

Mr. Chairman, and Members of the Subcommittee, I am Allen Biehler, Secretary of Transportation for the State of Pennsylvania and President of the American Association of State Highway and Transportation Officials (AASHTO). Today I am appearing on behalf of (AASHTO), which represents the departments of transportation in the fifty states, the District of Columbia and Puerto Rico.

First, I want to thank you, Mr. Chairman, for holding this important hearing on the long-term measures to finance the Highway Trust Fund. The immediate threat of insolvency and the impending need to enact a well funded long-term surface transportation authorization bill will benefit from the information garnered in this hearing, and for your leadership in working toward a new, multi-year surface transportation authorization bill to replace the expiring SAFETEA-LU Act.

Transportation is a critical engine of the American economy. Capital investment in our national surface transportation infrastructure is important and fundamentally different from other kinds of government operations spending. Investing in transportation assets that last 50 to 100 years or more produces economic and societal benefits for many generations to come. Moreover, it creates and sustains good-paying American jobs.

Established in 1956 to fund the Interstate Highway System, the Highway Trust Fund is the principal source of funding for Federal investment in surface transportation infrastructure. Supported by a dedicated stream of user revenue, the Trust Fund allows Congress to finance surface transportation programs through the use of contract authority, which allows for commitments to be made in advance of receipts being received. This provides the stability and predictability that are essential to the success of long-term capital investments. States and local governments are then able to execute long-term planning and multi-year construction contracts based on that stability and predictability. And over the years, Congress has provided additional revenue to ensure investments could be continued in keeping with the needs of the nation.

Today, however, the Highway Trust Fund is in crisis.

In the short-term, the Highway Account of the Trust Fund faces insolvency before the end of the current fiscal year and the prospect of a greatly reduced program in FY 2010. In the long-term, the Trust Fund faces an enormous gap between available resources and the investment needs necessary to modernize our national surface transportation systems to meet the challenges of the 21st Century.

Consequently, we find ourselves at a crossroads. This hearing is an important step to finding the way forward and identifying ways increase Trust Fund resources in the long-term so that the Trust Fund can meet the investment needs of the Nation.

AASHTO comes down squarely on the side of continuing a strong Federal program. AASHTO believes that a strong Federal partner is essential in meeting our short-term and long-term transportation needs. And AASHTO further believes that the stability and predictability that comes from a robust, adequately financed Highway Trust Fund is also essential.

Today, as we consider these issues I would like to address the short-term funding crisis facing us and offer some ideas for meeting the long-term revenue requirements for the Trust Fund.

We must fix the short-term crisis now.

The fiscal year 2009 problem: As you know, Mr. Chairman, spending from the Highway Trust Fund is exceeding the levels of revenues flowing into it. When SAFETEA-LU was enacted, it was estimated that Trust Fund reserves and current cash flows into the Trust Fund during SAFETEA-LU would be sufficient to fund all of the commitments in highway and transit investments guaranteed in the bill. But unprecedented high motor fuel prices during this period and the current severe recession have driven down demand to the point that Trust Fund revenues will be well below the levels that had been assumed at the time SAFETEA-LU was enacted.

In September of 2008, when DOT announced that insolvency of the highway program was imminent, Congress transferred \$8 billion back into the Trust Fund from the General Fund to enable USDOT to honor the commitments made to the states through October, 2009. That action kept the program solvent and enabled billions in highway investments to continue.

Unfortunately, recent reports from USDOT indicate that the \$8 billion will not be enough to sustain the program until September 30, 2009. Current projections now show that insolvency of the highway program is again imminent. Without an immediate fix, USDOT will not be able to honor the commitments to the states for all of FY 2009.

We must transfer sufficient funds into the Trust Fund to assure that USDOT can honor all of its commitments in FY 2009. We estimate that \$7.5 billion would be necessary to accomplish this task. That is consistent with the Administration's estimate. In addition we must also make allowance for fiscal year 2010 preferably through a long-term well funded bill. But if that is delayed than we need to add additional cash to the Trust Fund estimated to be an additional \$10 billion to ensure investment and job creation continues.

Failure to act would be devastating to the economic recovery.

If the Highway Trust Fund becomes insolvent in FY 2009, States will likely suspend new contract awards, halt right-of-way acquisition, and look for ways to stop on-going construction while maintaining public safety. If inadequate Trust Fund results cause the highway program to be cut back in FY 2010 to \$5.7 billion, or 86 percent below the current program level, States will have to again cut back their programs substantially. Given the severity of the current recession, States will not be in a position to step in and fill the void. Likewise, the private sector will have to cut back this will mean cancelled contracts, plant closures and layoffs. Expansion plans will be put on hold or cancelled.

Stated differently, Congress' failure to fix the short-term Trust Fund crises will undermine the economic recovery. The ARRA has recognized the critical need to ramp up investment in infrastructure to create and sustain jobs and put in place much-needed infrastructure. Jobs are in fact being created and sustained. But if there is a dramatic decline in investment due to the short-term Trust Fund crises, it is likely that much of the important recession recovery process will be lost. Also lost will be the many important transportation improvements that will have to be postponed or cancelled.

The Long-Term Funding Needs:

While the current economic downturn has highlighted the crisis condition of the Trust Fund, this condition has been playing out since fiscal year 2002. We have consistently been paying out more than we have been taking in and thus drawing down the balance of the Trust Fund.

User fees were last increased in 1993 and costs have skyrocketed since then. While it is true that the added receipts that came to the Trust Fund in 1995 and 1998 from those enacted for deficit reduction, they are not enough to sustain the current program level.

In the new multi-year authorization bill, we must sufficiently increase Trust Fund revenues to begin to address these documented national surface infrastructure investment needs.

Several creditable studies have been conducted pointing to a need and providing options for long-term changes in the revenue collection methods for the Trust Fund. They include:

- A study of long-term financing needs by the U.S. Chamber of Commerce Foundation in September, 2005 provided a series of conclusions on the need to change to a more direct user fee based system for revenue generation.
- A 2006 study by a Transportation Research Board panel titled: The Long-term Viability of Motor Fuel Taxes for Transportation concluded that the current gas tax collection system while simple is not sustainable in the long-term given changes in gas mileage and other factors that will reduce income to the Trust Fund. However, the panel also concluded that an alternative method of collection such as Vehicle miles traveled charges to users would take fifteen to twenty years to implement.
- Congress created two commissions, the National Surface Transportation Policy and Revenue Study Commission and the National Surface Transportation Infrastructure Financing Commission both of which have issued reports in this past year.
- These Commissions concluded that we need to dramatically increase investment and adopt new methods for revenue collection to finance meeting those needs. They have called for a study in particular

to look at systems and methods for collecting VMT fees as a replacement for gas taxes. They also call for immediate user fee increases under the current system to ensure we can begin to meet national needs.

- Also both the National Infrastructure Financing Commission and AASHTO's funding recommendations include other additive methods of providing funding to meet revenue needs.
- AASHTO's Standing Committee on Finance and Administration produced a series of recommendations reaching the same conclusions as other studies.

Chart 1 provides an array of funding and revenue estimates AASHTO has developed as possible complimentary sources of revenue to supplement the direct user fee charges.

Surface Transportation Funding Options Matrix (all revenue estimates in \$millions)						
Funding Mechanisms	Mechanism	Yield (2010)	Illustrative Rate	Annual Revenues 2010	Average Annual Revenues 2010-2015	Total Revenues 2010-2015
Annual Highway Miles Traveled Fee (Cars Only)	1¢/VMT =	\$ 17,298	1.0¢	\$ 17,298	\$ 17,616	\$ 105,696
Annual Highway Miles Traveled Fee (All light duty vehicles)	1¢/VMT =	\$ 27,610	1.0¢	\$ 27,610	\$ 28,682	\$ 172,094
Annual Highway User Vehicle Fee	\$1.00 Fee =	\$ 263	\$1.00	\$ 263	\$ 275	\$ 1,652
Carbon Tax or Cap And Trade Auction Proceeds	1¢/gal or equiv =	\$ 553	30.0¢	\$ 16,594	\$ 17,250	\$ 103,501
Container Tax	\$1 per TEU =	\$ 57	\$20.00	\$ 1,137	\$ 1,336	\$ 8,013
Diesel Tax Increase Plus Indexing	1¢/gal =	\$ 411	13.0¢	\$ 5,337	\$ 5,976	\$ 35,856
Existing Highway Trust Fund Sources				\$ 40,566	\$ 42,569	\$ 255,413
Gas Tax Increase Plus Indexing	1¢/gal =	\$ 1,380	10.0¢	\$ 13,796	\$ 15,082	\$ 90,489
General Fund Support for Intercity Passenger Rail				\$ 3,000	\$ 3,000	\$ 18,000
General Fund Transfers for Transit				\$ 3,167	\$ 3,167	\$ 19,000
Index Existing Highway Trust Fund Sources Beginning in 2010				\$ 791	\$ 3,032	\$ 18,192
Index Heavy Vehicle Use Tax Retroactively to 1997				\$ 411	\$ 536	\$ 3,217
Interest on Highway Trust Fund Balances				\$ 200	\$ 200	\$ 1,200
Motor Fuel Tax Exemption Reimbursement (Retroactive and Future)				\$ 1,057	\$ 1,099	\$ 6,593
Sales Tax on Motor Fuels	1.0% of Sales =	\$ 6,136	2.5%	\$ 15,340	\$ 15,658	\$ 93,949
Share of US Customs Revenues	1% of Receipts =	\$ 314	5.0%	\$ 1,570	\$ 1,817	\$ 10,904
Tax Credit Bonds for Highways and Transit				\$ 8,333	\$ 8,333	\$ 50,000
Tax Credit Bonds for Intercity Passenger Rail				\$ 4,167	\$ 4,167	\$ 25,000
Ton Freight Charge -- All Modes	1¢/ton =	\$ 162	10.0¢	\$ 1,617	\$ 1,801	\$ 10,804
Ton Freight Charge -- Truck Only	1¢/ton =	\$ 111	10.0¢	\$ 1,115	\$ 1,242	\$ 7,452
Ton-Mile Freight Charge -- All Modes	1¢/ton-mile =	\$ 42,763	0.1¢	\$ 4,276	\$ 4,763	\$ 28,579
Ton-Mile Freight Charge -- Truck Only	1¢/ton-mile =	\$ 12,516	0.1¢	\$ 1,252	\$ 1,394	\$ 8,365
US Freight Bill -- All Modes	1% of Sales =	\$ 7,708	1.0%	\$ 7,708	\$ 8,585	\$ 51,513
US Freight Bill -- Truck Only	1% of Sales =	\$ 6,497	1.0%	\$ 6,497	\$ 7,237	\$ 43,420
Vehicle Sales Tax on New Passenger Cars/Light-duty Trucks	1% of Sales =	\$ 4,853	2.0%	\$ 9,707	\$ 10,812	\$ 64,870
Vehicle Sales Tax on New/Used Passenger Cars/Light-duty Trucks	1% of Sales =	\$ 9,012	2.0%	\$ 18,024	\$ 20,077	\$ 120,461
Total Revenues				\$ 210,831	\$ 225,705	\$ 1,354,232

We can provide more detail on each of these revenue options to the Committee in subsequent submissions if desired.

Conclusions

The Federal-aid Highway Program and the Transit program face a long-term revenue shortfall that must be addressed in the interests of the economy and the nation's economic competitiveness.

While much focus has been on direct user charges through the adoption of VMT charging systems additional pilots should be conducted to pick the best approach among the alternatives. Substantial planning, investment and cooperation among all levels of government will be necessary to make such a system a reality – in addition to the need for public acceptance of such a system. We must move forward with a comprehensive testing program to prepare for this necessary change in collection systems.

A series of national commissions and other organizations have concluded that we need to advance a revenue collection system based on direct user charges. However, such a system will take years to fully research and implement. Therefore, as both national commissions have concluded, we need to provide stop-gap revenue likely through an increase in the current indirect user charges.

Therefore, as we look to long-term solutions to the revenue needs we must first address the short-term funding gap that threatens the highway and transit capital programs. It is important that Congress take the steps necessary to address the current Trust Fund shortfall and just as important, adequately fund the next multi-year surface transportation authorization bill. AASHTO stands ready to work with this Committee in this effort.