TESTIMONY

PANEL 1

Thursday, April 3, 2008 Transportation, Housing and Urban Development, and Related Agencies Appropriations Subcommittee Hearing

Panel I: Status of Surface Transportation Trust Funds and Impact on Federal Spending.

Witnesses:

Honorable James S. Simpson
Administrator, Federal Transit Administration
U.S. Department of Transportation

Mr. James D. Ray
Administrator (Acting), Federal Highway Administration
U. S. Department of Transportation

Mr. John F. McCaskie
Chief Engineer
Swank Associated Companies
New Kensington, Pennsylvania
On behalf of the Transportation Construction Coalition

Mr. William W. Millar
President
American Public Transportation Association

STATEMENT OF
JAMES S. SIMPSON
ADMINISTRATOR
FEDERAL TRANSIT ADMINISTRATION
U.S. DEPARTMENT OF TRANSPORTATION

BEFORE THE

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES
UNITED STATES SENATE

APRIL 3, 2008

Good Morning. Thank you, Madam Chairman and members of the Subcommittee, for the opportunity to appear before you today to discuss the President's fiscal year (FY) 2009 budget plan for the Department of Transportation's surface transportation programs. I am pleased to report to you that the President's FY 2009 Budget for the Department of Transportation is $68 billion. Of this, 76 percent, or $51.7 billion, is for our highway, highway safety, and public transportation programs.

As you know, FY 2009 is the final year of the current surface transportation authorization – the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Our FY 2009 request fulfills the President's commitment to provide the six-year, $286.4 billion investment in highway, highway safety and public transportation programs that was agreed to when SAFETEA-LU was enacted in 2005, and does so without raising taxes or subsidizing transportation spending with other tax dollars. We are working with the President to hold the line on spending, while giving travelers and taxpayers the best possible value for their transportation dollars by transforming the way our transportation system works and is funded.

The President's Budget builds on the exciting things we are doing at the Department of Transportation to help us move forward on a new course -- a course that delivers high levels of safety, takes advantage of modern technology and financing mechanisms, and mitigates congestion with efficient and reliable transportation systems. However, it is increasingly clear that America's transportation systems are at a crossroads. Even as we continue to make substantial investments in our Nation's transportation systems, we realize that a business-as-usual approach to funding transportation programs will not work much longer. Long-term, we need a serious reform of our approaches to both financing and managing our transportation network. We need to not only maintain our infrastructure, but also win the battle against congestion.

FEDERAL HIGHWAY ADMINISTRATION

The President's request for the Federal Highway Administration (FHWA) in FY 2009, $40.1 billion in new budgetary resources, reflects the final installment to the $286.4 billion total agreement for SAFETEA-LU. This level includes a Federal-aid highway obligation limitation of $39.4 billion and $739 million in exempt contract authority. The obligation limitation reflects a downward adjustment of $1 billion from the base level in SAFETEA-LU, in accordance with the statutorily directed revenue aligned budget authority (RABA) calculation. The request supports the Department's goals and policy initiatives, and FHWA's priorities including improving highway safety, minimizing project delays, reducing traffic congestion, and promoting environmental stewardship and streamlining.

Since the enactment of SAFETEA-LU in 2005, FHWA has implemented new programs to improve highway safety, promoted innovative solutions to reduce traffic congestion, worked with other Federal agencies and States to streamline the project approval process, enhanced program oversight and stewardship, and responded to unforeseen events such as Hurricane Katrina and the collapse of the I-35W Bridge in Minneapolis, Minnesota. Funding requested in FY 2009 will enable FHWA to continue to improve the Nation's highway system while looking ahead to the next highway program authorization.

The budget request for FHWA will help address challenges that still confront us, such as congestion mitigation. The FY 2009 FHWA budget would encourage new approaches to fighting gridlock by proposing to use $175 million in inactive earmarks and 75 percent of certain discretionary highway program funds to fight congestion, giving priority to projects that combine a mix of pricing, transit, and technology solutions. Congestion pricing of our highways will generate funding that can be used locally for transit projects. While State and local leaders across the country are aggressively moving forward, Congressional support and leadership is critical. These projects will help us find a new way forward as we approach reauthorization of our surface transportation programs.

The FHWA budget includes $4.5 billion for the bridge program, as authorized in SAFETEA-LU. In FY 2009, FHWA will focus its bridge program on decreasing the percent of deck area of our Nation's highway bridges on public roads that are rated as either structurally deficient or functionally obsolete.

The FHWA safety program will continue to concentrate efforts to reduce the number of fatalities on our highways, focusing on four types of crashes: roadway departures, crashes at intersections, collisions involving pedestrians, and speeding-related crashes. The FHWA budget includes more than $1 billion dedicated to safety purposes such as the Highway Safety Improvement Program (HSIP), and funds utilized by States to support safety infrastructure and operational improvements as part of other Federal-aid highway programs such as the National Highway System (NHS) and the Surface Transportation Program.

In FY 2009, FHWA will continue to assist States with the implementation of Strategic Highway Safety Plans and safety planning so that safety funds will be used where they yield the greatest safety improvement. The HSIP provides States with flexibility to use safety funds for projects on all public roads and publicly owned pedestrian and bicycle paths, and to focus efforts on implementation of a State Strategic Highway Safety Plan.

Rural two-lane, two-way road fatality rates are significantly higher than the fatality rates on the Interstate. To address these higher rural road fatalities, and in support of our *Rural Safety Initiative*, highway safety program funds will provide a foundation for safety improvements in areas where the greatest need exists. The High Risk Rural Road portion of the HSIP sets aside $90 million in FY 2009 to address safety considerations and develop countermeasures to reduce these higher rural road fatalities.

FEDERAL TRANSIT ADMINISTRATION

The President's request for the Federal Transit Administration's (FTA) FY 2009 budget provides a record level of funding, $10.1 billion, for the Federal public transportation programs. This is an increase of $643.8 million, or almost 7 percent above the Consolidated Appropriations Act, 2008. At this level of funding, FTA will achieve quantifiable and executable improvements that support the Secretary's priorities -- safety, system performance and reliability, and 21st century solutions for 21st century transportation problems.

FTA's budget focuses on priorities such as increasing transit system capacity and improving safety and performance with existing infrastructure; leveraging private investment in public transportation through public-private partnerships and joint development activities; finding transit solutions to reduce traffic congestion; implementing the President's "Twenty In Ten" plan by increasing the fuel economy of transit buses; improving customer service through targeted program delivery process improvements; and increasing productivity through an agency-wide continuous improvement program that identifies new opportunities for streamlining, efficiency, and performance measurement.

Within the $10.1 billion, $8.4 billion is requested in FY 2009 for transit services to provide stable, predictable formula funds to urbanized areas and increase funding for underserved rural communities. A total of $59.6 million is requested in FY 2009 to support activities that improve public transportation through research and technical assistance.

FTA's budget fully funds the annual cost of multi-year construction projects under the New Starts and Small Starts programs, and is based on actual project requirements. The FY 2009 request for major capital investment grants of $1.62 billion includes funding for 15 existing and 2 pending Full Funding Grant Agreements (FFGAs). The request is about $52 million over the FY 2008 enacted level. When completed, these projects will encourage transit-oriented development and related initiatives by improving mobility, reducing congestion and pollution, and promoting new economic activity throughout the Nation.

The FY 2009 FTA budget will also provide financial support and technology to further our *Urban Partnership*s. Transit is critical to the success of the Urban Partners' efforts to reduce congestion. Increasing the quality and capacity of peak-period transit service is necessary in order to offer a more attractive alternative to automobile travel and to accommodate peak-period commuters who elect to switch to transit in response to congestion pricing.

STATUS OF THE HIGHWAY TRUST FUND

The Highway Trust Fund is the principal source of funding for our Nation's highway, highway safety and public transportation programs. The President's 2009 budget projections reflect a continuing downward trend in the Highway Trust Fund cash balances. A fact sheet is attached to this statement that displays the current status of the Highway Trust Fund. The trust fund has two accounts – a Highway account that funds FHWA, the National Highway Traffic Safety Administration (NHTSA), and the Federal Motor Carrier Safety Administration (FMCSA) programs – and a separate Mass Transit Account that funds FTA programs. By the end of the SAFETEA-LU authorization period in 2009, the Administration is projecting a $3.2 billion shortfall in the Highway Account. The Mass Transit Account is expected to remain solvent through FY 2009, with an estimated balance of $4.4 billion, leaving a net total of $1.2 billion in the combined Highway Trust Fund at the end of FY 2009.

Despite the anticipated shortfall in the Highway Account, the Administration retains its strong commitment to SAFETEA-LU programs. To ensure that the Administration can continue to meet its commitments, the budget proposes a new flexibility to manage funds in the Highway Trust Fund so the existing tax structure can continue to support authorized funding for surface transportation programs. By requesting temporary authority to allow "repayable advances" between the Highway Account and the Mass Transit Account, the FY 2009 President's Budget will enable us to complete the current authorization without any impact on transit programs in 2009. In addition to ensuring delivery of both FHWA and FTA programs, this mechanism will ensure that the vital safety programs funded through the Highway Trust Fund for NHTSA and FMCSA will also be able to continue without disruption.

However, as we look to the future, the projected shortfall in the Highway Account is evidence of the need to re-examine how surface infrastructure is funded in this country.

FUTURE SURFACE TRANSPORTATION NEEDS

For the first time since the creation of the Interstate Highway System, we have an opportunity to come together and completely reassess our approach to financing and managing surface transportation systems. For too long, we have tolerated exploding highway congestion, unsustainable revenue mechanisms and spending decisions based on political influence as opposed to merit.

Now, thanks to technological breakthroughs, changing public opinion and highly successful real-world demonstrations, it is clear that a new path is imminently achievable if we have the political will to forge it. That path must start with an honest assessment of *how* we pay for transportation, not simply *how much* (our current focus). In fact, our continued transportation financing challenges are in many ways a symptom of these underlying policy failures, not the cause.

In a report released in July 2007 entitled "Surface Transportation: Strategies Are Available for Making Existing Road Infrastructure Perform Better," the Government Accountability Office (GAO) cited existing revenue mechanisms as the culprit, stating:

> The existing revenue-raising structure provides no incentive for users to take these costs (delays, unreliability and pollution) into account when making their driving decisions. From an economic perspective, a mechanism is needed that gives users price incentives to consider these costs in deciding when, where, and how to drive. Because the existing structure does not reflect the economic, social, and environmental costs of driving at peak periods, drivers who may have flexibility to share rides, use mass transit, use more indirect but less congested routes, or defer their trips to uncongested times have no financial incentives to do so. Without such incentives, the transportation system will be headed for more frequent occurrences of congestion that last longer, resulting in more time

spent traveling, greater fuel consumption, and higher emissions in the long run.

We must decide what our national transportation priorities are, and what roles are appropriate for Federal, state and local government as well as the private sector, before we can adequately address our Nation's infrastructure needs.

One of the biggest challenges we face is congestion. Technology must play an important role in relieving traffic on our Nation's highways. Nationwide, congestion imposes delay and wasted fuel costs on the economy of at least $78 billion per year. The true costs of congestion are much higher, however, after taking into account the significant cost of transportation system unreliability to drivers and businesses, the environmental impacts of idle-related auto emissions, increased gasoline prices and the immobility of labor markets that result from congestion, all of which substantially affect interstate commerce. Through programs like our *Urban Partnerships* and *Corridors of the Future* initiatives, we have been aggressively pursuing effective new strategies to reverse the growing traffic congestion crisis.

However, our funding is limited and trying to be all things to all people has proven to be an unsuccessful strategy. Options such as direct pricing of road use, similar to how people pay for other utilities, holds far more promise in addressing congestion and generating sustainable revenues for re-investment than do traditional gas taxes. Drivers have proven in a growing array of road pricing examples in the United States and around the world that prices can work to significantly increase highway speed and reliability, encourage efficient spreading of traffic across all periods of the day, encourage shifts to public transportation and encourage the combining of trips. Direct pricing will also reduce carbon emissions and the emissions of traditional pollutants. According to Environmental Defense, a nonprofit environmental organization, congestion pricing in the city of London reduced emissions of particulate matter and nitrogen oxides by 12 percent and fossil fuel consumption and carbon dioxide (CO_2) emissions by 20 percent; a comprehensive electronic road pricing system in Singapore has prevented the emission of an estimated 175,000 lb. of CO_2; and Stockholm's congestion pricing system has led to a 10-14 percent drop in CO_2 emissions.

The Department believes that the highest priorities for Federal resources should be:

- Improving and maintaining the condition and performance of the Interstate Highway System. Roughly one quarter of all highway miles traveled in the United States takes place on the Interstate System;
- Reducing congestion in major metropolitan areas and increasing incentive funds to State and local officials that pursue more effective congestion relief strategies. A more effective integration of public transportation and highway investment strategies is central to this challenge;
- Investing in and fostering a data-driven approach to reducing highway fatalities;
- Using Federal dollars to leverage non-Federal resources;
- Focusing on cutting edge, breakthrough research areas like technologies to improve vehicle to infrastructure communications; and
- Establishing quality and performance standards.

A streamlined Federal role would allow the Federal Government to ensure accountability for specific investments that are in the national interest and give States greater flexibility to prioritize other investments in their transportation infrastructure.

We look forward to partnering with the Congress to address the challenges we face in transportation and to meet our Nation's transportation financing needs. Thank you for the opportunity to appear before you today. I would be happy to answer questions.

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Highway Trust Fund Solvency

Testimony of Mr. John McCaskie, Chief Engineer, Swank Associated Companies
On Behalf of the Transportation Construction Coalition
Before the Subcommittee on Transportation, Housing and Urban Development
Committee on Appropriations, United States Senate

April 3, 2008

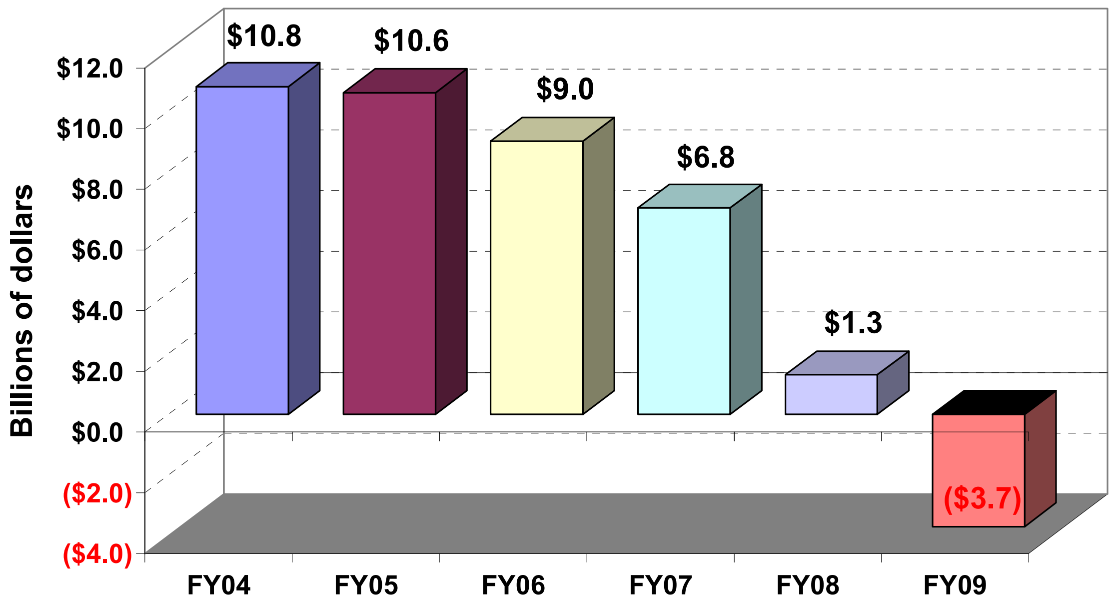
Madame Chairman, Senator Bond and members of the subcommittee, thank you for inviting the Transportation Construction Coalition to testify on the financial outlook for the Highway Account of the Highway Trust Fund. What I would like to focus on this morning is how failure to address the projected shortfall of Highway Account revenues could affect federal highway investment and highway construction in the United States this year and next.

When Congress enacted the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users—or SAFETEA-LU—in August 2005, guaranteed funding for the federal highway program was set at the highest annual levels for fiscal years 2005 through 2009 that could be supported by projected Highway Account resources. Not only did the bill spend all of the projected revenues into the Highway Account through 2009, it also spent down the accumulated cash balance in the Highway Account, envisioning virtually no cash reserve when SAFETEA-LU expires on September 30, 2009.

Since then, it has become evident that the revenue projections Congress relied on at that time were overly optimistic. Actual Highway Account revenues in FY 2007 were about $300 million less than originally expected and the Treasury now projects about $2.7 billion less Highway Account revenues in FY 2008 and 2009, for a total shortfall of about $3.0 billion. This, combined with higher outlays due to positive RABA adjustments in FY 2007 and 2008 and the extra $1 billion bridge investment in FY 2008, means that outlays from the Highway Account are now projected to exceed revenues by $3.7 billion in FY 2009 if the federal highway program is fully funded as enacted in SAFETEA-LU, as shown in Figure 1.

The Bush Administration has proposed two measures for addressing this shortfall. First, it proposes to limit federal highway investment in FY 2009 to $39.4 billion rather than the $41.2 billion guaranteed in SAFETEA-LU. Second, it proposes to let the Highway Account borrow the necessary cash from the Mass Transit Account, which will continue to show a positive balance through the end of FY 2009.

Figure 1 - OMB Projections Show $3.7 Billion Highway Account Revenue Shortfall in FY 2009



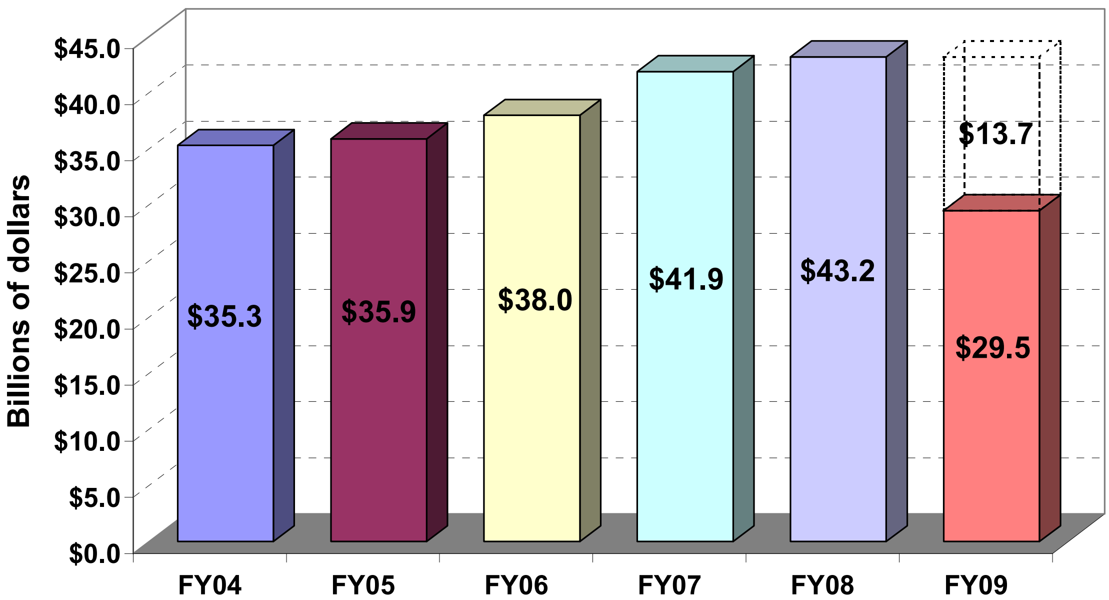
The Administration's proposal is a band-aid. Unfortunately the patient needs surgery. Their plan fails to address the core issue of insufficient Highway Account revenues. The Transportation Construction Coalition opposes it because it perpetuates a zero-sum mentality by transferring resources from one mode of transportation to another. Madame Chairman, the reality is that greater resources are needed for both the highway and public transportation programs.

We are happy to see that both Houses of Congress have passed budget resolutions that assume the full $41.2 billion highway investment guaranteed for FY 2009. But Congress still has to address the pending Highway Account insolvency to assure this recommendation can be realized in this year's appropriations process. Other than borrowing from the Mass Transit Account, there are only three options.

One is to cut highway funding in FY 2009 to an amount that could be supported by existing revenue projections.

Based on the historic spendout of federal highway funds, the Highway Account could support no more than $29.5 billion of new obligations for the federal highway and highway safety programs in FY 2009, as shown in Figure 2. This is $13.7 billion less than the amount appropriated in FY 2008. Every state would be hit with a 32 percent cut in federal highway funds. Washington state, for example, would see its federal highway funds cut from $573 million in FY 2008 to about $390 million in FY 2009. Dozens of planned highway improvements in the state would have to be postponed or cancelled. Missouri would be hit with a $240 million drop in federal highway funds, from $762.5 million in FY 2008 to about $518 million in FY 2009. Other states would experience similar cuts.

Figure 2 - Would Require Cut of $13.7 Billion in FY 2009 from Highway & Safety Programs



A second option would be to fully fund the federal highway program at $41.2 billion in FY 2009 but not add revenues to the Highway Account.

In this case, state departments of transportation (DOTs) could move forward on federal-aid highway projects, but the Federal Highway Administration would not be able to pay the bills on time. Currently, when a state DOT pays a contractor for work completed on a federal-aid project, the state invoices the Federal Highway Administration for the federal share and receives an electronic transfer of funds usually within 24 hours. But when the Highway Account cash balance is exhausted, FHWA can pay bills only as new revenues come in, which means most bills will be days to weeks late.

With the economic downturn eroding state government revenues, many states will have no option but to stop work on highway projects, putting thousands of construction workers out of jobs. The reaction on Wall Street and in international markets when investors in Treasury bonds see a federal agency failing to pay its bills on time can only be imagined.

Furthermore, an unfunded highway program is a very dangerous and disturbing precedent to set on the eve of a new multi-year reauthorization of the federal surface transportation program.

Congress has a third option for dealing with the projected Highway Account deficit and that is to inject additional revenues. Senate Finance Committee Chairman Max Baucus and Ranking Republican Charles Grassley made a commitment to you last year to find the necessary revenue to keep the Highway Trust Fund whole for the life of the current authorization. They honored that commitment when the Finance Committee developed a three-part plan—the American Infrastructure Investment and Improvement Act, S. 2345—that would:

- Compensate the Trust Fund for emergency highway spending since 1998;

- Suspend exemptions from the federal motor fuels taxes for six months; and

- Reduce motor fuel tax evasion.

The proposal would generate an estimated $5.1 billion for the Highway Account between now and the end of FY 2009, which would be sufficient to support a $41.2 billion federal highway investment in FY 2009 as called for in SAFETEA-LU and possibly provide a small cash cushion for the SAFETEA-LU reauthorization process. We strongly support this proposal, even though it is temporary, and urge all Members of Congress to support enactment of the Senate Finance Committee proposal.

The transportation construction industry is concerned we may be facing a "perfect storm" set of conditions that could lead to a substantial downturn in the construction of highways, bridges, transit and other transportation facilities. Dramatic construction material cost inflation has reduced the purchasing power of public works dollars. As a result, fewer contracts are going out to bid which leads to less work for contractors and fewer jobs for their employees. Not addressing the Highway Trust Fund revenue shortage would result in a further cutback in transportation projects. This would heighten the "perfect storm" scenario and have a drastic effect on not only the transportation construction industry but the US economy as well. The construction industry employs more than 7 million people (about 5 percent of total employment) and represents more than $1 trillion annually in economic activity including the purchase of $500 billion in materials and supplies and $36 billion in new equipment. Construction represents over eight percent of annual US gross domestic product.

While economic data show that public investment in transportation infrastructure has remained relatively stable over the past year, these numbers do not tell the full story. An industry survey of states indicates that many have cut back on the number of highway projects going out to bid in the last year because of the significant increase in highway construction material costs. Economic research shows that the Producer Price Index (PPI) for highway and street construction rose 49 percent from December 2003 to February 2008. This compares to a 15 percent increase in the Consumer Price Index (CPI) over the same period of time. The PPI reflects the dramatic increase in the cost of basic building materials, including: steel, cement, asphalt, aggregate and other materials. Diesel fuel price increases also impact this cost as construction activity is energy intensive.

State and local budgets are also feeling pressure. At the beginning of 2008, thirteen states were facing severe budget deficits this year, including multi-billion dollar deficits in: California, New York and New Jersey. Six more states will be facing significant deficits. Local governments, dealing with the ramifications of the housing crisis are cutting budgets all across the country.

The impact from the cutback in contracts being bid by state DOTs is already being felt. Heavy and civil engineering construction employment peaked in January 2007 and has steadily decreased over the past 14 months. There was more than a 2.4 percent decrease in construction employment over that time period, which equates to 24,400 construction employees now out of work. An industry survey of transportation construction businesses indicates that future lay offs are a very real possibility if states continue to cut back on the number of contracts going out to bid. This worrisome trend should not be allowed to continue. The potential cut of as much as 32 percent in highway program funding in FY 2009 would lead to further job loss only making this situation worse.

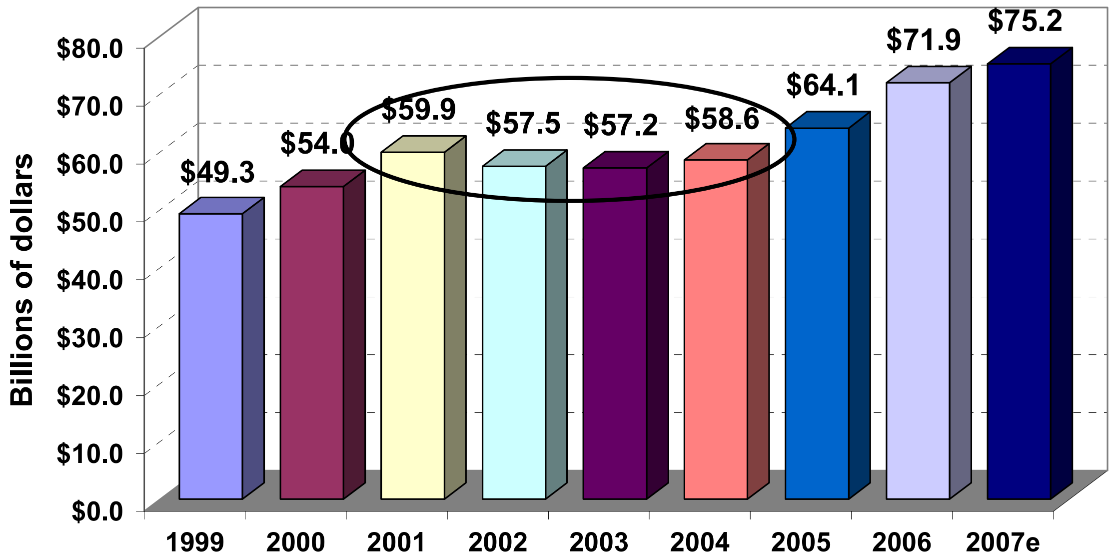
The fact that the pending highway trust fund insolvency won't occur until FY 2009 belies the fact that Congress cannot waste time resolving the problem. This has to be addressed quickly or it will have a serious negative impact on highway construction this year, compounding the economic downturn and partially thwarting the recent efforts of Congress to stimulate the economy.

As states face uncertainty about receiving their federal apportionment, they tend to take a conservative approach and cut back on the number of contracts going out to bid. Since highway and bridge projects take time to plan and construct, a reliable and predictable flow of financing is essential to keep construction plans on schedule. Whenever there is a disruption in federal financing as often occurs during reauthorization or uncertainty about federal highway funding as happened in FY 2003, when this Committee led the effort to overcome a potential $8.6 billion cut in federal highway investment—and is facing us again in FY 2009—state DOTs often hold back on starting new projects. They simply cannot afford to commit money they may not receive. And this becomes an even bigger problem when the economy is in a recession and state governments have their own fiscal problems. Uncertainty and disruptions in federal funding for highway and bridge construction is detrimental to the construction industry and the economy because decisions about investing in equipment and hiring and training employees are deferred. The public also suffers because the long term capital investments funded by these dollars are deferred and therefore transportation improvements that improve safety, ease commutes, and promote economic development are delayed.

The last time we faced a situation of uncertainty about federal highway investment combined with pending reauthorization and an economic recession was in 2002 and 2003. The combination forced many states to cut back on highway construction. As Figure 3 shows, the value of construction work put in place on the nation's highways and bridges actually fell in 2002 and remained flat until 2005. The same forces are at work today, and there is the distinct possibility of a similar downturn in the 2008 construction season.

With the economy facing a possible recession and Congress committing $160 billion in tax rebates and incentives to stimulate the economy, it makes no sense to worsen the economic situation by putting thousands of highway construction workers out of jobs this summer.

Figure 3 - Highway Construction was Depressed During 2002-04 by Disruptions in Federal Highway Program, Impact of Recession



Madame Chairman, we appreciate the efforts of this subcommittee to draw attention to this critical issue during last year's appropriations process. We recognize that failure to address this situation as soon as possible will impede your ability to fully fund the highway program as you move forward with the FY 2009 transportation appropriations bill. In this regard, we hope all members of this subcommittee will support the proposal developed by Senators Baucus and Grassley to ensure the highway investment commitment made in SAFETEA-LU for FY 2009 becomes a reality. Rest assured that the Transportation Construction Coalition is working diligently to urge all Members of Congress to resolve this issue.

Thank you very much for the invitation to testify and I am happy to respond to questions.

TESTIMONY OF

WILLIAM W. MILLAR, PRESIDENT

AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES

OF THE

SENATE COMMITTEE ON APPROPRIATIONS ON THE STATUS OF THE HIGHWAY TRUST FUND AND ITS IMPACT ON PUBLIC TRANSPORTATION

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April 3, 2008

<u>SUBMITTED BY</u>
American Public Transportation Association
1666 K Street, N.W.
Washington, DC 20006
Tel: (202) 496-4800
Fax: (202) 496-4324

APTA is a nonprofit international a[illegible]over 1,500 public and private member organizations including transit syst[illegible]uter rail operators; planning, design, construction and finance firms; product and service providers; academic institutions; transit associations and state departments of transportation. APTA members serve the public interest by providing safe, efficient and economical transit services and products. Over ninety percent of persons using public transportation in the United States and Canada are served by APTA members.

INTRODUCTION

Chairman Murray, Ranking Member Bond and members of the subcommittee, I thank you for the opportunity to testify today on behalf of the American Public Transportation Association (APTA), to provide the perspective of the public transportation industry on the status of the highway trust fund. My name is Bill Millar, and I am the President of APTA.

ABOUT APTA

APTA is a nonprofit international association of more than 1,500 public and private member organizations, including transit systems and commuter rail operators; planning, design, construction, and finance firms; product and service providers; academic institutions; transit associations and state departments of transportation. APTA members serve the public interest by providing safe, efficient, and economical transit services and products. More than ninety percent of the people using public transportation in the United States and Canada are served by APTA member systems.

THE STATUS OF THE HIGHWAY TRUST FUND

Madam Chairman, the Highway Trust Fund was created by Congress in 1956 to provide a dedicated revenue source for the federal government to build the interstate highway system. In 1982 Congress enacted legislation that was singed into law by President Reagan that created the mass transit account of the highway trust fund, which provides a dedicated source of revenue for public transportation. Funded primarily by the motor fuels user fee, the trust fund has provided a steady stream of revenue to fund critical capital surface transportation projects in America for more than five decades.

The federal gas tax is currently set at 18.4 cents per gallon, and of that, 2.86 cents is dedicated to the mass transit account. The mass transit account of the highway trust fund has served as a dependable funding source for the federal transit program for over 25 years. Revenues generated from the highway user fee have allowed for a steady growth in federal capital investment in public transportation. Currently, approximately 80 percent of the federal dollars invested in public transportation come directly from the trust fund. This reliable funding mechanism has provided predictable and guaranteed investment in transit, allowing for not only large scale capital transit projects throughout the country, but also important smaller scale transit investments.

Unfortunately, the future of the highway trust fund is in jeopardy. Receipts from the highway user fee are not generating sufficient revenue to sustain the current level of federal investment in the surface transportation program. While Congress has periodically approved modest increases for federal investment in surface transportation, it has not approved an increase in the user fee since 1993. Recent Congressional Budget Office projections show that by the end of Fiscal Year (FY) 2009, without intervening action by Congress, the highway account of the trust fund will no longer be solvent.

Those same projections show that the mass transit account will be insolvent by FY 2012. Without sufficient revenues in the trust fund, Congress will not be able to continue to sustain current levels of federal investment in surface transportation, and insolvency will make future growth in the federal program impossible. This is bad news at a time where increased investment in our nation's transportation infrastructure is critical. One only needs to look at the collapse of the 1-35 bridge in Minnesota to realize the importance of maintaining and growing federal investment in the surface transportation program.

In its recent report on the status of the surface transportation program in America, the National Surface Transportation Policy and Revenue Study Commission noted that a good transportation infrastructure is essential to the nation's economic health, and we need to invest more to both preserve the current aging system and to expand and improve our transportation infrastructure to meet the demands of our growing population. The report recommends that an immediate increase in the highway user fee is necessary to restore the purchasing power of the trust fund, and it should be indexed to account for future inflation. APTA agrees with those conclusions, and calls on Congress to make the necessary increase as it considers the next surface transportation authorization legislation next year.

Since there has been no increase in the motor fuel tax since 1993, inflation has steadily eroded the purchasing power of the highway trust fund. In addition, recent studies by the U.S. Department of Transportation on price trends for construction show that increases in construction costs have outpaced inflation, further weakening the ability of the trust fund to meet investment needs. The original purchasing power of the gas tax must be restored to allow for growth in the federal investment in our nation's surface transportation infrastructure.

SHORT TERM SOLUTIONS

While Congress will have the opportunity to address the long term stability of the trust fund in the next authorization bill, more immediate action is needed to prevent the insolvency of the highway account in Fiscal Year 2009. A short term solution is to ensure that revenues are available for Congress to appropriate the guaranteed and authorized levels in SAFETEA-LU for the highway program. APTA supports full funding of the highway program in Fiscal Year 2009, but we strongly oppose the Administration's short sighted proposal to raid the mass transit account to cover the short fall.

The President's budget, released in early February, proposes to allow transfers of balances in the mass transit account into the highway account to cover projected short falls that occur before the end of FY 2009. The Administration estimates that this will result in a transfer of up to $3.2 billion out of the mass transit account. As I wrote to this Subcommittee a month ago, we urge Congress to reject the Administration's proposal. Concern over the projected insolvency of the highway account does not justify the proposed transfer. Not only is this a temporary fix for the highway account, but it jeopardizes public transportation investment by hastening the insolvency of the mass transit account. Absent new revenues for transit, this would preclude funding the transit program at even current levels by Fiscal Year 2010. The tens of millions of Americans who depend on public transportation should not be penalized, especially when there are other alternatives to meeting highway funding needs in FY 2009. While it is important to fix the federal highway account, robbing Peter to pay Paul is not the way to go. The President's short-sighted transportation policy "fix" is irresponsible and flies in the face of common sense. With more than 10 billion trips taken on public transportation annually, public transportation's growth rate outpaced the growth rate of the population and the growth rate of vehicle miles traveled on our nation's roads over the past twelve years. This irresponsible proposal has also been opposed by American Association of State Highway Transportation Officials (AASHTO), the U.S. Chamber of Commerce's Americans for Transportation Mobility (ATM), the American Road and Transportation Builders Association (ARTBA), and the Association of General Contractors (AGC), to name only a few.

The Senate Finance Committee has proposed legislation that would prevent the insolvency of the highway account in FY 2009, without borrowing funds from the mass transit account. APTA supports this proposal and we urge Congress to adopt it as soon as possible.

FY 2009 TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT APPROPRIATIONS BILL

I also want to take this opportunity to comment briefly on the President's funding request for public transportation in FY 2009. APTA is disappointed that the Bush Administration's budget request would fund federal transit programs in FY 2009 at $202.1 million less than the levels authorized and guaranteed in SAFETEA-LU. As your subcommittee works to adopt the FY 2009 Transportation and Housing and Urban Development Appropriations bill, we urge you to reject this proposed cut and to provide full funding for the pubic transportation program at $10.3 billion, as authorized in SAFETEA-LU. The $10.1 billion the president proposes for public transportation does not come close to addressing current transit capital needs, let alone the costs of a growing public transit system that meets growing demands for more public transportation. Ironically, failure to adequately fund the federal transit program will push more public transportation riders onto already congested roads making matters worse for road users.

Adequately funding public transportation is an important action that benefits all Americans and meets many of our nation's national priorities. Public transportation helps Americans save money and is a key strategy in helping conserve energy, minimize climate change and reduce highway congestion. A household that uses public transportation saves more than $6,200 every year, compared to a household with no access to public transportation. This amount is more than the average household pays for food each year. Using public transportation is also one of the quickest ways that people can help our country become energy independent since using public transit saves 4.26

billion gallons of gasoline every year (the equivalent of 324 million cars filling up or almost 900,000 gallons per day). Using public transportation is also more effective at reducing greenhouse gases than environmentally friendly household activities which everyone should do, such as home weatherizing, changing to efficient light bulbs, and using efficient appliances.

<u>The Bus and Bus Facilities Program and Urban Congestion Initiative</u>

I would also like to express my gratitude to this subcommittee for including a provision in the FY 2008 Omnibus Appropriations bill that limits the Federal Transit Administration (FTA) from spending more than 10 percent of Bus and Bus Facilities Program funds on congestion pricing initiatives. We urge the subcommittee to continue to protect these funds by adopting a similar provision in the FY 2009 THUD bill. As you know, in FY 2007, Congress did not allocate Bus and Bus Facilities Program funds, and instead gave the funds to the FTA to distribute to transit agencies to address capital needs. We were disappointed that the U.S. Department of Transportation (U.S. DOT) decided to allocate virtually all of these funds to its Urban Partnership Congestion Initiative (UPCI). While members of APTA recognize the potential benefits of projects funded under the UPCI, we do not believe that these projects should be funded at the expense of much needed capital investment for buses and bus facilities across the nation. Numerous transit systems, both large and small, depend on this federal capital assistance to replace aging buses, expand bus fleets to meet growing service demands, and address needs for vehicle maintenance and fueling facilities.

<u>New Starts Rule</u>

We also appreciate the subcommittee's inclusion of language in the FY 2008 Omnibus Appropriations bill that from prohibits the FTA from finalizing its Notice of Proposed Rulemaking (NPRM) for the New Starts and Small Starts program. Simply put, the NPRM is unacceptable to the transit industry, and does not sufficiently follow guidance provided by SAFETEA-LU. For example, the proposed rule does not sufficiently consider the benefits of economic development and land use criteria in its project approval rating process, and does not effectively simplify the Small Starts approval process. The provision adopted by Congress to prevent FTA from finalizing this NPRM expires at the end of the Fiscal Year on September 30, and we urge the subcommittee to extend the prohibition prior to its expiration.

CONCLUSION

I thank the subcommittee for allowing me to share my views on the status of the highway trust fund and FY 2009 transit appropriations issues. We look forward to working with the subcommittee to take necessary steps to ensure the future solvency of the trust fund, so that we can meet the investment needs of our surface transportation system. We urge Congress to reject the Administration's short-sighted proposal to raid the mass transit account of the highway trust fund to cover the projected short-fall in the highway account in FY 2009, and instead urge this subcommittee to support the common sense proposal to solve this problem that is being advanced by the Senate Finance Committee. Finally, we urge the subcommittee to fully fund the transit program in FY 2009 at the level authorized and guaranteed in SAFETEA-LU, and to renew provisions that ensure that transit funds are spent in accordance with the authorizing statutes.