phase out essentially a majority, almost all of the federal government's role in our nation's highway system by phasing out almost all of the federal gasoline tax.

I have now submitted a bill that takes a varying form of that. I call it the "State Act," H.R. 3497, and it does not totally eliminate the federal gasoline tax for the entire country. What it does instead, though, is to allow a state the opportunity to opt out of the system. So if my state wants to opt out and the other 49 wants to stay in, they can do so.

The reason for this idea is a couple-fold. As you know, it is not an equitable and fair system as far as the distribution of transportation dollars. Some states such as Massachusetts, Pennsylvania get well over a dollar. I will not tell you how much Alaska gets for every dollar that they contribute. While other states like Texas and Georgia and Florida only get back 90 cents or less on every dollar, around 90 cents on every dollar that they contribute. So there is not a fair distribution of the dollars in and the dollars back.

Additionally, there is a question of the efficiencies of the dollars going into Washington through the great hands of your Administration, of your agency, and then coming back with red tape and strings and what have you attached.

And we know, thirdly, on top of all that, there is in federal law a mandate of around ten percent, so that comes to around $3.9 billion, of the surface transportation programs go to enhancements. And these are some of the things I think that Jeff Flake talks about sometimes.

Enhancement programs are landscaping, flower planting, historic preservation, hiking trails, river walks, and that sort of thing, all great things, but not addressing the fundamental issues, I think, that Mr. Blumenauer would talk about as the infrastructure of our transportation.

So I could go on on some of the other problems that we have as to the equity and the fairness and the efficiency of the program, but where would you come down on the idea of allowing a state the opportunity to simply opt out and keep our funds but still have a system in place where we have an interconnectivity and a standard basis?

Secretary PETERS. Congressman, I would support that. The Administration has not taken a position. But if you will check my comments over the past years, I absolutely would support that.

And I think one of the fundamental problems with the federal surface transportation programs today is that they lack a federal focus. When the interstate highway system was being built, there was a compelling national interest in building that system. But since its completion, as you said, these funds have been spun off in many, many different directions.

In fact, today only about 60 percent of the total funds that are collected for federal surface transportation actually go to highway and bridge uses. Another about 20 percent go to transit projects, but the remainder go into a variety of projects, as you have talked about.

I do believe that the closest that we can get decision making and taxing authority to the people, we have the best projects. I believe that if we get a price and invest model instead of a tax and spend model, it is better.

And I believe that my own agency has too much emphasis on process, too little emphasis on performance, and this program has become very complex, lots of strings attached to every dollar you spend in the federal government today. And I absolutely believe that there is a much more efficient way to do this.

Mr. GARRETT. I appreciate it. And if I can just give one comment back, I remember my first year I was here I was contacted by some of our county engineers, the Road Department, and they were complaining about a program in place at that time with regard to guardrail improvements on roads and straightening of roads. And these were old county roads that we were getting federal dollars for and our county engineer said, you know, the roads are not that crooked. We really do not need to straighten them out and we certainly do not need guardrails along all of the cornfields. But because we are in this federal program, we needed it.

When I raised that question to one of your predecessors or someone from the Administration, they said, well, we have the engineers down here in Washington and we are in a better position to make those determinations. And I just reminded them that the engineers down here in Washington quite honestly were not going to be driving on that road. My local engineer drives on that road every single day. His family does. My constituents do.

So if there is anyone who is going to have a keen interest to make sure that road is appropriately safe, but not excessively so as far as those dollars being spent, more worthwhile on bridge repairs, what have you, I think it is our local engineers who are educated, trained, and can make those decisions by themselves.

Secretary PETERS. I absolutely agree. Central planning rarely yields the best results.

Mr. GARRETT. I appreciate it and appreciate the Chairman's forbearance for the extra time.

Chairman SPRATT. Thank you, Mr. Garrett.

Madam Secretary, you referred in your testimony to direct road pricing and universal congestion policies. Would you take just a minute to explain, number one, what those mean and, number two, how we can take those concepts and apply them in practice across the millions of cars and drivers that use the highways of our country every day?

Secretary PETERS. Mr. Chairman, I would be pleased to and thank you for the opportunity.

What direct road pricing means is that the price you pay for using that road is assessed based on when and how you use that road, what time of day. It could be assessed on the weight of your vehicle, the number of occupants in your car, and a variety of other things.

Technology today has eliminated the barriers that in the past made it very difficult to make that direct connection between the use of the road, the cost of the road, and then how that road performs.

An example I would give you is on State Route 91 in southern California, roughly Riverside County going into Orange County, there are some lanes, express lanes that are dynamically priced. And by that, I mean people pay for the use of those lanes, not on a per mile basis, but on a charge based on how much traffic is using the road at any given time. If the traffic is braking down and slowing down, the price goes up incrementally. On the other hand, if there are too few vehicles on the lanes, the price goes down incrementally.

Chairman SPRATT. Are these charges electronically imposed?

Secretary PETERS. Yes, sir, they are. They are electronically imposed.

Chairman SPRATT. Every vehicle would have to have some sort of transponder, receiver, admitter, or something like that?

Secretary PETERS. That is correct, sir. That is correct. And these transponders can be very much like the EZ Pass if you have seen those on the I-95 corridor. They can be something as thin as that little cellophane piece that is put on your windshield after you get your oil changed. And so either one of those technologies work today. In the future, that technology will be built into vehicles.

Chairman SPRATT. We are collecting a substantial sum, not enough as it is. I want to ask you about that momentarily.

But I believe the collection of the Highway Trust Fund receipts and revenues is about $39 billion——

Secretary PETERS. Correct.

Chairman SPRATT [continuing]. This year. Would you propose to make up for those revenues or would you simply add to those revenues by the pricing methods you are talking about?

Secretary PETERS. Sir, under current circumstances, my recommendation would be that they supplement those current revenues. However, in the future, as you discussed earlier, the highway account of the Highway Trust Fund will go into deficit likely by 2009. We hope we can make it through 2009. And so in the future, I believe that those types of revenues could supplant some other revenues that are coming in today.

But as I spoke to earlier, I do believe that we need to very carefully, and I appreciate this Committee looking at it so early, redefine what the federal role is. And then the federal government should only collect those revenues that support that role and the balance of the revenues would be left to the discretion of the states to use gas taxes, I do believe the gas taxes are neither responsive nor sustainable in the future, or a variety of other methods to collect them.

And I absolutely believe that private sector revenues can. In fact, a 2005 report by HLB Decision Economics indicated that tolling of the interstates and the freeway alone could generate between 84 and $105 billion. And that was in 2002 dollars. So there is a substantial amount of money that could be invested where the roadways would warrant it due to congestion or overuse.

Chairman SPRATT. So in your testimony, you speak rather disparagingly of the gasoline tax, but I just heard you acknowledge that we are destined to keep it for some time to come because we do not have any ways, any immediate ways to make up for $40 billion in revenues, much less $50 billion which is probably what we are going to need in the fairly foreseeable future.

Secretary PETERS. Congressman, I do believe that there are a number of problems with the gas tax as a revenue sources today, but I do not believe that it is going to go away tomorrow. I do believe, though, especially in the next authorization act, that we really have to challenge ourselves to wean ourselves off, if you will, of the gas tax over time and implement new ways, better ways of investing and financing our roadways.

Some of the problems with the user fees today are because they do not bear a direct relation to how and when people use the system. They are perceived as being free. And, of course, we know that is not the case.

Chairman SPRATT. Let us talk just a minute about the imminent shortfall in the Highway Trust Fund. Number one, what is your assessment of why we are experiencing this shortfall?

Secretary PETERS. Mr. Chairman, the reason that we are experiencing this shortfall is in blunt terms, we are spending more than we are taking in into the account. In fact, we are spending up to $5 billion a year more than we are taking in.

Now, when SAFETEA-LU spending levels were set, the intent was to spend down the current receipts and the balance that had been accumulated into the trust fund. It was widely discussed at that time that those balances would have to be carefully monitored and adjustments made over time.

But the fact is that the sustainability of the trust fund is indeed in serious jeopardy. And because we are spending so much more than we are taking in, we believe that we will have a deficit according to the mid-session review of as much as $4.3 billion by 2009. That is something that we are all going to have to work at together.

In fact, when the Administration submitted our 2008 budget, we proposed a budget that would have addressed the federal fund deficit at that time. And we proposed that we not allocate the RABA dollars. We proposed that spending restraint and prioritization be implemented.

The appropriators, unfortunately, not only ignored our proposal, which would have withheld some monies, but they added a billion dollars for bridge repairs, and they also added several billion dollars in earmarks to what has been passed to date. So we do have very serious concerns about the fund balance.

Chairman SPRATT. So your preferred solution at least for now would be to reduce spending to the level of receipts?

Secretary PETERS. Sir, I think that would be very difficult and we will be proposing, the Administration will propose some solutions. I know others have talked about solutions to at least get us through 2009. But I do believe we have to exercise spending restraint and prioritization.

Chairman SPRATT. Let me ask you generally about the infrastructure of this country since we have become much more concerned about that as a result of the collapse of the bridge in Minneapolis.

What is your assessment of the infrastructure? Do we need a program specially focused on infrastructure improvements or do we put more attention on operations and maintenance and repairs in particular as opposed to new capital improvements? What do you think we should be doing and just how serious is the structural deficiency of many of our sensitive infrastructure projects like interstate bridges?

Secretary PETERS. Mr. Chairman, very good question. And following the very tragic events in Minneapolis, we have looked very closely at the bridge program. I have asked, in fact, our Inspector General to do a very good scrub-up of that program.

The NTSB still has not issued a finding in terms of what happened. However, I did issue two advisories as a result of the bridge collapse. One, I asked that all similar bridges be reinspected and 97 percent of those have been accomplished to date. I also issued an advisory cautioning state and local governments that if they were doing repair or reconstruction on bridges that they be mindful of the loading of construction materials and equipment on the bridges.

That said, nationally, bridge conditions are improving. In fact, the 2006 Conditions and Performance Report which was referred to earlier would indicate that the overall condition of our highways, bridges, and transit systems are good and improving.

For example, on structurally deficient bridges, that figure was at 19 percent in the 1990s. It is at 12 percent today. So we are seeing modest, if you will, improvements. Do we need to still invest in maintaining and operating our infrastructure? Absolutely we do.

But I believe, sir, that if we properly target money that we are collecting today that there would not be a problem in not having enough money to maintain and repair our bridges.

Chairman SPRATT. Let me ask you one final question. Going back to the issue of tolls on new roads as opposed to old roads, as I am sure you are aware, there is an interstate system called I-73, Interstate 73, and it branches into 73 and 74 as it comes to its terminus in the Carolinas.

Would that type of road, new interstate road be eligible for tolling to support some of its capital costs?

Secretary PETERS. Mr. Chairman, a newly built road, and I had the opportunity to visit that area fairly recently, yes, would qualify. Under existing roads, existing interstate highways, there are only three pilot programs allowed to toll any kind of existing interstate. And those tolling interstates would have to repair or refurbish the road and it would have to be demonstrated that there were not other funds available to do that.

Chairman SPRATT. So there is a limitation now for three pilot projects on——

Secretary PETERS. Existing interstates, sir.

Chairman SPRATT [continuing]. Existing interstates?

Secretary PETERS. But newly built——

Chairman SPRATT. A new interstate, however, is there any limitation on new interstates?

Secretary PETERS. No, sir, other than meeting the interstate standards, of course.

Chairman SPRATT. Okay. I believe you were in Myrtle Beach at the request of one of your Committee members, Henry Brown, and you indicated a favorable attitude towards the possibility of tolling the new construction.

Secretary PETERS. Yes, we did, sir.

Chairman SPRATT. Okay. Let me turn now to Mr. Blumenauer.

Mr. BLUMENAUER. And, again, Secretary Peters, we appreciate your patience with our running back and forth here.

I think for purposes here, I will just agree to disagree about the funding level, although, Mr. Chairman, I would like to enter into our record an opinion piece authored by Pete Ruane, the President of the American Road and Transportation Builders Association, that talks about the infrastructure problem and the need for more resources.

Chairman SPRATT. Without objection, it will be made part of the record.

[The attachment follows:]

AMERICA'S NEWSPAPER
The SUNDAY Times
HUMID HIGH 88, LOW 66 — C12
OCTOBER 7, 2007
The Washington Times
$1.00

Unlocking the gridlock

By Pete Ruane

Held hostage on the highways, the average driver in Washington spends a record 60 hours a year sitting in maddening traffic jams. But the roads are choking everywhere. The average driver in America now spends an average of 38 hours stuck in delays.

Traffic congestion causes a staggering $78 billion annual drain on the U.S. economy, in the form of 4.2 billion lost hours and 2.9 billion gallons of wasted fuel — that's 105 million weeks of vacation and 58 fully-loaded supertankers, according to the Texas Transportation Institute "Urban Mobility Report" released last month.

For some commuters in Washington, it is not uncommon to endure a brutal two-hour commute each way. But, the study found even drivers in smaller cities now cope with aggravating traffic back-ups.

Peak-time delays have nearly tripled since 1982, and that doesn't begin to count the cost of delays for businesses. A look at just one sliver of the business community — the trucking industry — reveals the scope of the problem.

The Federal Highway Administration says America is in the early stages of a "freight bottleneck" capacity crisis. The agency reports more than 200 freight bottlenecks cost the trucking industry $8 billion in economic losses annually and 243 million hours of delay each year. Unsurprisingly, the problem is more acute in port cities.

Congestion and delays disrupt the just-in-time logistics adopted by U.S. manufacturing and distribution firms in recent years. The challenge becomes greater with truck traffic expected to double in the next 25 years.

Why we have such congestion is no mystery. Since 1982, the U.S. population has grown nearly 30 percent and auto and truck traffic has almost doubled while new highway capacity has grown just 6.6 percent. Even less capacity has been added for public transit.

Ultimately, traffic gridlock threatens the nation's economic competitiveness, as it takes longer and longer to get goods delivered. But while America is idling, many of our global competitors race ahead. When it comes to transportation improvements, China, India and the European Union are "eating America's lunch." By 2020, China will build 42,000 miles of interstate quality highways and India will build 25,000 miles. And the European Unions plans more than 10,000 new miles of road and rail capacity. Where is the U.S. transportation plan?

More than 50 years ago, President Eisenhower led the way in creating the Interstate Highway System, which unified the nation and served as a boon to prosperity and the American desire for freedom of mobility.

Today, on the verge of becoming a gridlocked nation, America faces a challenge that demands a similarly bold imagination and a willingness to invest in the nation's transportation system.

The need is dire. Federal, state and local budgets are coming up $45 billion short annually on what are the necessary investments just to maintain current highway conditions. The August bridge collapse in Minnesota is a metaphor for our nation's infrastructure vulnerability.

Congress will begin holding hearings next year in preparation for the next six-year highway-transit investment bill, which is due in 2009. This is a special opportunity to put forward a new vision and approach for America's transportation network.

The American Road & Transportation Builders Association has an innovative, two-part plan to restructure the federal highway program and make it more accountable.

First, it is imperative to protect and preserve the nation's existing infrastructure, especially Interstate highways and public transportation facilities. This is a fundamental government responsibility. Investments now are necessary to shore up an ailing road and transit network. This can and should be improved by raising the federal gas tax, which has not been increased in nearly 15 years. Tolling, public-private partnerships, and other user fees are also part of the solution.

Second, to prepare for the "tsunami of freight" expected to flood our highways and ports, America needs a 25-year, federally-led initiative — "Critical Commerce Corridors" (3C) — to provide new capacity to facilitate safe and efficient movement of freight.

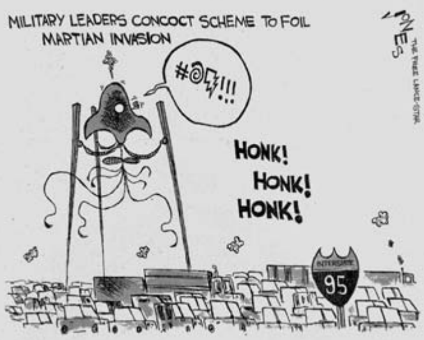
Such a system would help lower transportation and energy costs and reduce emissions even further. It would include truck-only lanes to separate commercial vehicles from cars and improve highway safety. The additional capacity could also be used to evacuate the public during national emergencies or natural disasters. The "3C" initiative would be financed with dedicated and protected user fees levied on freight shipments.

Plenty of issues still need to be resolved, but national challenges require national solutions. It's time for policymakers to roll up their sleeves and get the job done. It will require political will and a "can-do" attitude from the federal government, working in partnership with state governments and the business community.

Doing nothing to address the transportation challenges at hand would be the costliest approach of all. The status quo is no solution.

America's businesses and motorists need to get moving, and moving more quickly in a 21st century global economy. The nation has been stuck in traffic far too long.

Pete Ruane is president of the American Road & Transportation Builders Association.



Mr. BLUMENAUER. Thank you very much.

I guess I want to go back and look a little at some of the concepts that you are talking about because I do think that there is some notion of having more market forces at work.

Currently it costs the same for somebody to use a piece of roadway for high value freight, a stressed mom in the morning commute, and somebody who has just decided that they want to go downtown for a latte. All of them can use the same space and bear the same cost to the public, although wildly different value.

And we have actually in the northwest, as you know, in Oregon, we have been looking at ways to explore helping shift some of the costs like a mileage-based registration fee. And we are part of the study that is being done looking at congestion pricing because we want to make sure all of those options are on the table. And our region is very interested in working with the Department on that.

I was curious if you have given some thought to applying those principles of pricing to the federal government itself.

It is hard sometimes to work through all of the nuances and these are very complex, as you know, if we are going to try and put in the new technology, deal with the shifts in traffic patterns, get the public along with it, and make sure that we are dealing with everybody equitably.

But we would suffer no such disability with the federal government. For instance, I am assuming that there are a vast array of employees who work for the Department of Transportation, EPA, the Department of Defense, who are treated much differently in terms of their transportation costs. Some get free parking. Some pay for parking. Some have the transit benefit that we have mandated so that it is not just free parking for them, but they get transit, so that we help level the playing field.

Although to the best of my knowledge, people who walk get no help, even though they put the least stress and we have not done that very much for bicycles, although we are trying to get some legislation that would at least have a minuscule commuter benefit.

Have you given some thought to having the federal government practice what it is preaching by having its employees all treated the same for transportation benefits so that the invisible hand of the market will guide those choices and we will not have a system that skews their decisions and that this might be a model that you could use, therefore, to extend this concept?

Secretary PETERS. Congressman, I would. In fact, the DOT just moved into a new building that this Congress helped us get established over in the southeast part of the city. And we do give our employees transit benefits. I am very pleased to see that a number of employees do use transit.

We also endorse telecommuting and we——

Mr. BLUMENAUER. Excuse me. Let me rephrase my question. I understand that. My question is, have you taken the next step to level the playing field so that all employees are treated the same with an identical transportation benefit that he or she may then choose to use to bike, use transit, or park, but that you do not weight it by giving a disproportionate benefit to one mode over another?

Secretary PETERS. I see what you mean, sir. I would be very happy to explore that with you, yes.

Mr. BLUMENAUER. I would really love to do that because I think if it is a good idea, it ought to be a good idea for the federal government to do it and we can lead by example.

And the last time I checked, there was no uniform policy for how we treated commuting costs, transit, cycling, parking. Some provided free parking for some. Others charged. No uniform policy whatsoever and we are missing an opportunity. I would love to explore that with you.

I cannot let this opportunity, though, pass without just making one little footnote because I was appalled listening to NPR, to hear you talking about bike paths as somehow a symbol of egregious waste and earmarking because it has been my experience that the cycling earmarks have been extraordinarily popular, very cost effective, very much in keeping with what is going on regionally, happened quickly, and make up for a lack of aggressive federal policy dealing with something in my community. As you know, because you have been there, over five percent of the people cycle. And there is a disproportionate rate of injury for pedestrian and cyclists.

And so I was just kind of taken aback that I would hear the Secretary of Transportation signaling out bike paths as an area of abuse.

Secretary PETERS. Well, Congressman, I heard from thousands of other bicyclists as well about that comment. And I regret that I misstated what I was talking about that day.

What I was talking about was prioritizing and focusing on what should be the federal government's role versus state and local government roles. There are many meritorious purposes including bicycle paths that federal transportation dollars are spent on today.

But I do disagree that the federal government should, as another member of this Committee just suggested, collect all that money and then allocate it out into these many different programs. I believe that state and local government officials are much better positioned to make those decisions to collect and spend that money than is the federal government.

Mr. BLUMENAUER. Mr. Chairman, I appreciate your courtesy and I will wait for another cycle here.

But I would just conclude by noting the Administration trumpeted the earmarks in the legislation that it passed. I mean, President Bush when he was in Illinois signing it pointed out one of Speaker Hastert's earmarks as an example that is going to provide economic development and he signed all the Republican bills that have far more earmarks than we are talking about now.

And I find it a little disorienting to have the Administration now pointing to, as my good friend, Mr. Ryan, was talking about, the Republican bridge to nowhere. I think poor Don Young and the Republican delegation in Alaska have really paid the price for that.

But the Administration signed all these Republican bills that had the earmarks shooting up and when we are actually moving to reduce them, I think to somehow suggest that further earmark reform is going to solve a multi-billion dollar problem every single year strikes me as being a little out of sync with what I have been watching for the last 12 years.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Blumenauer.

Mr. Garrett, do you have further questions?

Mr. GARRETT. I will just follow-up on that, if I may, just for a quick question.

And I will extend to the gentleman as I did when you were out of the room the next time Congressman Flake is to the floor with his earmark striking amendments to join with us to strike those earmarks because I concur with you that many times they are for not necessarily worthwhile purposes.

One question that he did raise and then a final question. On the bike paths, because that is something my constituents ask me about sometimes, we do not have bike paths up in my neck of the woods. And those that we do have are in parks and are recreational in nature.

The bike paths that are funded by the federal government, can you delineate for me how much of them really are for transportation purposes, people who are transporting goods via the bikes or people who are transporting themselves by going to work or to the A&P or something like that versus bike paths that are done in a park or along the road for purely recreational purposes?

Secretary PETERS. Congressman, federal revenues pay for both types of bike paths today, those which are recreational purposes, rails to trails, things like that, as well as those that are along highways that may be used for commuting.

I do not have that data with me today, but I will get it back to you. It is a relatively small percent of people who use bicycling to commute to and from work.

Mr. GARRETT. Yeah, because I assume we would have other programs from various other agencies and what have you that deal with the recreational needs of Americans versus what you are looking at which is transportation.

And one other clarification for me. One of the earlier questions talked about, and you brought it up, I think, with earmarks in general, you get the price of the earmark that we discussed on the floor and then you said there was an extension of that because of the project.

I did not know that was the case because I thought if I was lucky enough, so to speak, to get an earmark for $100,000 to start a project, I would not necessarily be guaranteed that the federal government would then actually finish that project for us.

Secretary PETERS. Let me clarify. Let us say hypothetically there is a $100,000 earmark on a $900,000 project. That other $800,000 generally state governments have to take that from other sources that they have. A good part of those sources may be federal revenues, federal revenues that they have discretion over where to spend them or it could be state or local revenues as well.

Mr. GARRETT. Got you. Thanks. I appreciate the clarification.

Chairman SPRATT. Thank you, Mr. Garrett.

Mr. BLUMENAUER. Mr. Chairman.

Chairman SPRATT. Mr. Blumenauer.

Mr. BLUMENAUER. Can I just have one last question?

Chairman SPRATT. The gentleman is recognized for one last question.

Mr. BLUMENAUER. And just a comment to Mr. Garrett. We do not distinguish in auto use for commuting or recreation, business. In fact, in terms of the total amount of traffic in most metropolitan areas, the daily commute is a small and declining percentage of vehicle miles traveled.

There are things that are other, business and recreation that go on in the course of the day. We do not do that for cars. We are trying to integrate them, at least in communities that are serious about cycling, we are trying to integrate them both.

Mr. GARRETT. If the gentleman will yield. I appreciate that. And I guess you can make the small case of the person who is just out traveling and seeing the sights as opposed to even if I am driving to the library or to the movies, that maybe you can classify as being recreational use of the transportation purposes as opposed to traveling to work. But it is still a transportation purpose.

Mr. BLUMENAUER. I would suggest you talk to your local cyclists and you will find that they think that their cycling to go to the library is important or people who cycle to go out to lunch.

Mr. GARRETT. And that is the information she is going to get for us.

Mr. BLUMENAUER. Okay. Great.

The question I wanted to pose to the Secretary dealt with how we squeeze more value out of the system. And I understand you want to further squeeze earmarks and I understand given the abuse that we have seen under what I think we are going to do better, why you want to zero in and see if we can squeeze some value.

One of the areas that I am interested in squeezing value is out of the federal process. We treat different modes differently. There are different mechanisms for cost effectiveness that people with a transit project—for example, I do a lot of work, as you know, with people around the country with light rail which for the last 20 years, we—you have been to our rail dilution conference. We bring people. Those people go through a different process. It is more extensive. There is a different cost, you know, in terms of accountability that somebody who wants to drop down an intersection, a freeway exchange actually usually getting more federal money, they do not do that at all, that we have a different match mode.

I am curious what you and the Administration are doing to squeeze value out of what appears to be a cumbersome, outmoded, stovepipe-driven process where a light rail project deals with one set of rules, one set of financing. People who are going to put an interchange are not held to a standard of proving that it is going to reduce congestion and the delays that people face, particularly on the transit side of the equation. As you well know from your past experience, transportation related inflation is two or three or four times the regular rate of inflation.

What is the Administration doing to have a uniform system and one that squeezes everybody the same so that the system is not determining the transportation decision and that we are getting as much value as possible in a time/money sense?

Secretary PETERS. Congressman, you are right. We do use a cost-effectiveness rating for transit projects and I think that is very good. And I think the federal government should be investing where things are cost effective.

But on the highway side of the business where I have spent most of my career, it is more process driven than outcome driven. We do not do those same kind of analyses and that is exactly what I mean by saying a price and invest model, a price and invest model that would look at the cost effectiveness of all projects, not just transit projects. And I do again believe that when we are spending federal dollars, we ought to only invest in those projects that are most cost effective.

Mr. BLUMENAUER. Let me just interrupt because I want to be clear. What I am saying is why can't we use the same process for cost effectiveness for road, for transit, and have the same match ratio? Make it a lower match ratio if you are trying to stretch dollars. Why should the federal bureaucrats pick and choose the local transportation decision based on the formula and the process people go through? Would it not be better if we treated everybody the same?

Secretary PETERS. Sir, I think it would be better if we let state and local governments make those decisions and, again, only collect those revenues at the federal level that are truly attributable to a federal purpose.

Mr. BLUMENAUER. If it is good for the state and local people to make the decisions for roads, why should they not make those decisions for transit?

Secretary PETERS. Sir, I am agreeing with you. We are following the law of the current bill right now. But in the next bill, as I said earlier, we have a tremendous opportunity to do things differently. And, again, I do not think federal bureaucrats ought to be making those decisions. I just think state and local governments ought to be making those decisions.

Mr. BLUMENAUER. Mr. Chairman, thank you for your patience. I would just put one of the things I hope we can explore is the impact of having the system itself drive local decisions.

Fifty years ago, we gave free money for highways, 92 percent, and they had to pay for transit on their own. So everybody decided that they were going to build freeways. If we treated everybody uniformly, it might shift that process. And I hope we can explore that.

Chairman SPRATT. Madam Secretary, thank you for coming. Thank you for your testimony and your forthright answers. We very much appreciate it. And I have a feeling we will be seeing you again as we deal with the problems that are imminent in the Highway Trust Fund. Thank you very much, though, for your testimony.

Now, we have a decision here to make. We have eight minutes to get to the floor to vote if we care to vote. Do you wish to vote, Mr. Blumenauer?

Mr. BLUMENAUER. I will run and come right back. I got tackled by a reporter. I apologize. I will come right back.

Chairman SPRATT. Okay.

I will ask our next panel to come on up. We will go vote quickly and we beg your pardon, but this is the nature of this institution, particularly when it gets into disputes about how a bill is going to be brought to the floor.

This panel consists of Mr. Robert Sunshine, who is the Deputy Director of the Congressional Budget Office; Ms. Janet Kavinoky, Director of Transportation with the Chamber of Commerce; and Robert Puentes, who is a Fellow at Brookings.

We will be back shortly. Thank you very much for your indulgence and forbearance.

[Recess.]

Chairman SPRATT. I call the meeting back to order, and I ask our next panel to take their seats.

We do not make the decisions to put all these obstacles in our way, but we very much appreciate you coming even under these circumstances. And why don't we begin with Mr. Sunshine because he has got an overview of the highway programs and his very useful summary.

So bear in mind that by previous order, your prefiled testimony was made part of the record, so you can summarize it as you see fit.

STATEMENTS OF ROBERT A. SUNSHINE, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE; JANET F. KAVINOKY, DIRECTOR OF TRANSPORTATION INFRASTRUCTURE, U.S. CHAMBER OF COMMERCE; ROBERT PUENTES, FELLOW, THE BROOKINGS INSTITUTION

STATEMENT OF ROBERT A. SUNSHINE

Mr. SUNSHINE. Thank you, Mr. Chairman, Congressman Blumenauer. Thank you for the opportunity to appear before you today to discuss some of the issues facing the Congress with regard to the nation's surface transportation infrastructure.

The Congress faces some important policy decisions over the next two years with regard to surface transportation. And in addressing those decisions, it is useful to consider some of the broader questions of what total spending ought to be and what role the federal government ought to play in financing that spending.

The first set of questions I would suggest deal with how effectively money is spent. Are the funds that the federal government is currently collecting and spending for surface transportation going to their best uses? Could some needs be met at least in part by better targeting spending to its most productive uses?

If more money is raised from transportation related taxes or fees, what steps ought to be taken to ensure that those funds are used to meet the highest priority needs?

Other questions deal with determining the appropriate role for the federal government. For example, if more money is needed, should the federal government raise taxes to collect it or should states which ultimately determine how much of the funds are spent bear the responsibility for imposing and collecting the necessary taxes or fees?

If the federal government collects the money, how much flexibility should states have in determining how to spend the federal dollars? To what extent does federal funding just substitute for spending that would otherwise be undertaken by other levels of government?

And what is the appropriate role for the private sector in the financing of transportation infrastructure? Should the federal government facilitate a greater private sector role and, if so, how?

The answers to those questions are not necessarily clear or straightforward, but they are relevant in determining both the funding and financing strategies for surface transportation.

Now a little context for addressing those questions. In 2007, the federal government spent about $50 billion, almost two percent of the federal budget, for surface transportation, mostly for roads. The federal government and state and local governments play very different roles in the financing of surface transportation infrastructure.

For the most part, the federal government pays for capital investments, building and rehabilitating roads and bridges, for example, and it provides close to half of total governmental funding for those purposes.

In contrast, state and local governments allocate most of their infrastructure funds to operation and maintenance activities and they bear almost the entire cost of those activities.

Combining the two, the federal government is supplying about one-quarter of all public funding for surface transportation infrastructure.

Most of the federal government spending for this comes from the Highway Trust Fund. The two accounts, one for highways and one for transit, track receipts from gasoline and other taxes against spending for the trust fund's programs. And annual spending from that fund is largely controlled by obligation limits set in the appropriation acts.

The balances in the trust fund rose rapidly in the late 1990s, but spending began to exceed receipts starting in 2001. And since then, balances in the trust fund have been falling.

CBO projects that the highway account will run out of money in 2009 and the transit account by 2012. These projections assume that obligations continue at the amounts set in the most recent highway and transit authorization bill, SAFETEA-LU, adjusted for inflation after 2009.

The continuing mismatch between revenues and outlays in the highway account which we estimate will average about $8 billion from 2009 to 2017 could be remedied by a reduction of 40 percent of obligations in 2009 and about 20 percent in subsequent years.

It would take a sharp change in the funding levels and the spending levels to bridge that gap. Alternatively, it would take about a five cent per gallon increase in the gas tax or some combination of the two to accomplish the same result.

The Joint Committee on Taxation estimates that each penny on the gas tax would raise slightly less than $2 billion a year on average over the next ten years.

While this is going on, demands on the system are growing. Passenger travel and the volume of freight carried on trucks are growing at two percent or more a year which does not seem like a lot, but if those rates continue, such growth would increase traffic volume by 20 to 25 percent over a ten-year period.

Congestion is growing. Department of Transportation projects that traffic on a substantial portion of the interstate highway system will exceed the system's capacity by 2020. But most of the existing taxes are a fixed number of cents per gallon and they do not increase with inflation.

Even though revenues credited to the highway account in 2006 were 47 percent higher than the amounts accrued in 1998, eight years earlier, the price of goods and services used in highway construction has risen much more so that the annual receipts credited to the highway account provided about 15 percent less in purchasing power for construction purposes than they did eight years earlier.

In assessing ways to finance transportation spending whether at the federal level or state and local levels, it is useful to consider not only how much various financing approaches might raise but what kinds of incentives they provide to users of the transportation system.

As we have discussed earlier, there is a strong rationale for charging users of that infrastructure because they reap substantial benefits from it and to encourage efficient use of the system.

Such charges could help measure the value of investing in increased capacity and help pay for the construction of new infrastructure in the right places and at the right time. A number of such fees already exist at state and local levels. They include tolls that vary by time of day, fees based on mileage that might depend on both location and time of day, fees based both on weight and mileage, and congestion related fees that are higher in times or places with heavy traffic.

Widespread use of such systems may not be practical in the short term, but they might be worth considering over the longer term, particularly if technological developments continue to make them more feasible. They offer some possibility of getting more bang for our transportation buck during a period when the long-term pressures on the federal budget will pose an increasing challenge to the nation's fiscal well-being.

Thank you, Mr. Chairman, and I will be happy to answer any questions later on.

[The prepared statement of Robert Sunshine follows:]

PREPARED STATEMENT OF ROBERT A. SUNSHINE, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Chairman Spratt, Congressman Ryan, and Members of the Committee, thank you for the invitation to discuss public spending on surface transportation infrastructure. The Congressional Budget Office (CBO) projects that the balance in the Highway Trust Fund will be exhausted at some point during fiscal year 2009. In addition, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) expires at the end of that fiscal year. Consequently, the Congress will face important policy questions about how much to invest in surface transportation systems; how to apportion that spending among roads, rail, transit, and other modes of transportation; how best to finance that spending; and which levels of government are best positioned to make those decisions.

To shed light on those issues, my statement today describes recent trends in public spending for infrastructure at all levels, the role of Highway Trust Fund in accounting for such spending, and some options for financing future spending on transportation infrastructure.

In my testimony, I will make the following points:

- Spending on surface transportation infrastructure by all levels of government in 2004 was $191 billion (in 2006 dollars), or 1.5 percent of gross domestic product (GDP). The federal government provided about one-quarter of those funds, and states and localities provided the rest. Those funds were split about equally between spending for capital projects and operation and maintenance. Most of that spending was for roads.
- Federal outlays are directed almost entirely to capital projects and account for slightly less than one-half of all public spending on such projects. In contrast, state and local governments provide virtually all of the public spending to operate and maintain the surface transportation infrastructure.
- Most of the federal spending for infrastructure comes from excise taxes on gasoline and diesel fuel and other taxes that are credited to the Highway Trust Fund. In recent years, spending from the highway account of the trust fund has consistently exceeded its income. According to CBO's projections, if annual spending continues at its currently authorized levels (adjusted for inflation after 2009), the highway account of the trust fund will be exhausted at some point during fiscal year 2009; the mass transit account will have sufficient revenues to cover its expenditures until 2012.
- Over the 2009-2017 period, policymakers face a growing differential between expected revenues in the highway account and spending from that account that could

occur if obligations continue at the levels authorized in SAFETEA-LU, adjusted for inflation. Eliminating that differential would require a cut in spending authority of 40 percent below projected levels during 2009 and about 20 percent annually thereafter through 2017; an increase in revenues of about 20 percent over the period; or some combination of the two approaches.

- The current system of generating revenues to fund surface transportation projects relies primarily on various excise taxes. Under current law, those taxes are not sufficient to pay for rising highway construction costs or to account for the external costs of pollution or congestion. To balance the trust fund's spending and revenues, tax rates could be increased or indexed. However, because the taxes are not linked to the use of specific roads, they do not provide signals to policymakers indicating which are most valuable to users.
- As an alternative to the current system, existing taxes could be replaced or supplemented with charges to users based on the costs that they impose on the system and the external costs of pollution and congestion. For example, tolls or fees based on mileage or vehicle weight may provide users a clearer signal of the costs that they impose on the system. Even so, such user charges by themselves may not be able to finance the entire highway system, and their administrative feasibility over a nationwide system of roads has not yet been demonstrated.

TRENDS IN PUBLIC SPENDING ON SURFACE TRANSPORTATION INFRASTRUCTURE

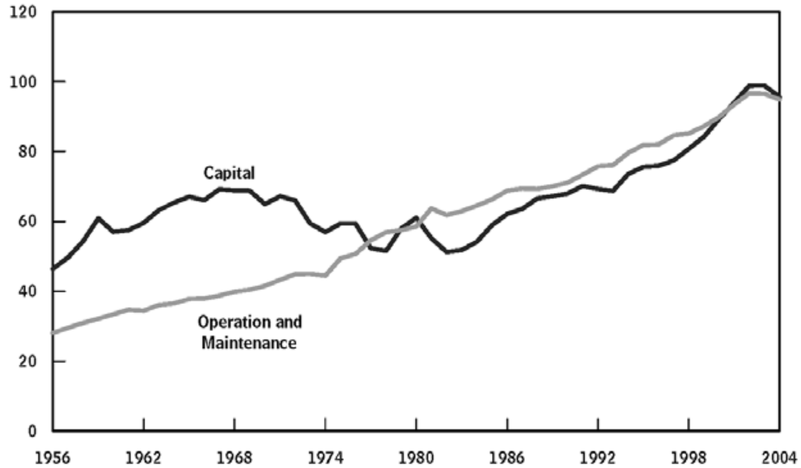
The federal government and state and local governments devote substantial resources to building, operating, and maintaining the nation's surface transportation infrastructure. During 2004, which is the most recent year for which comprehensive data are available, total public spending on surface transportation infrastructure was $191 billion (measured in 2006 dollars), or 1.5 percent of GDP. Those figures include spending by federal, state, and local governments on roads, rail, mass transit, and water transportation. Since 1956, annual public spending on such infrastructure has ranged between 1.4 percent and 2.0 percent of GDP.[1]

In 2004, about half of total public spending on surface transportation infrastructure went to capital projects, for example, building or rehabilitating physical infrastructure. The other half was spent on operating and maintaining that infrastructure. The shares of capital expenditures and operation and maintenance expenditures within the total have been fairly stable since the mid-1980s. Before then, capital expenditures usually exceeded spending on operation and maintenance (see Figure 1).

Figure 1.

Federal, State, and Local Spending for Surface Transportation Capital Investments and Operation and Maintenance, 1956 to 2004

(Billions of 2006 dollars)



Source: Congressional Budget Office.

Measured in 2006 dollars, spending for operation and maintenance has trended steadily upward over the past 50 years. Measured the same way, capital spending for surface transportation peaked in the late 1960s (in part because of the construction of the Interstate Highway System), declined through the early 1980s, and has grown steadily since then.

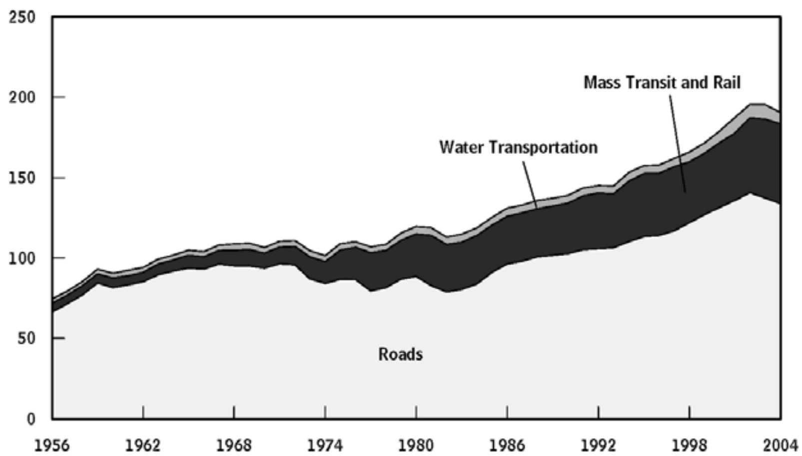
Spending priorities on surface transportation infrastructure vary by level of government. In 2004, federal outlays—almost entirely in the form of grants and loans to states and localities—principally funded capital projects; 92 cents of every federal dollar spent on such infrastructure was for capital projects rather than operation and maintenance. In contrast, the majority of state and local spending (64 percent) was allocated to operation and maintenance. The federal government provided almost one-half (46 percent) of total public funding for surface transportation capital projects, and states and localities accounted for virtually all (96 percent) of public spending to operate and maintain that infrastructure.[2]

Among types of surface transportation, roads account for the largest share of infrastructure spending by any level of government (see Figure 2). About 80 percent of capital spending on surface transportation infrastructure by the federal government and state and local governments (net of federal grants and loan subsidies) goes to roads. Roads also account for a large portion of spending to operate and maintain surface transportation infrastructure, though that share is considerably larger at the state and local levels than at the federal level (64 percent versus 30 percent, respectively).

Figure 2.

Federal, State, and Local Spending on Surface Transportation Infrastructure, by Type, 1956 to 2004

(Billions of 2006 dollars)



Source: Congressional Budget Office.

Federal spending on surface transportation infrastructure in 2007 was about $50 billion.[3] The federal government supplied about one-quarter of all public funding for surface transportation infrastructure, with state and local governments providing the rest. That share has been roughly stable over the past several decades.

In addition to government, private entities play a limited role in providing surface transportation infrastructure beyond simply supplying services under contract to a government agency. Such participation by the private sector, which is often referred to as public—private partnerships, has so far constituted only a relatively small amount of infrastructure funding. Under the Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998 (Public Law 105-178), the federal government has encouraged private investment to improve the nation's surface transportation system by providing direct loans at below-market rates and loan guarantees—at a cost of $240 million through 2006.

OVERVIEW OF THE HIGHWAY TRUST FUND

The federal government's surface transportation programs are financed mostly through the Highway Trust Fund (certain transit programs receive appropriations from the U.S. Treasury's general fund). Those surface transportation programs are administered by the Federal Highway Administration (FHWA) and the Federal Transit Administration.[4]

The Highway Trust Fund is an accounting mechanism in the federal budget. The fund comprises two separate accounts, one for highways and one for mass transit. It records specific cash inflows (revenues from certain excise taxes on motor fuels and trucks) and cash outflows (spending on designated highway and mass transit programs). By far, the largest component of the trust fund is the Federal-Aid Highway program (see Table 1).

Table 1.

Major Components of the Highway Trust Fund, 2007

(Billions of dollars)

	Estimated Receipts[a]	Budget Authority and Obligation Limitations[b]	Estimated Outlays
Highway Account			
Federal-Aid Highway program	n.a.	39.8	33.7
Motor carrier safety	n.a.	0.5	0.5
Highway traffic safety	n.a.	0.8	0.6
Other	n.a.	0	0.2
Subtotal	34.1	41.1	35.0
Mass Transit Account			
Discretionary grants	n.a.	0	0.1
Trust fund share of transit programs[c]	n.a.	7.3	3.6
Subtotal	5.0	7.3	3.7
Total, Highway Trust Fund	39.1	48.3	38.6

Source: Congressional Budget Office.

Notes: n.a. = not applicable.

Numbers may not add up to totals because of rounding.

a. Receipts are deposited in the highway and mass transit accounts but are not earmarked for specific components.

b. Obligation limitations enacted in appropriation acts limit the amount of budget authority available to most Highway Trust Fund programs. The amounts in this column are the sum of obligation limitations and budget authority that is not subject to any such limitation.

c. Includes only outlays from 2007 funds. Outlays from previous years' funding were recorded in those years as transfers to other budget accounts.

Spending from the Highway Trust Fund is not automatically triggered by tax revenues credited to it. Authorization acts provide budget authority for highway programs, mostly in the form of contract authority (the authority to incur obligations in advance of appropriations). Annual spending from the fund is largely controlled by limits on the amount of contract authority that can be obligated in a particular year.

Such obligation limitations are customarily set in annual appropriation acts. The most recent authorization law governing spending from the trust fund—SAFETEA-LU—was enacted in 2005 and is due to expire at the end of 2009. The law provides specific amounts of contract authority over the 2005—2009 period and authorizes appropriations for certain programs that are not funded through contract authority. It also specifies annual obligation limitations, which may be superseded each year by limitations set in appropriation acts.

The largest source of revenues credited to the Highway Trust Fund is the tax of 18.3 cents per gallon on gasoline and gasohol. Under current law, such taxes are scheduled to expire in 2011. The gas and gasohol tax currently produces about two-thirds of the fund's total revenues (see Table 2). The second largest source is the levy of 24.3 cents per gallon on diesel, which accounts for about one-quarter of the revenues. Thus, taxes on motor fuels generate about 90 percent of the trust fund's total revenues. The rest come from a retail sales tax on certain trucks, a tax on the use of certain heavy vehicles, and a tax on truck tires. About 2.8 cents per gallon of all fuel taxes credited to the Highway Trust Fund is dedicated to the mass transit account, or about 13 percent of all trust fund revenues. That account received about $4.9 billion in 2006.

Table 2.

Estimated Highway Trust Fund Revenues, 2006

(Billions of dollars)

Revenue Source	Total	Highway Account	Mass Transit Account	Percentage of Total Trust Fund Revenues
Gasoline Tax	24.9	21.0	3.9	64
Diesel Tax	9.6	8.5	1.1	25
Tax on Trucks and Trailers	3.6	3.6	0	9
Use Tax on Certain Vehicles	1.1	1.1	0	3
Truck Tire Tax	0.5	0.5	0	1
Refunds[a]	-0.9	-0.8	-0.1	-2
Total	**38.8**	**33.9**	**4.9**	**100**

Source: Congressional Budget Office.

a. Section 9503(c) of the Internal Revenue Code provides for refunds from the Highway Trust Fund to be paid out for fuel used for certain nontaxable purposes. Those include, but are not limited to, vehicles operated by state and local governments, certain nonhighway vehicles, local transit systems, and vehicles used on farms.

HISTORY OF THE HIGHWAY TRUST FUND'S REVENUES AND SPENDING

The Highway Trust Fund was established in 1956. Since then, there have been several notable changes to the program, including the addition of an account dedicated to transit programs in 1983. Since 1983, many further changes have been made to the highway program, to the taxes dedicated to the Highway Trust Fund, and to trust fund operations. One of the most significant changes occurred in the Taxpayer Relief Act of 1997, which increased amounts deposited into the trust fund by 4.3 cents per gallon of gasoline sold, in addition to the 14.0 cents per gallon previously allocated to the fund.[5]

Over the past 15 years, spending for programs funded through the Highway Trust Fund has increased as a share of nondefense spending. Over the 1992—1996 period, spending from the trust fund was about 1.8 percent of nondefense spending; over the past five years, it has increased to 2.1 percent (see Table 3). When considered as a percentage of GDP, spending from the trust fund has also increased.

Table 3.

Spending from the Highway Trust Fund over Selected Periods, 1992 to 2006

(Billions of dollars)

	1992-1996	1997-2001	2002-2006
Average Spending from the Highway Trust Fund	21.6	28.9	38.9
As a percentage of nondefense spending	1.80	2.00	2.10
As a percentage of gross domestic product	0.31	0.32	0.34
Memorandum:			
Average Nondefense Spending	1,184	1,439	1,873
Average Gross Domestic Product	6,959	9,141	11,606

Source: Congressional Budget Office.

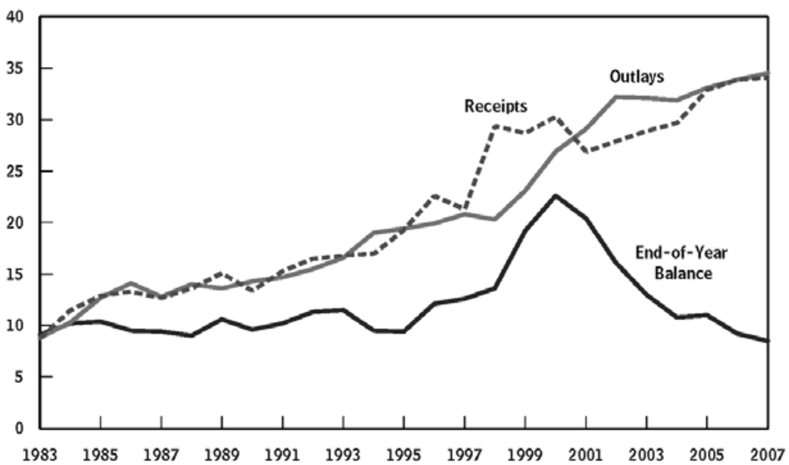
Spending from the trust fund started increasing rapidly in 1999, resulting from changes enacted in the Transportation Equity Act for the 21st Century (TEA-21), which provided budget authority and contract authority of $218 billion over the 1998—2003 period (an average of $36.3 billion per year). Consequently, annual outlays rose by 40 percent from 1999 to 2003. SAFETEA-LU, which provided contract authority of $286 billion (an average of $57.2 billion per year) over the 2005—2009 period, represented a further significant increase in funding over previous authorizations.

Balances in the highway account were steady during the 1980s and the first half of the 1990s, in the vicinity of $10 billion. Receipts substantially exceeded outlays from 1996 to 2000, and the unexpended balance in the highway account (sometimes called the cash balance) grew from $10 billion in 1995 to a peak of about $23 billion in 2000 (see Figure 3). Revenues fell sharply in 2001, but have increased steadily since then—at an average rate of about 3.4 percent per year through 2007.[6] Nevertheless, spending, boosted by TEA-21, has generally exceeded revenues since 2001. As a result, unspent balances in the highway account declined to about $8.0 billion by the end of 2007. In general, balances in the mass transit account also have been falling since 2000, although at a slower rate than those in the highway account. At the end of 2007, the balance in the mass transit account totaled about $7.9 billion.

Figure 3.

Receipts, Outlays, and Balances of the Highway Account, 1983 to 2007

(Billions of dollars)



Source: Congressional Budget Office.

APPROPRIATIONS FROM THE GENERAL FUND FOR TRANSIT PROGRAMS AND EMERGENCY RELIEF

A portion of transit spending is appropriated from the general fund. From 1998 (and the enactment of TEA-21) to 2006, transit programs have received about $18 billion in general fund appropriations, or about $2 billion per year. (Such general fund appropriations totaled about 30 percent of the contract authority for transit programs over the same time period.) By far, the largest component of such appropriations is the Capital Investment Grants (CIG) program, which accounted for about $10 billion of that spending over the 1998—2006 period. The CIG program provides capital assistance for certain programs to create, expand, or modernize certain rail, bus, and ferry facilities. The second largest component of such appropriations—about $7 billion—was a program of formula grants for transit operations that has been funded through the Highway Trust Fund since 2005. Appropriations from the general fund also pay for research programs and administrative expenses of transit programs.

Since 2005, certain appropriations for FHWA's Emergency Relief program have come from the general fund. That program provides for the reconstruction of certain highways and bridges that have suffered serious damage as a result of natural disasters or catastrophic failures from an external cause. Annually, $100 million is set aside in the Highway Trust Fund for such programs. Before 2005, additional budget authority was appropriated from the trust fund as needed. From 1999 to 2004, such appropriations totaled more than $3 billion. However, starting in 2005, the Congress has appropriated additional money for emergency relief from the general fund: about $4.3 billion since that year.

PROJECTIONS OF THE HIGHWAY TRUST FUND'S REVENUES AND SPENDING

The status of the Highway Trust Fund is generally assessed by projecting the balances in it, which indicate whether the expected revenues will be sufficient to cover the anticipated spending. Those balances represent the cumulative difference between revenues and outlays over the life of the fund and indicate how much the fund has available, at any particular time, to meet its current and future obligations.

THE HIGHWAY TRUST FUND'S BALANCES

CBO has estimated the trust fund's future balances by projecting revenues and outlays independently of each other because they have different bases. Revenues depend on the collection of various taxes, and outlays depend on the obligation limitations set in appropriation acts as well as the timing of spending for obligations that have been made in prior years. For those projections, CBO assumes that policymakers will continue to control spending through such limitations. Further, for the purpose of these estimates, the agency assumes that appropriation acts will set obligation limitations equal to the amounts specified in SAFETEA-LU plus any adjustments for what is termed revenue-aligned budget authority (RABA), a funding mechanism contained in the 2005 law that is designed to strengthen the relationship between the highway account's revenues and spending.[7]

PROJECTIONS OF HIGHWAY TRUST FUND REVENUES

If the current taxes are extended beyond their 2011 expiration date, revenues credited to the Highway Trust Fund will rise at an average annual rate of about 2 percent per year over the coming decade, CBO projects. Total trust fund revenues will grow from about $39 billion in 2006 to about $40 billion in 2009—at a slower rate than nominal GDP, which CBO expects to rise at an average annual rate of 4.6 percent over the next 10 years. (In large part, the difference exists because fuel tax collections depend on the quantity of fuel consumed rather than on the price of gasoline.) As a result, trust fund revenues are projected to decline from 0.25 percent of GDP in 2007 to 0.19 percent of GDP in 2017 if the current taxes are extended.

PROJECTIONS OF HIGHWAY TRUST FUND OUTLAYS

CBO bases its estimates of trust fund outlays primarily on historical spending patterns, which reflect states' multiyear projects to plan and build roads, bridges, and other transportation infrastructure. In the case of the fund's highway account, most of the obligations involve capital projects on which money is spent over a number of years. For example, the Federal-Aid Highway program typically spends about 27 percent of its budgetary resources in the year they are made available for spending and the rest over the next several years. Most of the highway programs' existing obligations will therefore be met using future tax revenues because those obligations far exceed the amounts now in the account. At the end of fiscal year 2007, the balance of the highway account stood at $8.0 billion, whereas the outstanding obligations of highway programs totaled about $45 billion.

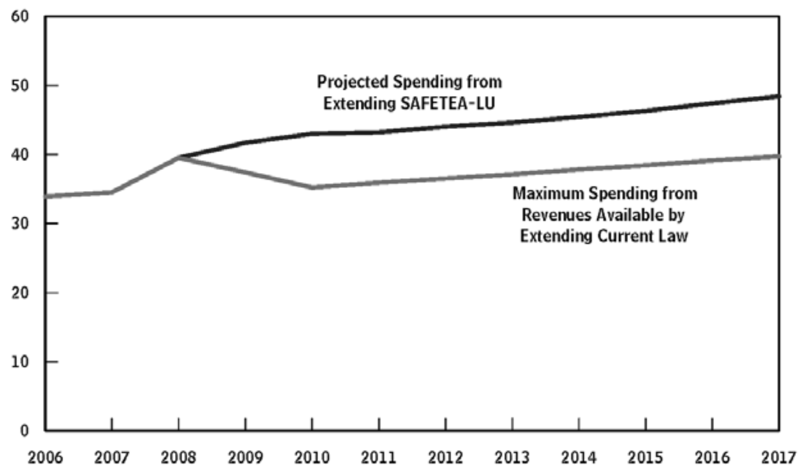
If lawmakers set obligation limitations at the amounts authorized in SAFETEA-LU and add RABA adjustments (as estimated by CBO), outlays from the trust fund's highway account will gradually increase from about $35.0 billion in 2007 to about $42 billion in 2009, CBO estimates, if amounts in the trust fund are sufficient. Those outlays would exceed revenues by $5 billion in 2008 and more than $6 billion in 2009. In addition, CBO anticipates that about $2 billion from the highway account will be transferred to the mass transit account over that period.[8] By CBO's estimates, balances in the highway account will be exhausted during fiscal year 2009, falling short of amounts needed to meet estimated obligations coming due in that year by $4 billion to $5 billion, or about 10 percent of the projected spending.

For projections of outlays after 2009, CBO assumes that SAFETEA-LU spending levels grow at the rate of inflation, a practice consistent with the agency's usual procedures for baseline projections. Under that assumption, the differential between revenues and projected outlays would be larger in 2010 and beyond (see Figure 4). Under an assumption that revenues remain at projected levels through 2017, outlays from the highway account, if unconstrained, would exceed revenues by a total of about $67 billion (or 17 percent) over the 2009—2017 period.

Figure 4.

Projected Spending from Extending SAFETEA-LU Compared with the Maximum Spending That Could Be Sustained from Revenues Credited to the Highway Account of the Highway Trust Fund

(Billions of dollars)



Source: Congressional Budget Office.

Note: Projections in the figure assume that spending authority under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) grows at the rate of inflation after 2009; the estimated maximum spending from the highway account reflects what could be sustained by projected revenues.

Under SAFETEA-LU and including transfers from the highway account, the obligation limit for mass transit would grow from $8.3 billion in 2007 to $9.4 billion in 2009. By CBO's estimates, outlays would exceed revenues by about $500 million in 2008 and by almost $2 billion in 2009. With obligation limits adjusted for inflation after 2009, the mass transit account would have sufficient resources to meet estimated spending until 2012, according to CBO's estimates. Subsequently, CBO estimates, projected spending from the transit account would exceed estimated receipts by $3 billion to $4 billion a year.

CBO's projections of the rate of spending from the trust fund are based on historical averages, but those rates might vary from year to year in accordance with factors such as states' construction schedules and plans. Also, changes in oil prices, the economy, and the fuel efficiency of vehicles can all cause future revenues to differ from CBO's projections. Small deviations from those projections would not significantly affect the future status of the Highway Trust Fund and the expected imbalance between obligations and resources.

OPTIONS TO ADDRESS THE DIFFERENTIAL IN THE HIGHWAY ACCOUNT BETWEEN EXPECTED REVENUES AND PROJECTED SPENDING

If the balances in the highway account fell to zero, the Administration would have to take some action to constrain spending because the trust fund is not authorized to borrow money or to incur negative balances.

POSSIBLE ACTIONS BY THE ADMINISTRATION

Without a change to current law, CBO anticipates that by 2009 the Administration will need to act to remedy the imbalance between revenues and outlays in the trust fund—probably by constraining the use of contract authority. Although the Administration has not yet stated how it will address that eventuality, a variety of options exist. The Department of Transportation may have to suspend the current practice of immediately reimbursing states for spending on highway programs and, instead, require states to wait for reimbursement until additional receipts are credited to the trust fund. At that time, the Administration may choose to reimburse states on a “first-in, first-out” basis. The Administration could also use the Emergency Relief program as a model and divide the available funds among all states requesting reimbursement, or it could develop another way to allocate the resources in the trust fund.

LEGISLATIVE OPTIONS TO REDUCE THE DIFFERENCE BETWEEN REVENUES AND SPENDING

To balance revenues and spending, lawmakers could reduce future obligation limitations and budget authority below the levels assumed in CBO’s projections, increase revenues to accommodate future spending levels, or pursue a combination of the two. The examples below provide some of many alternatives available to the Congress.

Reducing Outlays. One option available to lawmakers is to reduce federal spending on highway programs. To do so, the Congress would need to cut the obligation limitations that control spending on those programs. For example, to constrain outlays to the revenues available in 2009, lawmakers would need to reduce the obligation limitation for that year in SAFETEA-LU by about $16 billion—roughly a 40 percent decrease. Subsequently, relative to obligation limitations growing at the rate of inflation, cuts in those limitations would need to average about $9 billion annually from 2010 through 2017, for a total of $79 billion over the 2009—2017 period—a reduction of about 20 percent.[9]

Increasing Revenues. To maintain spending on highway programs at SAFETEA-LU levels, the Congress could choose to raise additional revenues through an increase in the gas tax or through other mechanisms. According to estimates from the Joint Committee on Taxation, a one-cent increase in the gas tax, effective October 1, 2008, would raise slightly less than $2 billion for the trust fund annually over the next 10 years.[10] About 87 percent of those funds accrue to the highway account.

CBO estimates that receipts to the highway account in 2009 will total $35.3 billion. To cover all obligations that will probably come due that year if they continue at SAFETEA-LU levels, revenues credited to that account would have to increase by between $4 billion and $5 billion. A gas tax increase of about 3 cents per gallon of fuel sold would raise that amount for the highway account and about $600 million for the transit account.

Over the 2010—2017 period, with increases in obligation rates assumed to reflect inflation, revenues credited to the highway account would have to be about 20 percent, or $8 billion, above current projections for each year, to meet obligations that would become due in each year. To generate such a sum for the highway account, revenues would need to increase by about $9 billion per year, requiring an increase in the gas tax of about 5 cents per gallon, effective October 1, 2010.[11] Resulting increases in revenues to the mass transit account, about $1 billion per year, would maintain positive balances in that fund until 2014.

A Combination of Reducing Outlays and Increasing Revenues. Lawmakers could also choose to both reduce spending and increase revenues. For example, if the Congress chose to decrease spending from the highway account by 10 percent (relative to SAFETEA-LU levels inflated)—about $40 billion—over the 2009—2017 period, revenues would also have to increase by about 10 percent compared with the level in CBO’s projections. Of that increase, under current law about $34 billion would be credited to the highway account and $5 billion to the mass transit account. A gas tax increase of about 2.5 cents per gallon of fuel sold, beginning in 2009, would generate such a revenue stream.

FUTURE FUNDING OF TRANSPORTATION INFRASTRUCTURE

By many indications, the nation’s surface transportation system will require substantial investments in coming decades. The number of vehicle-miles traveled has been growing by about 2 percent a year, and trucks are carrying increasing amounts of freight. As a result, congestion is growing; the Department of Transportation projects that traffic on a substantial percentage of the Interstate Highway System will exceed its capacity by 2020. The department recently estimated that $78.8 billion per year (in 2004 dollars) will be needed over the next 20 years to maintain the nation's highway system in its current condition, and another $15.8 billion will be needed to maintain transit systems in their current condition.

Empirical research indicates that, as a whole, public investment in transportation infrastructure makes a positive contribution to the economy, but determining the appropriate level of government spending on that infrastructure is difficult. For example, identifying the amount of spending necessary is difficult at the aggregate level because individual infrastructure projects have varying costs and benefits depending upon their age, type of construction, intensity of use, and other factors. Economic returns from infrastructure will also vary significantly among projects because those returns depend upon a number of factors, including the amount of infrastructure already in place. For example, analysts have found that the initial construction of the Interstate Highway System from the late-1950s through early-1970s increased the productivity of those industries relying on the nation's roadways to acquire materials and distribute their products. Subsequent investments to expand or rehabilitate the nation's roads have apparently had a much smaller economic impact, although they provide other important benefits—such as ensuring the safety and reliability of existing infrastructure—that are probably not fully captured by estimates of purely economic returns.

In assessing the future status of the Highway Trust Fund and what actions might be necessary to ensure a balance between its income and spending, it is useful to address the broader questions of what total spending ought to be and what role the federal government ought to play in financing that spending. Some of the relevant questions include:

- Are the funds that the federal government is currently collecting and spending for surface transportation programs going to their best uses? Could the potential imbalance between the trust fund's revenues and spending be remedied, at least in part, by better targeting spending to its most productive uses? If so, what rules or procedures would be most effective in that regard?
- If more money is raised from transportation-related taxes, what steps ought to be taken to ensure that those funds are used to meet the highest-priority needs?
- What is the appropriate role for the federal government in the financing of transportation infrastructure? If more money is needed, should the federal government raise taxes to collect it, or should states, which ultimately determine how most of the funds are spent, bear the responsibility for imposing and collecting the necessary taxes or fees? If the federal government collects the money, how much flexibility should states have in determining how to spend the federal dollars?
- To what extent does federal funding substitute for spending that would otherwise be undertaken by other levels of government?
- What is the appropriate role for the private sector in the financing of transportation infrastructure? Should the federal government facilitate a greater private-sector role, and if so, how?

The answers to those questions are not necessarily clear or straightforward, but they are relevant in determining funding and financing strategies for the surface transportation system.

FINANCING TRANSPORTATION INFRASTRUCTURE

In assessing ways to finance transportation spending—whether at the federal level or at the state and local levels—it is useful to consider not only how much various financing approaches might raise but also what kinds of incentives they provide to users of the transportation system. There is a strong rationale for charging users for the costs of transportation infrastructure because they reap substantial benefits that the system provides. Designing and implementing a financing system that charges users of transportation infrastructure for the costs that they impose on the system can encourage efficient use of existing roads, rails, and other transportation infrastructure. It can also help in identifying needs and paying for the construction of new infrastructure in the right places at the right time. The charges users pay for the costs that they impose on the system provide a measure of the value of investment in increased capacity.

THE CURRENT SYSTEM

Under the current system, receipts from various excise taxes, most notably those on the sale of gasoline, diesel, and other motor fuels, are collected and credited to the Highway Trust Fund. The Congress determines how much money each state receives from the fund. Most of that determination reflects existing apportionment formulas provided in law, but some spending is based on specific allocations to states in legislation. The formulas determine which types of projects are undertaken, but each state determines which specific projects to undertake. The federal government then reimburses states from the Highway Trust Fund for the federal share of those projects.

The current system for funding bridges and roads collects the funds used for that infrastructure from users of the system, though not always in proportion to the costs they impose on the system. The fuel taxes, which CBO estimates funded about 90 percent of federal highway spending in 2006, are partially related to the wear and tear that driving inflicts on roads, bridges, and other transportation infrastructure. For example, vehicles that travel farther burn more fuel and pay more in taxes. Heavier vehicles that do more damage to pavement and bridges also burn more fuel and pay more in taxes, but probably not in proportion to the damage they cause. For example, a heavily loaded truck uses somewhat more fuel and pays somewhat more in taxes than a comparatively light automobile but does much greater damage to pavement and bridges. However, the current system is also demonstrably workable. Collection costs are low, and evading the taxes is difficult.

The long-run economic viability of the existing financing system is in question, however. Existing taxes on gasoline, diesel fuel, and ethanol are a fixed number of cents per gallon and thus do not increase with inflation. However, construction costs continue to rise. The Federal Highway Administration's Composite Bid Price Index, which measures contract prices for goods and services commonly used in highway construction, increased by 74 percent since the enactment of TEA-21 in 1998.[12] That average annual increase is over 7 percent, which is well above other broader measures of inflation, such as the change in the Consumer Price Index. The increase in construction prices contributes to the long-term decline in the purchasing power of revenues accruing to the Highway Trust Fund. For example, the 2006 revenues credited to the highway account are 47 percent more than the 1998 revenues in dollar terms, but those revenues provide about 15 percent less in purchasing power for highway construction. Policymakers could choose to restore the Highway Trust Fund's purchasing power by indexing fuel taxes to account for inflation. But even so, increased fuel efficiency, hybrid vehicles, or alternative fuels could serve to limit the trust fund's receipts in the future.

In addition, current taxes do not account for the costs of pollution and congestion caused by driving. For example, a driver on a congested road uses a little more fuel and pays a little more in taxes than he or she would driving on an uncongested road but imposes much greater costs on other drivers in terms of delay.

ALTERNATIVES BASED ON CHARGES TO USERS OF TRANSPORTATION INFRASTRUCTURE

The federal government, as well as states and localities, could choose to replace or supplement existing fuel taxes with taxes or user fees intended to both recover more of the costs imposed by users of transportation infrastructure and to charge specific users fees that are more directly in line with the costs of their use. A number of such fees already exist in the current financing system at the state and local levels. Widespread use of some such systems may not be practical in the short term, but they might be worth considering over the longer term, particularly if technological developments continue to make them more feasible.

Mileage-based road use fees charge users specifically for road use. Because such fees can vary by location, vehicle type, and time of day, they have the capability to closely match the actual costs imposed by specific users. One form of such fees that are already commonly used on major highway facilities, tolls can be economically efficient because they can vary by vehicle type and therefore can reflect the costs imposed by various classes of vehicles. Many tolls vary by time of day and therefore can reflect the congestion costs imposed on other users. It has long been recognized that tolls that reflect the costs users impose on the system provide a measure of the value of investment in increased capacity.[13] However, the administrative costs of collecting some tolls could be higher than the administrative costs of collecting current motor fuel taxes. Moreover, because tolls currently apply only to some major roads, relying solely on tolls from those roads would not be efficient, equitable, or adequate to pay for the entire highway system.

In response to concerns about the long-term viability of fuel taxes, some states are currently studying the feasibility of mileage-based user fees that apply to all roads, not just major highways. For example, Oregon recently conducted a one-year experiment in which drivers paid a mileage-based fee instead of fuel taxes when they filled up at the gas station. The fee was intended to replace the fuel tax as the primary source of revenues for the state's roads, as well as incorporating congestion pricing based on both location and time of travel. In addition, the state of Washington recently evaluated a system using global positioning system (GPS) technology in vehicles. Drivers were charged different prices per mile depending on both the location and time of travel, thereby incorporating congestion pricing. Expanded use of such systems would overcome some of the practical difficulties of collecting tolls over a broad system of roads but would require addressing other considerations—for example, many cars do not yet have GPS systems—and resolving varied privacy concerns about the government having access to data about who was driving when and where.

Generalized mileage-based fees for the use of roads have several attractive characteristics. Because the fees can vary by vehicle type, time of day, and location, they have the capability to closely match the actual costs that users impose on the system. The fees are equitable for the various classes of users because revenues are raised in proportion to the costs imposed. They send price signals to drivers about the costs that they impose on the system, thus helping to reduce demand, and to transportation planners about the value of adding capacity, thus promoting long-run efficiency. However, while increasing use of electronic monitoring and payment systems has reduced transactions costs, there are still unresolved questions about the degree to which generalized mileage-based road-use charges are technically and administratively feasible when applied to large, complex road systems.

Weight-distance fees charge vehicles based on their weight and configuration of axles and annual miles traveled. Those user fees can be economically efficient at recovering infrastructure costs because vehicles pay in direct proportion to the estimated wear and tear they cause on infrastructure. Consequently, different classes of vehicles are treated equitably. However, weight-distance fees do not reflect congestion costs. A heavy vehicle currently pays the same weight-distance fee whether it travels on a congested road or an uncongested road. Furthermore, weight-distance fees may be more difficult to administer and easier to evade than charges under the current system. While 11 states had weight-distance fees in 1989, today only four states (Kentucky, New Mexico, New York, and Oregon) have them.

Congestion fees charge drivers for the delay that their choice to drive imposes on other drivers. Such fees are higher in times or places with heavy traffic, lower in times or places with light traffic. They are already used at a variety of highways, bridges, and tunnels throughout the United States.[14] For example, on State Route 91 in Orange County, California, congestion fees vary hour to hour in order to maintain a free flow of traffic in the priced lanes. The fees promote efficient use of existing infrastructure by allocating it those who value it most (namely, those most willing to pay the charge). They are also efficient at reducing congestion costs because each vehicle pays for the delay caused to other users. To the extent that some drivers choose to use other modes or routes or to travel at less congested times of the day rather than pay the fee, congestion is reduced. Congestion fees also send price signals about the need to add capacity, thus promoting long-run efficiency. Electronic technology makes the fees inexpensive to administer on the largest, most congested roads. In many recent applications of congestion pricing, such as I-394 outside Minneapolis, Minnesota, overhead sensors read electronic transponders in vehicles, eliminating the need for drivers to stop or even slow down. Moreover, London and Stockholm have successfully imposed charges on driving in the center of those cities to reduce congestion.

Congestion fees have some drawbacks. It may not be equitable to have users of congested roads pay some or all of the cost of the road system while users of uncongested roads pay little or none. In addition, charging high tolls could raise concerns about the impact on low-income users. Last, the administrative feasibility of congestion fees in a broad variety of applications found throughout the highway system is not yet clear.

ENDNOTES

[1] Additional detail on infrastructure spending is available in Congressional Budget Office, Trends in Public Spending on Transportation and Water Infrastructure, 1956 to 2004 (August 2007). Supplemental data tables and a methodological appendix include data sources and definitions. The paper addresses public spending on surface transportation and other types of infrastructure: aviation, water resources (such as dams and levees), and water supply and wastewater treatment. Public spending on all transportation and water infrastructure in 2004 was $312 billion, in 2006 dollars.

[2] State and local spending on operation and maintenance reflects in part conditions that the federal government places on grants and loan subsidies that it provides. Those funds often may not be used for those purposes.

[3] Those federal outlays for infrastructure do not include several types of financial support for infrastructure: first, the revenues forgone by the federal government through the tax exemptions on income from bonds issued by state and local governments to finance infrastructure and, second, sizable outlays by the Department of Homeland Security to protect infrastructure. See Con-

gressional Budget Office, Trends in Public Spending on Transportation and Water Infrastructure.

[4] Other agencies within the Department of Transportation also receive funding from the Highway Trust Fund, including the Federal Motor Carriers Administration and the National Highway Transportation Safety Administration. In 2007, the Federal Motor Carriers Administration and the National Highway Transportation Safety Administration received a total of about 3 percent of the budgetary resources from the Highway Trust Fund.

[5] The total gas tax is 18.4 cents per gallon. Of that, 18.3 cents is deposited in the Highway Trust Fund, and 0.1 cents goes to the Leaking Underground Storage Trust Fund. (The 1993 Omnibus Budget and Reconciliation Act increased the gas tax by 4.3 cents; the added receipts were not initially deposited into the trust fund, but into the general fund of the Treasury.)

[6] Revenues recorded to the Highway Trust Fund were especially strong in 2005, following changes in the tax treatment of certain fuels. The American Jobs Creation Act of 2004 modified the subsidy for ethanol production by establishing a tax credit paid from the Treasury's general fund. That credit replaced a lower tax rate for gasoline containing ethanol. The law also included other provisions to increase revenues to the Highway Trust Fund.

[7] That assumption differs from the one underlying CBO's baseline budget projections, which are governed by the rules set forth in the Balanced Budget and Emergency Deficit Control Act. In its most recent baseline, CBO projected highway spending over the next decade by assuming that the budget authority and obligation limitations in future years would equal those enacted in the 2007 appropriation act for the Department of Transportation, adjusted for inflation. With that projection method, baseline funding levels for highways are lower than the levels specified in SAFETEA-LU.

[8] Under SAFETEA-LU, states are allowed to use some of their highway funds for transit projects; funds are transferred from the highway account to the transit account when states choose to use such flexibility.

[9] Because the spending that is estimated to occur each year is only partly from new spending authority, that authority would need to be reduced substantially in 2009 to ensure a sufficient reduction in spending in that year.

[10] Because excise taxes reduce the tax base of income and payroll taxes, higher excise taxes would lead to reductions in income and payroll tax revenues. The estimates shown here do not reflect those reductions. Those reductions would amount to an estimated 25 percent of the estimated increase in excise tax receipts.

[11] All revenue estimates are provided by the Joint Committee on Taxation.

[12] Federal Highway Administration, Price Trends for Highway Construction, Fourth Quarter, 2006.

[13] See William S. Vickery, "Congestion Theory and Transport Investment," American Economic Review, vol. 59, no. 2, (May 1969), pp. 259—260.

[14] For a list of current and planned congestion-pricing projects, see Federal Highway Administration, Office of Transportation Management, Value Pricing Project Quarterly Reports, available at *http://ops.fhwa.dot.gov/tolling—pricing/value—pricing/quarterlyreport/index.htm.*

Chairman SPRATT. Thank you, Mr. Sunshine.

Ms. Kavinoky.

Ms. KAVINOKY. Kavinoky, sir.

Chairman SPRATT. Kavinoky.

Ms. KAVINOKY. Yes.

Chairman SPRATT. Ms. Kavinoky, thank you for coming. Thank you for your participation and we welcome you to make your statement at this point.

STATEMENT OF JANET F. KAVINOKY

Ms. KAVINOKY. Thank you. Mr. Chairman, Congressman Blumenauer, thank you very much for the opportunity to testify on the investments needed in our nation's transportation system.

My name is Janet Kavinoky. I am the Director of Transportation Infrastructure at the U.S. Chamber of Commerce.

And over the past several months, the nation has seen abundant evidence that America's infrastructure is not only showing its age but showing that it lacks capacity to handle the volume of people and goods moving today.

Now is the time to move on a robust, thoughtful, and comprehensive plan to build, maintain, and fund a world- class, 21st century infrastructure. We cannot afford to delay. What is at stake is simple and stark.

If we fail to address our challenges, we will lose jobs and industries to other nations. If we fail to act, we will pollute our air and destroy the free mobile way of life we cherish. And, ultimately, if we fail to increase investment, we will see more senseless deaths on our bridges and roads, not to mention our rails and waterways.

And it is all likely to get much worse. We have a system that is overworked, underfunded, increasingly unsafe, and without a strategic vision.

While the events of August shone a spotlight on the state of the nation's bridges, it is important to recognize that we have a much larger infrastructure problem in this country. And so it is time to create a new era in transportation.

This country's current approach to delivering transportation infrastructure is not set up for today's robust economy or the economy of the future. We need a national plan.

As Congressman Mica aptly articulated this year, the federal government must take a lead role in developing a national strategic transportation plan for the next 50 years that makes the most efficient use of every transportation mode and incorporates the expertise and resources of both private and public sectors.

Although every level of government must step up to the plate, the federal government must bear a significant part of the responsibility to ensure that national needs are met, legacy assets are maintained and improved guaranteeing continued nationwide connectivity, and infrastructure investment is aligned with the needs that arise from the global economy, trade policies, and the flow of interstate commerce.

When it comes to funding and financing, every option must be considered to address both the enormous problems of inadequate capacity and aging transportation infrastructure.

The Chamber looks forward to the evaluation of needs, policies, and funding and financing alternatives in the report that will be released this winter of the National Surface Transportation Policy and Revenue Study Commission.

In addition, we believe that the findings of the National Transportation Infrastructure Financing Commission could also add to the debate on the federal role in the future of surface transportation program and project delivery in this country.

But even without the findings of these commissions, the Chamber is confident in saying that there is the need to increase the systemic funding available for investment in infrastructure.

And although it is clear that chronic underinvestment is a major contributing factor to problems across all modes of transportation, we must also address the misuse of funding, lack of resource prioritization, and poor comprehensive planning that marks current federal transportation programs.

As we all prepare for SAFETEA-LU reauthorization, the Chamber encourages Congress to examine ways to spend infrastructure dollars more wisely, to ensure that states do not divert their transportation funding away from intended uses in the name of flexibility, to invest in new technologies, to attract more private investment for projects, and to encourage public-private partnerships at the state and local levels.

However, before we get to SAFETEA-LU reauthorization, Congress has another urgent issue to address, the Highway Trust Fund shortfall that is expected in 2009. The Bush Administration and the Congressional Budget Office forecast that revenues for the highway account will fall short of meeting these SAFETEA-LU guaranteed commitments by between 4.3 and $5 billion during fiscal year 2009.

As a result of the multi-year outlay pattern of the Highway Trust Fund, the resulting cut in the 2009 Federal Aid Highway Program would be much larger than this shortfall, approximately four times larger.

State Departments of Transportation and metropolitan planning organizations have developed long-term investment plans based on anticipated SAFETEA-LU guaranteed funding levels and a reduction in funds would disrupt projects already underway.

Therefore, we strongly encourage Congress to ensure that the Highway Trust Fund revenues are sufficient to support the guaranteed funding levels in SAFETEA-LU and we believe that Congress should not ensure the solvency of the Highway Trust Fund by cutting the obligation limitation for the Federal Aid Highway Program.

The Chamber is committed to lead the way in tackling our nation's infrastructure challenges. We have launched a major multimillion dollar initiative called Let us Rebuild American that has four goals.

First, to document the problem with solid research; second, to educate the public, the business community, and policy makers; third, to spur private investment in critical infrastructure of all types; and, finally and perhaps most importantly, to foster an honest dialogue on how to find the public money to meet critical infrastructure needs.

And, again, let me emphasize that there is no single answer to that question which means all of the funding and financing options must be on the table.

Mr. Chairman, Congressman Blumenauer, the question facing America is this: Are we still a nation of builders, are we still a can-do society, are we still the kind of people who can rally to a great cause with a shared sense of mission and national purpose?

To succeed, we need all transportation and infrastructure stakeholders at the table, all modes, all industries, builders, carriers, users, and shippers alike. It is time for us all to roll up our sleeves and go to work.

Surely we ought to be able to create the vision, forge the consensus, secure the resources, and find the political courage to make this happen. I believe that we can and I believe that we will and business will lead the way.

Thank you very much for the opportunity to be here today and I look forward to answering your questions.

[The prepared statement of Janet Kavinoky follows:]

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

INTRODUCTION

Mr. Chairman, Mr. Ranking Member and distinguished members of the House Committee on Budget, thank you very much for the opportunity to testify from the perspective of the business community on the investments required to meet the needs of our nation's transportation system and specifically, highway and public transportation infrastructure.

My name is Janet Kavinoky, and I am the Director of Transportation Infrastructure at the U.S. Chamber of Commerce and the Executive Director of the Americans for Transportation Mobility Coalition. The U.S. Chamber is the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region.

Over the past several months the nation has seen abundant evidence that America's infrastructure is not only showing its age, but showing that it lacks capacity to handle the volume of people and goods moving today. From exploding steam pipes under New York streets, to record level flight delays in the skies across the country, it is evident that now is the time to move on a robust, thoughtful, and comprehensive plan to build, maintain, and fund a world-class 21" century infrastructure. There can be no more delay.

We—Congress, state and local governments, and the private sector—cannot treat infrastructure like other problems or programs where you can wait until the very last minute and then write a big check. Infrastructure projects require foresight and years of careful planning.

The Chamber appreciates the opportunity to provide the "user's perspective" and will emphasize just how critical America's transportation infrastructure is to the businesses that rely on fast, cost effective, and reliable transportation of goods and people.

This testimony covers three topics:

1. The role of transportation in our economy;
2. What is at stake from the business community's perspective; and
3. What can be done in the short term and our recommendations for addressing long term issues.

THE ROLE OF TRANSPORTATION IN OUR ECONOMY FREIGHT AND GOODS MOVEMENT

Manufactured goods and cargo move through the United States on a system primarily consisting of ports, roads, rail and inland waterways. Bridges serve as critical links in the system. The supply chain is viewed from initial point of origin to the final destination, with frequent junctures in between. To keep competitive domestically and internationally, many U.S. businesses have developed complex logistics systems to minimize inventory and ensure maximum efficiency of their supply chains. However, as congestion increases throughout the U.S. transportation system, these supply chains and cargo shipments are frequently disrupted and the cost of doing business increases.

The growth in international trade is overwhelming U.S. intermodal freight capacity. Over the next 30 years, domestic freight volume is forecast to double and international freight volume entering U.S. ports may quadruple, according to the American Association of State Highway and Transportation Officials (AASHTO).

According to the Federal Highway Administration's (FHWA) recent report, An Initial Assessment of Freight Bottlenecks on Highways, "If the U.S. economy grows at a conservative annual rate of 2.5 to 3 % over the next 20 years, domestic freight tonnage will almost double and the volume of freight moving through the largest international gateways may triple or quadruple. * * * Without new strategies to increase capacity, congestion * * * may impose an unacceptably high cost on the nation's economy and productivity."

Labor shortages and increased security requirements born from 9/11 are compounding these capacity constraints and increasing congestion at key entry, exit, and throughput points throughout the country.

In Memphis, TN, at a hearing of the National Surface Transportation Policy and Revenue Study Commission, on November 15, 2006, Doug Duncan, CEO of FedEx Freight and a Chamber member, summed up the freight community's acute interest in infrastructure: "I'm afraid if things don't turn around soon, we'll begin turning the clock back on many of the improvements that these supply chains have made and begin to restrain commerce instead of support commerce."

PASSENGER TRANSPORTATION AND PERSONAL MOBILITY

Employers rely on transportation systems to connect them to their workforce, and to connect that workforce with suppliers and customers around the country and the world. Unfortunately, increasing congestion is disrupting these important connections and imposing additional costs on the workforce and employers alike.

Public transportation, such as buses, rapid transit, and commuter rail systems, are important solutions to the growing congestion crisis in the United States, but chronic underinvestment is leaving these systems strained under increasing use.

Americans took 10.1 billion trips on local public transportation in 2006. From 1995 through 2006, public transportation ridership increased by 30 %, a growth rate higher than the 12 % increase in U.S. population and higher than the 24 % growth in use of the nation's highways over the same period. The Federal Transit Administration (FTA) estimates $14.8 billion is needed annually to maintain current conditions, while $20.6 billion is needed to improve to "good" conditions.

WHAT IS AT STAKE

What's at stake is simple and stark:

As Caterpillar Group President, and former Chamber Chairman, Gerry Shaheen, stated at the New York field hearing of the National Surface Transportation Policy and Revenue Study Commission on November 15, 2006: "Transportation in this country is breaking down."

If we fail to address our transportation infrastructure challenges, we will lose jobs and industries to other nations. Our global competitors are building and rebuilding while America is standing still. China, India, and the developing world are building at a staggering pace. China spends 9% of its GDP on infrastructure; India, 5% and rising. While they started well behind us, they are catching up fast. The United States has spent less than 2% on average as a percentage of GDP since 1980. We cannot expect to remain competitive with that level of investment.

If we fail to act, we will pollute our air and destroy the free, mobile way of life we cherish. Thirty-six percent of America's major urban highways are congested. Congestion costs drivers $63 billion a year in wasted time and fuel costs. Americans spend 3.7 billion hours a year stuck in traffic. And while their car engines are idling, they are pumping thousands of tons of pollution into the air every day.

If we fail to increase investment, we will see more senseless deaths on our bridges and roads, not to mention on our rails and waterways. Americans need to know that 33% of our major roads are in poor or mediocre condition. Shoddy road conditions result in $67 billion in extra vehicle repairs and operating costs per year. More important, poorly maintained roads contribute to a third of all highway fatalities. That's more than 14,000 deaths every year—a national disgrace.

It is all likely to get much worse. We have a system that is overworked, underfunded, increasingly unsafe, and without a strategic vision.

According to TRB's National Cooperative Highway Research Program's (NCHRP) study Future Financing Options to Meet Highway and Transit Needs, there is an average annual gap of over $50 billion in capital, operations and maintenance funding to maintain the nation's highway and transit systems from 2007 to 2017, and an average annual gap of over $100 billion to "improve" these systems.

The cost of materials used to fix pavements has increased 33% in the past three years. Steel, oil, and concrete are all more expensive.

Yet despite these growing needs and costs, the Highway Trust Fund will be $4 billion in the hole in just two years, and the user fees on fuels that are the primary source of resources at the federal level have not been increased since 1993.

These figures do not even address other critical elements of our transportation infrastructure, freight and passenger rail, inland waterways, ports and other maritime needs, and, of course, aviation. The American Society of Civil Engineers says that our civil infrastructure needs add up to some $1.6 trillion over the next five years including transportation systems, clean water and wastewater facilities, schools and recreational facilities.

How did we arrive at the situation we face today?

Decades ago we built the best infrastructure system the world has ever known and then proceeded to take it for granted. As a nation, we've allowed governments at all levels to pile on complex and overlapping regulations. It takes years, even decades, to bring projects on line. Red tape and lawsuits can bring the most common sense improvements to a grinding halt.

Decision-makers have refused to make tough choices or set common sense priorities. We have failed to plan, failed to innovate, and failed to invest. We've allowed money to be wasted and have permitted federal and state lawmakers to divert infrastructure dollars to other purposes. We've seen construction and land costs go up while letting revenue sources stagnate and decline.

WHERE WE GO FROM HERE

It is time to address these issues and create a new era in transportation.

The Next Era in Transportation

This country's current approach to delivering transportation infrastructure is not set up for today's robust economy or the economy of the future.

In spite of the multi-modal and intermodal needs of transportation system users, the planning, construction, and financing of infrastructure has been separated by public and private entities and has focused on individual locations and modal stovepipes.

The Chamber believes that this next era in surface transportation requires a multi-modal and intermodal vision that supports competition in the global economy and emphasizes the important role of the federal government.

We need a national plan. As House Committee on Transportation and Infrastructure Ranking Republican Member John Mica aptly articulated in an Op-Ed in The Hill earlier this year, "[T]he federal government must take a lead role in developing a national strategic transportation plan for the next 50 years that makes the most efficient use of every transportation mode and incorporates the expertise and resources of both private and public sectors." The Chamber appreciates Ranking Member Mica's continued vision and leadership on this issue.

Every level of government must step up to the plate and make commitments to expand capacity through better utilization of existing infrastructure and creation of additional infrastructure. The federal government, however, bears a significant part of the responsibility when ensuring that:

- National needs are met;
- Legacy assets, including the Interstate Highway System, are maintained and improved to guarantee continued nationwide connectivity;
- Utilization of existing networks is maximized; and
- Infrastructure investment is aligned with the needs that arise from the global economy, trade policies, and the flow of interstate commerce. There is a federal role in prioritizing investment in new capacity and operational improvements in global gateways and trade corridors.

The federal government must perform a critical role:

- Working through difficult intergovernmental relationships;
- Providing resources for complex, multi-state or multi jurisdictional projects; and
- Encouraging the public and private sectors to pursue innovations that improve infrastructure performance, financing or development.

NEED FOR A COMPREHENSIVE APPROACH

The I-35W bridge collapse in August shone a spotlight on the state of the nation's bridges, which are critical components of the nation's transportation network. For example, South Carolina alone has a $2.9 billion bridge-repair backlog. It is important to recognize that the nation has a much larger infrastructure problem. The poor condition of the nation's infrastructure is not confined to bridges alone. As I outlined earlier, the business community looks holistically at transportation infrastructure. So, in addition to bridges we must address:

- Road traffic has already shot up 40% between 1990 and 2005 and is expected to skyrocket in coming years while capacity has increased just 2%.
- Our transit systems earned a D+ rating from the American Society of Civil Engineers. Transit investment is falling even as transit use increased faster than any other mode of transportation—up 21%—between 1993 and 2002. As the Committee discusses bridge needs, it is important to note that according to the 2006 Conditions and Performance Report issued by USDOT the percentage of elevated transit structures in adequate or better condition decreased from 91 % in 2002 to 84 % in 2004, and the percentage in substandard or worse condition increased from 9 to 16 %.
- The antiquated air traffic control system that is a contributing factor to a third of all U.S. flights being cancelled or delayed in July this year. U.S. airlines could have one billion customers by 2015 and more passengers mean more planes. The use of smaller regional jets and the growth in business and general aviation are also factors in congestion. The costs of inaction are steep—aviation delays cost $9 billion in 2000 and are on target to hit more than $30 billion by 2015. There is also the cost no one likes to talk about—the potential for significant loss of life in midair or on overcrowded runways.
- Ports that are straining under the weight of cargo volumes that are doubling or tripling. By 2020, every major U.S. container port is projected to at least double the volume of cargo it was designed to handle. Select East Coast ports will triple in volume, and some West Coast ports will quadruple.
- Rail infrastructure requires nearly $200 billion over the next 20 years to maintain existing infrastructure and to accommodate freight growth.
- Our inland waterways need serious attention—removing obstructions, widening channels, and replacing locks. The number of dams deemed unsafe by our civil engineers has risen 33% to more than 3,500 since 1998.

• AASHTO has estimated that intercity passenger rail corridors will require $60 billion in capital investment over the next 20 years to maintain existing infrastructure and to expand capacity.

What can the federal government do specifically with regard to the freight transportation system?

• Improve road connections between ports and intermodal freight facilities and the national highway system;

• Improve connectivity and capacity so that railroads can efficiently and reliably move cargo between ports and inland points;

• Develop a national intermodal transportation network so that cargo can flow at speed among multiple alternative routes; and

• Help prioritize infrastructure improvements of long-term network plans and projects of national significance and then reserve funding for such projects.

When it comes to funding and financing, every option must be considered to address the enormous problems of the aging transportation infrastructure. At the federal level, user fees on fuel and truck sales and use are the principal sources of revenue for the Highway Trust Fund. Public transportation is funded on a pay-as-you-go basis with a combination of user fees and general funds. At the state and local levels, a myriad of funding sources are used, and sometimes those revenue streams are leveraged through fmancing structures that include both public and private debt and equity investment. The NCHRP report Future Financing Options to Meet Highway and Transit Needs effectively summarizes revenue sources used across the country and is a good resource for the Committee.

The Chamber looks forward to the evaluation of needs, policies and funding and financing options in the report of the National Surface Transportation Policy and Revenue Study Commission this winter. In addition, we believe that the fmdings of the National Transportation Infrastructure Financing Commission could also add to the debate on the federal role in the future of surface transportation program and project delivery in this country. Even without the findings of these Commissions, the Chamber is confident in saying that there is a need to increase the systemic funding available for capital investment in infrastructure. In 2005 a National Chamber Foundation report titled Future Highway and Public Transportation Financing Study concluded as much, and several subsequent studies including U.S. DOT's own Conditions and Performance Report quantify the significant gap between needs and available resources.

It is clear that chronic underinvestment is a major contributing factor to the problems across all modes of transportation; however, misuse of funding, a lack of resource prioritization, and poor comprehensive planning must also be addressed. As Congress prepares for SAFETEALU reauthorization, the Chamber encourages Congress to spend infrastructure dollars more wisely, ensure that states do not divert their transportation funding away from its intended use in the name of "flexibility," invest in new technologies, attract more private investment for projects, and encourage public-private partnerships at the state and local levels.

HIGHWAY TRUST FUND SHORTFALL

I would be remiss if I did not mention to this Committee the urgency of addressing the Highway Trust Fund shortfall that is expected in 2009. SAFETEA-LU guaranteed at least $223 billion for federal highway program investments through FY2009. This investment level was predicated on a forecast of anticipated revenues collected for the Highway Trust Fund's Highway Account over the life of SAFETEA-LU.

The Bush administration and the Congressional Budget Office now forecast that revenues for the Highway Account will fall short of meeting these commitments by between $4.3 and $5.0 billion during FY2009, the last year of SAFETEA-LU authorizations. As a result of the multi-year outlay pattern of the Highway Trust Fund, the resulting cut in the 2009 Federal-aid Highway Program would be much larger than this shortfall—approximately four times larger.

The nation's highway system has significant capital, operating and maintenance needs and state departments of transportation and metropolitan planning organizations have developed long term transportation investment plans based on anticipated SAFETEA-LU guaranteed funding levels and a reduction in funds would disrupt projects already underway.

Therefore, as a result, we strongly encourage Congress to ensure that Highway Trust Fund revenues are sufficient to support the guaranteed funding levels in SAFETEA-LU. Congress should not ensure the solvency of the Highway Trust Fund by cutting obligation limitation for the Federal-aid Highway Program.

THE CHAMBER'S COMMITMENT: LET'S REBUILD AMERICA

Permit me to address briefly what the nation must do to meet the enormous and urgent challenge that I have just outlined and tell you what the Chamber intends to do.

Those of us who have worked on infrastructure for many years have learned that on this issue, public attention spans are short. Government decision making is slow and diffuse. Politicians rarely look beyond the needs of their own states and districts. The news media mostly yawn unless there is a tragedy.

If we really want to move this country off the dime and build a modern and safe infrastructure, then the business community must step up to the plate and lead.

The Chamber will organize, fund, and lead this critical effort. We already launched a major, multimillion dollar initiative called "Let's Rebuild America."

We will put money, people, research, programs, and strong political action around a sustained, long-term campaign to rebuild the economic platform of our nation. We will employ every resource at our disposal—our policy expertise, our lobbying clout, our grassroots capabilities, and our communications channels. We will appeal to all Americans who are sick of pollution, tired of congestion, fed up with rising costs, and concerned about their own safety.

To succeed, we need all transportation and infrastructure stakeholders at the table—all modes, all industries, builders, carriers, users, and shippers alike. It is time for us all to roll up our sleeves and go to work. The business community will lead this effort, but to do so all of the infrastructure providers, passenger and freight carriers, and the traveling public and shippers must be united. We must put an end to the intramural squabbles that have divided stakeholders—mode versus mode, shipper versus carrier, urban versus rural, and region versus region. We will all lose unless we rally and unite around an urgent and compelling mission—to rebuild America.

Four key goals will define the mission and underpin the work of our Let's Rebuild America initiative.

DOCUMENTING THE PROBLEM WITH SOLID, INDISPUTABLE RESEARCH

First, we will document in a factual and comprehensive way the totality of America's infrastructure needs—not just what is required to patch things up, but what we must do to move our country and economy forward in a competitive world.

Our experience tells us that putting a credible body of facts on the table and gaining widespread agreement on those facts are critical first steps to forging consensus and forcing action.

We have joined with others in asking the RAND Corporation to prepare a definitive report that documents the current state of our infrastructure and outlines the future needs of a $13 trillion economy that will grow to $20 trillion by 2020, given a 3% growth rate. Researchers will also break out their findings state-by-state so that we can put an infrastructure report card in front of every governor and state legislature in the country. Perhaps, then, they will see the light—and feel the heat!

EDUCATING AMERICANS ABOUT THE BENEFITS OF INFRASTRUCTURE AND THE COST OF FAILURE

Our second goal is to educate the public, the business community, policymakers, and government at all levels about the benefits of investing in infrastructure and the cost of failure.

Using the RAND study and other research—and backed by an aggressive communications program—we will widely disseminate a series of compelling messages to build grassroots support for infrastructure.

The people of our country must know, and be reminded again and again, that we can create good American jobs, clean the air, succeed in a global economy, preserve a good quality of life, and save innocent lives by investing in our infrastructure.

SPURRING PRIVATE INVESTMENT IN INFRASTRUCTURE

Our third goal is to unleash and unlock the potentially hundreds of billions of dollars in private investment just waiting to be spent on critically needed power plants, pipelines, refineries, transmission lines, broadband lines, port facilities, railroads, airports, and privately constructed roadways.

The money is there—ready, willing, and able—if government and regulators would just get out of the way.

No one objects to timely environmental reviews, and we all support strong health and safety protections. But the red tape, lawsuits, and mind-numbing regulations we have imposed on our infrastructure systems and transportation modes defy common sense.

The Chamber's Let's Rebuild America initiative will identify and seek to reform those rules and policies that threaten the efficiency of our logistics system and obstruct positive investments in our nation's future.

FOSTERING AN HONEST DIALOGUE ON PUBLIC FINANCING

Yet even with these approaches, there is no question that as a nation, we are going to have to fmd and invest more public dollars in our infrastructure.

Our fourth goal is to foster an honest national dialogue on how and where we are going to find the public money to meet critical infrastructure needs. There is no single answer to that question—and that's good. It means we have options, but all the options must be on the table.

First, we must do more to ensure that public dollars are spent wisely. That means ending waste and targeting the highest priority projects. It means a sensible mix of projects based on actual needs and not on politics or ideologies—for example, more road construction in some communities, more investment in mass transit in others.

It also means ending the practice of diverting money intended for infrastructure to other programs. Politicians should start paying a price when they skim money from dedicated transportation funds to pay for projects of their own choosing. It breaks trust with the taxpayers who expect their user fees to go toward their intended purposes.

Both the federal and state governments are guilty of this practice. U.S. Secretary of Transportation Mary Peters says that only 60% of federal highway funds actually are spent on "core" needs—highways and bridges. In Texas, the legislature's budget for the next two fiscal years will divert $1.6 billion in infrastructure funding to other needs. That amount is up 15% from the previous budget cycle and a major step in the wrong direction. And Texas is hardly alone among the states.

The Federal Aviation Administration is even poaching its capital budget to pay for operations. That's shortsighted, dangerous, and wrong.

In addition to cutting waste and ensuring that infrastructure dollars are spent as promised, we can also stretch public dollars by tapping the growing interest in public-private partnerships and other innovative fmancing arrangements.

Then, we are going to have to 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.

Therefore, along with other options, we are going to have to consider an increase in the federal gasoline user fee. This could take the form of a straightforward increase in a fee that hasn't been raised in 14 years—as long as the proceeds are dedicated to transportation.

CONCLUSION

Mr. Chairman, Mr. Ranking Member, and members of the Committee, I hope each of you will closely follow the announcements we will make in the coming weeks as we roll out our Let's Rebuild America initiative. We welcome your ideas, your expertise, and your criticisms. We will do the critical research, build an irrefutable case, and educate and mobilize the American people. We will tell a compelling story so that policy makers spur private investment by removing regulatory roadblocks, embracing innovation and technology, and supporting increases of public investment in infrastructure along with measures to ensure that the money is spent wisely and efficiently.

The question facing America is this: Are we still a nation of builders? Are we still a can-do society? Are we still the kind of people who can rally to a great cause with a shared sense of mission and national purpose?

It's worth recalling that after the great wars of the last century, the challenge facing America was to rebuild other countries, countries that were in ruins—even our former enemies. And we did it. Our challenge today is to rebuild our own country—a country that is hardly in ruins, but which has serious unmet needs.

Surely we ought to be able to create the vision, forge the consensus, secure the resources, and find the political courage to make this happen.

I believe that we can, and I believe that we will. And business must lead the way.

Thank you very much for the opportunity to be here today. I'll be happy to answer any questions you may have.

Chairman SPRATT. Thank you very much.

Before asking questions, let us now complete our panel with a presentation from Mr. Puentes, who has submitted a statement which is entitled Not So Fast: Key Policy Consideration for Surface Transportation Investment Needs.

Mr. Puentes, thank you for coming. Thank you for submitting your statement and the floor is yours.

STATEMENT OF ROBERT PUENTES

Mr. PUENTES. Well, thank you very much. Mr. Chairman, Congressman Blumenauer, Congressman Ryan, I am pleased to appear before you this morning and I very much appreciate the invitation.

As we have heard today, we know that the fact is around the federal program is that now the interstate highway system is completed, but there is no coherent national vision for addressing a complex and conflicting set of transportation challenges.

The fuel taxes which feed the highway account of the transportation trust fund are distributed to states without any kind of purpose, oversight, or accountability nor are those funds tied to any kind of goals such as keeping bridges in good repair, mitigating the rise in congestion, improving air quality, or connecting workers to jobs and education.

Mr. Chairman, I sincerely believe that additional transportation investments are desperately needed to bring the nation's infrastructure up to date for the 21st century. But my overall theme is that the discussion about surface transportation needs and the budget should start first with a clear articulation of the goals and objectives of the federal program and the desired outcomes.

The program should be structured to get to those outcomes and only then should additional revenues be considered. This is consistent, I think, with the goals for fiscal discipline and responsibility that have been expressed by the Committee.

The problem is that while there is a clearly pervasive desire to invest, there is little precision about what the national needs are. There are two oft-cited sources for transportation investment needs as you have heard today, the American Society of Civil Engineers Infrastructure Report Card and the U.S. Department of Transportation's Conditions and Performance Report.

Estimates for roadways suggest that between $79 and $132 billion are needed each year. For transit, the figures are between $24 and $50 billion annually in investments. Numbers like these are frequently cited because while they are compelling and because the task of assessing national investments is a very difficult job for anyone other than the U.S. DOT, so there are few sources and original numbers to reference.

However, as a tool for determining the national needs, these analyses by their own admonition really are limiting. For one thing, they only include bridges, highways, and transit. They ignore intermetropolitan modes, freight and passenger rail, and intermodal transportation facilities.

Further, the analysis focuses on capital expenditures and excludes the cost for maintaining and operating the new facilities once they are in place.

But they also do not take into consideration investments that could obviate the need for future investments. They do not consider land use impacts or effects. By separating highways and transit investments, the potential for the modes to work together is missed.

The analyses also ignore other national concerns around transportation investments such as environmental, equity, and economic development impacts.

Simply put, the limited focus on the condition of infrastructure without regard to the desired outcomes is the wrong approach to determining national investment needs. Without a clear definition of what the federal role should be and what it should endeavor to do, a true determination of the optimal level of investment will remain elusive for us.

Now, as the Committee has heard, driving the conversation about transportation today is the current predicament with the federal transportation trust fund and the broad understanding that the outlays are estimated to continue to outpace the revenues flowing into the account. You have heard the details. I do not need to reiterate those.

But the critical subset of that problem, of course, is that since the federal gas tax has not been raised since 1993, even to keep pace with inflation, it is having less of an impact as it could.

In fiscal year 2005, nearly 90 percent of the federal revenue that went into the federal transportation trust fund was derived from fuel taxes. So as the rate effectively declines, there clearly is an impact.

Related to the concerns about the effectiveness of the fuel taxes as a revenue source is the increasing fuel efficiency of the vehicle fleet. Less gas consumed means less gas tax paid. Now, while American cars are being driven further and further and more often than ever, the long-term impacts really are unclear.

In recent years, the increase in vehicle miles traveled for the country as a whole has actually begun to level off. While VMT does continue to increase nationally, it is slowing down considerably.

In fact, recent metro level data shows that 20 of the 50 largest metro areas saw VMT declines between 2000 and 2002. Metro areas such as Charlotte, Portland, Dallas, Los Angeles, and Milwaukee saw some of the largest drops.

What is often lost in this discussion, especially around finance and the budget, is that these trends are extremely positive for the nation as a whole. Lower fuel consumption is vital to our energy security which coupled with the leveling off of VMT is important for the health of our metropolitan areas and for mitigating the challenges associated with climate change.

Indeed, VMT reduction should be an integral part of the conversation around investment needs. Yet, all this has not changed the fact that the gas tax is a critically important revenue source and will continue to be for the foreseeable future.

Between 2001 and 2005, only tolls and bond revenues grew at a faster rate than fuel taxes in terms of all funds used for highways. However, these other sources still make up a very small share of total revenues. Fuel taxes still dominate at nearly 40 percent of the total. Revenues from fuel taxes also rose faster than any other source since 2001 and in nominal terms, they are still rising as a share of national total.

No doubt there are many excellent reasons to move aggressively to expand tolling and to explore revenue sources such as mileage-based fees, but they are clearly less effective as solutions for funding challenges in the short term.

So my message here is that these ideas should not be motivated by the desire to avoid the necessary task of a more comprehensive and inclusive discussion around transportation, a discussion that includes accountability, overall intent, and connection to broader goals of economic growth and personal mobility. This is of critical importance today.

The Federal Transportation Program provides little in the way of oversight and no accountability for how federal funds are spent. As a result, the GAO recently found that it is functioning to some extent as a cash transfer, general purpose grant program.

In addition to this laxity, there are three other critical problems. First, as we have heard, spending is not targeted to achieve certain outcomes. The federal government takes an almost agnostic approach to where funds are spent and as a result, analysis shows a disproportionate amount of investment is happening away from the places that matter most for the prosperity of the nation. The emphasis is on consensus building where funds are distributed broadly and thinly rather than on fixing national problems.

Second, there is little attention to reducing the demand for spending. The formulas for allocating the federal Highway Trust Fund dollars are largely made on the basis of roadway mileage and use which sets up an insatiable desire for more funding as the roadway networks expand.

There is no reward for reducing consumption in any of these formulas. Thus, any investment in transit or promotion of land use strategies to reduce VMT, reduce fuel consumption, or to be a substitute for lane miles is antithetical for how states continue to receive funds.

Third, as we have heard, the system is not priced correctly. Economists have long criticized the current system of roadway pricing. They contend user fees should be structured such as those levied on different classes of vehicles, reflect the cost borne by governments, and provide those vehicles with an opportunity to travel.

So what can be done? One thing is certain. Billions and billions of dollars of additional federal investments without significant reform will do precious little to fix our rusting bridges, expand our overcrowded transit systems, or unclog our ports.

There are three critical areas that demand federal attention. First, we really need to rebuild the public trust. To regain credibility and open the door to proposals for increased funding, the federal government must make sure the transportation program is transparent, that spending is accountable and subject to performance measures, and that we are learning and improving on past mistakes.

Secondly, we need to develop a coherent national purpose in target spending. We need to update our 1950s era transportation program to the realities of the 21st century. As such, the federal program needs a true national priority program that focuses on congested areas, on gateways and corridors, and on freight hubs.

But in addition to just focusing on increasing revenues for transportation, the nation deserves a real conversation about cutting the demand for spending. States could be rewarded for increase in their own funding or for meeting performance goals.

And, third, we need to unleash the market dynamics to address finance demand and operational efficiencies. The federal government should augment efforts to use state-of- the-art technology and communications to encourage market responses such as road pricing and where appropriate should provide oversight and advice on the monetization of infrastructure assets like toll roads. The pervasive market demands for development around rail stations also should be exploited.

In conclusion, history has shown us that to be effective, significant increases in revenue should be tied to meaningful updates and upgrades to the federal program. During their times, President Dwight Eisenhower and Senator Daniel Patrick Moynihan both had bold new visions for transportation as well as a revenue stream for implementation. Significant gas tax increases accompanied the major reforms in both 1956 and 1991.

Looking at it another way, no major federal transportation reform has ever occurred without a major increase in revenues. Mr. Chairman, I believe this should be one of those times.

Congress should seize the opportunity provided by the finance and funding discussion to put forth a bold new vision for transportation that truly puts America on the path to competitive, sustainable, and inclusive growth in the 21st century.

Thank you very much for the opportunity to appear before you today. I will be happy to take questions.

[The prepared statement of Robert Puentes follows:]

PREPARED STATEMENT OF ROBERT PUENTES, FELLOW, METROPOLITAN POLICY PROGRAM, THE BROOKINGS INSTITUTION

Mr. Chairman and members of the Committee, I am pleased to appear before you this morning and very much appreciate your invitation.

The purpose of my testimony today is to provide some context to the conversation on surface transportation investment needs and the current conversations around finance and funding.

I. INTRODUCTION

There is no question that in the wake of the Minneapolis bridge collapse, reports of ever-increasing congestion, and new concerns around climate change, our nation's transportation policy has suddenly been thrust into the national spotlight. This infrastructure epiphany is long overdue.

The United States is currently undergoing a transformation of dramatic scale and complexity comparable to what it experienced at the beginning of the last century—another period characterized by the radical reshaping of the American landscape.

Massive demographic, economic, and social changes are already having major spatial effects on the nation. But rather than dispersing randomly all this population and economic activity is shifting and re-aggregating in major metropolitan areas, both domestically and internationally. These forces are restructuring the American economy and are revaluing the assets of the cities and urban cores within metropolitan areas.

In short, we are a metropolitan nation. Supplier networks and customer relationships are regional rather than local in nature. Labor markets and commuting patterns cross jurisdictional and state lines. Firms make decisions on location and expansion based on regional advantages and amenities. Metropolitan areas are where most Americans live, work, and produce the majority of the nation's economic output. The services and revenues they generate drive state economies.[1]

Just the 100 largest metropolitan areas claim more than 65 percent of our population, 75 percent of our most educated citizens, and 75 percent of our national economic output, driving and dominating the leading edges of our economy: technology, business, finance, and professional services. They are also our immigrant gateways, our ports of trade—truly our centers of knowledge and innovation.

Unfortunately, our nation's transportation policy does not recognize the primacy of metropolitan areas and—I would argue—on net actually undermines these vital places. Yet for the nation to thrive, our largest metropolitan areas must thrive. This is a lesson long understood by foreign competitors in Western Europe, South America, and now in Asia. The rest of the world understands these assets but in the U.S. metropolitan areas remain hidden in plain sight.

This blunt criticism stems from the fact that our national government takes a bloated and outmoded approach to the realities and challenges of the modern metropolis and, by extension, to the economic competitiveness of the nation. Today the major transportation debates are all around money: spending more and more on the same product rather than where, on what, and how to spend that money better.

The sad fact is that now that the Interstate Highway System is completed there is no coherent national vision for addressing a complex and conflicting set of transportation challenges. As a result, America's transportation policy is adrift with no clear goals, purpose, or ability to meet these challenges.

The federal government appears to lack a theory of its role and is absent or agnostic when it comes to where highway funds are spent. Fuel taxes feed the highway account of the transportation trust fund which is distributed to states without any kind of purpose, oversight or accountability. Nor are the funds tied to any goals such as keeping bridges in good repair, mitigating the rise in congestion, improving air quality, or connecting workers to jobs and education.

Mr. Chairman, I sincerely believe additional transportation investments are needed to bring the nation's infrastructure up to date for the 21st century. But my overall theme is that the discussion about surface transportation needs and the budget should start first with a clear articulation of the goals and objectives of the federal program, and the desired outcomes. The program should then be structured to get to those outcomes. Only then should additional revenues be considered. This is consistent with the goals for fiscal discipline and responsibility expressed by this committee.

II. DETERMINING NATIONAL SURFACE TRANSPORTATION INVESTMENT NEEDS

Whether raising new revenues, borrowing, or fighting over the existing pot of funds, paying for transportation—both in the short and long term—has emerged as a major concern among policy makers. These concerns are so prevalent today that they spawned two national commissions, and the U.S. Government Accountability Office recently added transportation financing to its annual list of high-risk areas suggested for oversight by the current Congress.[2]

The problem is that while there is a pervasive desire to invest there is little precision about national needs.

There are several oft-cited sources for transportation investment needs: the American Society of Civil Engineers' Report Card for America's Infrastructure and the U.S. Department of Transportation's (U.S. DOT) Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance Report to Congress (C&P report). The latter is commonly referred to as the national "needs" statement by many constituency groups. Analysts from the U.S. DOT testify and update these figures regularly—but with caveats as described below.

For roadways, the U.S. DOT estimates that the maximum investment level required to eliminate the project backlog for bridges and to implement all proposed highway improvements is $131.7 billion per year for the next 20 years. Analysts at the department report that this figure represents the "investment ceiling" and that spending should not exceed this level, even assuming unlimited funding availability. The cost per year just to maintain current highway and bridge conditions is estimated to be about $78.8 billion.[3] Between $2.6 and $1.6 trillion is needed over 20 years based on these estimates.

The investment needs projected for transit are substantial as well. The estimated average annual investment required to maintain the same physical conditions and operating performance of the nation's transit systems by replacing and rehabilitating deteriorated assets and expanding capacity to accommodate expected transit passenger growth is $15.3 billion. The cost to improve conditions and performance is estimated to be $24.0 billion. The overwhelming majority of these needs (85 percent) are estimated to be in urbanized places of over 1 million people—essentially referring to the 50 largest metropolitan areas.[4]

Numbers such as these are frequently cited because they are compelling and because the task of assessing national investments is a very difficult job for anyone other than the U.S. DOT so there are few sources and original numbers to reference. The basis for the C&P report is the Highway Economic Requirements System (HERS) which is an engineering model used to suggest improvements to a particular stretch of highway. The Federal Transit Administration uses the Transit Economic Requirements Model (TERM) to estimate future transit capital investment needs.

However, as a tool for determining the level of national "needs" these analyses, by their own admonition, are limiting.

For one thing, they only include highways, bridges and public transit, and ignore intermetropolitan modes, freight and passenger rail, and intermodal transportation facilities. Further, the analyses focus on capital expenditures and exclude the costs for maintaining and operating the new facilities once they are in place.

But they also do not take into consideration investments that could obviate the need for future investments. They do not consider land use impacts or effects. By separating highway and transit investments the potential for the modes to work together is missed and, indeed, often these modes represent alternative investments in the same corridor. The analyses also ignore other national concerns regarding transportation investments such as some environmental, equity, and economic development impacts.

Simply put, the limited focus on the condition of infrastructure without regard to desired outcomes is the wrong approach to determining national investment needs.

The U.S. DOT recognizes these shortcomings and clearly states that linking investment needs analysis to federal funding alternatives requires an intermediate step to, as I suggested, define the federal role and responsibilities.[5] Currently there is no effort to do that. As such the C&P report itself states in no uncertain terms that it "makes no recommendations concerning future levels of federal investment."[6] Yet that is precisely what many groups and advocates for a larger federal program do.

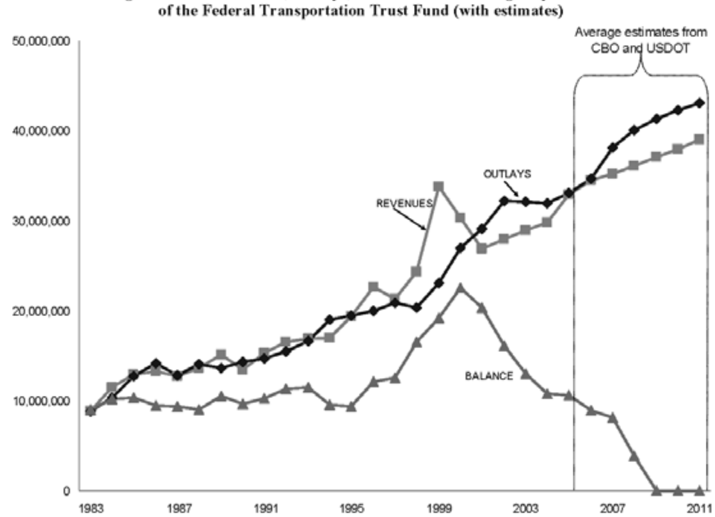
My central point is that without a clear definition of what the federal role should be and what it should endeavor to do, a true determination of the optimal level investment will remain elusive.

III. CURRENT STATE OF THE FEDERAL TRANSPORTATION TRUST FUND

Driving the conversation about transportation spending today is the current predicament with the federal transportation trust fund and the broad understanding that the outlays are estimated to continue to outpace the revenues flowing into the account. While this situation has been going on since 2001 the problem now is that the reserves, or balance, of funds in the account are close to being spent down. Yet this does not mean the fund is insolvent. It simply means the federal government has committed to disburse too much money to states and localities.[7]

A recent report from the GAO illustrates this problem by examining the estimates in receipts and outlays from both the Congressional Budget Office (CBO) and the U.S. DOT. They estimate that receipts into the highway account of the transportation trust fund will continue to increase by 13.8 and 10.3 percent, respectively from 2006 through 2011.[8] Figure 1 below shows that revenues have remained consistently steady since the fund was split into highway and transit accounts in 1983. What has clearly changed is that outlays have increased at a rapid rate. As a result, whenever outlays outpace revenues it drains the reserves in the account. Since 2001 the reserves have dropped precipitously. The transit program is projected to be oversubscribed to where revenues available reach a zero balance in 2011.[9]

Figure 1: Total Revenues, Outlays, and Balance of the Highway Account of the Federal Transportation Trust Fund (with estimates)



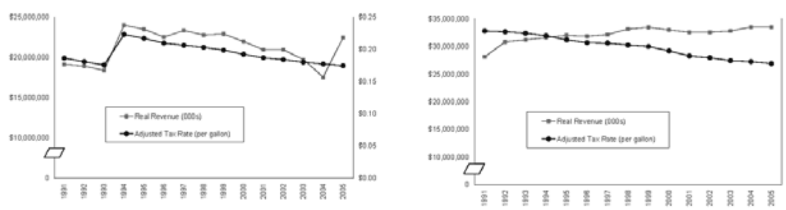
Source: Federal Highway Administration, Highway Statistics 1983-2005, table FE-210; plus CBO and USDOT estimates

The critical subset of that problem, of course, is that since the federal gas tax has not been raised since 1993 even to keep pace with inflation it is having less of an effect as it could. In FY 2005, nearly 90 percent of the federal revenue that went into the federal transportation trust fund was derived from fuel taxes so as the rate effectively declines, there is clearly an impact.[10] As reflected in Figure 2 below, the real gas tax rate and the real revenues have fallen together since 1993. (It is worth noting that receipts from the federal gas tax leaped by $5.5 billion between 2004 and 2005.)

Related to the concerns about the effectiveness of fuel taxes as a revenue source is the increasing fuel efficiency of the vehicle fleet. The fuel economy for cars and light trucks has not been this high since 1991.[11] As Figure 3 shows, gasoline consumption dropped by about 20 billion gallons per year from 2002 to 2004.[12] And while American cars are being driven further and more often than ever the long term trends are unclear. In recent years, the increase in vehicles miles traveled (VMT) for the country as a whole has begun to level off. The average yearly increase in VMT during the 1960s was 4.4 percent. During the 1970s, 1980s, and 1990s it was 4.3, 3.2, and 2.5 percent respectively. So far in the 2000s the average yearly increase is only 1.8 percent. While VMT does continue to increase it is slowing down considerably. In fact, recent data shows that 20 of the 50 largest metropolitan areas saw VMT declines between 2000 and 2002.[13] Metropolitan areas such as Charlotte, Portland (OR), Dallas, Los Angeles, and Milwaukee saw some of the largest declines.

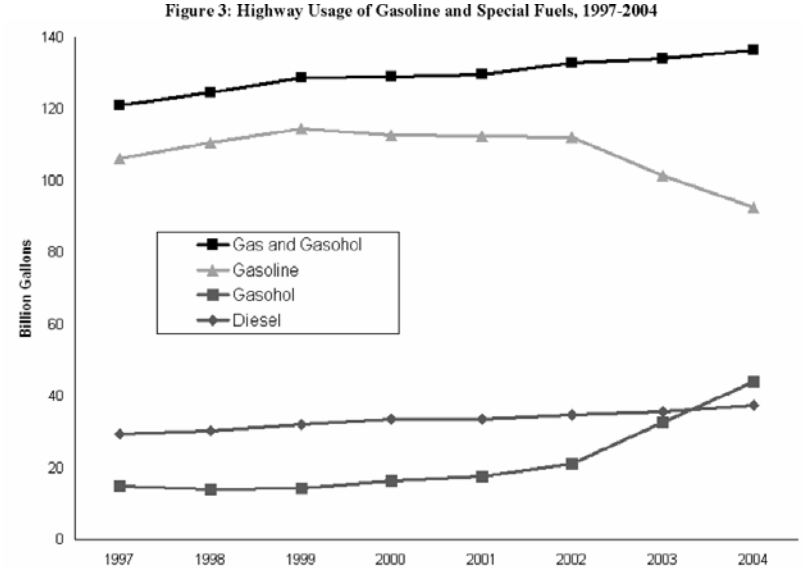
Figure 2: Inflation-Adjusted Gas Tax Rate and Revenues (current dollars), 1991-2005

Federal Rate and Revenues *Weighed State Gas Tax Rate and Revenues*



Source: Robert Puentes and Ryan Prince, "Fueling Transportation Finance: A Primer on the Gas Tax," in *Taking the High Road: A Metropolitan Agenda for Transportation Reform*, B. Katz and R. Puentes, eds., Brookings, 2005.

Figure 3: Highway Usage of Gasoline and Special Fuels, 1997-2004

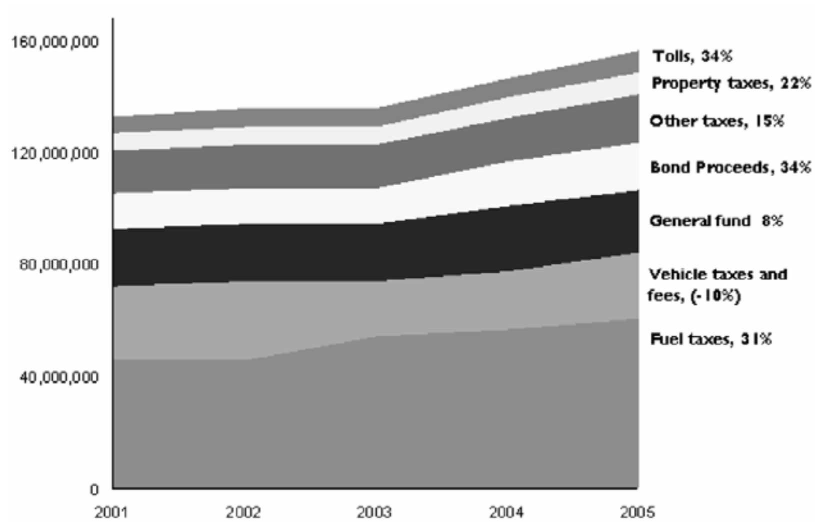


Source: Davis and Diegel, 2007.

But what is often lost in this discussion—especially around finance—is that these trends are extremely positive for the nation as a whole. Lower fuel consumption is vital to our energy security which, coupled with the leveling off of VMT, is important for the health of our metropolitan areas and for mitigating the challenges associated with climate change. Indeed VMT reduction should be an integral part of the conversation around investment needs.

Yet this does not change the fact that the gas tax is a critically important revenue source and will continue to be for the foreseeable future. Between 2001 and 2005 only tolls and bond "revenues" grew at a faster rate than fuel taxes in terms of all funds used for highways (Figure 4). However, these other sources still made up a very small share of total revenues—fuel taxes still dominate at nearly 40 percent of the total. Revenues from fuel taxes also rose faster than any other source since 2001 in nominal terms and are still rising as a share of the national total.

Figure 4: Revenue Sources for Highways (in $000s) and Change from 2001-2005



Source: FHWA, Highway Statistics, various years.

There are many excellent reasons to move aggressively to expand tolling and to explore revenue sources such as mileage-based fees. For example, the expanded use of these mechanisms is an effective and practical solution for mitigating the growth in congestion. But they are clearly less effective as solutions to the funding challenges in the short term.

Three other items warrant discussion here because they are citied as a primary cause of, and the potential solution to, our transportation finance and funding predicament.

One is the issue of the transportation earmarks. The current federal law is infamously known for the 6,300 priority projects identified in the legislation. Analysts have been quick to pounce on projects like the “bridge to nowhere” as the root of the nation’s transportation woes. Now without a doubt it is difficult to argue that the entropic nature of these thousands of projects add up to any coherent national program. However, this misses the bigger picture. Even though the $20 billion that comes from the thousands and thousands of earmark projects is a lot of money by any measure, this is only about 5 percent of the overall federal transportation program. While some of the earmarked projects are wasteful and inefficient they probably have a relatively small impact compared to the major structural flaws articulated above.

Another issue is that of governments leasing or selling their infrastructure assets to private investors. Two specific deals at the south end of Lake Michigan—in Chicago and Illinois—have sparked this movement. Such arrangements have the potential to raise a considerable amount of additional investment capital (not always linked to transportation). But this is not a silver bullet and, in the end, it is only a small sliver of a comprehensive conversation we should be having about transportation in America today.[14]

The third issue is that of establishing a national capital budget. This is an idea that has been raised many times in the past and continues to receive its share of attention. Without a doubt discussing this option for transportation is important for Congress and the nation to consider. But to paraphrase the 1999 Report of the President’s Commission to Study Capital Budgeting: there are critical components of the process that should be considered first. They include setting priorities, reporting and evaluating decisions, and providing appropriate information in order to 1) spend money better and 2) be held accountable for those decisions.[15] As I’ve maintained, this is a far cry from how we approach transportation decision making today.

So my message here is that these ideas should not be motivated by the desire to avoid the necessary task of a more comprehensive and inclusive discussion about transportation—a discussion that includes accountability, overall intent, and connection to broader goals of economic growth and personal mobility.

IV. POLICY PROBLEMS

The federal transportation program allows the states to define their own priorities and prioritizations and provides little in the way of oversight and no accountability for how federal funds are spent. As a result, the GAO found that it is functioning to some extent as a "cash transfer, general purpose grant program." [16]

Despite separate bureaucratic programs that lay out a framework for funding different activities, the federal government has virtually no discretion (other than the questionable earmark process) in determining which transportation projects get built or how states spend their transportation dollars. In fact, the U.S. code neuters the federal role and states specifically that the appropriation of highway funds "shall in no way infringe on the sovereign rights of the States to determine which projects shall be federally financed." [17]

This program's laxity is astonishing for several reasons. One is due to the sheer size of the program: nearly $50 billion federal dollars every year. Another is the inconsistency with other recently reformed federal programs such as welfare and education. Congress established a management assessment system for public housing agencies and created a performance measurement and reward system in the 1996 welfare reform law. The transportation system of governance and finance shares many similarities with these other areas of domestic policy.

In addition, the U.S. DOT outlined appropriate performance measures as required by the Government Performance Results Act, yet the department does not hold the recipients of federal highway funding accountable for their performance nor is funding linked to success.

Unfortunately, the breakdown in transportation politics comes at the precise time when discipline and accountability and focus are most needed. There are three critical problems:

1. Spending is not targeted to achieve certain outcomes. Instead of focusing on how much money it should spend, Washington should focus instead on how that money will be spent and how that spending affects our nation and its metropolitan areas. Unlike many other nations in Western Europe and parts of Asia, the U.S. is continuing to grow. Most of this growth will be accommodated in the nation's 50 largest metropolitan areas. Yet funds are not targeted to these growing and complex places. Rather, the federal government takes an almost agnostic approach to where funds are spent and as a result analysis shows a disproportionate amount of investment is happening away from the places that matter most to the prosperity of the nation.[18] The emphasis is on consensus building through logrolling where funds are distributed broadly and thinly rather than on fixing national problems.

2. There is little attention to reducing demand for spending. While additional sources are important, little attention is being given to managing the demand for revenues, how existing funds are spent and for what purpose, or how these spending decisions affect cities, suburbs, and metropolitan areas. The formulas for allocating federal highway trust fund dollars are largely made on the basis of roadway mileage and use. While this may seem intuitive on some level, it also presents obvious problems in that it sets up an insatiable desire for more funding as the roadway networks expand. There is no reward for reducing consumption in any of these formulas. Thus, any investment in transit or promotion of land use strategies to reduce VMT, reduce fuel consumption, or to be a substitute for lane miles is antithetical to how states receive funds. Within many metropolitan planning organizations, transportation plans are based on centrifugal growth projections that many consider to be unsustainable and undesirable.

3. The system is not priced correctly. Economists have long criticized the current system of roadway pricing. They contend user fees should be structured such that those levied on different classes of vehicles reflect the costs borne by governments to provide those vehicles with the opportunity to travel.[19] One such study found that single-unit trucks weighing more than 50,000 pounds contribute in user fees only 40 percent of the estimated costs of their use. Autos contribute 70 percent of their costs; pickup trucks and vans, 90 percent; and single-unit trucks weighing less than 25,000 pounds contribute 150 percent of their costs through the taxes and fees that they pay.[20] If charges were levied fairly in proportion to the costs imposed by vehicle type and those charges vigorously enforced, and if roads were constructed to more demanding standards, savings in road maintenance and replacement costs over time would be great enough to permit lower user fees for all classes of vehicles. But getting the prices right also means taking into account the range of impacts such as social costs and environmental impacts on climate change, for example.

V. POLICY RECOMMEDNATIONS

So what can be done? One thing is certain: billions and billions of dollars of additional federal investments, without significant reform, will do precious little to fix our rusting bridges, expand our overcrowded transit systems, or unclog our ports.

The bottom line is that—with very little to show for the largest public works investment in our nation's history—the nation can no longer afford a hands-off federal program. The federal government needs to make the preservation, maintenance, and modernization of the existing system a national priority and it needs to take a lead role in holding the states accountable for doing so. Objectives like safety should be assumed, not hoped for.

There are three critical areas that demand federal attention:

1. Rebuild the public trust before raising taxes. To regain credibility and open the door to proposals for increased funding, the federal government must make sure the transportation program is transparent, that spending is accountable and subject to performance measures, and that we are learning and improving on past experiences. Rather than writing blank checks, the federal government should restore fiscal discipline and responsibility and should have some say in how federal transportation funds are spent. Aside from considering environmental impacts all projects that involve new capacity must be reviewed for their impacts on outcomes such as employment, operating efficiency, cost effectiveness, land use policies, and level of local funding commitment.

2. Develop a coherent national purpose and target spending. This is not about picking winners or losers. It is about updating the 1950's era transportation program to the realities of the 21st century. As such the federal program needs a true national priority program that focuses on congested areas, gateways and corridors, and freight hubs. But in addition to just focusing on increasing revenues for transportation the nation deserves a real conversation about curbing the demand for spending. The federal government could, for example, reduce the federal matching requirements for highway projects to 50 percent like it is for new transit projects to promote better project selection. States could also be rewarded for increasing their own funding and for meeting performance goals.[21] At the same time, the federal government should help states and metropolitan areas fund nationally significant projects by acting as a guarantor of debt through a national transportation infrastructure bank similar to the European Investment Bank. In addition to addressing the financing issue such an effort could, if carefully constructed to ensure transparency and accountability, help prioritize projects that are critical to the nation's competitiveness. If nothing else, this idea needs to be amplified and aired in the halls of transportation power and research.

3. Unleash market dynamics to address finance, demand, and operational efficiencies. The mounting transportation pressures on metropolitan areas occur at a time of severe fiscal constraint, pervasive frustration with congestion, and increasing opposition to road expansion. This demands a firm national commitment to make maximum use of existing road capacity and expand transportation alternatives. The federal government should, therefore, augment efforts to use state-of-the-art technology and communications to encourage market responses such as road pricing and provide oversight and advice, where appropriate, on the monetization of infrastructure assets like toll roads. The pervasive market demands for development around rail stations should be exploited.

The conversation about transportation's impact on the nation must go beyond the current narrow debate about spending levels. The simplistic "transportation spending = economic growth" calculation does not fit the complexities of metropolitan America today. From a public policy perspective we also need to know where, on what, and how to invest that dollar.[22]

VI. CONCLUSION

History has shown that, to be effective, significant increases in revenue should be tied to meaningful updates and upgrades of the federal program. During their times, President Dwight Eisenhower and Senator Daniel Patrick Moynihan had both bold new visions for transportation as well as a revenue stream for implementation. Significant gas tax increases accompanied major transportation reforms in both 1956 and 1991. Looking at it another way: no major federal transportation reform has ever occurred without a major increase in revenues.[23]

Mr. Chairman I believe that this should be one of those times: Congress should seize the opportunity provided by the finance and funding discussion to put forth a bold new vision for transportation that truly puts America on the path to competitive, sustainable, and inclusive growth in the 21st century.

The views expressed in this testimony are those of the author alone and do not necessarily represent those of the staff, officers, or trustees of The Brookings Institution.

ENDNOTES

[1] Alan Berube, "MetroNation: How U.S. Metropolitan Areas Fuel American Prosperity," Brookings, November 2007.
[2] Two other new high risk areas are national security and food safety. See: U.S. Government Accountability Office, "High-Risk Series: An Update," GAO-07-310, 2007.
[3] Ross Crichton, "Highway Investment Scenario Estimates: Impacts of Analytical Assumptions," Briefing for the National Surface Transportation Revenue and Policy Study Commission, July 2006.
[4] U.S. Department of Transportation, "Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance Report to Congress," 2006, exhibit 7-10.
[5] Susan Binder, "Limitations of the USDOT Investment Analysis," Briefing for the National Surface Transportation Revenue and Policy Study Commission, July 2006.
[6] U.S. DOT, 2006, exhibit ES-13.
[7] Laura Ziff, "Highway Trust Fund Cash Balances," Briefing for the National Surface Transportation Revenue and Policy Study Commission, March 2007.
[8] U.S. Government Accountability Office, "Overview of Highway Trust Fund Estimates," GAO-06-572T, 2006.
[9] Gary Maring, "Future Financing Options to Meet Highway and Transit Needs," Prepared for the Regional Plan Association National Roundtable on Surface Transportation, Tarrytown, New York, February 20-22, 2007.
[10] Federal Highway Administration, Highway Statistics 2005, table FE-10.
[11] The Car Corporate Average Fuel Economy (CAFE) estimate for cars and light trucks combined was 25.4 miles per gallon in 2006. Stacy Davis and Susan Diegel, Transportation Energy Data Book, 26th ed. (Oak Ridge: Center for Transportation Analysis, Oak Ridge National Laboratory, 2007), table 4.17.
[12] Davis and Diegel, table 2.11.
[13] That is the most recent year for which VMT data is available. It is available since then for urbanized areas but the data used here is county level data aggregated up to current metropolitan areas definitions.
[14] Robert Puentes, "Cashing in on the BP Beltway," Hartford Courant, March 1, 2007.
[15] Report of the President's Commission to Study Capital Budgeting, Washington, 1999.
[16] U.S. Government Accountability Office, "Federal-Ad Highways: Trends, Effect on State Spending, and Options for Future Program Design," GAO-04-802, 2004.
[17] Code of Federal Regulations 23, sec. 145(a).
[18] Robert Puentes and Linda Bailey, " Improving Metropolitan Decision Making in Transportation: Greater Funding and Devolution for Greater Accountability," in Taking the High Road: A Metropolitan Agenda for Transportation Reform, B. Katz and R. Puentes, eds., Brookings, 2005.
[19] See e.g., Kenneth Small, Clifford Winston, and Carol A. Evans, Road Work: A New Highway Pricing and Investment Policy Brookings, 1989.
[20] Martin Wachs, "Improving Efficiency and Equity in Transportation Finance," in Taking the High Road: A Metropolitan Agenda for Transportation Reform, B. Katz and R. Puentes, eds., Brookings, 2005.
[21] The GAO recently pointed out that states simply substitute federal funds for spending they would have otherwise had to generate themselves. In other words, instead of funding transportation projects the federal money is, in effect, paying for state tax relief or general state spending. U.S. GAO, "Federal-Ad Highways: Trends, Effect on State Spending, and Options for Future Program Design," GAO-04-802, 2004.
[22] "Key Transportation Indicators: Summary of a Workshop," Janet Norwood and Jamie Casey, eds. National Research Council, 2002.
[23] Mortimer Downey, "Legislative Considerations for Long Term Policy Change," Prepared for the Regional Plan Association National Roundtable on Surface Transportation, Tarrytown, New York, February 20-22, 2007.

Chairman SPRATT. Thank you for your presentation.

I yield my time to Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman, for your courtesy.

And again, I appreciate the panel's patience in sticking with us. And I just thought that the testimony here was spectacular.

I wish that our colleagues could have this tattooed not indelibly but just for a while on their forearms because what we have heard in terms of the assessment of the problem, what we have heard that there is a consensus coming from the business community of the need to forge a coalition to deal meaningfully with the competitiveness, efficiency, Mr. Puentes talking about some of the policy problems, I truly believe, Mr. Chairman and Mr. Ryan, that there is an opportunity here.

We get into lots of partisan unpleasantness here in part because it is our job and there is a role for that. But the testimony we are hearing here does not need to be partisan. It is not. And what we heard was I thought very balanced in terms of here is the problem, here are legitimate areas that need to be explored in terms of squeezing more value out of the system, but that we do not want to get hung up in ideology and we do not want to ignore the problems.

And I am hopeful that, Mr. Chairman, with you and the Ranking Member that there is actually a possibility for us to explore this further because I think this is a very powerful concept. It has absolutely got to happen in a very short time frame because as Janet pointed out, because of the vagaries of what is going to happen with the federal funding rules, we are going to be doing some pretty draconian stuff if the trust fund is exhausted and it is going to magnify the downside, while it is going to make it harder to get these big issues before us.

And I am hopeful. You know, I would love to take both of you to dinner and just talk about whether this could be one of the areas that we can fashion, that we can fashion a way to talk about it——

Chairman SPRATT. For the record, we decline the dinner on the basis it may violate the "Ethics Act," but go ahead.

Mr. BLUMENAUER. No. We can do that. We can do that.

Chairman SPRATT. Okay.

Mr. BLUMENAUER. Yeah. Anyway, I want to put three things on the table and invite reactions, but I do want to come back. I mean, I really appreciate this hearing. I think it is important and I think it is something that can get us past the politics in a way that is unique around here. And I think it will help us with other stuff.

One, Mr. Puentes, there are a couple of things you did not say that was in your testimony about issues of a capital budget, the failure of privatization to be a magic silver bullet, and the fact that for all the hoopla about earmarks, and we do beat up on our Republican friends for having given us those, it is a relatively minor portion of the overall problem and it does not have that much distortion in terms of the end of the day.

So we can talk about reform, but that is not going to get us to what we are talking about here. I would just note and invite attention to page eight of your testimony.

Three things that I am interested in comments. One is the focus of federal investment in metropolitan areas to deal with where most of the problem is in terms of congestion, economic activity, and freight difficulty.

The second is a point that I raised with Secretary Peters about whether part of a new vision for transportation is that we have uniform match requirements and we have the same standard of accountability for any transportation project, that we are not going to pick winners and losers, we are not going to have some people jump through big hoops, some people jump through little hoops, some people do not jump through hoops at all.

And the third notion here is the extent to which we can merge this discussion with what we are going to be doing in a carbon constrained economy.

If any of you three care to comment on a metropolitan focus where the problem is, leveling the playing field right now, and the impact of this other larger conversation that we are having.

Mr. PUENTES. Thank you, Congressman Blumenauer. I will jump in. Just quickly, I appreciate your framing. I think that you are exactly right.

And the reality is that now here in the 21st century that we are a metropolitan nation, that metropolitan areas are where the bulk of our economic activity are. They are where most of our population lives. They are hubs for immigration. They are where all transit activity is. It is where freight is being moved. So the focus on the metropolitan level is absolutely critical to the nation going forward.

The Federal Transportation Program back in 1991 actually was very innovative in this regard by holding up metropolitan areas, giving more authority to MPOs, metropolitan playing organizations, to do more things, gave them more funding, but it also dealt them a rather weak hand.

We made some nods to metropolitan decision making, but we still have the same structure in place that was designed to build the interstates. We really need to shift the program so it really does invest in those places that matter most to the national economy which is our metropolitan areas.

We know from some analysis that we have done that when it is left up the states that they actually disproportionately spend money away from metropolitan areas. These studies are very difficult to do because we do not know exactly where states are spending for the most part. But in the states where we have done this analysis, we see that most of the spending is going away from these metros.

We have the donor donee debate on the federal level. It is surprising that we do not have that on the state level. I do not think we necessarily should, but I think if metro areas knew that the same issue was going on within their states, we would have a very different conversation.

Mr. BLUMENAUER. Your analysis, I think it was Brookings that did the analysis of the donor donee regions, I thought was great fun. We had difficulty engaging people in the Transportation Committee about that donor donee.

Ms. Kavinoky, I guess we are getting where we are winding down, but do you have any comment on leveling the playing field, the focus?

Ms. KAVINOKY. Sure. Let me make a comment on the focus of federal investment in metro areas because clearly that is where business is concentrated.

But in addition to focusing on investment, perhaps we are talking primarily about highways and transit, we have to remember that the transportation system connects the nation. And in doing that connection, some of those connections go through places like my home state of Wyoming where, in fact, I am not sure there are metro areas, at least above 50,000 people.

So I think you are right in pointing out that we need to pay attention especially to congestion issues and where these are really the hubs of the economy but continue to ensure connectivity nationwide while we are doing that.

I think that the extent to which we merge the discussion in terms of carbon constrained economy is a broader discussion that the entire community needs to have about the interplay between transportation, energy, and the environment.

And certainly with the U.S. Chamber, we are exploring that discussion now of how we have consistent policies to expand our energy production, to expand our transportation system, but to do so in a way that is very conscious of the awareness we now have of carbon issues. And I think there will be more coming out in that area.

You specifically ask about the uniform match requirements and I think you make an interesting point. I am not sure without really being able to think it through where the Chamber would come down on this, but, in fact, I think in general, the process should not favor one over the other, that if you have got to have a level playing field in decision making, if you are going to have true alternatives, it would be logical to say what do we do about things like match requirements. But that is certainly something we will have to explore a little further.

Mr. BLUMENAUER. Thank you.

Mr. Sunshine, anything?

Mr. SUNSHINE. I think the theme that has been resonating around the room here about having people pay the full cost of what they impose on society by driving or whatever it is that they are doing is similar in the carbon charge situation as it is in the transportation situation.

And the question a number of people have raised is are people making the right decisions from an economic and efficiency point of view in their transportation choices if we do not charge them somehow or other the full cost of what they are doing which is really the same thing that carbon charges are aimed at doing. And the philosophy of the two is the same thing.

And the broad economic cost of people's transportation choices are very significant and having them bear those costs or at least understand what those costs are can affect their behavior just as the carbon charges do.

In terms of the investment in metropolitan areas, the political process as it works tends to sort of spread money around to all kinds of places. I think it is hard to focus and say, all right, the most important national priority in terms of the economy and the well-being of our people is to focus on this particular area or these particular types of areas and we have to dedicate substantial sums of money to those.

And it would be nice if we as a nation could say to focus our investment on the most important areas. We tend to spread stuff around a lot and we tend to have trouble making those judgments.

Mr. BLUMENAUER. And I would just conclude, Mr. Chairman, by saying I think that is a product which our other witnesses have alluded to of not having a valid, functioning national vision now. In the absence of something that we are for, then we have a reflex towards the way we have always done it. We have a reflex to enable people to get in because there is no rational way on the State Departments of Transportation or the other actors and actresses in the system to be able to make decisions.

My experience in having these transportation conversations around the country in a wide variety of different communities is that actually the public is pretty much in accord. The public does believe in connectivity. They understand that. The public has a tendency towards fixing it first, not have bridges collapse before you start doing exotic expansions to the infrastructure that you do not have money to support in terms of operations and maintenance.

My experience is that when people get in that framework, they actually find a great deal of common ground and it is not as fractured. It is the political process that does not have the guidance of the overarching concept.

And, Mr. Chairman, I would just conclude by saying how much I appreciate this discussion, your patience and that of the people who have testified today. I would like to work with you to see if there is a way that we can provide a framework, work with our friends, Ranking Member, and others on the Minority side to see if there is a way to expand while we focus this decision because I think the things that we heard from the Chamber, what we heard from our friends at Brookings on the policy side, we could get the same thing from the American Enterprise Institute and the Truckers Association and a half dozen unions and environmentalists.

I think there is an emerging consensus, and our Committee, I think, is strategically placed to be able to get into the big picture because we are facing a crisis and there is a huge, I think, federal opportunity.

So, Mr. Chairman, I would just conclude by thanking you for allowing this hearing to proceed and hope that there is a way that we might fine tune some of this discussion and put it on the agenda before we move into the next budget cycle which is going to bring this to a head.

Chairman SPRATT. Well, clearly for us, our Committee, this discussion has just begun. We have limited jurisdiction, but we can at least propose ideas to the primary Committee of jurisdiction. And I think given your lead, that is something we should be giving serious consideration to.

Whenever you see the Chamber of Commerce come here and testify and say, number one, we have chronic underinvestment that is contributing to problems across all modes of transportation; number two, to ensure the Highway Trust Fund is sufficient to support the guaranteed funding levels in SAFETEA-LU, Congress should not ensure the solvency of the Highway Trust Fund by cutting obligation limits for the federal highway department, that means you are for sustaining existing spending if not more.

And then on page ten, yet, even with these approaches, there is no question as a nation, we are going to have to find and invest more public dollars in our public infrastructure.

You all said that, but to have the Chamber say that and sort of unabashedly recognize the need for robust funding as part of the solution, I know you are saying different ways of funding, different ways of rationalizing the problem, but nevertheless you are not backing away from the need to have adequate funding and to avoid cuts, spending cuts.

Now, the Secretary would not give us an answer to the question, and I can understand why. Both of us being politicians, we do not always want to give the hard answer, but she was rather disparaging of gasoline taxes in her testimony. When I asked is there any reasonable substitute in the near term, I think the answer was implicitly no.

Do you feel the same way, that primarily we are going to have to rely upon gasoline taxes for the lion's share of our transportation funding for some time into the future? All three of you, the panel.

Ms. KAVINOKY. Well, Mr. Chairman, I will start, and thank you for your kind words towards the Chamber.

We fully believe that infrastructure investment is not a matter of tax and spend as it has been characterized at times during this hearing, but it is about investing and growing in the economy. This is one area where the government does bear responsibility.

To answer your direct question, the gas tax which is really the closest approximation we have to a user fee is not dead. The encouragement of hybrid vehicles or increased fuel efficient vehicles is not expected for quite some time. And currently user fees on fuel are the simplest, fairest, most understandable way to collect revenues.

And as they do produce about 90 percent of the revenue into the Highway Trust Fund, I think at least for the next surface transportation authorization bill, that is where we have to look for the principal source of funding.

Chairman SPRATT. Mr. Puentes.

Mr. PUENTES. Thank you, Mr. Chairman.

I also agree. I think that in the short term, the gas tax is still the dominant source of revenues that go into the federal transportation trust fund. It is still rising. There is no question about it. It is still generating more and more revenue each year.

We do know that in the future, as more fuel efficient vehicles take hold and as vehicle miles traveled begins to plateau and level off and decline in some cases, that there is a long-term challenge that we are facing. And I think that as a nation, we have already begun that discussion, which is very positive, to look at other sources in the long term.

But for the short term, I do not think there is any question that the gas tax is going to remain the dominant revenue source not just on the federal level but within states all across the country. It is the dominant source in most states.

Some states do have tolls as the dominant source or some states have federal revenues as the dominant sources, but the gas tax is ubiquitous all across the country. And I do not think there is any doubt that it will continue to play a role.

The interesting thing about the gas tax is that as was mentioned, it also has other benefits as well, that when we have conversations around climate change and living in a carbon constrained world, the gas tax could have a profound impact on that in terms of reducing the amount of driving, perhaps changing travel patterns a little bit, and strengthening the metropolitan areas by helping to stem the tide of massive decentralization that exists all across the country.

So it is not hyperbole to say the gas tax is going to be the source of funding for the near future and it is going to be a long time before it is replaced.

Chairman SPRATT. Director Sunshine.

Mr. SUNSHINE. I agree with the general responses. I mean, the problem is that the gas tax at its current amount is not going to be sufficient to even pay for the level of spending that we are already at, much less any increase, so that if you want to go with the gas tax as the primary funding mechanism, it has got to change.

I think these other techniques offer some promise in the future and I think it is useful for the government to think of ways to encourage experiments in these areas to see what kinds of things work and what kinds of things do not work in various places in the country so that when we get to the point a decade or more into the future, perhaps where we as a nation want to go to one of these different kinds of systems, we have had some experimentation going on to see how they work.

Chairman SPRATT. It is hard to believe you can do even in the foreseeable future differential pricing of all the major transportation nexuses and systems in this country. It is just hard to believe that you could put that in place. You could do it in the center of London. You could do it in the center of Manhattan. But it would be hard to do in 50 different states in numerous different ways.

Down to practical details. What happens when the trust fund is short of funding to meet its obligation limits? Legally what happens if the trust fund, if there is a deficit in the Highway Trust Fund?

Mr. SUNSHINE. I believe that the Department of Transportation would have to stop reimbursing states for the funds that they have spent. The trust fund does not have the authority to borrow. There are no other resources available to it.

So obligations would have to be constrained and the federal government would not have the resources, the legal authority to reimburse the states which lay out the money initially for the various projects.

Chairman SPRATT. Does that mean to avoid that problem, we have to rescind contract authority or outstanding contract authority which has not been used up or change the obligation limits?

Mr. SUNSHINE. The most immediate tool in terms of affecting the cash flow are the obligation limits. But the money in the fund spends out pretty slowly. If you reduce an obligation in 2009, it is going to save you very little in outlays in 2009.

These are capital projects, a lot of them, and less than 20, maybe 20 percent or so, depending on whether it is transit or highway, you would actually save in outlays in the first year.

Mr. BLUMENAUER. One of you said 40 percent?

Mr. SUNSHINE. Yeah. You have to have a big cut, 40 percent or so, in 2009 in order to save actually even a relatively small amount of outlays. And so that is the other problem. And we are already into 2008.

Chairman SPRATT. Ms. Kavinoky, one of the biggest opponents of tolls has been the trucking and transportation industry, the surface transportation industry. Am I correct? How does the Chamber stand on tolls of existing roads or tolls of new roads that would be partially funded by financing based upon the toll revenue?

Ms. KAVINOKY. Mr. Chairman, we have run into an interesting fact as we look at our own policies within the Chamber and that is that they have not been updated for several years. So our official policy positions do not even address tolling.

I will tell you that we are engaged in a conversation with all of our members and that includes the American Trucking Associations and our members there, the business community, the shippers, and Chambers of Commerce to decide what exactly we do need to say about tolling.

We do have some principles, however, in our policies that I think will stand which is that revenues that are collected from the use of infrastructure need to go back to benefit the use of that infrastructure. So you should not be collecting tolls and then sending that money off to some other program in a community or in a state.

And I believe we will also encourage that if tolls are collected at some point that those who are paying tolls actually see the benefits of them and not just a promise of benefits, but true benefits.

In my conversations with our colleagues in the trucking community, they have said, you know, we can understand tolls, but we want to make sure that we actually get something out of what we are paying, not that we are being punished for driving.

Chairman SPRATT. Mr. Puentes.

Mr. PUENTES. I cannot speak to the reactions from the trucking community, but I will say that the interesting thing, again tying it to the conversation around the gas tax, is a lot of the interest in tolling nowadays in Manhattan and some other places has been not to raise revenues but has been to get to some other goals and objectives.

I was surprised the Secretary did not talk about the congestion program that they have now at the DOT where they are awarding funds to certain metropolitan areas that are trying to look at some of these market mechanisms to mitigate the growth in traffic congestion and trying to get some other challenges as well.

So how tolling intersects with, again, time of day travel, with congestion relief, with the climate change, and carbon issues as we talked about earlier, these are really where some of the more powerful benefits for tolling are. And we just in this country really have not exploited them as much as we can.

Your example of London is a good one. There are dozens of places that are experimenting with this across the country and the U.S. is really far behind in that regard.

Chairman SPRATT. Mr. Blumenauer, have you any further questions?

Mr. BLUMENAUER. No.

Chairman SPRATT. Thank you once again for your testimony, for your presentations. We look forward to working with you.

I ask unanimous consent that all members who did not have the opportunity to put questions to our witnesses have seven days to submit questions for the record.

Thank you very much for coming.

The Committee is now adjourned.

[Whereupon, at 1:20 p.m., the Committee was adjourned.]