Statement of

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Madam Chairman, Senator Inhofe and Members of the Committee – I appreciate the opportunity to address you today regarding the impending insolvency of the federal Highway Trust Fund, and the implications of such insolvency.

By way of background, I spent close to 11 years as a staff member to this committee, working on transportation issues. In that position, I had the privilege of working on the last three multi-year transportation bills – ISTEA in 1991, TEA-21 in 1998 and SAFETEA-LU in 2005. In addition, I had the opportunity to work in state government for six years. So I've had the opportunity to advise Congress on transportation policy at the federal level and then see it implemented at the state level.

More recently, I was appointed to serve as a member of the National Surface Transportation Infrastructure Financing Commission, one of two commissions created in the SAFETEA-LU legislation.

All of this experience has shaped my perspective on the situation we face today in the transportation community. I have a very real respect for the work facing you and your staff as you develop the framework for our transportation system – now and into the future.

Having said all of this, I believe your task will be made more difficult if Congress were to allow the Highway Trust Fund to become insolvent, allow for a dramatic reduction in transportation funding next fiscal year and possibly allow for the loss of contract authority as the basis for our transportation programs.

I'd like to cover three areas with you today. First, I've been asked to briefly discuss the history of the federal Highway Trust Fund and how we got to where we are today; second, I'd like to discuss the impacts of the impending Highway Trust Fund insolvency; and finally, I'd like to mention the approach our commission took in

identifying funding and financing options, as it may be useful to you as you continue to develop your proposal to reauthorize federal highway and transit programs.

History of the Highway Trust Fund

Prior to 1956, federal motor fuel and vehicle taxes were directed to the General Fund of the U.S. Treasury. Federal financial assistance to support highway programs was provided by the General Fund, but with no defined relationship between the funding provided and highway-related taxes collected. In other words, investments were not tied to a user-fee system of taxes.

In 1956, Congress created the federal Highway Trust Fund (HTF) as part of the Highway Revenue Act of that year and it was intended as a dependable source of funding for the National System of Interstate and Defense Highways.

The current system for federal funding of our surface transportation system is centered on this trust fund. There are two accounts within the HTF – the Highway Account and the Mass Transit Account.

The Highway Trust Fund serves today as the mechanism by which the federal government provides resources to states, local governments and transit agencies for highway and transit investments.

The sources of revenue into the HTF fall into two separate categories – motor vehicle fuel taxes and various non-fuel taxes and fees. Highway Trust Fund revenues are:

- Gasoline and other fuels — 18.3 cents/gallon
- Diesel — 24.3 cents/gallon
- Retail tax on trucks — 12.0% on retail sales
- Highway-type tires — 9.45 cents/100 lbs capacity
- Heavy vehicle use tax — $100 + $22/1000 lbs

Motor fuel taxes account for the vast majority of revenue into the HTF – approximately 90% of the HTF net receipts. Other revenues (not based on motor fuel consumption) account for only about 10% of the HTF net receipts.

One cent per gallon on motor fuel taxes yields about $1.8 billion per year – of this amount, $1.4 billion is attributable to the gasoline tax and $400 million is attributable to the diesel tax.

In addition, 2.86 cents of every gallon of the motor fuel taxes is credited to the Mass Transit Account of the HTF.

So, why have a trust fund for transportation programs? The current HTF has offered the nation and transportation agencies some very important benefits:

- The HTF helps ensure federal highway user taxes and vehicle fees are used for transportation purposes (as defined by Congress) through the application of "budgetary firewalls" that prevent the diversion of revenues to non-transportation activities.
- The HTF enables the use of multi-year "contract authority", which provides states and transportation agencies with advance knowledge of future federal highway funding commitments and allows them to conduct meaningful long-range planning and to contract for multi-year projects based on a reasonable degree of year-to-year consistency in federal funding levels.
- The historical predictability and reliability of annual HTF spending has made federal surface transportation funding a viable means for supporting state-level and transit agency debt obligations used to finance long-lived assets.

How did we get here?

As a nation, we have reaped the benefits of previous generations' foresight and investment – generations that have developed and built a transportation system that became the envy of the world. Over the last few decades we have grown complacent, expecting to be served by high-quality infrastructure, even as we devoted less and less money in real terms to the maintenance and expansion of that infrastructure.

Growth in motor fuel tax receipts is driven by two factors: tax rates and fuel consumption. Federal motor fuel tax rates were last raised in 1993, when Congress added an across-the-board 4.3 cent increase. The proceeds from this increase, however, initially were directed to the General Fund and were not credited to the HTF until October 1997 (fiscal year 1998). Because the tax rate has remained constant since 1993, inflation has significantly eroded the value of the tax receipts – the purchasing power of the motor fuels tax has declined by 33 percent.

In addition, we have seen much volatility in recent months regarding receipts into the HTF. The non-fuel tax receipts – especially those related to truck trailer sales and the heavy vehicle use tax – have been especially volatile. It is this volatility that has also added to the uncertainty over the solvency of the HTF.

Over the last 15 years, Congress has consistently increased authorizations for HTF spending. Between 1980 and 1995, HTF balances gradually grew from $11 billion to $19 billion. Between 1996 and 2000, however, receipts substantially exceeded outlays, and the overall balance rose from $19 billion in 1995 to a peak of about $31 billion in 2000. With the economic downturn in 2001, however, revenues fell sharply. By 2005 revenues recovered to previous levels, although their growth rates slowed.

At the same time, both TEA-21 and SAFETEA-LU substantially boosted federal highway and transit spending, causing the HTF cash balances to begin to decline sharply.

Congress knew that the spend down of the HTF balances over the life of SAFETEA-LU would create a reduction in the cash balances by the end of 2009. In fact, Congress created two commissions in SAFETEA-LU to examine the revenue, funding and financing of this country's transportation system and to make recommendations on short-term and long-term options.

However, with the current economic slowdown and reduction in receipts to the HTF in the last couple of years, the HTF reached crisis level much sooner than expected when the bill was signed in 2005.

Congress is to be congratulated for the $8 billion General Fund infusion into the Highway Trust Fund at the end of 2008. It was certainly hoped for and anticipated then that the General Fund transfer would keep the HTF solvent through this fiscal year. Unfortunately, that does not appear to be the case and Congress is again faced with the decision of what to do. As reflected in the comments by Secretary LaHood, if steps are not taken immediately, the HTF will run out of money as soon as late August and states will be in danger of losing the vital transportation funding they need and expect.

Impacts of the expected insolvency of the Highway Trust Fund

As we approach the expected insolvency of the Highway Trust Fund – as early as August – a fundamental decision will have to be made. Should Congress "fix" the impending Highway Trust Fund insolvency or not? Should we find the resources we need to continue funding at SAFETEA-LU authorized levels for the remainder of this fiscal year or should we accept a reduction in federal transportation funding and slower reimbursements to the states and local governments?

If the answer is "yes", then there needs to be consensus on a few points: how much is needed to prevent insolvency (or "fix" the HTF) in fiscal year 2009; should any HTF "fix" be longer-term and include funding for fiscal year 2010 and if so, again, how much; should any "fix" include resources for both the Highway Account and Mass Transit Account; and should any "fix" be funded through new revenue into the HTF or should it be another General Fund transfer.

If the answer to "fixing" the Highway Trust Fund is "no", then the result will be a reduction in funding to the states and local governments for transportation projects. These entities will have to decide which projects to cancel or delay – or these entities will have to identify other sources of funding, which as we know, is very difficult to do in the current economic situation. Last year, when we faced a similar crisis, we saw the actions that states and local governments will take when faced with the uncertainty of federal transportation reimbursements. At a time when this country is trying to improve the economy and create jobs, it only makes sense to engage on this issue.

Madam Chairman, I know that you and others on the Committee are committed to finding a solution to our current insolvency problem and also to finding intermediate and long-term funding solutions as well. It is my hope that the entire Congress will choose the same route and will take action and resolve the solvency issue for fiscal year 2009. Congress passed the American Recovery and Reinvestment Act in February with the stated purpose of creating and sustaining jobs. It would not make sense to provide additional infrastructure spending in February, only to allow a dramatic reduction in funding for transportation six (6) months later.

The impact from any gap in federal transportation funding will have a ripple effect across the transportation sector and through the economy. Construction jobs will certainly be lost but we have to keep in mind that in addition, businesses in the transportation sector will continue to be reluctant to hire workers if there is no clear signal that Congress is committed to these jobs and the investments being made. And in fact, some businesses may begin to slow down production of transportation related features if it appears there will be a gap in federal funding.

Madam Chairman, I work every day with many of the stakeholders in the transportation community – businesses, states, local governments and various transportation associations. I can tell you that there is real apprehension regarding the impending insolvency and the impact of inaction. I would like you and the members of the Committee to know that many in the transportation community stand ready to assist you in resolving this crisis and I hope you will tap these resources to help make the case on the importance of transportation investment to others in Congress and just as importantly, to the public.

Commission approach

The National Surface Transportation Infrastructure Financing Commission completed its work in February of this year. We released a comprehensive report that details our short and long-term funding and financing recommendations. While that is not the focus of today's hearing, I wanted to describe for the Committee the methodology we used as we approached our work.

We examined over 40 funding options and numerous financing options. This list of options was very diverse and while the Commission did not recommend every one of these options, they are all listed in our final report. I call it – "the good, the bad and the ugly".

We took each of these 40 funding options and evaluated them based upon over a dozen different criteria. This exercise was very enlightening and allowed the Members of the Commission to look at a wide array of issues surrounding each funding option. The evaluation criteria fell into 4 broad categories: revenue potential; implementation and administration; economic efficiency and impacts; and equity. We then weighed each funding option against these criteria.

The Commission report includes a tremendous amount of detail related to these evaluations. In addition, and this was very important to me, the report lists the pros and cons for the options. The Commission spent over two years working on this report and what we submitted to Congress was the best effort of a diverse group of 15 individuals. As a former staffer, I'm well aware that Congress may have a different opinion and may choose a different set of options to fund and finance our transportation system. It is my hope that the Commission report proves useful to this Committee and the other Congressional Committees of jurisdiction as you continue to work on your authorization proposals.

Conclusion

Madam Chairman and Members of the Committee – at the end of the day, we are all trying to do what is best for this country. I believe we all need to remember that there are real men and women behind all of the numbers and statistics that we tend to use in our discussions. We can't get caught up in national statistics and forget the impacts of the decisions being made. Thousands of jobs depend upon federal transportation funding – not just direct jobs but indirect ones as well. Whether it is to get to work, to move goods across this county or maintain our quality of life, the federal government is an important partner in transportation investments.

I know that with your leadership, Madam Chairman, and the leadership of this Committee, Congress will quickly resolve this crisis.

Thank you again for holding this hearing and for providing me with the opportunity to be here today.