February 12, 2014

MAP-21 Reauthorization: The Economic Importance of Maintaining Federal Investments in our Transportation Infrastructure

U.S. Senate, Committee on Environment and Public Works

One Hundred Thirteenth Congress, Second Session

Hearing Contents:

OPENING STATEMENT:

Barbara Boxer *[view PDF]*
Chairman, Senate Committee on Environment and Public Works

WITNESSES:

Thomas J. Donohue *[view PDF]*
President and CEO, U.S. Chamber of Commerce

Mr. Richard L. Trumka *[view PDF]*
President, AFL-CIO

Honorable Mike Hancock *[view PDF]*
President, American Association of State Highway and Transportation Officials
Secretary, Kentucky Transportation Cabinet

Dr. T. Peter Ruane, PhD *[view PDF]*
President and CEO, American Road and Transportation Builders Association

Mr. Jay Timmons *[view PDF]*
President and CEO, National Association of Manufacturers

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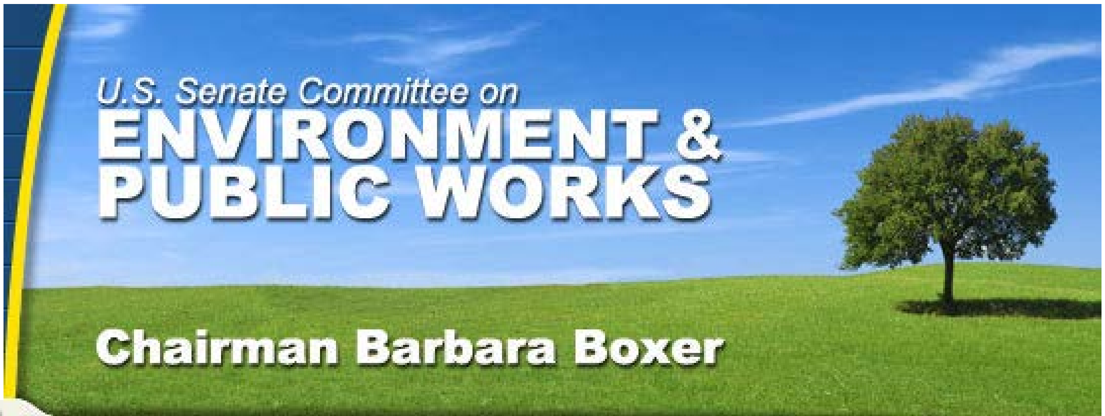

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- 10.14.11 Boxer letter to Super Committee
- 09.26.13 Senator Boxer Letter to Gina McCarthy on Chemical Odor Issue in University Park, Southern CA
- 09.26.11 Boxer Inhofe Letter to Super Committee
- Back to Home

Press Releases

Filter by: -- Issue-- -- Region -- Go

Print this page

Boxer Statement: Hearing on the Economic Importance of Maintaining Federal Investments in Our Transportation Infrastructure

February 12, 2014

Statement of Senator Boxer
Hearing on the Economic Importance of Maintaining Federal Investments in Our Transportation Infrastructure
February 12, 2014
(Remarks as prepared for delivery)

Today's hearing focuses on the importance of maintaining federal funding for transportation, ensuring the long-term solvency of the Highway Trust Fund, and averting a funding crisis later this year.

We will hear from our witnesses, who are national leaders representing businesses, states, and workers who build, maintain, and utilize our transportation system.

I am pleased to once again welcome Tom Donohue from the U.S. Chamber of Commerce and Richard Trumka from the AFL-CIO. They are joined by The Honorable Mike Hancock, Secretary of the Kentucky Transportation Cabinet and current President of AASHTO (American Association of State Highway and Transportation Officials), Dr. Pete Ruane, President and CEO of ARBTA (American Road and Transportation Builders Association), and Jay Timmons, President and CEO of the National Association of Manufacturers.

There will be devastating impacts felt across the economy if the Highway Trust Fund runs out of funds later this year. Colleagues, we cannot and must not let that happen.

Here are the sobering facts: CBO and DOT estimate that the Highway Trust Fund may run out of funds as early as September 2014, which would create cash flow problems for states during the critical summer construction season.

Due to the uncertainty leading up to that bleak scenario, states are already beginning to develop contingency plans to prepare for reductions in federal transportation funding, which includes cutting pending projects from their current funding plans. That is terrible for business and workers.

According to Georgia's Department of Transportation, if federal funding is cut, "we wouldn't be able to fund any new projects."

Officials from other states' have made similar statements, and the effects are very negative to say the least.

As states postpone putting construction contracts out to bid, businesses will be more reluctant to invest, and that impact will be felt through the entire economy.

Let me be clear - the pending Highway Trust Fund shortfall needs to be addressed by an infusion of funds, otherwise CBO estimates that obligations for new projects in 2015 would need to be reduced to zero. This would result in federal highway, highway safety, and transit funding being cut by $50.8 billion in FY 2015 with almost 1.8 million jobs lost. Only old projects could be funded - no more new projects.

Again, this means that states will be unable to obligate any federal funds for any new projects, perhaps as early as this summer.

It is critical for our nation to continue investing in our aging infrastructure. Therefore, preserving the Highway Trust Fund needs to be our number one priority in this Committee, in other Committees, and in the Senate and the House.

We must work together to find the sweet spot for a dependable, bipartisan source of funding for the Highway Trust Fund. A strong transportation system is vital to ensuring the economic competitiveness of the United States, and this requires maintaining federal investments in our transportation infrastructure.

A report last year from the National Association of Manufacturers found that 70 percent of U.S. manufacturers believe America's roads are getting worse and 67 percent believe that infrastructure is important enough to American businesses that all options to fund investments should be on the table.

Roads and bridges are neither Democratic nor Republican, and I am proud of the bipartisan support on our Committee to report out a bill - I hope a 5 or 6 year bill.

I have begun discussions with Chairman Wyden and Ranking Member Hatch on funding the Highway Trust Fund. They have that responsibility and I know we will all work with them.

To all of our witnesses, thank you for being here and for your advocacy for a strong transportation system. We need you now more than ever, and whatever our differences may be in other areas, let's commit to being partners on this challenge.

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« Prev Record

Next Record »

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Browse by: February (21) 2014 (67) Go

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02/26/14
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Statement of the U.S. Chamber of Commerce

ON: **MAP-21 Reauthorization: The Economic Importance of Maintaining Federal Investments in our Transportation Infrastructure**

TO: **Senate Committee on Environment and Public Works**

BY: **Thomas J. Donohue, President and CEO**

DATE: **February 12, 2014**

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

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

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

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

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

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

Testimony of Thomas J. Donohue
President and CEO
U.S. Chamber of Commerce

Senate Committee on Environment and Public Works

Hearing titled:
"MAP-21 Reauthorization:
The Economic Importance of Maintaining Federal Investments in our Transportation Infrastructure"

February 12, 2014

Introduction

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

I want to start by saying "thank you" for the bipartisan highway, transit and safety law, *Moving Ahead for Progress in the 21st Century* (MAP-21), which ended years of short term extensions that created a great deal of uncertainty for businesses and infrastructure owners and operators. This year, Congress must build on the reforms contained in MAP-21 and identify the resources needed to maintain, and ideally increase, smart spending on the nation's transportation system.

This testimony outlines the case for a strong federal role based on the economic importance of ensuring that we have a 21st century infrastructure to support a 21st century economy. Then it focuses on the challenge of federal Highway Trust Fund solvency.

The Case for Federal Leadership and Investment

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

A first rate national transportation system is necessary in order to maintain a first rate economy in the United States. Failure to address transportation problems undermines U.S. economic growth. This is the fundamental reason that the federal government must take a leading role in making sure that transportation policies—and the related programs and spending that implement these policies—contribute to a strong economy, including enabling interstate commerce, facilitating international trade, and propelling the efficient mobility and connectivity of people and products.

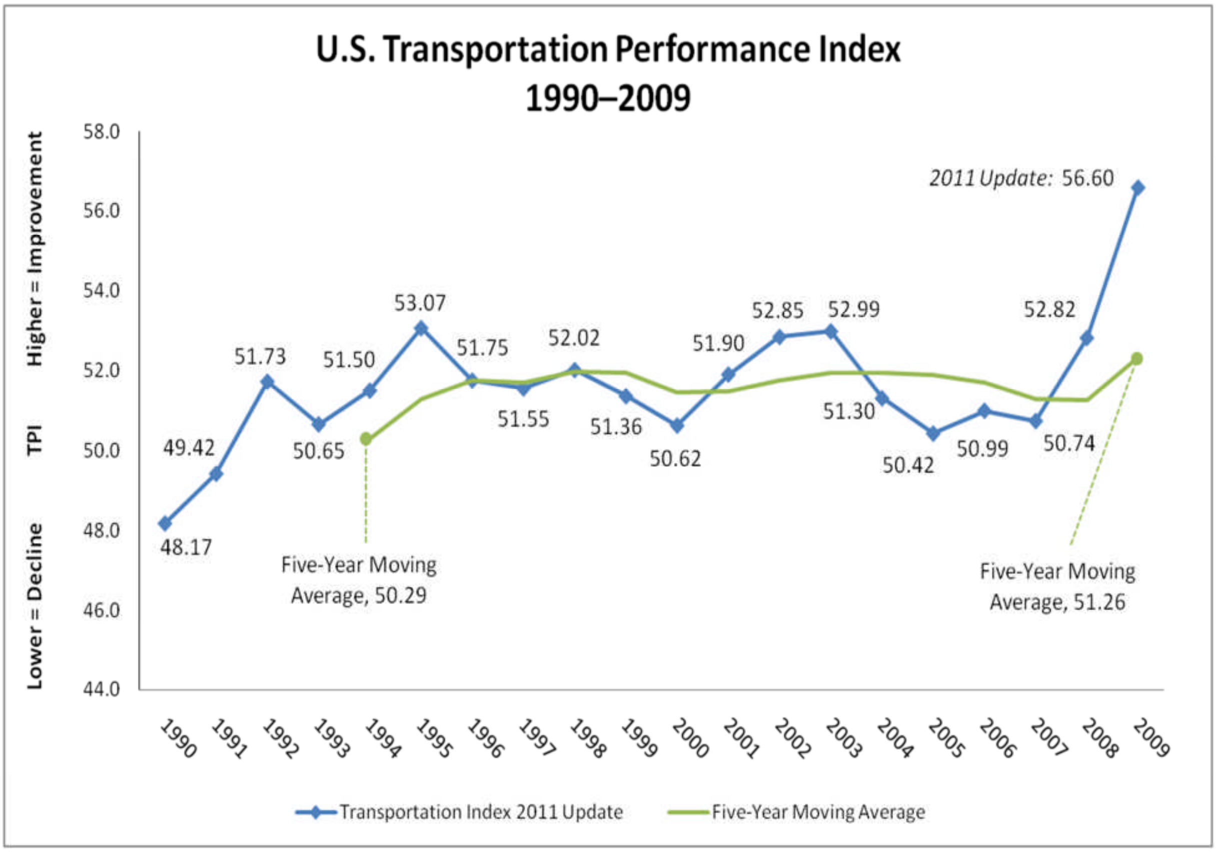
A transportation system that works for businesses can propel economic growth and, conversely, one that falls short of performing as it needs to will drag down the economy. This is the key finding of the Chamber's *Transportation Performance Index* (TPI). First released in 2010, the TPI demonstrates that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

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

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

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

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



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

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

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

Gross Domestic Product and Transportation Performance

There is a strong correlation between performance, which the TPI defines as the degree to which the transportation system serves U.S. economic and multi-level business community objectives, and economic growth as measured by Gross Domestic Product (GDP). In short,

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

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

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

Transportation Performance, Foreign Direct Investment, Competitiveness and Trade

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

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

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

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

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

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

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

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

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

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

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

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

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

Most drivers allow a little extra time when driving during rush hour, especially for important trips like getting to the airport or picking up kids after school, but the message of the Texas Transportation Institute's congestion report released earlier this year was clear: plan for more time to get places. For the first time, the TTI study calculated just how much extra time could be needed in a travel plan. In Washington, DC, a 20 minute trip takes almost two hours in heavy traffic.[xvii] That is a huge difference when trying to make a flight or picking up kids from day care.

Compare this to businesses that use the transportation system every day and then start doing the math: UPS carries six percent of U.S. GDP within its system every day. If every UPS vehicle suffers a five minute congestion delay every day of the year, the annual operating cost to UPS increases by $105 million. Imagine if every UPS vehicle suffers congestion delays of up to two hours each day.

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

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

Businesses place a high value on mobility—of their employees, customers, and supply chains—and are solution oriented. Chamber members have grown frustrated with the repetitive debates over whether one mode is more important than another, or if one jurisdiction is receiving its “fair share.”

Businesses want to know if the transportation system as a whole will support reliable and predictable, cost-effective, and safe transportation of goods and people from their origin to their destination both today and into the future. They do not want to negotiate among 50 different states and myriad communities. They cannot afford to have a system made up of islands of good transportation in a sea of mediocrity. This sums up why there is a clear federal role in ensuring the national interest is realized in an interconnected, seamless, and efficient transportation system.

MAP-21 Reauthorization: Next Steps

In discussing highway, transit and safety legislation over the years, the Chamber has been clear, consistent, and repetitive on three key points. First, we must get the most bang for the buck out of every federal dollar through good policy and programs. Second, the federal government is not the only game in town; the private sector must play an increasing role in project financing and delivery. Third, the best policy and the most creative financing tools do not do much good without revenues.

Moving Ahead for Progress in the 21st Century made smart reforms to speed up much-needed improvements to our roads and bridges, and public transportation systems; expanded TIFIA, which is the flagship federal credit program for surface transportation; created performance measurement for transparency and accountability; called for establishment of a national highway freight network; and, funded federal-aid programs without significant cuts. MAP-21 has a focused and simplified federal transportation policy framework and program structure. It stopped the diversion of money intended for transportation to non-transportation projects. These changes should enable states and Metropolitan Planning Organizations to implement a sensible mix of projects based on what will work in a given area—more road construction in some areas or investment in public transportation in others, or using technology to improve system management and squeeze out additional capacity from existing assets. Through planning and performance measurement, states and local planning processes and decision-making will be more transparent and agencies will be more also more accountable for outcomes. Together, the historic reforms in MAP-21 should go a long way to restoring trust and confidence with taxpayers who expect their money to go toward the intended purposes**.**

In this reauthorization, there are opportunities to build on MAP-21, without disrupting the ongoing implementation of the law, will help make the case for action on transportation legislation and on solving the funding crisis. Although this testimony is not focused on policy recommendations, the Chamber is developing suggestions for the Congress to consider and will share those when they are completed.

Private Participation & Financing Tools

As a nation, we must do a better job taking every opportunity to tap every possible source of capital so that projects that simply cannot be financed still have resources—including the limited formula and grant dollars that do not have to be repaid.

There is no shortage of private capital ready to be invested. AECOM, a global provider of professional technical and management support services, estimates that, "Private equity "dry powder," cash on the books of S&P 500 firms and U.S. pension fund assets collectively are almost 12 times the U.S.' estimated infrastructure investment gap."[xix] At least $250 billion has been raised globally for investment in public-private partnerships, or P3s.[xx]

Capital is not the only reason to pursue private participation in public infrastructure delivery. The private sector can bring innovative problem solving and up-front capital to bear on the nation's most complex, large transportation challenges. P3s have the potential to drive urgent and complex projects forward in order to deliver benefits sooner than under pay-as-you-go models. Significant value can also be derived from private sector innovation and creativity in problem solving, performance measures built into contracts, and long-term collaborative opportunities incorporating operations and maintenance rather than taking the short-term view of design and construction.

Governors and mayors—and other elected decision makers—need to embrace P3s as a way of doing business. Every state should have laws that not only allow, but welcome, private investment. Public sector project sponsors must develop projects that are bankable, e.g. generate revenues in order to pay for projects or have access to dedicated developer impact fees, general tax revenues or special purpose taxes. The process of delivering projects has to be accelerated: barriers to private investment including regulations and administrative processes that make project delivery take far too long should be removed or reformed. Political uncertainty must be reduced.[xxi]

Where do federal transportation policies fit into the P3 equation? Federal credit assistance programs, bond proceeds, and state infrastructure banks can bring down the overall cost of capital for projects thereby freeing up cash flows, which draws in private investors.

The Transportation Infrastructure Finance and Innovation Act (TIFIA), which MAP-21 substantially expanded (from $122 million in budget authority per year to $1 billion in 2014) is a powerful leveraging tool. Each dollar of federal funds can support up to $10 in TIFIA credit assistance and leverage $30 in transportation infrastructure investment.[xxii]

Private activity bonds for surface transportation projects and rail truck transfer facilities were authorized at $15 billion in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU)[xxiii] and are often used as part of a public-private partnership financing structure. These tax exempt (municipal) securities are issued by state or local entities and the proceeds are used by one or more private entities.[xxiv] Today only $5 billion in available capacity remains against $20 billion of public-private partnership projects now in procurement of which many include tax-exempt PABs in the financing plans.[xxv] Congress will need to take action soon to increase the capacity in order to keep the PAB market functioning.

As of December 2012, 33 states and territories had entered into an estimated 940 state infrastructure bank loan agreements for a total of $6.0 billion. State infrastructure banks, or SIBs, are revolving loan funds. A SIB, much like a private bank, can offer a range of loans and credit assistance enhancement products to public and private sponsors of Title 23 highway construction projects or Title 49 transit capital projects. The requirements of Titles 23 and 49 apply to SIB repayments from federal and non-federal sources. Although MAP-21, unlike SAFETEA-LU, did not extend the ability of states to use federal funds to capitalize SIBs, states can still use existing SIBs as part of their funding and financing toolbox.[xxvi]

These valuable federal credit tools, along with other sources of debt and equity are not free. When a project is financed, revenues are required to repay lenders and investors. Although using alternative procurement approaches like P3s can free up pay-as-you-go funding sources for projects that do not fit into the P3 model, P3s are not substitutes for fixing the revenue problem facing the Highway Trust Fund.

The Highway Trust Fund: Averting the Cliff and Creating Sustainability

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

In testimony to this committee last September, the Chamber stated, “The issue of sustainable, growing revenue for the federal HTF is central to MAP-21 reauthorization. Over the next 12 months, elected leaders must lay a course for the future of federal investment in highways and public transportation.”

The Chamber looks at this challenge in three phases.

- 2014-2015: The impending crisis requiring draconian cuts in order to maintain solvency.
- 2015-2024: During this period, the existing user fees could be modified to be sustainable, predictable, and in pace with inflation. This is also a critical period for conducting an aggressive research and development agenda for a long-term revenue source.
- 2025 and beyond: It is at this point, when CAFE standards increase significantly, that the revenues from gasoline taxes are likely to require substantial replacement as the primary source of funding from drivers.

Action Required This Summer: 2014-2015 Shortfalls

Time is running out to address the immediate problem with the HTF. Congress must act before the August recess to ensure that payments on obligations are made through the end of FY 2014. Then, Congress must act before September 30 on the revenue shortfall projected for FY 2015.

Under the baseline scenario, CBO expects outlays from the highway account to total about $46 billion and revenues to total about $33 billion, leaving the highway account with a balance of about $1 billion at the end of FY2014. However, the U.S. Department of Transportation (DOT) needs a cash cushion of about $4 billion to meet cash flow requirements in the highway account. As a result, CBO estimates that in the highway account there will be a mismatch between the timing of revenues credited to the fund and when bills need to be paid from the fund. It is likely that the highway account will have difficulty meeting obligations sometime during the latter half of Fiscal Year 2014.

Under the baseline, CBO estimates that the transit account will be able to meet all obligations during FY2014, but will be unable to meet obligations at some point in Fiscal Year 2015. Outlays from the account are expected to total about $8 billion and revenues will total about $5 billion, leaving the transit account with a balance of about $2 billion at the end of the year. DOT has noted that they need a cash cushion of between $1 and $2 billion to meet cash flow requirements in the transit account.

For FY2015, the conclusion that CBO made in August 2013 still holds. In the absence of revenues from the general fund or changes to HTF user-fee receipts, "bringing the trust fund into balance in 2015 would require entirely eliminating the authority in that year to obligate funds (projected to be about $51 billion)." [xxvii] In other words, there is only enough cash flow coming into the HTF to for outlays resulting from prior year obligations. CBO's projections show a $13 billion cash shortfall in 2015, requiring a total of $18 billion in revenues in order to provide the cash flow cushion that DOT estimates it needs.

The 10-year window: FY2015-FY2024

The 2014-15 problems are only the tip of the iceberg. As Jeff Davis of Transportation Weekly wrote on February 4, 2014, shortly after the release of the CBO February 2014 baseline:

> According to CBO, if Congress wants to write a six-year surface transportation bill at the baseline spending levels (the obligation limitations on Highway Trust Fund contract authority contained in the just-enacted FY 2014 omnibus appropriations bill, plus annual increases for inflation), the Trust Fund needs another $100 billion or so in additional tax receipts, or transfers from the general fund, over the FY 2015-2020 period.[xxviii]

For the 10 year window, 2015-2024, the cumulative shortfall in the highway and mass transit accounts of the HTF will be over $170 billion, under the assumption used by CBO that defense and non-defense discretionary spending will comply with the annual caps in the Budget Control Act, as amended, which hold the rate of growth in both categories below inflation until 2021.

2025 and Beyond

Looking even farther into the future, by 2025, all new cars and light duty trucks sold must comply with Corporate Average Fuel Economy standards that will dramatically reduce gasoline consumption and, as a result, decimate the excise tax on gasoline as a source of revenue to the HTF. By this point, new revenue sources must be identified, and the collection methods thoroughly tested, so that a different means of collecting user fees can be implemented if user fees are to be the source of funding for highways, public transportation and safety.

Three Paths to Solvency

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

> <u>Option 1: Cut transportation programs to levels supported by available revenues.</u>
>
> Trade-off: Approaches of this type simply shift responsibility to states and local communities, which will be forced to raise their own revenues to address transportation needs.
>
> In the last several years, Congress repeatedly rejected dramatic cuts to highway and transit programs. In 2005, Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) established annual authorized funding levels for the highway and transit programs based on an estimate of the amount of annual revenue that would accrue to the HTF. SAFETEA-LU did not adjust user fees for inflation, meaning purchasing power continued to decline. Nor did it adjust for needs, meaning that backlogs continued to grow. When actual revenues did not meet projections, Congress reinforced its commitment to the authorized investments and reimbursed the HTF for monies that had been taken out in earlier years for other purposes. In passing MAP-21 last year, Congress rejected changes to user fees to bring them in line with spending, but also rejected dramatic cuts in highway and transit programs, instead choosing to use general fund offsets to maintain federal funding levels for highways and public transportation.
>
> The Chamber strongly urges Congress to continue to reject cuts to federal program levels that would, in turn, pass the buck to states, localities and the private sector. These cuts are not acceptable to the Chamber. This option is tantamount to abdicating responsibility for interstate commerce, and ignoring the importance of connectivity and the value of a national system.

Option 2: Pay to maintain or increase transportation spending with general funds.

Trade-off: This option eliminates the certainty of a multiyear transportation program because contract authority—the ability of a federal agency to incur obligations in advance of appropriations—has been tied, historically, to user fees. Absent sustainable, predictable and growing sources of user fee revenues, the federal transportation programs covered by MAP-21 will have difficulty supporting multi-year capital investments. Since 2008, the HTF relied on over $50 billion in general fund transfers for solvency. This approach has created uncertainty across the organizations that design, build, operate, maintain and finance transportation infrastructure.

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

Option 3: Increase existing user fees and/or identify new user-related revenue sources.

Trade-off: Politics and public opinion. The simplest, most straight-forward, and effective way to generate enough revenue for federal transportation programs—increasing federal gasoline and diesel taxes—is frequently cited as politically impossible.

The Chamber's Preferred Revenue Option: Increase Gas and Diesel Taxes

The Chamber believes that Congress should maintain a user-fee based HTF to support a strong federal role and enable multi-year funding commitments by the federal government to states and metropolitan planning organizations. Historically, user fees deposited into the HTF have been the simplest, most transparent and effective way of providing systemic revenue for federal highway and public transportation programs. The trust fund construct is valuable, especially in absence of capital budgeting, because properly funded, it supports multi-year highway, transit and safety legislation that make use of those resources in different ways—whether leveraged through TIFIA, distributed through competitive grant programs, or allocated by formula.

The gas tax is not dead. However, the current levels—18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel—have not changed since 1993. The obvious solution is to increase and index these user fees to produce sustainable, predictable, and growing cash flows until a new revenue structure can be identified and implemented.

The Chamber believes that raising user fees to cover the shortfall and allow for increased investment should not be dismissed. Increases should have been done long ago to make up for lost purchasing power and address unmet needs. The challenge is one of political will. This debate—particularly the revenue considerations it entails—will never be convenient. But matters of convenience are not what Americans ask of their leaders in Washington.

Actions by states in 2013 to raise revenue for transportation are examples of this political courage. According to the National Conference of State Legislatures,

> On Nov. 25, Pennsylvania Governor Tom Corbett signed a comprehensive transportation funding package into law. Among other provisions, House Bill 1060 repeals the state's 12 cents-per-gallon gas tax altogether and phases in an increase to the state's percentage-based Oil Company Franchise Tax. The multi-billion-dollar legislation makes Pennsylvania the sixth state this year—after Maryland, Massachusetts, Vermont, Virginia and Wyoming—where the legislature enacted a bill to increase overall state gas taxes. Notably, except for Wyoming, all of these states moved toward a gas tax that tracks with the economy to some degree, either by tying the rate to inflation or basing it on the price of fuel.[xxix]

Other Revenue Options

The Chamber is open to considering other revenue options to supplement the current HTF revenue sources. In fact, there is no shortage of research that looks at the questions of "who pays, for what, how much, and by what mechanism?" <u>However, the Chamber has not fully evaluated these options and this list is not indicative of options that the Chamber would support</u>.

The two commissions created in SAFETEA-LU, The National Surface Transportation Policy and Revenue Study Commission (http://www.transportationfortomorrow.com) and the National Surface Transportation Infrastructure Financing Commission (http://financecommission.dot.gov) looked at the full array of reports and research on the topic of federal revenues for surface transportation. The Finance Commission, in particular, took an analytical, highly structured approach to assessing revenue options[xxx], including:

- Existing HTF sources
- Vehicle-related taxes and fees
- New fuel taxes
- Broad-based taxes
- Freight-related mechanisms
- Tolling and pricing mechanisms

Notably, both commissions rejected the notion that the federal government should get out of the business of investing in highways and public transportation.

The Senate Finance Committee issued a paper[xxxi] that offered ideas to establish new user fees and taxes to replace or supplement the current system. The Finance Committee options, which were drawn from various sources, included:

- Replacing the current gas tax with a hybrid structure of a variable fuel tax plus a per barrel fee on domestic and imported oil.
- Institute a vehicle-miles-traveled-tax. This option is highly controversial and will not address the immediate challenges.
- Establish surcharges on drivers' licenses and vehicle registration.
- Set new fees for hybrid and other efficient vehicles.
- Expand use taxes to bicyclists, for example, through an excise tax on bicycles.

The American Association of State Highway and Transportation Officials developed another illustrative list of potential revenue sources that is commonly referred to as "the AASHTO matrix."[xxxii] Some of the options:

- Container taxes
- Partial dedicates of customs revenues
- Indexing gasoline and diesel taxes
- Freight waybill fees (either all modes or truck only)
- Freight charges by ton or ton-mile on all modes or truck only
- Increase in Harbor Maintenance Tax
- Heavy Vehicle Use Tax increase
- Partial dedication of individual or corporate income taxes
- Sales taxes on: auto-related parts and services, fuel, or new and used cars and light duty trucks
- Increasing heavy truck and trailer sales taxes and tire taxes
- Instituting new tire taxes for cars and light duty trucks

Among other proposals: House Speaker John Boehner proposed expanding domestic energy production and using resulting revenues to the federal government for transportation. Jack Schenendorf and Elizabeth Bell, of Covington and Burling, LLP, proposed a Federal Interstate User Fee and a Federal Motor Carrier User Fee—essentially creating a tolling system for the Interstate Highway System.[xxxiii] Numerous sources propose a carbon tax on transportation and potentially using those receipts for infrastructure.

None of these options will be the HTF Revenue Holy Grail: a non-controversial, politically palatable, sustainable, predictable, adequate and growing source of user fee revenue for transportation.

Conclusion

This nation is faced with difficult fiscal circumstances; however, federal investment in transportation is vital for economic growth, competitiveness and jobs. A transportation system that supports a 21st century economy requires a high level of investment targeted at improving performance across all modes and across the country. The federal government should not pass the buck to states and locals, nor should it wait for money to grow on trees, or wish and hope that things will get better. Although the management and planning of the nation's transportation system is decentralized and often localized, and public and private, we cannot just fix a few bottlenecks or address the problems in one city or state.

Inaction has costs.

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

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

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

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

The Chamber is committed to working with the Senate Committee on Environment and Public Works, and others in Congress and the Administration to find sustainable, predictable, growing sources of revenue and exploring future user fee collection mechanisms that are not administratively burdensome or costly. We will assist with the development of additional reforms, innovations, and methods to encourage the use of private sector resources.

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

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Testimony of Richard L. Trumka

President, American Federation of Labor – Congress of Industrial Organizations

Before the Senate Environment and Public Works Committee

February 12, 2014

Infrastructure, Good Jobs and our Future

Thank you Chairman Boxer and Ranking Member Vitter for having me appear before your committee today.

The AFL-CIO is the largest labor federation in the United States, representing 56 affiliate unions and 12.5 million workers across the country—from bus and transit operators to those who forge the steel and build and repair our highways. The people we represent build America's surface transportation system and make America move.

It's been three years since Tom and I jointly appeared before this committee. Then we were operating on multiple extensions of SAFETEA-LU, the surface transportation bill at the time, and the clock was ticking on getting a new authorization completed. Chairman Boxer, then-Ranking Member Inhofe and members of this committee were able to craft a bi-partisan bill, MAP-21, which kept funding flowing, cut red tape to expedite and streamline projects, expanded the TIFIA program and bought us time to find a longer-term solution.

Yet here we are again today—still trying to find long-term solutions to the serious state of our surface transportation system, just one of the many infrastructure challenges facing our country today. There are just over seven months before MAP-21 expires and the DOT is speculating that the Highway Trust Fund (HTF) could run out of funding by the end of August. The clock is still ticking and the question is: What are we going to do about it?

Jobs and the economy

Reauthorization of the surface transportation bill has always been the most important jobs legislation Congress considers on an ongoing basis—and it's a big priority for us. While the economy has improved, job creation remains sluggish. The construction sector alone is down 1.6 million jobs from pre-recession levels.

Misguided austerity measures have further restricted job growth, and the state of our transportation infrastructure is holding us back from a more well-rounded and long-lasting economic recovery. We need a robust highway and transit bill now to create jobs and alleviate our infrastructure crisis—and it is a crisis—and to invest in our long-term competitiveness.

We not only need jobs, but we need good jobs. Policies such as Davis-Bacon, Project Labor Agreements, Buy America and 13(c) transit protections ensure compliance with community wage standards, and that we spend American taxpayers' money in America and create jobs through smart procurement policies. They ensure that workers' jobs, contracts, wages and benefits are not simply stripped away to produce a low bid or through privatization.

It's estimated that with each billion dollars of federal investment in our surface transportation system, we create 35,000 well-paying jobs—the type of career jobs that can support a family, a child's education, a secure retirement and a middle-class life. Our affiliates have a vast network of top quality joint labor-management training and apprenticeship programs around the country that provide workers with the skills they need to get good middle-class jobs.

For those in Congress still seeking to push the failed austerity agenda, let me tell you this: If your house has a leaky roof, not fixing it won't save you any money. And like the leaky roof, delaying needed infrastructure investments will only cost us more in the long run.

Economic growth and global competition

An adequate level of funding for surface transportation is important for reasons beyond creating jobs, boosting the economy in the short-term and addressing safety and congestion.

Investments provided for in a well-funded, long-term surface transportation bill will spur sustainable economic growth, ensure our country's long-term economic global competitiveness and improve the quality of life of our citizens.

As I travel around the country, I can tell you that every time I see a new transit center or highway interchange, that investment is followed by real estate improvements, businesses being formed and growing and thriving communities.

It's no different in the global arena. While we wring our hands about how to sustain existing levels of funding, let alone the funding increase needed to fix our failing infrastructure, the rest of the world is moving forward.

In my previous testimony I said I had never been to China, but expected to go soon. Well, I now have been there and I was stunned at the speed at which our largest competitor is progressing.

China has been investing heavily in its infrastructure and the results are dramatic. During my trip to Shanghai, I visited the Yangshan Deep Water port, which is one of the world's largest and busiest container shipping ports. The port, like the high-speed trains that took me quickly and efficiently between China's cities, is one of the country's large infrastructure projects and a key part of the government's effort to keep up with the country's growth of exports.

To get to and from the port, I traveled on a six-lane bridge that was 20 miles long—one of the world's longest bridges, connecting Shanghai to the islands where the port is located. The bridge was completed in two and half years and employed close to 6,000 workers. Prior to the project, nothing was there but a sleepy fishing village with some islands off in the distance—no major roads, no bridges and no harbor. China opened the first phase of the project in 2004, aiming to build the world's largest port and export center—and by 2013 they had accomplished their goal.

As the President said in his State of the Union address, world-class investment follows world-class infrastructure. The Chinese know this and have acted to seize that advantage.

America can do it, too. We must do so to remain competitive—and we can do it better.

We need to think about and coordinate the multimodal aspects of our transportation system that are essential to making our economy competitive. When ships load containers at our nation's ports, they depend upon an efficient multimodal supply chain of fully dredged and deepened port facilities, seamless rail corridors and networks and safe roadways. When considering critical investments during the reauthorization of MAP-21, I urge you to think strategically about the linkage between each mode of our transportation system and how they interact with each other. Improving modal connectivity is a key piece to securing our nation's global competitiveness.

Quality of life

We must act now to alleviate the cost of wasted time and fuel caused by traffic delays and congestion. The Texas Transportation Institute estimates that the average commuter wastes 38 hours in travel delays and the fuel wasted adds $818 to a driver's expenses each year. In total for our country, that's a staggering 600,000 *years' worth* of time wasted stuck in traffic each year, and 2.9 billion gallons of wasted fuel. And unless Congress finds the will to provide adequate funding for surface transportation, these problems will only become worse, costing citizens and businesses valuable time and money.

The Highway Trust Fund not only finances our highways, but also provides funding for our transit systems. Transit ridership is surging, and diminished federal funding has stalled plans to improve and grow services, sending even more commuters onto our already over-crowded highways. Some cities are being forced to cut service in spite of increased demand. Flexibility is needed between capital and operating accounts so transit systems can provide maximum levels of service to their customers. A well-funded transit system provides alternatives for commuters, eases highway congestion and offers lower-cost alternatives for commuters and households without vehicles.

We don't need more studies. We need action.

I didn't come here today to rehash all of the data, findings and reports on our nation's infrastructure needs. Quite frankly, the facts have been reported, studied and discussed to death. The conclusions are always the same. These investments are vital to job creation, economic growth and global competition. And it's all true.

I do want to share a few characterizations of just how big a hole we are in regarding the current state of our nation's transportation infrastructure. Since my last appearance before the committee, the situation has become even direr.

- The American Society of Civil Engineers reported in 2009 that we needed $2.2 trillion to bring our infrastructure up to par. Its recent 2013 report showed that number soaring to an even greater deficit, pegging our investment needs at $3.6 trillion. Clearly we are not moving in the right direction.
- The World Economic Forum Global Competitive Report of 2013-14 has downgraded its U.S infrastructure ranking, from 7th in 2008-09 to 15th today.
- The Department of Transportation now says one-third of our roads are in "poor or mediocre" condition.

- DOT also reports that one in four of our bridges is either structurally deficient or functionally obsolete.
- 100,000 bridges are now old enough to qualify for Medicare.
- The backlog for transit maintenance now exceeds $86 billion.

What remains to be determined is whether that information will be acted on—and at what level. To answer that, we must ask ourselves what is our vision of America's future—and what kind of country do we want to leave for our children and grandchildren.

Funding

The last time I was here I said we should consider all types funding mechanisms, from raising the gas tax to exploring new and innovative ideas. While the TIFIA program has been wisely expanded and a variety of other funding legislation has been introduced, at the end of the day here we are, still trying to figure out how to fund our transportation infrastructure, still seemingly without a consensus on how to solve our long-term funding needs.

Historically, the HTF has been funded by a user fee—currently the gas tax is at 18.4 cents a gallon. (The diesel tax is at 24.4 cents a gallon.) Those who use the system have the primary responsibility to fund it. The gas tax was last raised in 1993 when it represented 17% of the price of fuel; it now represents about 5% of the cost of fuel. Inflation has reduced the purchasing power of the revenue we collect. Further, the decline of vehicle miles travelled since 2009, coupled with more fuel-efficient vehicles, has seriously eroded the revenue coming into the trust fund.

The amount of revenue coming in falls well short of supporting current levels of investment and much further short of what's needed. Some estimates show that we should be investing closer to $200 billion a year. A total of more than $41 billion has been transferred from the general fund since 2008 through the end of 2013 to keep the trust fund solvent, another $12 billion will be transferred this year.

If this remains unchanged, an average of an additional $15 billion per year through the year 2020, will need to be transferred from the general fund just to maintain current levels of investment. If no further funding is provided, investment funding will be reduced by 25 to 30% going forward and potentially reduced to zero in 2015 because of existing HTF obligations. A reduction in funding of $15 billion would result in the loss of at least 535,000 jobs each year the reduction was in place.

Despite the time we've had over the past few years to consider funding sources, no source has emerged that is significant enough to replace the user fee-based system and provide robust and long-term dedicated funding for our surface transportation system. Given that there are only seven months before the current authorization expires and that the trust fund may become insolvent before then, it's time for elected leaders from both sides of the aisle to come together and find a solution.

Solutions and choices

Some think government should be run like a business. But no business can remain successful by failing to invest, by settling for outdated and broken equipment or outmoded technologies and processes. Businesses have to make upgrades and invest to succeed, and so does our nation.

The Highway Trust Fund is at a crossroads. Failure to act will mean our transportation system will decay further, construction workers will stay on the bench, supply chain and transit workers will lack steady work and our economic and global competitiveness will be harmed well into the future. We have kicked the can down the road and now have run out of road to kick it down—literally and figuratively.

Many sources of funding have been considered, including infrastructure banks, grant and loan programs, bonds, public-private partnerships and so on. Most of these ideas have limitations and cannot raise enough revenue to replace the gas tax, but if done right they certainly would help. Some, such as the TIFIA loan and loan guarantee program, have been enacted. To date, no credible near-term alternatives to replace the user fee-based system have arisen, leaving increasing the gas tax as the only realistic source that currently can collect and distribute the necessary funding. It is dedicated funding and can be administered long term—the question is how robust the funding will be.

Various commissions and groups have studied Vehicle Miles Traveled (VMT) and pilot projects are under way. The state of Oregon has been the lead on testing VMT. This approach would keep intact the historical user fee-based system and would capture users who increasingly are purchasing electric and other alternative fueled vehicles. While it's unclear if the public is ready for a VMT system in the near-term, it could become a replacement funding source in the future.

The Congressional Budget Office has laid out the stark choices facing us, which include:

- Eliminate or severely reduce federal funding for surface transportation construction.
- Raise the user fee (gas tax) or some variation of it.
- Transfer the shortfall in funding from general revenue.
- Or some combination of the above.

Congress has had more than two years to discuss and review various funding options. The time has come to figure it out and make a decision.

As you work toward reauthorizing MAP-21, I hope that short-term extensions can be avoided. Extensions don't provide the certainty needed for long-term planning and as a result have a chilling effect on projects moving forward.

Labor and business together

Labor and business come before you united on this issue. Despite our sharp disagreements on a variety of other issues, here we are. If we can come together on this, that should tell you something. You are the elected leaders and at the end of the day you will have to decide. The question to ask yourselves is what kind of country do you want us to be—not only now, but into the future.

Previous generations built an infrastructure and transportation system that was the best in the world, one that made us an economic superpower and helped to create a strong middle class. Unfortunately, it's a system we have been coasting on. The ride is now over, and we must rebuild.

To be blunt, we need to be bold. We need to act aggressively.

We need to be the America that can, not the America that can't.

Thank you and I look forward to your questions.

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Links to more labor testimony on surface transportation:

Larry Hanley, President, Amalgamated Transit Union (ATU) before the House Transportation and Infrastructure Committee 1-14-2014. http://transportation.house.gov/uploadedfiles/2014-01-14-hanley.pdf

Terry O'Sullivan, President, Laborers International Union of North America (LiUNA) – before the House Transportation and Infrastructure Committee 2-13-2013. http://transportation.house.gov/uploadedfiles/documents/2013-02-13-osullivan.pdf

Ed Wytkind, President, Transportation Trades Department (TTD), AFL-CIO - before the House Transportation and Infrastructure Committee 4-24-2013. http://transportation.house.gov/uploadedfiles/documents/2013-04-24-wytkind.pdf

Raymond Poupore, Executive Vice President, National Construction Alliance II – Before the Senate Environment and Public Works Committee 9-25-2013. http://www.epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=f556d400-70e0-4c31-9ce5-8f08bddb6bd3

Richard Trumka, President, American Federation of Labor – Congress of Industrial Organizations (AFL-CIO) – before the Senate Environment and Public Works Committee 2-16-2011. http://www.epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=21a05273-b7e5-4d23-90a7-51504d24d4cd

TESTIMONY OF

The Honorable Michael W. Hancock

President, American Association of State Highway and Transportation Officials (AASHTO);
Secretary, Kentucky Transportation Cabinet

REGARDING

MAP-21 REAUTHORIZATION: THE ECONOMIC IMPORTANCE OF MAINTAINING FEDERAL INVESTMENTS IN OUR TRANSPORTATION INFRASTRUCTURE

BEFORE THE

Committee on Environment and Public Works of the United States Senate

ON

February 12, 2014

American Association of State Highway and Transportation Officials
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INTRODUCTION

Chairman Boxer, Ranking Member Vitter, and Members of the Committee, thank you for the opportunity to provide input on the economic importance of maintaining federal investments in transportation infrastructure and how the impending cash shortfall in the Highway Trust Fund will affect state departments of transportation. My name is Mike Hancock, and I serve as the Secretary of the Kentucky Transportation Cabinet (KYTC) and as President of the American Association of State Highway and Transportation Officials (AASHTO). Today I am testifying on behalf of AASHTO, which represents the state departments of transportation (DOTs) of all 50 states, Washington, D.C. and Puerto Rico.

Our Nation's transportation system is the backbone of our economy. It supports interstate travel and interstate commerce. It is how people get to and from work and how goods get to market. But if we do not make the necessary investments in our nation's transportation infrastructure it will hurt our ability to compete in the global economy. State DOTs play a critical role in ensuring that we have a reliable and efficient transportation network. But states are only able to play this role through a robust partnership with the Federal government.

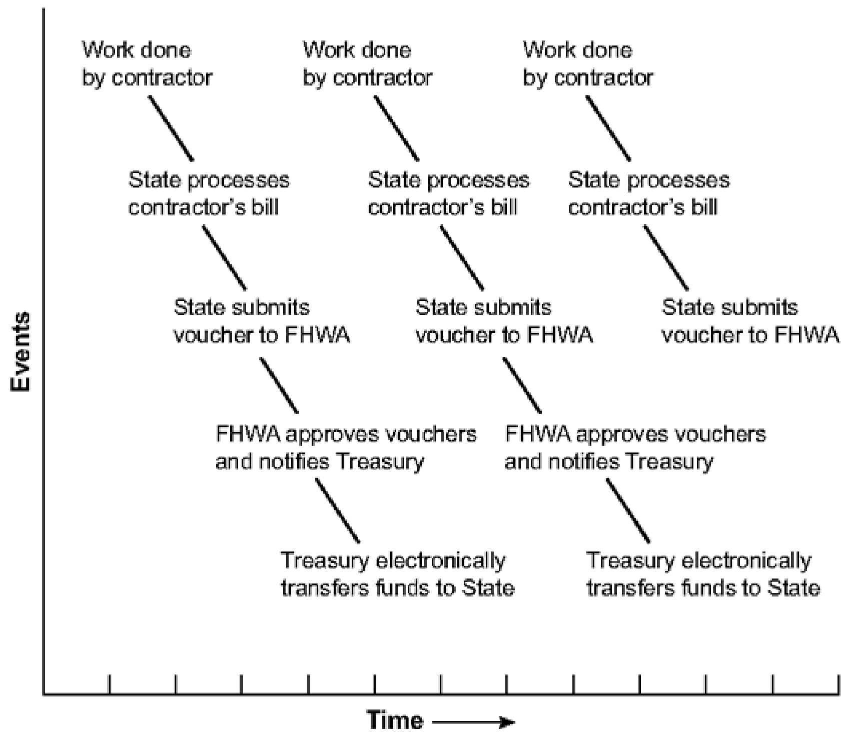
For 50 years, the Highway Trust Fund (HTF) provided stable, reliable, and substantial highway and transit funding. However, over the past five years this has not been the case. Since 2008, over $52 billion have been transferred from the General Fund to the HTF to keep it solvent. In January, the U.S. Department of Transportation (USDOT) announced that the Highway Account of the HTF will likely run out of money as early as this summer. If this is allowed to happen, states may not be reimbursed for work they have already paid for. In addition, failure to ensure the solvency of the HTF will prevent states from being able to obligate any new federal highway funds in Fiscal Year 2015.

Almost half of capital investments made by states on our nation's roads, bridges, and transit systems are supported by the federal highway and transit programs administered by the USDOT. Without this strong federal-state partnership, state DOTs will not be able to play their part in building and maintaining the national transportation network on which our economy relies to be competitive in the global marketplace.

FAILURE TO REIMBURSE STATES FOR PRIOR OBLIGATIONS

The Federal-aid Highway program apportions about $40 billion a year to state DOTs for road and bridge projects across the country. It is important to note that federal dollars are not provided upfront; rather, this is a program based on reimbursement. States only receive funding from the Federal Highway Administration (FHWA) when work is completed on a project and the state submits a request for reimbursement. States typically receive reimbursement electronically from FHWA the same day payments to the contractor are made.

EXHIBIT 1. FEDERAL-AID HIGHWAY PROGRAM REIMBURSEMENT PROCEDURES

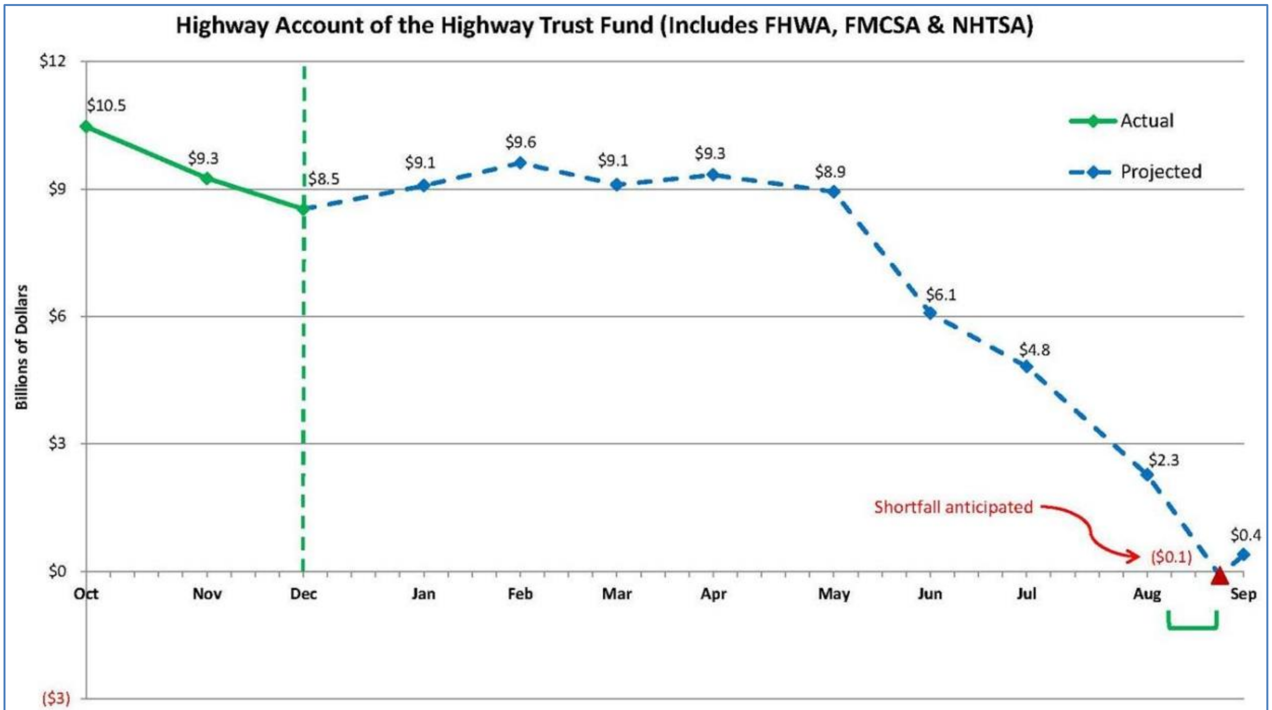


Source: Federal Highway Administration

On January 15, 2014, Secretary of Transportation Anthony Foxx announced that the Highway Account of the HTF is likely to run out of money in August of this year. In order to prevent the Highway Account from becoming insolvent, FHWA will likely change how quickly states are reimbursed for costs already incurred on highway and transit projects. Rather than being reimbursed daily, states may only receive reimbursement once every two weeks or once a month. In fact, FHWA instituted this type of modified payment procedure when the Highway Account experienced its first cash shortfall in September 2008. Instead of reimbursing states on the same day in which the state submitted a request for payment, FHWA reimbursed on a weekly basis subject to availability of cash in the HTF. This could have led to a situation where FHWA eventually could not cover 100 percent of the bills received, leaving states to provide the necessary cash cushion for costs already incurred while facing an ever-diminishing share of reimbursements from the Federal government compared to the full amount owed. Given the urgency of this situation, Congress passed emergency legislation which provided $8 billion for the Highway Account from the General Fund.

States count on prompt payment from the Federal government to be able manage cash flow and to be able to pay contractors for work they have already completed. Any delay in reimbursement from FHWA will prevent states from being able to pay contractors in a timely manner. In turn, contractors rely on prompt payment from the state to be able to pay their employees and suppliers. Disruptions to this process have the potential to send unwelcome shockwaves throughout the transportation community and other industries indirectly supported by infrastructure investment.

<u>EXHIBIT 2. PROJECTED ESTIMATES FOR END-OF-MONTH CASH BALANCE AS OF DECEMBER 27, 2013</u>



1/ Graph reflects actual data through 12/27/13 and end-of-month projections for the remainder of the fiscal year.

2/ Total receipt and outlay projections are based on FY 2014 Mid-Session Review assumptions. Projected monthly receipt and outlay rates are based on historic averages.

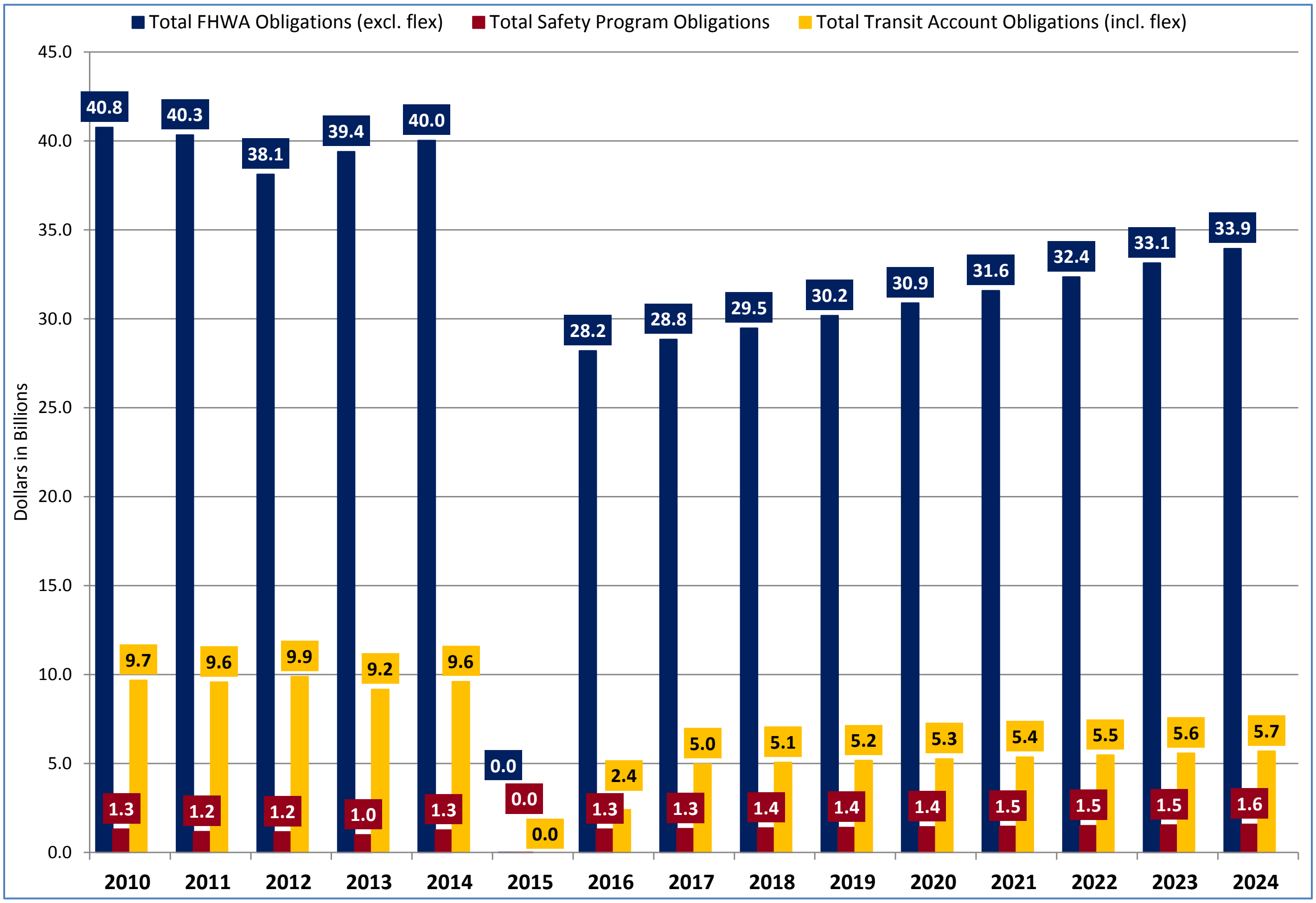
3/ Range of anticipated shortfall: Green brackets denote the estimated window of when the anticipated shortfall will occur.

Source: Federal Highway Administration

DEVASTATING IMPACT TO STATES OF A HIGHWAY TRUST FUND SHORTFALL IN FY 2015

Even if FHWA is able to keep the Highway Account solvent by delaying reimbursements to states this summer, it will not address the underlying problem. The Congressional Budget Office (CBO) estimates that yearly HTF receipts will be $17 billion a year less than HTF spending over the next ten years (FY 2015-2024). In order to keep the HTF solvent beyond this fiscal year, AASHTO estimates that states will not be able to obligate any new federal highway funding in FY 2015, representing a 100 percent drop from FY 2014—going from $40 billion to zero dollars. Even with no new highway funding in FY 2015, it is likely that FHWA will still have to alter its reimbursement procedures in FY 2014 to be able to pay for prior-year obligations, which would continue throughout FY 2015.

EXHIBIT 3. ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2014 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



Historically, federal highway funding has accounted for approximately 45 percent of what state DOTs spend on highway and bridge capital improvements. Based on this assumption, should this be cut back to zero in FY 2015 due to the HTF cash shortfall, states will experience an average of 45 percent decline in their capital program funding for the year.

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

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

Kentucky

Kentucky receives approximately $650 million in federal funding from the HTF each year. This funding supports the development and construction of approximately 40 percent of Kentucky's annual highway program. If the projected HTF shortfall occurs in FY 2015 and the states are unable to obligate any new federal funding in that year, Kentucky would be required to postpone over $350 million in FY 2015 construction lettings and shift our entire Statewide Transportation Improvement Program (STIP) at least one year into the future. Given that the projections for revenues into the HTF are less than current levels well into the foreseeable future, the impacts to Kentucky's program would be both short- and long-term in nature.

Another concern for Kentucky is that we have extensively utilized both the advance construction and Grant Anticipated Revenue Vehicle (GARVEE) financing opportunities provided in previous federal highway authorization acts. We typically carry between $150 and $200 million of regular pre-financed project activity, and have committed over $675 million of GARVEE bond proceeds to major interstate reconstruction projects in our state. As we approach FY 2015, Kentucky is having to slow the rate of advance construction commitments in order to avoid a greater commitment of state resources to support those projects until federal funds are available again. Our agreement with FHWA to repay the GARVEE bonds comes directly "off-the-top" of HTF apportionments to Kentucky, and amounts to almost $60 million annually.

To enable Kentucky to meet the ongoing commitments contained in its six-year highway plan, it is essential that we be able to count on a level of Federal-aid Highway Program funding at least commensurate with current HTF funding levels. Anything less than current funding levels will impact project schedules in a manner reflective of HTF reductions. All states plan for the delivery of effective highway programs, and decreased funding will materially affect every state's plans. It is critical that the FY 2015 "fiscal cliff" issue be resolved as soon as possible to protect our highway program commitments.

California

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

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

- The $950 million Gerald Desmond bridge replacement project in Los Angeles county.
- The $201 million Schuyler Heim bridge replacement project in Los Angeles county.
- The $105 million Sacramento I-80 HOV and pavement rehabilitation project.
- The $62 million Alameda 880 23rd to 29th mobility project.

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

Rhode Island

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

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

Wyoming

Wyoming, with the nation's lowest population, relies heavily upon federal funding, especially for projects on the extensive network of Interstates and other National Highway System (NHS) routes. Typical of rural and small population states, the federal investment in capital projects in Wyoming exceeds the national average by nearly half. Over 66 percent of Wyoming funding for highway construction comes from federal funding, down from the 80 percent level that prevailed before the Wyoming Legislature passed a ten-cent fuel tax increase in 2013. In 2015, approximately 70 projects (primarily on the Interstates and NHS) totaling $225 million to $250 million are in danger of not proceeding to letting without continuing federal funding obligations.

This situation would worsen the condition and safety of the roadway on these major routes, with consequences for the national economy, mobility, and defense, and it would negatively impact the business of in-state and out-of-state contractors dependent upon this work. Any delay increases the project expense when later undertaken, if funding does later become available. Today, the Wyoming Department of Transportation faces a $64 million shortfall in maintaining current roadway conditions even with present federal funding, so the short-term and long-term impacts of any reduction in federal highway funding to the state, particularly a complete stop in the ability to proceed with new contracts, would be very significant.

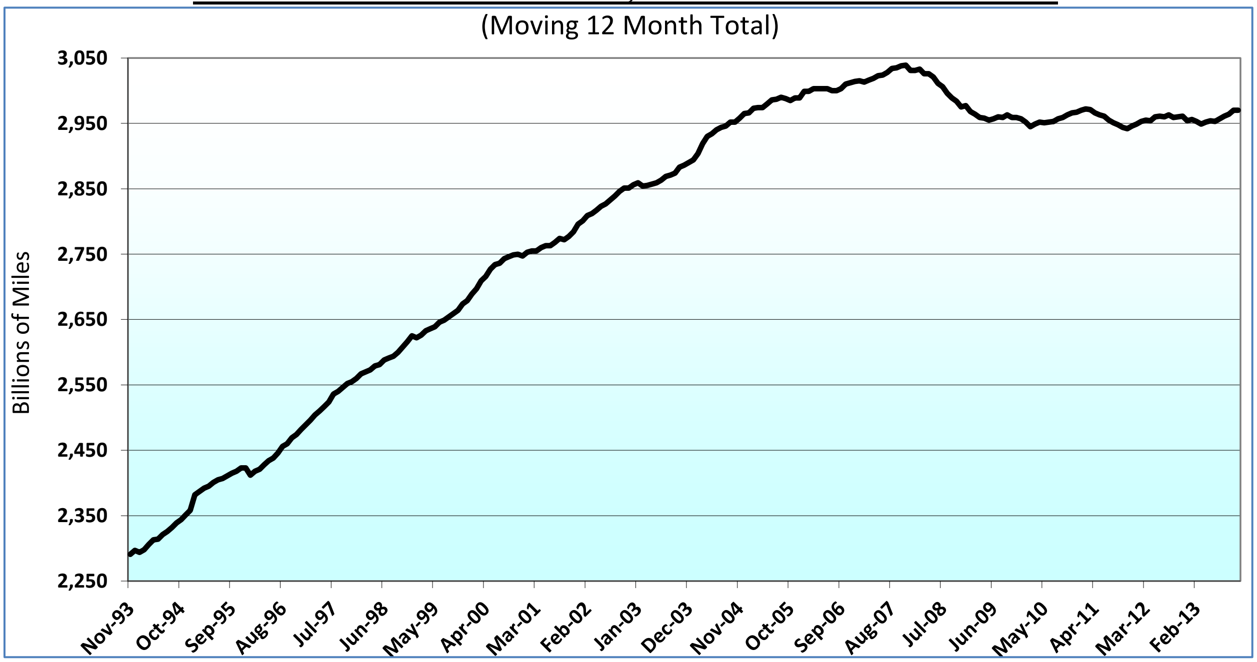
ADDITIONAL REVENUES NEEDED JUST TO MAINTAIN CURRENT INVESTMENT LEVELS

As a major potential disruption to the HTF remains on the horizon, the Congressionally-chartered National Surface Transportation Policy and Revenue Study Commission has projected annual federal capital investment needs at $225 billion for the next fifty years. When compared to the current funding level of about $90 billion, there is a significant investment deficit in surface transportation infrastructure. In order to sustain the long tradition of robust national investment in transportation, we must ensure the HTF's looming cash shortfall is addressed with solutions that enable sustainable program funding not just beyond FY 2015, but for the long term.

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

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

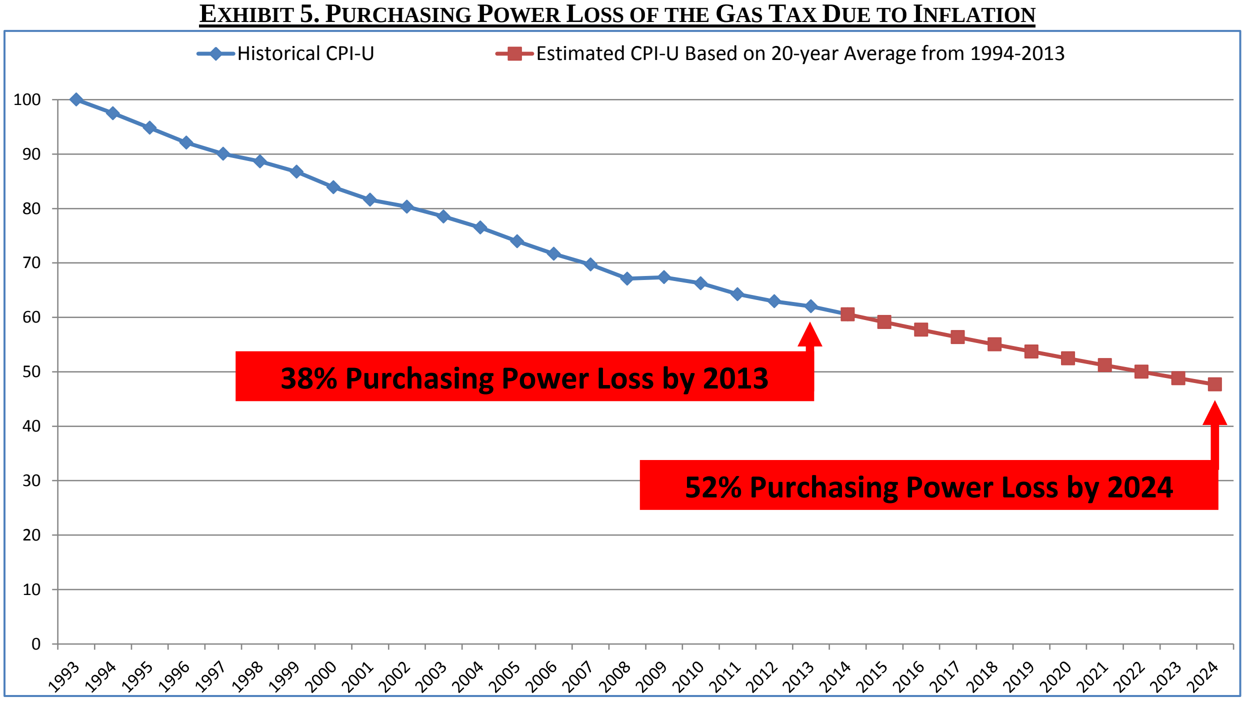
EXHIBIT 4. VEHICLE MILES TRAVELED, NOVEMBER 1993 TO NOVEMBER 2013



Source: Federal Highway Administration

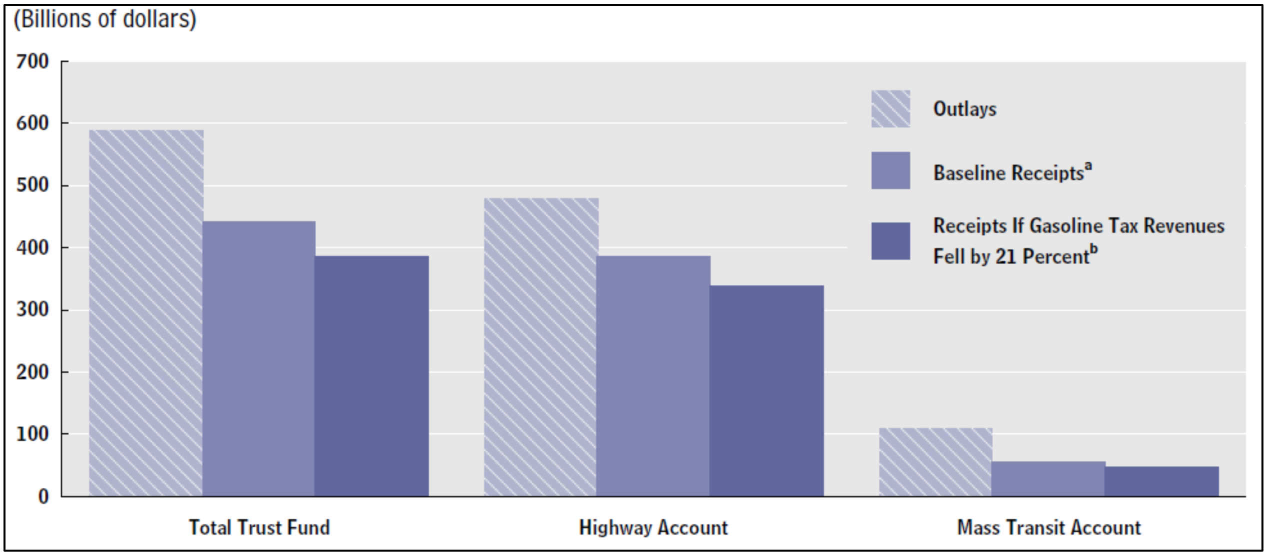
Second, motor fuel taxes at the federal level were last increased to the current rates of 18.4 cents per gallon for gasoline and 24.4 cents for diesel 20 years ago in 1993. As an excise tax levied per gallon, taxes on motor fuel have lost a significant share of their purchasing power. Compared to the Consumer Price Index, the gas tax had lost 38 percent of its purchasing power by 2013, and is expected to lose more than half of its value—or 52 percent—by 2024.

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



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

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



Source: Congressional Budget Office

Facing these structural headwinds, CBO projects the HTF in FY 2015 to incur $54.4 billion in outlays while raising only $38.3 billion in receipts, leading to a total cash shortfall of $16.1 billion for its Highway and Mass Transit Accounts. This situation is not new, as the HTF will have—by the expiration of the Moving Ahead for Progress in the 21st Century (MAP-21) legislation in September 2014—relied on a series of General Fund transfers amounting to $52.1 billion since 2008 to close this gap. But the annual cash imbalance is only getting worse, and the HTF cannot incur a negative balance (unlike the General Fund). This situation leads to three possible scenarios for later this year:

1. Provide additional General Fund transfers to the HTF in order to maintain the current level of highway and transit investment and meet prior-year obligations
2. Provide additional receipts to the HTF by adjusting existing revenue mechanisms or implementing new sources of revenue
3. Virtually eliminate new federal highway and transit obligations in FY 2015

In order to support one of the first two scenarios where current highway and transit funding levels are maintained or increased, there is no shortage of technically feasible revenue options—including user fees and taxes—that Congress could consider.

EXHIBIT 7. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

Matrix of Illustrative Surface Transportation Revenue Options

(all revenue estimates in $ millions)

Funding Mechanisms	Mechanism Yield 2014		Illustrative Rate	Revenues 2014	Average Revenues 2015-2020	Total Revenues 2015-2020
Container Tax	$1.00 per TEU=	$ 421	$15.00	$ 6,317	$ 6,893	$ 41,361
Customs Revenues (Partial Dedication)	1.0% of Receipts =	$ 357	1.0%	$ 357	$ 408	$ 2,451
Drivers License Surcharge (Annual)	$1.00 Surcharge =	$ 222	$5.00	$ 1,109	$ 1,154	$ 6,926
Excise Tax on Diesel (Increase)	1¢ per Gallon =	$ 399	15.0¢	$ 5,983	$ 6,480	$ 38,877
Excise Tax on Diesel (Indexing)	n/a			$ 440	$ 1,031	$ 6,183
Excise Tax on Gasoline (Increase)	1¢ per Gallon =	$ 1,282	10.0¢	$ 12,823	$ 13,367	$ 80,202
Excise Tax on Gasoline (Indexing)	n/a			$ 1,046	$ 2,384	$ 14,303
Freight Bill - All Modes	1.0% of Sales =	$ 8,318	1.0%	$ 8,318	$ 9,236	$ 55,415
Freight Bill - Truck Only	1.0% of Sales =	$ 7,221	1.0%	$ 7,221	$ 8,018	$ 48,110
Freight Charge - All Modes (Ton)	1¢ per Ton =	$ 180	25.0¢	$ 4,492	$ 4,988	$ 29,929
Freight Charge - All Modes (Ton-Mile)	1¢ per Ton-mile =	$ 47,530	0.5¢	$ 23,765	$ 26,389	$ 158,334
Freight Charge - Truck Only (Ton)	1¢ per Ton =	$ 124	25.0¢	$ 3,098	$ 3,440	$ 20,641
Freight Charge - Truck Only (Ton-Mile)	1¢ per Ton-mile =	$ 13,911	0.5¢	$ 6,956	$ 7,724	$ 46,342
Harbor Maintenance Tax (Increase)	0.1% Tax =	$ 1,331	0.5%	$ 6,657	$ 7,264	$ 43,584
Heavy Vehicle Use Tax (Increase)	100% Increase =	$ 852	15.0%	$ 128	$ 163	$ 977
Imported Oil Tax	$1.00 per Barrel =	$ 3,528	$1.00	$ 3,528	$ 3,528	$ 21,171
Income Tax - Business (Partial Dedication)	0.1% of Current Taxes =	$ 440	1.0%	$ 4,396	$ 4,847	$ 29,082
Income Tax - Personal (Partial Dedication)	0.1% of Current Taxes =	$ 1,508	1.0%	$ 15,084	$ 18,393	$ 110,356
Oil, Gas, Minerals Lease - Rent, Bonus, and Other Income (Partial Dedication)	1.0% of GF Revenues =	$ 15	50.0%	$ 750	$ 750	$ 4,500
Oil, Gas, Minerals Lease - Royalties (Partial Dedication)	1.0% of GF revenues =	$ 55	50.0%	$ 2,750	$ 2,750	$ 16,500
Registration Fee on Light Duty Vehicles (Annual)	$1.00 Fee =	$ 259	$10.00	$ 2,594	$ 2,731	$ 16,387
Registration Fee on Trucks (Annual)	$1.00 Fee =	$ 9	$15.00	$ 131	$ 133	$ 797
Sales Tax on Auto-related Parts and Services	1.0% of Sales =	$ 2,567	1.0%	$ 2,567	$ 2,883	$ 17,299
Sales Tax on Fuel - Diesel	1.0% of Sales =	$ 1,253	11.0%	$ 13,782	$ 15,839	$ 95,033
Sales Tax on Fuel - Gasoline	1.0% of Sales =	$ 3,711	8.0%	$ 29,686	$ 31,126	$ 186,753
Sales Tax on New and Used Light Duty Vehicles	1.0% of Sales =	$ 2,619	1.0%	$ 2,619	$ 2,619	$ 15,715
Sales Tax on New Light Duty Vehicles	1.0% of Sales =	$ 1,625	1.0%	$ 1,625	$ 1,625	$ 9,752
Sales Tax on Trucks and Trailers (Increase)	1.0% of Sales =	$ 268	5.0%	$ 1,340	$ 1,677	$ 10,062
Tire Tax on Light Duty Vehicles	$1.00 Fee =	$ 195	$3.00	$ 584	$ 615	$ 3,687
Tire Tax on Trucks (Increase)	100% Increase =	$ 434	10.0%	$ 43	$ 54	$ 326
Vehicle Miles Traveled Fee on Light Duty Vehicles (All Miles)	1¢ per VMT =	$ 26,891	2.0¢	$ 53,781	$ 55,852	$ 335,111

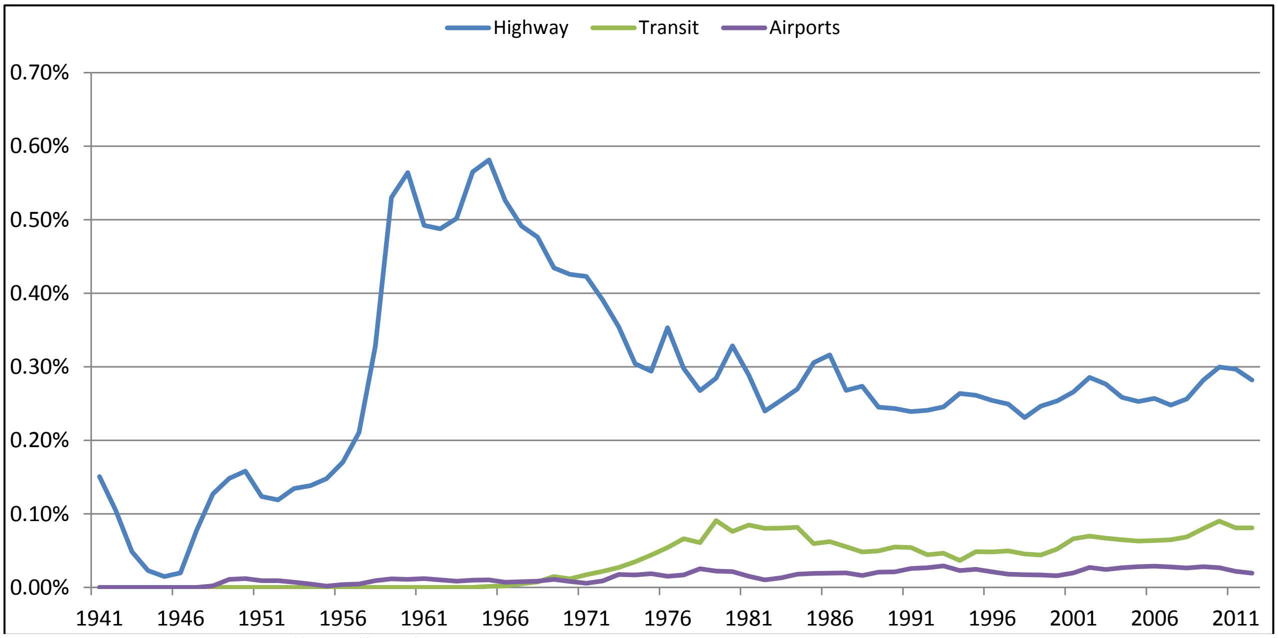
On the other hand, if no new revenues can be found for the HTF and the third scenario prevails, state DOTs will be left to face two dire consequences that will severely undermine much-needed transportation investments throughout the nation: potentially significant delays on federal reimbursements to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

THE FEDERAL IMPERATIVE IN TRANSPORTATION INVESTMENT

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

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

EXHIBIT 8. FEDERAL TRANSPORTATION SPENDING AS PERCENT OF GDP



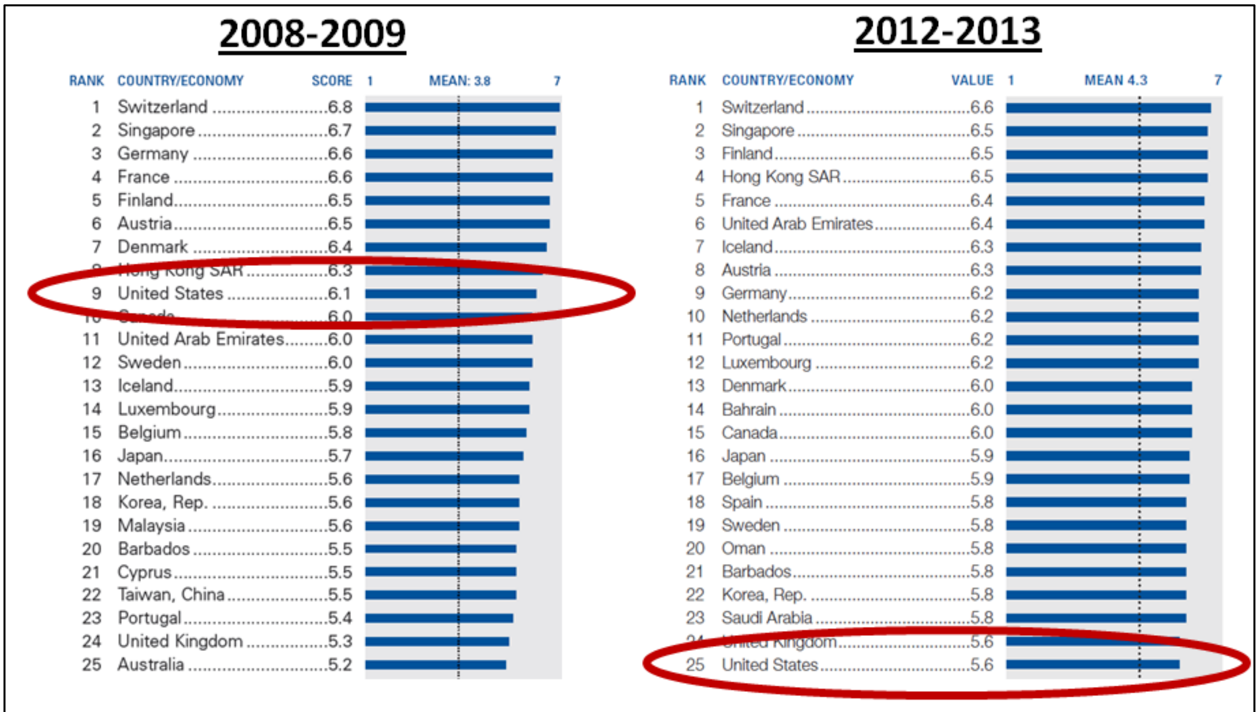
Sources: Congressional Budget Office, Office of Management and Budget

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

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

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

EXHIBIT 9. DECLINE IN US INFRASTRUCTURE QUALITY RELATIVE TO PEER NATIONS



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

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

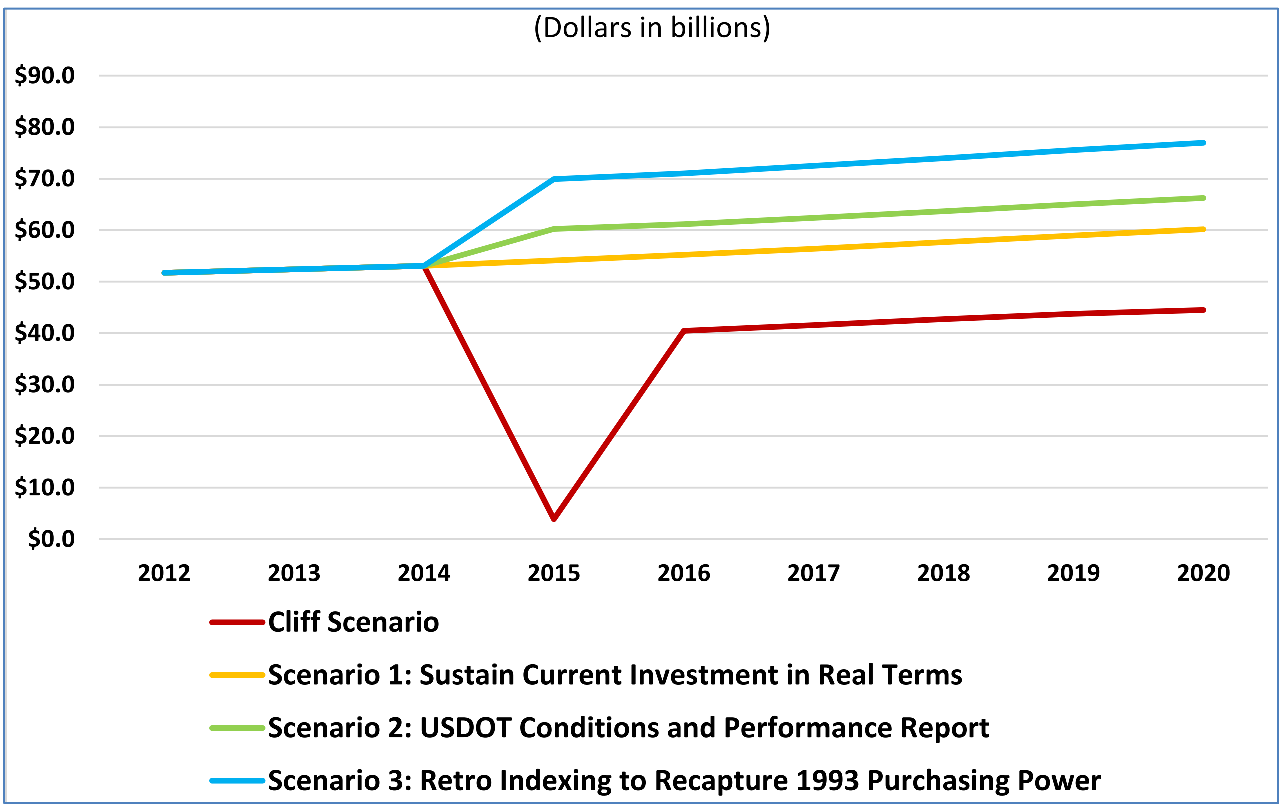
DEFINING FEDERAL INVESTMENT LEVELS

To continue the vibrant federal commitment to surface transportation investment—which will require states to maintain their current share of overall investments as well—consideration should be given to the following potential funding scenarios for reauthorization of MAP-21:

- **Scenario 1: Sustain Current Investment in Real Terms (Average of $57.1 billion per year between 2015 and 2020)** – This scenario maintains the existing MAP-21 investment level, adjusted for inflation. At minimum, it is imperative to identify solutions that will enable Congress to sustain this current level of surface transportation investment in real terms. On a monthly basis, the amount of additional federal funding needed to support this level of expenditure is estimated to be $10.23 per household.

- **Scenario 2: Investment Needs Identified by USDOT Conditions and Performance Report (Average of $63.1 billion per year between 2015 and 2020)** – USDOT's *2010 Conditions and Performance* report to Congress (C&P report) provides an objective appraisal of the nation's highway, bridge, and transit conditions and future investment needs. This scenario shows the minimum levels of investment needed to maintain current highway, bridge, and transit conditions and performance and to allow transit agencies to continue accommodating recent historical growth rates. The resulting spending level represents an 11 percent increase in program funding over Scenario 1. On a monthly basis, the amount of additional federal funding needed to support this level of expenditure is estimated to be $13.52 per household.
- **Scenario 3: Return Program to 1993 Purchasing Power (Average of $73.3 billion per year between 2015 and 2020)** – This scenario represents the annual Federal-aid Highway funding levels that would be required to equal and maintain in real terms, the revenue levels that were achieved in 1993 from federal motor fuel taxes and the other HTF funding sources (the last time federal motor fuel taxes were increased). This scenario will place us on the path to restoring the contribution of our infrastructure in enhancing our global competitiveness. The resulting spending level represents a 28.4 percent increase in program funding over Scenario 1. On a monthly basis, the amount of additional federal funding needed to support this level of expenditure is estimated to be $19.06 per household.

EXHIBIT 10. ILLUSTRATIVE FEDERAL HIGHWAY AND TRANSIT FUNDING SCENARIOS



CONCLUSION

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

Since 2008, the Congress has avoided such shortfalls by transferring $52.1 billion from the general fund of the Treasury to the HTF. If lawmakers chose to continue authorizing such transfers, an additional $16 billion in FY 2015 and increasing amounts in subsequent years would be needed to prevent future shortfalls, if spending is to be maintained at existing levels and adjusted for inflation.

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

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

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

Finally, the discussion surrounding the reauthorization of MAP-21 is largely focused on the state of the Highway Trust Fund, the need for long-term stability and the impacts of inaction. However, we believe that it is important to emphasize the significance of the policy reforms that were included in MAP-21 which are resulting in more value for the federal dollars being invested in transportation. AASHTO supports these provisions and applauds this Committee for its leadership in advancing those critical modernizations to the Federal-aid highway and transit programs. We recognize that the ultimate value of the reforms will not be realized until the provisions of MAP-21 are fully implemented. Nevertheless, we believe that there are some adjustments and additional innovations that may enable us to further improve program and project delivery. Therefore, we urge you to remain open to policy as well as funding enhancements in your reauthorization deliberations.

American Road & Transportation Builders Association

Testimony of

T. Peter Ruane
President & CEO

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

Hearing:
"MAP-21 Reauthorization: The Economic Importance of Maintaining Federal Investments in our Transportation Infrastructure"

February 12, 2014

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ARTBA American Road & Transportation Builders Association

"MAP-21 Reauthorization: The Economic Importance of Maintaining Federal Investments in our Transportation Infrastructure"

Testimony Presented to the Committee on Environment and Public Works
United States Senate
February 12, 2014

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

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

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

The purpose of today's hearing reflects a primary mission of the federal government in the transportation area—promoting economic competitiveness. Unfortunately, the dialogue surrounding federal surface transportation policy too often gets caught in the weeds of process and pet priorities and, as a result, the American public loses sight of the outcome that is being sought.

Over the past year, ARTBA's economics team has been doing research to help us bring the transportation investment story down to the "kitchen table level"... so that we can talk about it in ways that are relevant to daily life.

An analysis of data from the U.S. Census Bureau, the Center for Disease Control, U.S. Department of Energy and the Federal Highway Administration tells the story well.

The data, as depicted in Figure 1, show the average American household spends $123 a month for television and internet service... $159 a month for electricity and natural gas... and $161 a month for cell and landline phone service.

We would all agree these are worthwhile expenditures.

The average American household invests just $46.33 a month in the federal and state motor fuels excises that are used to build and maintain the roads, bridges and public transit infrastructure that provide the mobility access that is critical to virtually every aspect of our daily life, our security, and the U.S. economy.

The fact is, if Americans were asked just to invest as much every month in our surface transportation infrastructure as they willingly pay for phone service, we would not be here talking about how to "fix the Highway Trust Fund," we would be here applauding Congress for providing them a first-class, modern transportation network that would be the envy of our international competitors!

Figure 1: Average Monthly U.S. Household Expenditures

Source: ARTBA analysis of data from the U.S. Census Bureau, The Center for Disease Control, the U.S. Department of Energy and the Federal Highway Administration.

Quantifying Federal Investment Impact on Competitiveness

While the value of transportation infrastructure to the daily lives of Americans and the nation's economy is irrefutable, the contribution of federal investment in highways and public transportation is less widely appreciated.

I had the pleasure of appearing before this panel last September. During that testimony, I presented a map that quantified the contribution of the federal aid highway program to state highway and bridge capital outlays, reproduced here as Figure 2. Since that time, the map has been used by a number of groups to illuminate the importance of federal investment to each state. Today, I would like to take this analysis one step further and demonstrate what that 52 percent means in terms of actual improvements supported by federal investments on a state-by-state basis. We have extrapolated additional data from the Fiscal Management Information System (FMIS) to show, in Figure 3, the number and type of projects each state advanced in 2012 as part of its federal aid program. 2012 is the most recent available data and, since all American Recovery and Reinvestment Act highway funds had been committed by this point, this data reflects simply the impact of the core federal highway program.

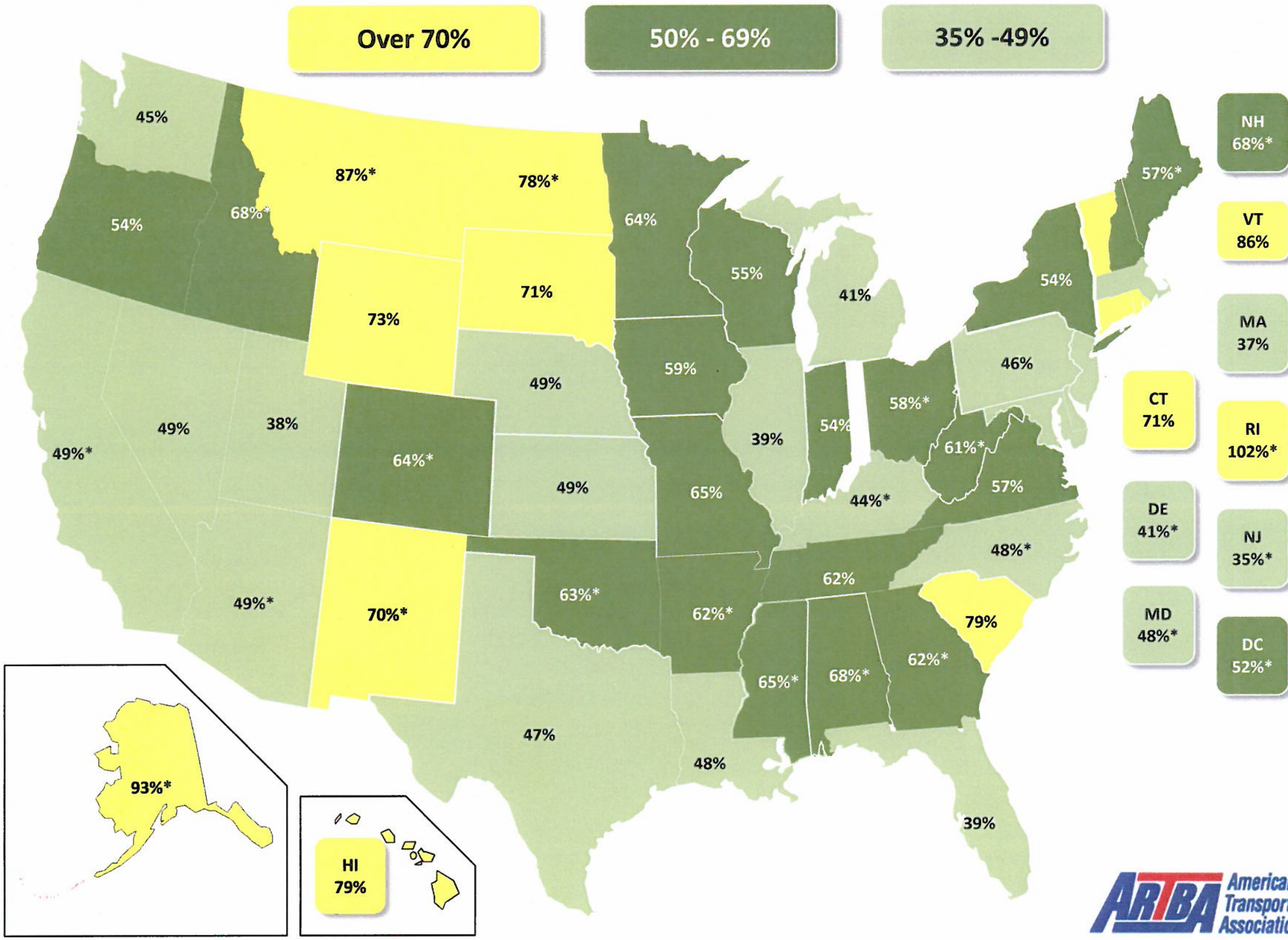
Tables 1 and 2 have more detail about the type of highway and bridge projects that are included in that total. Table 1 includes the number of projects approved by the Federal Highway Administration (FHWA) division offices in 2012 that are related to road, bridge and safety improvements. When they submit this information to FHWA through the FMIS data system, states categorize project costs into different spending categories. This includes information on new road or bridge construction, as well as projects that are focused on repairs, safety, restoration and rehabilitation.

Table 2 details the amount of spending for federal aid projects advanced in 2012 for the road, bridge and safety projects in Table 1. The total amounts do not include other project costs, such as engineering, planning or right of way purchases.

The information in these tables provides an excellent foundation to discuss how states are using their federal aid dollars to focus on maintaining our core network of highways and bridges— the national transportation system that makes our economy work.

In 2012, the FHWA approved 12,546 projects that include construction spending for road, bridge and safety improvements. As this Committee knows, state departments of transportation establish their own spending priorities. They have the option to invest their federal dollars in any project that qualifies for the federal aid program. We have found that nearly one-third of the total investment for federal aid projects in 2012 will be for construction work that will repair and improve our Interstate Highway System. An additional 29 percent of investments will go towards improvement projects on the National Highway System.

Figure 2 - Federal funds, on average, provide 52% of annual state DOT capital outlays for highway & bridge projects



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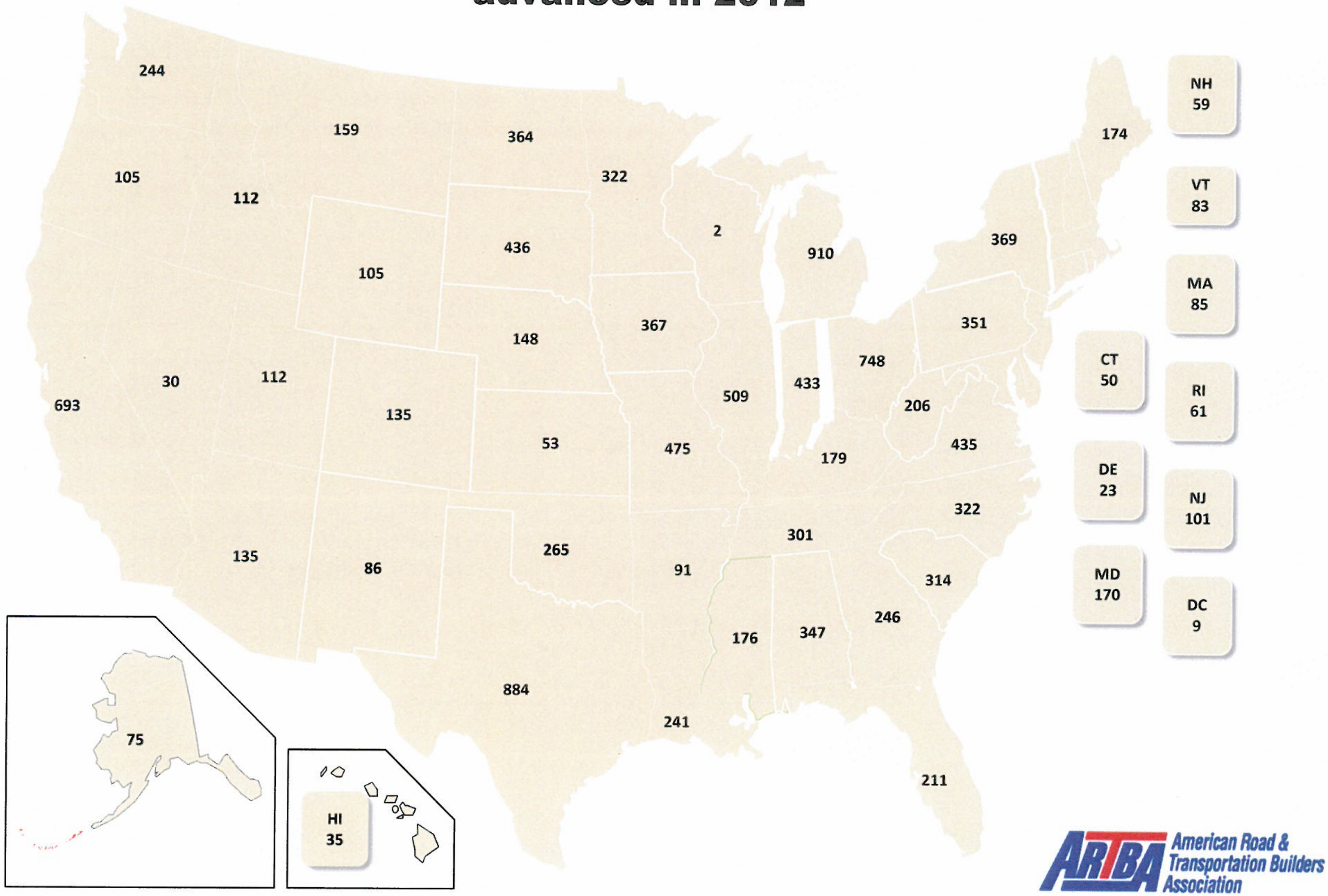
Source: ARTBA analysis of "FHWA Highway Statistics" data, total 10-year average 2001-2011 from Tables SF-1 and SF-2. The percent is the ratio of federal-aid reimbursements to the state and total state capital outlays and is indicative of the importance of the federal-aid program to state capital spending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

* States that have issued GARVEE bonds before 2011.

Figure 3 – Number of federal aid construction projects advanced in 2012



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Source: ARTBA analysis of FHWA's Federal Management Information System. Totals include projects that received FHWA division approval in 2012 and include planned spending for construction-related work for highways or bridges. It is important to note that some state totals may seem low – this may be in part due to the use of advanced construction funds. In that case federal funds from 2012 could have been put towards projects that were actually approved in prior years, and that would not be included on this map.

These state decisions indicated the value maintaining a national network of roads and bridges contributes to strengthening state economies and facilitating the movement of goods, and people. More than 550 projects, valued at over $6 billion, of all 2012 federal aid projects will deliver mobility benefits in both the originating state and neighboring states. This segment of the 2012 federal-aid projects reinforces how federal highway and bridge investments promote the interconnectedness of the nation's economy.

The highways and bridges on the U.S. Interstate and National Highway Systems are crucial to the nation's economic competitiveness – over 55 percent of all vehicle travel in the United States is on these roadways, which comprise just over five percent of the 4.1 million miles of roads in the country.[1] The federal aid program allows states to invest in the national network that tie our country together.

These highways and bridges also connect American businesses with export markets. American businesses exported nearly $1.6 trillion in goods in 2013, according to the U.S. Census Bureau. This includes consumer items, machinery, capital goods, automotive parts and industrial supplies and materials. The U.S. highway system not only facilitates direct trade with our neighbors, but it is the means by which products reach ports, railroad hubs and airports that also transport these items to international markets.

In fact, more than 70.9 million American jobs in just tourism, manufacturing, transportation and warehousing, agriculture and forestry, general construction, mining, retailing and wholesaling alone are dependent on the roads supported by federal investment.[2] These dependent industries provide a total payroll in excess of $2.67 trillion and their employees contribute more than $230.7 billion annually in state and federal payroll taxes.

Most federal aid highway investments focus on maintaining the system we have—of the 3,543 projects approved in 2012 for investment on the National Highway System, just over 400 (11 percent) were for adding or building some sort of new road or bridge capacity. This includes projects that would widen an existing highway or construct an entirely new road or bridge. The remaining 3,138 projects will help repair, restore, rehabilitate or enhance safety on the existing National Highway System without facilitating increased traffic.

As you would expect, there is a wide variety in the number and value of federal-aid construction projects in each state. To highlight a few examples, there were 693 new federal aid projects, valued at nearly $4 billion, in California in 2012 that will support the state economy and improve public safety by upgrading major highways and bridges. Of those projects approved in California, nearly 65 percent will occur on the Interstate and National

[1] FHWA Highway Statistics 2012, Table VM-3
[2] ARTBA, The 2012 U.S. Transportation Construction Industry Profile

Highway systems. California is using federal investment to support major projects, including phase two of the Presidio Parkway in San Francisco. Federal funding from 2012 will also be put towards improvements to the I-15 and I-215 Devore Interchange in San Bernardino, considered one of the worst grade-related bottlenecks in the United States. According to Caltrans, the delay at this interchange costs California drivers $3.8 million each year. Without improvements, the annual cost of delay is expected to increase to more than $80 million in 2040.

There were 241 new federal aid projects, valued at nearly $750 million, approved in Louisiana in 2012. Over 65 percent of these projects will repair, reconstruct and maintain major roads in the state. Federal investments in 2012 will also support new construction in the state, such as the new I-49 North Interstate project. This is a brand new 36-mile, four-lane interstate from I-220 in Shreveport to the Arkansas state line.

These are real projects that will have a significant impact on the daily lives of your constituents and the businesses in your state. Federal funding makes this investment possible.

The information I have used today was provided to ARTBA from the FHWA under the freedom of information act (FOIA). As a result, we are able to receive data from the FMIS, which has detailed records for over 960,000 federal aid projects going back to 1946.

Unfortunately, the information we receive from these periodic requests then requires the manipulation of millions of pieces of data to extract a meaningful interpretation of how federal funds are used by each state.

Madame Chairman, the federal highway and public transportation programs are a great success story. Telling this story should not require FOIA requests and a full-time staff person with a doctorate in economics. In fact, the U.S. Department of Transportation (DOT) recognized the value of publicizing in a user friendly format the status and outcome of all American Recovery and Reinvestment Act surface transportation investments. There is no substantive reason why the same type of transparency should not exist for core federal highway and public transportation investments. I submit to you that if this type of information were regularly supplied, the American public would likely have much more confidence in the value they are receiving from their contributions to supporting the U.S. surface transportation infrastructure network!

Table 1 - Number of highway and bridge improvements that include federal aid funds for projects approved in 2012						
State	Road Improvements		Bridge Improvements		Additional Safety Improvements (not included in other construction improvements)	Total
	Additional Capacity	Reconstruction, Repair and Maintenance	Additional Capacity	Replacement, restoration & rehabilitation		
Alabama	11	234	3	12	87	347
Alaska	2	54	0	4	15	75
Arizona	6	84	3	5	37	135
Arkansas	23	21	4	12	31	91
California	74	346	11	57	205	693
Colorado	11	44	7	33	40	135
Connecticut	5	21	0	8	16	50
Delaware	0	9	0	10	4	23
District of Columbia	0	6	0	0	3	9
Florida	29	108	6	19	49	211
Georgia	22	133	3	26	62	246
Hawaii	3	23	0	5	4	35
Idaho	5	43	9	35	20	112
Illinois	30	242	5	113	119	509
Indiana	56	146	77	62	92	433
Iowa	7	213	9	105	33	367
Kansas	4	16	2	23	8	53
Kentucky	14	62	2	30	71	179
Louisiana	8	164	0	53	16	241
Maine	1	102	0	25	46	174
Maryland	6	82	1	21	60	170
Massachusetts	4	46	1	19	15	85
Michigan	11	563	14	89	233	910
Minnesota	7	225	2	26	62	322
Mississippi	10	101	2	29	34	176
Missouri	28	325	4	109	9	475
Montana	0	101	0	10	48	159
Nebraska	6	106	0	16	20	148
Nevada	6	5	0	2	17	30
New Hampshire	6	31	1	8	13	59
New Jersey	8	53	5	24	11	101
New Mexico	12	50	1	11	12	86
New York	4	125	4	88	148	369
North Carolina	21	38	4	190	69	322
North Dakota	3	335	0	16	10	364

Ohio	13	382	3	174	176	748
Oklahoma	30	66	2	91	76	265
Oregon	2	58	2	25	18	105
Pennsylvania	23	134	9	142	43	351
Rhode Island	0	26	2	16	17	61
South Carolina	12	234	0	12	56	314
South Dakota	6	312	2	59	57	436
Tennessee	17	166	0	22	96	301
Texas	69	453	46	148	168	884
Utah	8	82	2	6	14	112
Vermont	1	42	0	25	15	83
Virginia	16	163	4	51	201	435
Washington	28	86	3	32	95	244
West Virginia	10	142	2	37	15	206
Wisconsin	0	1	0	1	0	2
Wyoming	5	48	3	11	38	105
Total	**683**	**6,652**	**260**	**2,147**	**2,804**	**12,546**

Source: ARTBA analysis of FHWA data, Fiscal Management Information System. Includes number of projects that are categorized by improvement type for major construction work. Projects are assigned by State DOTs. Includes all federal aid projects that received FHWA division approval in 2012. Note that for some states totals may appear to be low, in part because of the use of advanced construction funding. In this case federal dollars are put towards projects that were approved in previous years.

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Table 2 - Value of highway and bridge improvements that include federal aid funds for projects approved in 2012 (in millions $)						
State	Road Improvements		Bridge Improvements		Safety Improvements	Total
	Additional Capacity	Reconstruction, Repair and Maintenance	Additional Capacity	Replacement, restoration & rehabilitation		
Alabama	$88.2	$633.4	$23.9	$45.7	$17.3	$808.5
Alaska	$10.5	$251.6	$0.0	$11.1	$19.9	$293.1
Arizona	$68.5	$225.1	$24.4	$21.8	$9.5	$349.2
Arkansas	$244.9	$172.2	$84.3	$61.1	$26.2	$588.9
California	$1,866.0	$1,239.7	$505.7	$176.5	$206.4	$3,994.4
Colorado	$269.9	$263.7	$90.7	$133.2	$88.4	$845.9
Connecticut	$47.2	$137.5	$0.0	$52.2	$17.7	$254.5
Delaware	$0.0	$41.9	$0.0	$13.9	$3.8	$59.6
District of Columbia	$0.0	$29.3	$0.0	$0.0	$10.9	$40.2
Florida	$925.2	$352.9	$272.1	$182.4	$63.5	$1,796.1
Georgia	$351.9	$444.2	$11.7	$59.1	$96.9	$963.8
Hawaii	$46.7	$102.8	$0.0	$59.3	$15.3	$224.1
Idaho	$10.5	$89.4	$45.0	$45.5	$12.8	$203.2
Illinois	$353.8	$546.0	$101.3	$96.2	$65.1	$1,162.3
Indiana	$551.0	$216.8	$1,063.1	$73.8	$37.9	$1,942.6
Iowa	$66.8	$479.3	$47.6	$77.9	$36.6	$708.3
Kansas	$43.7	$38.8	$23.3	$15.0	$10.9	$131.6
Kentucky	$318.4	$159.5	$24.2	$34.8	$22.4	$559.4
Louisiana	$91.7	$485.7	$0.0	$148.5	$20.3	$746.2
Maine	$0.9	$90.7	$0.0	$41.9	$18.5	$152.0
Maryland	$13.5	$227.9	$5.4	$97.6	$97.7	$442.2
Massachusetts	$9.7	$265.6	$330.9	$976.3	$18.7	$1,601.1
Michigan	$86.2	$675.1	$36.4	$152.9	$89.4	$1,040.0
Minnesota	$117.6	$627.6	$68.6	$176.1	$23.3	$1,013.2
Mississippi	$218.6	$243.4	$17.3	$112.3	$33.3	$624.9
Missouri	$282.9	$393.0	$17.5	$81.3	$1.6	$776.4
Montana	$0.0	$237.4	$2.2	$21.1	$29.4	$290.0
Nebraska	$46.9	$283.8	$0.0	$41.6	$14.8	$387.0
Nevada	$79.7	$59.4	$10.1	$15.8	$5.3	$170.2
New Hampshire	$100.0	$70.6	$0.0	$22.2	$9.1	$201.9
New Jersey	$19.9	$404.6	$108.5	$97.0	$9.4	$639.3
New Mexico	$96.1	$203.4	$4.6	$18.5	$7.5	$330.2
New York	$50.6	$571.3	$318.6	$396.2	$191.1	$1,527.9
North Carolina	$702.5	$124.8	$6.6	$251.0	$34.7	$1,119.7

North Dakota	$28.7	$494.5	$0.0	$18.6	$3.9	$545.8
Ohio	$85.8	$931.8	$14.4	$372.3	$131.1	$1,535.4
Oklahoma	$207.4	$104.4	$36.8	$140.2	$19.1	$507.8
Oregon	$12.2	$145.2	$2.9	$295.9	$11.3	$467.5
Pennsylvania	$242.7	$392.0	$125.2	$319.1	$38.5	$1,117.6
Rhode Island	$0.0	$41.9	$13.7	$117.6	$36.1	$209.4
South Carolina	$139.8	$364.6	$6.4	$121.0	$38.8	$670.6
South Dakota	$47.7	$359.5	$6.2	$23.5	$3.6	$440.5
Tennessee	$353.2	$195.7	$0.0	$72.6	$23.1	$644.5
Texas	$2,330.7	$1,630.8	$401.5	$208.6	$231.3	$4,802.9
Utah	$41.0	$209.6	$10.4	$5.0	$7.5	$273.6
Vermont	$18.5	$80.7	$0.0	$145.5	$2.5	$247.2
Virginia	$1,512.7	$287.7	$99.8	$79.6	$618.5	$2,598.3
Washington	$211.5	$132.0	$63.6	$92.4	$98.1	$597.5
West Virginia	$129.4	$136.3	$18.9	$100.0	$7.7	$392.3
Wisconsin	$0.0	$3.3	$0.0	$0.5	$0.0	$3.9
Wyoming	$8.5	$166.2	$15.4	$12.0	$30.6	$232.7
Total	**$12,549.9**	**$16,064.6**	**$4,059.3**	**$5,934.1**	**$2,667.7**	**$41,275.6**

Source: ARTBA analysis of FHWA data, Fiscal Management Information System. Includes total value of project funds for specific improvement types, from federal, state, local and other sources. Note that the total project cost, including right of way, engineering and other eligible expenses, may be higher. Project categories are assigned by State DOTs. Includes all federal aid projects that received FHWA division approval in 2012. Additional federal aid funds were approved for projects in other non-construction categories, such as debt service, right of way, engineering and planning.

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Highway Trust Fund Challenges Continue

Any discussion about the importance of federal surface transportation investment to enhancing U.S. economic competitiveness and supporting American jobs must also include an honest assessment of the Highway Trust Fund. The simple fact is that the trust fund has faced four separate revenue crises since 2008 with the fifth—and most devastating—shortfall looming in a matter of months.

Last week, the Congressional Budget Office (CBO) released its baseline forecast for the U.S. Government Budget through FY 2024, including the outlook for both the Highway Account and Mass Transit Account of the Highway Trust Fund. The new forecast compounds the problems Congress will face in reauthorizing the federal highway and mass transit programs when the Moving Ahead for Progress in the 21st Century Act (MAP-21) expires at the end of September and will force some difficult decisions.

Let me begin with the new forecast for the Highway Trust Fund. Unlike CBO's previous May 2013 forecast, which indicated the Highway Account would have a cash reserve sufficient to pay all anticipated bills this year and end FY 2014 with a $4 billion balance, thus postponing the need for new revenues until sometime in the first or second quarter of FY 2015, the new forecast now anticipates the FY 2014 end-of-year balance will only be $1 billion. Less cash was carried into FY 2014 from FY 2013 than originally anticipated and outlays have been a bit higher, which has eaten into the cash balance more rapidly than CBO projected last year.

The U.S. DOT has calculated that a $4 billion cash reserve is needed in the Highway Account to manage the cash flow imbalance caused by the fact that the Federal Highway Administration is required to pay its bills on a daily basis while revenues are credited to the Highway Trust Fund only twice each month. We urge this Committee to explore reconciling these timing conflicts as part of the reauthorization of MAP-21. Without a $3 billion cash infusion, FHWA and CBO are currently projecting there will come a time in August or September of this year when the FHWA will have to delay reimbursing states for construction work performed on federal-aid highway and bridge projects. Based on its own data, the Federal Highway Administration says the same thing, that it will be unable to pay all bills sometime in September and possibly as early as August.

In states without an adequate cash reserve of their own, the impact will cascade down to contractors, where the disruption in cash flow will affect their ability to make payroll and pay invoices for materials and services. If Congress does not deal with this issue before that happens, some contractors could be forced to shut down projects and lay off their employees, just before the mid-term election.

To compound the real-world economic impact, a failure by the federal government to pay bills in a timely manner would technically constitute a default. While the financial markets probably would not view a delay in paying highway contractors the same as failure to pay interest on the federal debt, the fact that Congress and the Administration would permit such a result in any part of the government budget would surely generate serious concern.

As to the Mass Transit Account, the new CBO forecast continues to project a $2 billion balance at the end of FY 2014. According to the U.S. DOT, a $1 to $2 billion balance is needed in the Mass Transit Account to manage cash flow, so no new revenues would be needed for that account until after FY 2014.

Looking beyond FY 2014, the new CBO forecast continues to show a significant imbalance between baseline revenues and expenditures for both the Highway Account and the Mass Transit Account. Just to maintain current federal highway and mass transit investment between FY 2015 and FY 2020, with a small annual adjustment for inflation, would require a revenue infusion of just under $100 billion over the six-year period, or an annual average of about $16.3 billion per year.

And that is just to maintain current spending, which the U.S. DOT's latest *Conditions and Performance Report* indicates is about $25 billion less than the federal government should be investing each year just to maintain current physical and performance conditions on the nation's core highway and mass transit systems and about $50 billion less than could be invested in all improvements where the economic benefits exceed costs.

Ryan-Murray Budget Agreement A Harbinger for HTF?

It is important to put into context the $16.3 billion annual revenue infusion needed just to maintain current highway and transit investment.

Last December, Congress enacted the landmark Bipartisan Budget Act, which sought to reduce projected federal budget deficits in a better way than through the across-the-board sequestration put into place by the Budget Control Act of 2011. The bill restored $63 billion in discretionary budget authority for FY 2014 and FY 2015, split evenly between Defense and Non-Defense Discretionary spending. This included $22.4 billion for Non-Defense Discretionary spending in FY 2014 and $9.2 billion in FY 2015, or an average of about $16 billion each year. Congress offset these increases with cuts in other spending or new revenues, including eliminating the annual cost of living adjustment for military retirees under the age of 62, increasing the fee airline passengers pay every time they fly to finance the Transportation Security Administration, and increasing the fee companies pay the Pension Benefit Guaranty Corporation to insure pension benefits, plus more than 20 other spending cuts or fee increases.

Many of the offsets were painful and not popular, evidenced by the fact that well over half the dollar impact of the offsets is bunched into FY 2022 and 2023, at the far end of the budget window.

Figure 4 compares the increase in Non-Defense Discretionary spending enacted each year in the Bipartisan Budget Act to the amount of HTF revenues Congress must generate to enact a six-year surface transportation bill that just maintains current federal highway and mass transit investment. To fill the resource gap in the Highway Trust Fund from the rest of the budget, Congress each year would have to find offsetting cuts in other discretionary accounts, or cuts to entitlements, or increases in fees and other revenues greater than the average annual offsets in the Bipartisan Budget Act, totaling almost $100 billion.

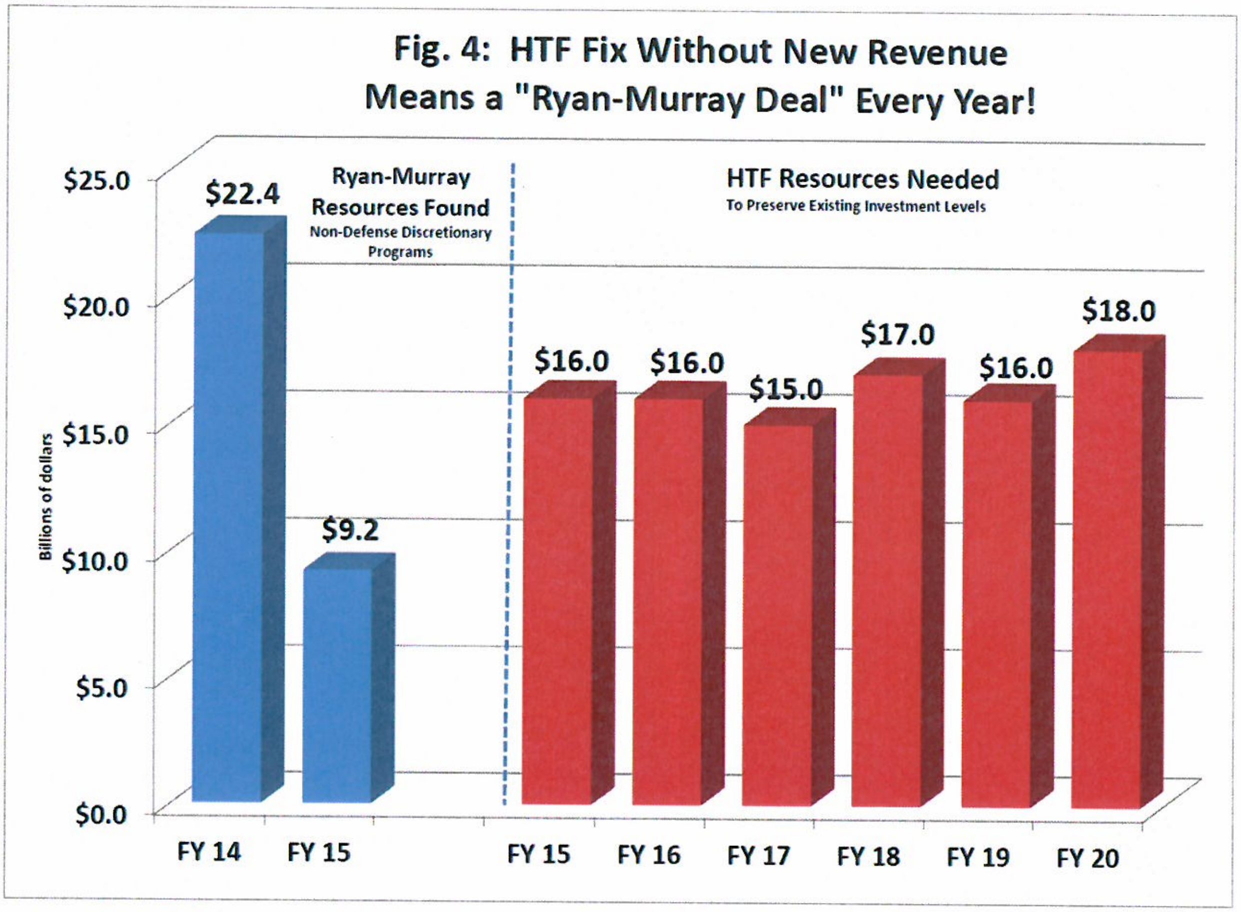
Even a short-term extension will require new revenues. Based on the seasonal pattern of outlays from the Highway Trust Fund, a three-month extension through December 2014 will require $3 billion while a six-month extension through March, 2015, will require $5 billion, in addition to the $3 billion needed to close out FY 2014. A one-year extension through the end of September 2015 will require a revenue infusion totaling $19 billion.

ARTBA has been engaged in discussions with members of Congress since the enactment of MAP-21 about the unfinished business of the Highway Trust Fund. As such, we are keenly aware of the difficulty in raising new revenues. At the same time, we have yet to hear one member of the House or Senate endorse cutting highway investment by $40.3 billion in FY 2015 and eliminating all trust fund-supported transit investment.

Putting the Highway Trust Fund's revenue shortfall in the context of the complications surrounding the Bipartisan Budget Act demonstrates how difficult stabilizing the trust fund would be without generating new revenues—a point that is repeatedly overlooked in discussions about the future of federal highway and transit investment. While this is strictly an illustrative comparison, the similarities in terms of resources that would have to be found elsewhere is striking, particularly considering the Bipartisan Budget Act supported an average increase of $16 billion per year in additional spending for all non-defense discretionary spending programs while the Highway Trust Fund needs an annual average of $16.3 billion for basically two activities (highway and transit investment).

Time to Act is Now

Madame Chairman, members of the Committee, there are no illusions about how difficult it is to get major legislation through Congress in the current environment. At the same time, <u>federal infrastructure investment is one of the few areas where both sides have repeatedly demonstrated a willingness to find common ground</u>. MAP-21 passed the House 373-52 and the



Senate by 74-19. Measures to reauthorize the Water Resource Development Act were approved in each chamber by even greater margins.

At the same time, there is a broad array of stakeholders that are willing and eager to support meaningful action to upgrade the nation's surface transportation infrastructure network. In addition to the interests appearing before you today, groups like the U.S. Travel Association and the National Retail Federation have recently engaged in the transportation policy arena in an unprecedented fashion. These groups did not just flip a coin and decide to launch efforts to call for transportation infrastructure improvements—the inefficiencies in the current system are forcing sectors across the economy to become involved as a matter of self-preservation and remaining internationally competitive.

The Highway Trust Fund is not an auto pilot situation that can be addressed when the time is right. In a matter of months, without congressional action federal reimbursements will halt and the FY 2015 appropriations process will not have the resources to allow any new investment in highway and public transportation improvements.

ARTBA has long supported increasing the federal motor fuels tax as a means to stabilize and grow Highway Trust Fund revenues, but there is a host of ways to achieve the same goal. Congress created two separate independent commissions as part of the 2005 surface transportation reauthorization bill and these commissions furnished you with a multitude of alternatives to support future federal highway and transit improvements. MAP-21 called for the creation of long-term strategic planning and performance management process. That process will be fundamentally flawed unless a long-term revenue solution is established for the Highway Trust Fund, as plans are meaningless without the resources to implement them.

There is no need for further studies or time to develop a trust fund solution. The Highway Trust Fund has been facing the same problem with virtually the same alternatives for action for more than five years. <u>One thing has been proven certain in those five years—more time has not made any of the choices before you easier</u>.

No matter how difficult some may perceive the current Highway Trust Fund dilemma to be, it pales in comparison to the incredible value the U.S. surface transportation network provides all Americans and the nation's economy. We urge you to focus on this value as you embark on the reauthorization of MAP-21 and potential solutions to the Highway Trust Fund's revenue shortfall and stand ready to assist your efforts in this regard.

Thank you for allowing me to appear before you today.

NATIONAL ASSOCIATION OF Manufacturers

Leading Innovation. Creating Opportunity. Pursuing Progress.

Testimony

of Jay Timmons
President and CEO

National Association of Manufacturers

before the Senate Committee on Environment and Public Works

on MAP-21 Reauthorization: The Economic Importance of Maintaining Federal Investments in Our Transportation Infrastructure

February 12, 2014

COMMENTS OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

BEFORE THE

SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

FEBRUARY 12, 2014

Chairman Boxer, Ranking Member Vitter and members of the Senate Committee on Environment and Public Works, on behalf of the National Association of Manufacturers (NAM), the nation's largest manufacturing trade association and the voice for more than 12 million men and women who make things in America, thank you for the opportunity to testify about the importance of federal investments in our transportation infrastructure.

The NAM is committed to achieving a policy agenda that helps manufacturers grow and create jobs. Manufacturing in the United States contributes $2.03 trillion to the economy, providing 12.5 percent to our nation's GDP. More importantly, manufacturing supports an estimated 17.4 million jobs in the United States—about one in six private-sector jobs. In 2012, the average manufacturing worker in the United States earned $77,505 annually, including pay and benefits—22 percent more than the rest of the workforce.

Manufacturers rely on our nation's vast interconnected network of roads, railways, airports, inland waterways and ports to support and supply every sector of the economy. While many of our members predominantly depend on motor carriers to deliver finished products to their customers, manufacturers rely on air freight to deliver time-sensitive and high-value cargoes, railroads for raw materials and finished products, inland waterways for bulk-sized movements and seaports for access to overseas markets.

The health of our nation's transportation network matters to manufacturers. Transportation infrastructure carries the weight of the economy and helps sustain long-term economic prosperity. Unfortunately, I hear concerns about the state of our infrastructure from NAM members constantly, regardless of their size or sector. From the world's largest multinationals to family businesses up and down Main Streets across America, everyone recognizes that our aging infrastructure poses a competitiveness problem.

The NAM urges lawmakers to address these challenges, but we are concerned that calls for increased investments are met with skepticism and a reluctance to do what is necessary to boost investments in our infrastructure. Manufacturers are counting on Congress to fulfill its well-established responsibility of facilitating commerce in the United States. With a 20 percent cost disadvantage to doing business in the United States, investment and improvements to our nation's transportation infrastructure are critical to manufacturers' ability to compete and create jobs.

Last year, the NAM partnered with Building America's Future to survey manufacturers about their perspectives on the state of U.S. infrastructure. The results quantified manufacturers' concerns about the condition of our nation's infrastructure and underscored that infrastructure is essential to manufacturing competitiveness. Some 70 percent of 400 surveyed manufacturers told us that American infrastructure is in fair or poor shape and needs a great deal or quite a bit of improvement. There was a unanimous view that not one sector of infrastructure is performing at a pace to keep up with the needs of business.

Two-thirds doubt that infrastructure is positioned to respond to the competitive demands of a growing economy. The survey results pointed to a wide recognition among our membership that America's infrastructure continues to rest on a legacy of past investments and can and should be improved.

Moving Ahead for Progress in the 21st Century (MAP-21) represented an important step that met a short-term objective and began the effort to implement key surface transportation policy reforms. However, as the next surface transportation authorization is developed, manufacturers encourage Congress to focus on infrastructure investment as a long-term strategic objective that seeks to address the persistent challenges that are already well-documented and recognized by the public as problems facing our transportation system.

Our nation's aging bridges remain a significant problem, and according to the U.S. Government Accountability Office, bridge conditions have experienced "limited improvement" over the past decade, and "substantial numbers of bridges remain in poor condition." Of the 607,380 bridges in the United States, one in four was classified as deficient.[1] However, the real challenge is funding, and problems will become more pronounced in the years ahead as bridges built in the 1950s, '60s and '70s continue to age. Bridge replacements are costly and can exhaust state department of transportation resources for years on end, but these structures are critical to moving daily commerce and keeping manufacturers competitive.

It's obvious to every driver that many of America's roads are in poor or mediocre condition. A "D+" grade from the American Society of Civil Engineers only further articulates how Americans feel about our nation's infrastructure. Yet, in spite of the poor conditions many of us face on a daily drive or transit ride to work, we seem to have resigned ourselves to the fact that congestion and deteriorating infrastructure are like the weather—something we cannot control. As a country, we cannot afford to throw our hands up in the air. We know that freight tonnage will increase 88 percent by 2035, port volumes will double by 2020, and passenger miles traveled will increase 80 percent in

[1] U.S. Government Accountability Office, "Limited Improvement in Bridge Conditions over the Past Decade, but Financial Challenges Remain," June 13, 2013.

30 years.[2] The U.S. Travel Association recently examined 16 key interstate corridors nationwide and concluded that Labor Day weekend traffic would become the new normal in some places within the next 10 years if nothing changes.

With these stark projections, we cannot ignore the fact that a journey—whether it's a delivery to a customer, a vacation or an important business meeting—usually begins or ends somewhere on our nation's roads. Modern, world-class roads are needed to support our ports, freight rail and aviation—these modes of transportation are all inextricably linked, and manufacturers appreciate the competitive advantages of a safe and efficient transportation network.

The President's State of the Union address acknowledged that delays in getting infrastructure projects off the drawing boards and into the construction phase continue to be an ongoing challenge. We agree, and while MAP-21 developed important reforms to expedite highway and transit project reviews, the next authorization must continue to build upon the success of MAP-21 environmental streamlining provisions and make improvements where efficiencies have not materialized.

Private investment is not as patient as funding from the public sector. As we seek to encourage additional transportation investments from both public and private sources, efficient federal reviews are critical to ensure funding does not evaporate. Manufacturers are vital suppliers to the transit and road-building industry, providing rolling stock, engines, concrete, machinery, aggregates, barriers, signs, safety equipment and other materials. Every dollar spent in construction generates 39.5 cents in manufacturing. When a transportation project can't get off the ground because of a lack of funding or bureaucratic delays, opportunities and jobs are lost.

Congress must take the next steps and return to a fully funded, multiyear surface transportation authorization that offers support for infrastructure projects that improve

[2] Building America's Future, "Falling Apart and Falling Behind," 2012.

safety, facilitate trade and create jobs. Equally important, Congress must bring the federal Highway Trust Fund to an improved condition of solvency and long-term sustainability. Securing the financial health of this main funding mechanism for the nation's highway and transit systems must be a priority. The need to keep the Highway Trust Fund solvent extends far beyond state departments of transportation and road builders. Funding for roads, bridges and transit systems provides great value and represents an investment in our economy and global competitiveness.

The deteriorating condition of our surface transportation infrastructure and the $101 billion cost associated with traffic congestion are not problems the federal government can avoid or leave to the states to resolve on their own. Without question, transportation helps keep our economy moving, and we need every sector of our economy functioning to maintain growth. Our global competitors in Asia and the European Union already heavily invest public and private resources in infrastructure. To help keep American businesses and manufacturers competitive, we must do better than the status quo and allocate more resources toward infrastructure spending.

While Congress must thoroughly discuss and evaluate new models, strategies and financing options, manufacturers believe the Highway Trust Fund continues to provide a reliable source of funding to states for roads, bridges and transit systems. These transportation investments directly benefit all Americans and move in tandem with the goals of economic growth and increased competitiveness.

For NAM members, access to a reliable and cost-effective transportation network by land, sea and air is critical to reaching customers here and abroad. There is a long road ahead of us, but I'm confident that we will succeed. Chairman Boxer, thank you for the opportunity to testify today, and I will be happy to respond to any questions.

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