FINANCING INVESTMENTS IN HIGHWAYS AND MASS TRANSIT

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

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TUESDAY, MARCH 17, 2009

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

The committee met, pursuant to call, at 10:08 a.m. in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Schwartz, Kaptur, Doggett, Blumenauer, Berry, Etheridge, McCollum, DeLauro, Bishop, Connolly, Schrader, Ryan, Garrett, Jordan, Lummis, and Austria.

Ms. SCHWARTZ [presiding]. Good morning. Chairman Spratt has been delayed. He has asked me to open the committee hearing.

The House Budget Committee hearing on transportation is intended to inform the committee on our investment needs and financing options not only for the next highway and transit bill, but for more information on transportation.

Today's hearing came, in large part, to the initiative of Mr. Blumenauer of Oregon, and so I will shortly yield our time for an opening statement to him, and then we will recognize Mr. Ryan for his opening statement,

But first I want to welcome our witnesses.

Ms. Debra Miller, who is the Secretary of Transportation for the State of Kansas and a member of the American Association of State Highway and Transportation Officials. Welcome; and Dr. Robert Atkinson, who is chairman of the National Surface Transportation Infrastructure Financing Commission. And Mr. Tyler Duvall, who is a consultant and former Assistant Secretary of Transportation at the U.S. Department of Transportation.

Welcome to each of you, and I look forward to your testimony.

Now I would like to yield to Mr. Blumenauer for an opening statement on our side.

Mr. BLUMENAUER. Thank you very much, Madam Chair.

I join you in welcoming our guests this morning and deeply appreciate the committee carving out some time for us to focus on the needs of transportation and the Highway Trust Fund that, for 2 years in a row, has moved into deficit for the first time in history.

As we are looking at ways to jumpstart the economy, as we are looking at strengthening our partnership with State and local governments, as we are dealing with needs beyond the economy to deal with saving the planet, greenhouse gases, transportation is integral to each and every one of these major items. It is my hope we can hear today from people who are on the ground working represented by Ms. Miller, people who are meeting challenges of a declining highway trust fund and escalating costs of transportation, that we can hear from Mr. Atkinson with the second of two commissions that we established in the reauthorization of the Surface Transportation Act in the last iteration.

To take a hard look. This is not unforeseen that we are going to run into choppy economic waters.

For the last 2 years, I have been working with 250 stakeholders to look at opportunities for us to come together. Lots of things divide us on Capitol Hill, there are lots of areas of philosophical and partisan division. But one of the things that has struck me is how at the grassroots level across the country, people are coming together with a vision of what transportation needs to do, how it is a key to strengthening the fabric of the community and how disparate groups—it has been my privilege to work in transportation-related activities since I was a child legislator before Mr. Ryan was born.

I have watched as people who you wouldn't expect to be on the same page are understanding the challenge that we face, whether it is the Chamber of Commerce, the truckers, railroads, bicyclists, engineers, there is a vast array of people who understand that we need a new vision for transportation and we need a sustainable funding mechanism.

Our colleagues on the T&I Committee are hard at work dealing with what the reauthorization—or in some cases some people actually want to rewrite it to make it commensurate with the needs and challenges of today's economy and environment. But it is going to be a much different bill if it is a $260 billion reauthorization or it is at $500 or $600 billion. We can help work with people around the country who are coming together to be able to at least establish some budget headroom so that there are possibilities for Ways and Means and Transportation to be able to meet these challenges.

I deeply appreciate the opportunity for the Budget Committee to have now its second hearing. Chairman Spratt was kind enough to give us one last year as well, because this is one of the areas where the challenge is clear, where there is a broad and emerging consensus with the business, labor, environment, local and State government, and the Budget Committee is going to play a critical role in determining what, if anything, Congress does in this session.

I appreciate your courtesy, and I yield back.

Ms. SCHWARTZ. Thank you very much, Mr. Blumenauer, for your really important work on just making sure that we understand how important Transportation, and I would say it in the broadest sense of the word, it actually really relates to sustainable communities. And given the economy we are in right now and the pressures on American families, we have seen American families and communities really respond dramatically to not only wanting to see repair for roads, bridges and highways, but to see a different kind of investment in transportation, including rail. It has really been very, very important.

And I see you are wearing a green bicycle today. So how very appropriate given today is St. Patrick's Day. So good acknowledgment of both of your interests in all forms of transportation and your respect for St. Patrick's Day. So good work on that one.

Let me turn to Mr. Ryan for an opening statement, if he should wish.

Mr. RYAN. Thank you, Madam Vice Chair.

I want to congratulate the gentleman on the green lapel pin as well, being an Irishman.

Let me first say to you, Mr. Blumenauer, you and I have agreed with each other at times and we have disagreed with each other at times. But I have got to say, I have a tremendous amount of respect and admiration for your passion for issues. You are a very sincere advocate for your point of view. And you are one of the leaders on this issue in Congress, and you are to be commended for that. I think it is because of your advocacy that we are having this hearing. I want to thank you for your passion. I think that is important.

Across our country, the Federal highway and transit spending have played a vitally important role in the growth and productivity of our economy and our way of life. This year, Congress is going to likely consider the multi-year legislation to reauthorize Federal surface transportation programs. However, the current program and the financing structure faces numerous challenges that will make this year's authorization a difficult one.

These include first, and probably most obvious, a difficult economic environment. We are in a recession, which most economists predict is going to last until some time next year with a slow recovery to follow.

Second, we have record deficits. About 2 months ago, CBO projected the current year's deficit to reach more than $1 trillion, which is a staggering figure. On Friday, we will get CBO's new numbers and they will be much, much higher deficits.

Third, the current highway and transit program, the structure is badly flawed directing too much of its resources toward low-value programs and projects. It is worth noting that these programs are among the most highly earmarked in the Federal budget. The SAFETEA-LU bill, for example, included some $24 billion in earmarks, including the Bridge to Nowhere, one of the most recognizable and embarrassing examples.

Finally, the current financing structure, based on excise fuel and tire taxes can't even support the current levels of funding, much less those sought by Members of Congress and stakeholders. Last year Congress transferred $8 billion from the general fund to the highway account of the Highway Trust Fund, to cover the shortfall—a departure from the user financing for the program. I think I share the gentleman's concern that we have got to find a financing mechanism that works. I believe we need a robust Federal role in transportation, but I think we have got to fundamentally rethink what that role is. Is it using scarce Federal dollars to build local toll pass, parking lots, and bridges that don't go anywhere? Or is it time we refocus transportation spending, take it back to its roots, to help build a well-targeted, high-return projects that benefit the economy and the country at large and in a way that is both transparent and cost effective.

I believe this is a critical discussion for every member of this committee, Republican or Democrat, and I certainly look forward to hearing from the witnesses on this matter today.

Thank you.

Ms. SCHWARTZ. And I did want to yield for just one moment to Mr. Connolly. He wanted to welcome some guests that he has.

Mr. CONNOLLY. We have some students here from Lake Braddock High School in the 11th Congressional District watching their Congress at work, and I want to welcome them all here today.

STATEMENTS OF DEBRA MILLER, SECRETARY, KANSAS DEPARTMENT OF TRANSPORTATION; DR. ROBERT ATKINSON, CHAIRMAN, NATIONAL SURFACE TRANSPORTATION INFRASTRUCTURE FINANCING COMMISSION; AND TYLER DUVALL, CONSULTANT, FORMER ASSISTANT SECRETARY FOR TRANSPORTATION POLICY, U.S. DEPARTMENT OF TRANSPORTATION

Ms. SCHWARTZ. And now Ms. Miller, if you would begin, and we look forward to your testimony. Of course, as you know, your full written testimony can be entered into the record. And so if you would summarize and highlight it for us, that would be helpful.

STATEMENT OF DEBRA MILLER

Ms. MILLER. Thank you. Happy to do it, Madam Chairman.

Good morning. I am Deb Miller, Secretary of the Kansas Department of Transportation, and I am chair of AASHTO's standing committee on planning. I appreciate this opportunity to testify because the budget assumptions this committee makes this year when you do your budget resolution will be the starting point as the House considers the new surface transportation authorization bill as has already been referenced.

We certainly believe this bill has the potential to be historic in terms of the history in how we support transportation in our country. Even before we get to the issue of reauthorization, though, there are several key obstacles that stand in our way. First, as revenue to the Highway Trust Fund continues to lag expenditures, the $8 billion Congress transferred last September may not sustain the highway program through September of this year.

Next, absent additional revenues to the Highway Trust Fund, spending will drop dramatically in fiscal year 2010. This may not be an issue if a new program is authorized by October 1st, but we also need to ask what happens to fiscal year 2010 spending if more time is needed to complete authorization. If this is the case, then interim funding will be needed to be provided in the third fiscal quarter of this year to ensure there is no interruption in the highway program in either fiscal year 2009 or fiscal year 2010.

Second, on September 30th, unless Congress acts, $8.7 billion of contract authority, as required by SAFETEA-LU, will be rescinded from the highway program. Cancellation of this recession needs to take place. The importance of eliminating the rescission has grown as rescissions since 2002 have totaled almost $20 billion. Further loss could very well result in the cancellation of projects all across the country.

Third, there was a proposal in the President's fiscal year 2010 budget to eliminate contract authority for transportation programs. This is an idea we urge Congress to reject. Contract authority provides the predictability that States need to make the long-term commitments vital to highway, transit and aviation programs, and it must be preserved.

Fourth, solutions chosen to achieve climate change objectives, such as cap-and-trade or a carbon tax, should not preempt the need to increase revenues from fuel taxes to sustain the highway and transit programs. Transportation and climate change legislation needs to be coordinated.

Finally, there are two challenges which will have to be addressed in the next Surface Transportation Authorization Bill. Revenues are flowing into the Highway Trust Fund at a rate of billions of dollars below the current rate of obligations for future spending. Come October 1st, unless Congress closes this gap, the highway program will face a cutback of $20 billion or more for fiscal year 2010. The transit program will face a $5 billion reduction 1 year later.

The first priority must be at a minimum to sustain the current highway and transit programs at no less than their current levels of funding. But even maintaining the current funding levels doesn't ensure current construction work loads. From 2004 to 2008 highway construction prices soared due to increased cost for steel, cement and asphalt.

It is estimated that between 1993, when Federal fuel taxes were last adjusted, and 2015, highway construction costs will have raised more than 80 percent. To restore purchasing power, the highway Federal funding will have to be increased to $75 billion per year by 2015 and Federal Transit Funding to $18.5 billion per year.

In order to maintain our Nation's transportation needs, we must do more than just address the highway and transit programs. AASHTO also believes that freight and intercity passenger and rail city programs need to be funded. To address our transportation goals, AASHTO believes that $545 billion over the next 6 years will be needed. This is how that breaks out: $375 billion for highways; $93 billion for transit, $42 billion for freight—funding to come from outside the Highway Trust Fund—and $35 billion for intercity passenger rail also to come from outside the Highway Trust Fund.

So how can all of this be paid for? Clearly, that is the toughest question facing us.

By our accounts, current highway and transit program revenues will generate $260 billion over the next 6 years leaving a funding gap of $210 billion. To close this gap, we believe Congress will have to consider a menu of options, and this menu is more fully described in the written testimony that has been submitted.

But it includes such things as bond financing, dedicating a portion of custom fees to transportation and a series of fees on freight. The menu also includes increasing gas and diesel taxes as the National Surface Transportation Infrastructure Financing Commission has recommended in their recently released report, and consideration of a VMT fee approach.

When we look at increasing gas and diesel taxes, I know it is a great concern to everyone as we consider the situation in our country, but we also need to remember that we are making investments that have long term and important consequences and that the cost of the amount for the average driver, if we had an increase, would be less than one Starbucks coffee a week. And putting into perspective what the benefit is against the costs, I think we can clearly see that the benefit outweighs the costs.

Finally, we believe that States, cities, and counties should also be given the flexibility to consider tolling where appropriate and to pursue public-private partnerships where we believe that the public interest is best served.

Thank you very much for this opportunity to testify.

Ms. SCHWARTZ. Thank you. We will hold questions until we finish the other testimony.

[The prepared statement of Debra Miller follows:]

PREPARED STATEMENT OF DEB MILLER, SECRETARY, KANSAS DEPARTMENT OF TRANSPORTATION

Good morning. I am Debra L. Miller, Secretary of the Kansas Department of Transportation. Today I am appearing on behalf of the American Association of State Highway and Transportation Officials (AASHTO).

As your committee begins its work on crafting a budget blueprint for the next ten years, I'm appreciative of this opportunity to describe for you the very significant challenges that we face in funding and financing our surface transportation system over both the short- and long-term. I understand that this year's Budget Resolution is particularly important because it will be the first document the House considers in making budget assumptions for the new surface transportation authorization bill.

While the upcoming authorization provides an excellent opportunity to reform and improve the national surface transportation network, several key obstacles remain in our way before we can get there.

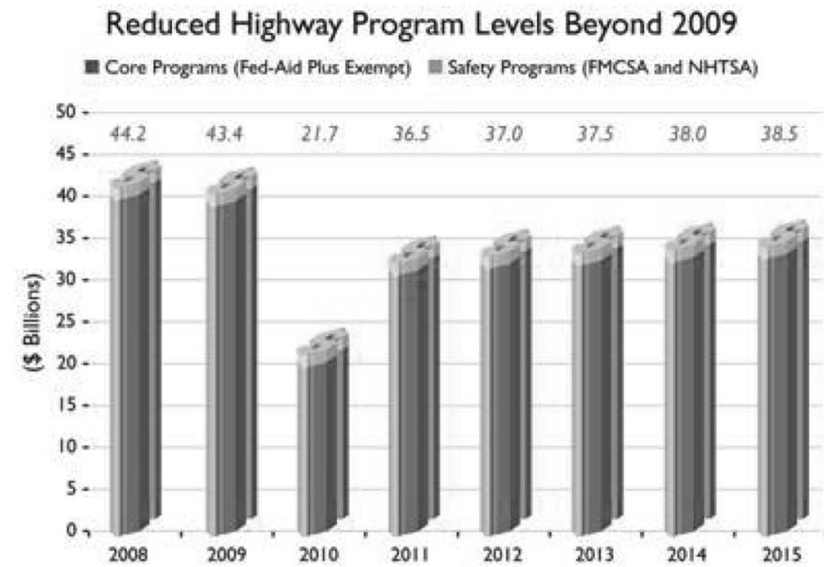
FIRST, SHORT-TERM HIGHWAY TRUST FUND INSOLVENCY

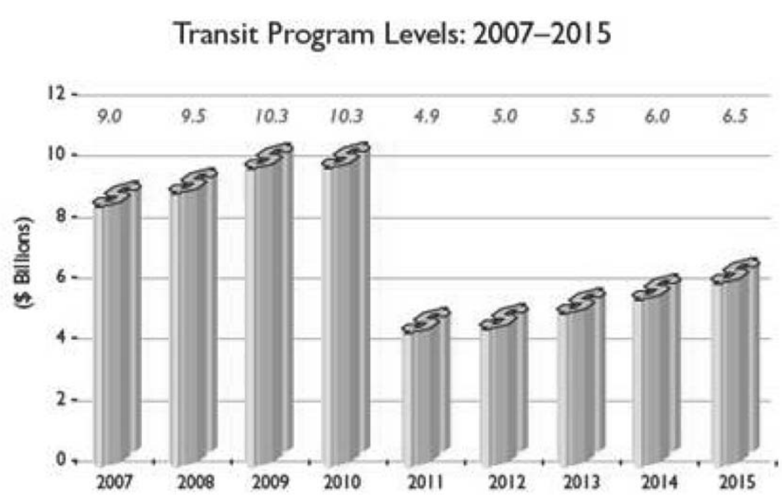
Spending from the Highway Trust Fund is exceeding the levels of revenues flowing into it. What was hoped for when SAFETEA-LU was enacted was that between trust fund reserves and current cash flow, that there would be sufficient revenue in the Highway Trust Fund to fund all of the commitments in highway and transit investments guaranteed in the bill. In September, 2008, when USDOT 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 states through October, 2009. That action kept the program solvent and enabled billions in highway investments to continue.

However, based on recent reports from USDOT, because revenues are coming in at a rate slower than expected and expenditures are occurring at a rate faster than anticipated, the $8 billion may not be sufficient to sustain the program all the way until September 30, 2009. Current revenue projections show that interim relief may be required to avert a cash flow crisis that could occur as early as July 2009.

A second facet of this short-term crisis is what happens in FY 2010. While we are committed to completing the next authorization on schedule, and commend House Transportation and Infrastructure Committee leadership for plans to compete House action by mid-summer, the possibility remains that additional time will be required for the House, Senate and the Administration to agree on a final bill. Interim funding should be provided in the second quarter of this year to assure that there is no interruption in the highway program in either FY 2009 or FY 2010.

Highway and Transit Programs, 2010–2015 Without Revenue Increase:





SECOND, NEED TO CANCEL $8.7 BILLION RESCISSION

SAFETEA-LU contains a provision mandating a rescission of $8.7 billion of contract authority from the highway program on September 30, the last day of fiscal year 2009. In addition to a recent series of rescissions starting in 2002 that total almost $20 billion, the $8.7 billion rescission provision would result in the cancellation of vital projects in every region of the country by a similar amount. We were pleased that with widespread support, Senate Finance Committee Chairman Max

Baucus of Montana and Senator Kit Bond of Missouri had planned to include the cancellation of this rescission in the American Recovery and Reinvestment Act (ARRA). However, at the last minute, this did not prove possible. Cancellation of this $8.7 billion rescission must take place prior to September, 30, in order to preserve the balance of contract authority the States have on hand as guaranteed by SAFETEA-LU.

THIRD, NEED TO SUSTAIN HIGHWAY AND TRANSIT PROGRAM CONTRACT AUTHORITY

The FY 2010 Budget outline released by the Obama Administration in February includes a proposed budget scorekeeping change that would eliminate contract authority for the transportation program. This would have a devastating impact on transportation financing, and consequently transportation investment. What distinguishes transportation trust fund financed programs from others is the linkage to dedicated user fees, first enacted in 1956 for highways and later extended to transit and aviation with the ability to use contract authority. The predictability that contract authority provides is essential for states and local governments to make long-term commitments to major transportation investment projects. In 1998 with the passage of the TEA 21 legislation, Congress recognized this unique budget situation and established funding guarantees tied to the trust funds. By subjecting transportation investment to the vagaries of the annual appropriations process, the proposed scorekeeping change strikes at the heart of the job creation goals of the economic recovery effort by undermining the ability to make multi-year commitments. Congress must reject this proposed change and preserve contract authority for the highway, transit, and aviation programs.

FOURTH, COORDINATION WITH CLIMATE CHANGE LEGISLATION

Congress plans to act on Climate Change and Energy legislation on a schedule that coincides with that planned for transportation authorization. If a cap and trade or a carbon tax are applied to oil refineries to reduce greenhouse gas emissions, the result will be passed on to consumers through higher fuel prices, similar to what would happen if fuel taxes were increased. Three important recent studies have documented the important role fuel taxes are expected to play in supporting future federal highway and transit investment. A National Academy of Sciences Transportation Research Board (TRB) study reported in 2006, that the highway and transit programs could continue to rely on fuel taxes as their primary source of funding for the next 15 years. Both the National Surface Transportation Policy and Revenue Study Commission (2008) and the National Surface Transportation Infrastructure Finance Commission (2009) recommended that Congress increase funding for the Highway Trust Fund by raising fuel taxes, before transitioning program support to vehicle miles traveled (VMT) taxes between 2021 and 2025.

Finding viable ways to reduce transportation-related greenhouse gas emissions to the levels acceptable and viable ways to increase Highway Trust Fund revenues to the level needed are both important. Action on one must not inadvertently preclude action on the other. It is quite possible that action in one arena could complement what is needed in the other. Coordinated action will be important.

DOCUMENTATION OF FEDERAL HIGHWAY AND TRANSIT INVESTMENT NEEDS BY TWO NATIONAL COMMISSIONS.

Two of the best actions to taken by Congress in SAFETEA-LU were the appointment of two commissions to study the future of the highway and transit programs. The twelve-member National Surface Transportation Policy and Revenue Study Commission in its January, 2008 report stated that to meet future surface transportation investment requirements for highways, transit and rail that the nation needs to invest $225 billion per year through 2050. They found that the U.S. was currently investing at only 40% of this amount. The fifteen-member National Transportation Infrastructure Finance Commission in its February, 26, 2009 report stated that to meet future highway and transit investment requirements that the nation needs to invest at an rate of $200 billion per year. Those highly regarded commissions have clearly outlined for Congress the scale of the investment needed for the country's future.

AUTHORIZATION FUNDING NEEDS, 2010-2015

There are two challenges which will have to be addressed in the next surface transportation authorization bill.

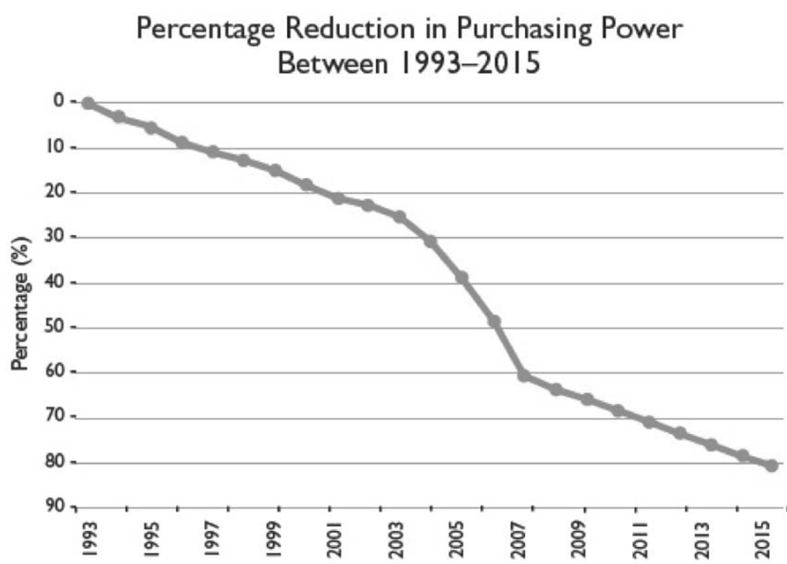
A. Sustaining Current Highway and Transit Programs.

Revenues are flowing into the Highway Trust Fund at rate billions of dollars below the current rate of obligations for future spending. That means that come October 1, 2009 the first day of the next fiscal year, unless Congress provides sufficient revenues to close this gap, as is shown in the charts below, the highway program will face a cutback of $20 billion or more for FY 2010. The transit program will face similar drastic reductions on year later in FY, 2011, unless additional revenue is provided.

What this means, is that just when the economic recovery program is in the midst of creating thousands of jobs through highway and transit investments, the bottom will drop out from under the core highway and transit programs and thousands of workers will have to be laid off. No matter what, it is vital at a minimum to sustain the current highway and transit programs at not less than their current levels of funding.

B. Meeting Skyrocketing Construction Costs.

In addition to years of steady growth in inflation, from 2004 to 2008 construction prices soared for steel, concrete, asphalt, and construction machinery. It is estimated that between 1993, the year in which federal fuel taxes were last adjusted, and 2015, the purchasing power of the federal transportation program will have declined by 80 percent. To restore the purchasing power to that of 1993, federal highway funding will have to be increased from $43 billion in 2009 to $75 billion by 2015, and federal transit funding would have to be increased from $10.3 billion in 2009 to $18.5 billion in 2015.



SCALE OF SIX-YEAR SURFACE TRANSPORTATION INVESTMENT NEEDED

AASHTO believes that in addition to the core highway and transit programs, there are two additional funding priorities which need to be addressed in this authorization cycle.

A. Freight Funding Needed to Meet Capacity Crisis

The nation is entering the early stages of a freight transportation capacity crisis. Truck volumes are expected to double by 2040 and rail freight to increase by 60 percent. Highways, railroads, ports, waterways, and airports all require investment well beyond current levels to maintain, much less improve, their performance. Investment is needed to fix freight bottlenecks, improve intermodal connections, build bridges to eliminate unsafe highway-rail crossings, and fund freight corridor improvements. AASHTO recommends that a freight program be funded at $42 billion per year, from resources outside the Highway Trust Fund.

B. Intercity Passenger Rail Network Overdue

AASHTO believes we are overdue for the United States to provide a robust intercity passenger rail network that provides competitive, reliable, and frequent passenger service, comparable to world-class systems in other countries. Current service should be brought up to a good state of repair. Ultimately service should expand to include high-speed rail corridors, regional corridors, and long-distance service. Federal funding of $35 billion over six years is needed to begin the capital investment required.

$545 BILLION FUNDING NEEDED

Based on these considerations, in order to sustain the federal highway and transit programs, restore their purchasing power, and begin needed investment in the national freight system network and in intercity passenger rail, Congress should:

- Fund the federal highway program at $375 billion between 2010 and 2015, with the annual program funding level reaching $75 billion by 2015.
- Fund the federal transit program at $93 billion between 2010 and 2015, with the annual program funding level reaching $18.5 billion by 2015.
- Fund the freight program at $42 billion between 2010 and 2015, from resources outside the Highway Trust Fund.
- Fund the intercity passenger rail program at $35 billion between 2010 and 2015, from resources outside the Highway Trust Fund.

Funding Goals for Next Surface Transportation Authorization

Highways	$ 375 billion
Transit	$ 93 billion
Freight	$ 42 billion
Intercity Passenger Rail	$ 35 billion
Total	**$ 545 billion**

HOW TO PROVIDE THE REVENUES NEEDED

To provide the revenues needed, Congress will need to utilize a diversified portfolio of revenue options. In order to reach the funding targets, Congress should consider a menu of options including, but not limited to:

- Indexing existing and new Highway Trust Fund sources of revenue
- Increasing the gas tax
- Increasing the diesel tax
- Discontinuing motor fuel tax exemptions that reduce Highway Trust Fund receipts (i.e., eliminate exemptions or reimburse them from the General Fund)
- Reinstituting collection of interest on Highway Trust Fund balances
- Increasing General Fund transfers for transit, and providing General Fund support for intercity passenger rail
- Issuing tax credit bonds to help fund major surface transportation project investments
- Allocating portions of any carbon tax or cap-and-trade auction proceeds that reflect transportation's impact on greenhouse gas emissions
- Dedicating a share of customs revenues for transportation purposes
- Enacting a bill-of-lading charge for all highway and rail freight, to be dedicated for freight infrastructure improvements
- Authorizing container fees in support of freight needs
- Creating a dedicated source of revenue outside the Highway Trust Fund to support a freight program including investments in national and regional corridors
- Creating a dedicated funding source for intercity passenger rail
- Enacting fees based on annual highway miles traveled
- Providing authority for tolling where determined by states to be an appropriate funding solution

In addition, Congress should maintain at least the current federal share (45 percent) of total capital investment in the highway and transit portions of the national surface transportation system. At the same time, state and local governments must maintain their current transportation investment levels.

To the maximum extent practicable, Congress should eliminate earmarking. Funding levels for earmarks should be no more than the 1991 ISTEA levels (5 percent of the total program) and set-asides for narrowly defined programs should be reduced. In addition, all earmarked projects should be derived from a capital improvement program or a statewide transportation improvement program that has been adopted by the respective state department of transportation.

Given the magnitude and diversity of needs, Congress should grant states maximum access and flexibility to use a mix of funding and financing tools most appropriate for each state. This includes use of public-private partnership opportunities that combine the management efficiency and innovation of the private sector with public sector social responsibility and job generation concerns. Where government policies, laws, and regulations impede private investment, acceptable alternatives for reducing these impediments should be developed. The best place to start would be expanding the existing inventory of innovative program delivery tools:

- Removing or increasing the national volume cap on the amount of Private Activity Bonds that can be issued for highway and intermodal transportation projects
- Enhancing and recapitalizing the State Infrastructure Banks
- Reforming the Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation & Improvement Financing (RRIF) programs to broaden the availability and enhance the attractiveness of federal credit assistance
- Removing federal limitations on the ability of state and local governments to raise toll revenues and to apply such revenues to multimodal transportation projects and activities within the same corridor or region as the tolled facility

Also, we must adopt a long-range approach to funding the surface transportation system that gradually moves away from dependence on the current motor fuels tax to a distance-based direct user fee such as a fee on vehicle miles traveled. If a VMT fee is to be part of the long-term solution, Congress should direct the vehicle manufacturers to begin incorporating the necessary technology into the fleet so that a VMT fee can potentially be phased in over the 2016—2021 surface transportation authorization period. In the interim period, Congress should consider developing a simple highway user fee option based on self-reporting of annual vehicle miles traveled that could be collected along with annual vehicle registration fees. To expedite research and development, the next transportation bill should fund a proof of concept, multi-state tests of a VMT-based funding approach at $50 million per year for 2010, 2011, and 2012 with a report to Congress by 2013.

And finally, Congress should assure that any climate change legislation that creates a new revenue source, either through a carbon tax or cap-and-trade, provides substantial funding for transportation proportional to transportation's impact on greenhouse gas emissions, and dedicate a sufficient portion of these revenues to support intercity passenger rail, transit, highway operations, bicycle and pedestrian projects, and freight programs that reduce greenhouse gas emissions.

In conclusion, investing in transportation is unlike any other federal government spending. Transportation dollars are converted to physical assets that will last for 50 to 100 years to provide future generations with a modern mobility network. At the same time, such investments create and maintain well-paying "Made-in-America" jobs. In the short-term, ensuring stable funding for transportation infrastructure will be a critical component of the economic recovery effort. And for the long-term, increased transportation investment will not only help sustain economic recovery, but also keep the United States globally competitive, reduce congestion on our roadways, save lives, and improve the overall quality of life.

Mr. Chairman, members of the Committee, the subject you have under discussion today is of vital national importance. It is in the interest of us all to take on the challenge as vigorously and effectively as we can. On behalf of the Kansas Department of Transportation and of the AASHTO member states, I promise that we will continue to work with you in that effort.

Ms. SCHWARTZ. Dr. Atkinson.

STATEMENT OF ROBERT ATKINSON

Mr. ATKINSON. Thank you, Madam Chairman, and Mr. Ryan and members of the committee.

I welcome the opportunity to present the results of the National Service Transportation Infrastructure Finance Commission Report, which we released probably about 3, 4 weeks ago, the executive summary here and it is summarized in my testimony.

As you know, we were created in the last reauthorization in section 11142, and we were given a relatively narrow mandate with a long-term view. The mandate essentially was how much money do we need at the Federal level to sufficiently fund the system, and secondly, how should we go about raising that money.

We did not have a charge nor did we look at issues around how that money should be invested. So we have not taken positions on should we fund particular parts of the system.

There were 15 members who were appointed to the Commission. They represent a range of different backgrounds, a different range of different political orientations, but the key factor there is we came up with a consensus document that all of us agree to. And also, I want to acknowledge Commissioner Kathy Ruffalo, who is here with us today, and also Tamar Henkin, who was staff director for the Commission and want to thank them and other commissioners for the hard work.

As Secretary Miller alluded to, the core bottom-line message is that we are simply not raising enough funds either at the Federal level or the State and local level to sufficiently meet the needs of the system. We believe we have estimated that to essentially—to basically meet the needs, we would have to add an additional $25 billion a year. If went to start to improve the system, so to keep it from deteriorating and make modest improvements in conditions and performance, we would need an additional $64 billion a year at the Federal level.

The question is how should we go about doing that. In our view, we need to be thinking about what are the core principles by which we raise those funds. In our analysis of over 40 different funding mechanisms, we applied a set of principles to those to evaluate those. And some of those principles include we need to be able to sustain—we need to be able to generate funding on a sustainable basis, we think that users should bear the full cost of using the system to the fullest extent possible, we think that any funding framework should encourage efficient investment and avoid waste.

And finally, we think the funding framework should support energy and environmental goals. Now, obviously, you can't accomplish all of those with every single solution, but you can try to get there.

In the short run, there simply are not a lot of easy answers. Like Secretary Miller, we believe that in the short run, a core principle should be that we maintain the integrity of the Highway Trust Fund, and that means both moneys going in should simply be coming from user fees that are already there in the highway Trust Fund and going out, the money should go out to the transportation system and not be diverted to other non-transportation uses.

In terms of the actual short-run solutions, we propose raising the gas tax by $0.10 on an immediate basis, raising the diesel tax by $0.15, $0.13 of that would basically just make up for the loss of inflation since 1993 and $0.02 of that would be added to our special freight fund that we believe needs to be created.

We would also propose doubling the heavy vehicle use tax. This was a tax that the last time was increased was in 1983. If you double it today, you would get back to purchasing power in inflation-adjusted dollars. So both of our gas tax increase and our heavy vehicle use tax basically bring those programs back to where they were in 1993 or 1983 and bring them back to where they would have been absent inflation.

We also propose indexing all of the Highway Trust Fund revenues with the exception of truck sales taxes, index going forward to the CPI.

While we think it is important do, that is not going to solve the problem particularly in the long run. We think in the long run our Commission has come up with a pretty strong consensus that we believe that the best answer is moving to a VMT, or vehicles miles traveled, tax system. For two reasons we say that. One is we think the sustainability of fuel taxes to fund the system is eroding more quickly than many people believe.

And it certainly could erode more quickly in unexpected ways. If, for example, there were significant electric battery technology breakthroughs that you could, for example, get 100 or 200 miles on a battery charge, you could see many, many consumers switching over, particularly for second cars, to an electric vehicle. No gas consumption whatsoever. They would be using the highway system, the road system without paying any fees. While that is good for the environment, it certainly is not sustainable for the transportation system.

The second piece of this is even if there were not a problem with regard to sustainability, we believe that moving to a VMT system is a better system because it is more of what we would call a direct user fee whereas a highway and gas tax is what we would call an indirect user fee.

For example, Oregon did a pilot program on the VMT, The Oregon Department of Transportation. They got a couple hundred volunteers, they asked them to participate in this, the program was a great success. They tested it technologically. But one of the interesting findings of that report, of their final report, was that users of that system, even though they essentially paid the same amount in VMT at the gas pump in gas taxes, they used the system less. They drove about 9 percent less. And in some way, it is sort of irrational if you believe in people as rational maximizers who respond to price signals.

But what people actually are, they look at signals, and with the VMT they knew they were being charged by the mile. So they used the system more efficiently. They may have taken transit more, they may have done trip combining, a variety of things. And when you look around the world, there are various studies of congestion pricing and other direct pricing means, you find that people do use the system more efficiently because of the pricing signal.

So we readily acknowledge in this recommendation that some have concerns with it.

Let me address two of the key issues I think and why we think they can easily be dealt with.

The major concern people have with the VMT system is privacy. And there is a belief somehow that you if you have the system, you will be transferring data about your trip to the government or whoever is receiving the funding. We strongly argue that that would be an inappropriate system design. You can create a system that only transfers the amount of money that you owe. This is what Oregon did, for example. When an Oregon driver went to pay at the pump for their gas, they only transferred the amount of money that they owed in the fee. So the Oregon DOT did not know, the Oregon Treasury did not know where someone drove, when they drove. All they knew is that they owed $4.12.

We believe that you can design a system that way, it should be designed that way, because if you can't—if you don't preserve Americans' privacy on this, it is, first of all, not a good system and secondly, it wouldn't be accepted. So we do believe you can address privacy.

The second issue is with administration. We think that you can design and build a system that would be administratively efficient, but one of the things that we believe in this reauthorization there should be, and we have recommended a number of pilot programs and studies to really data test this, get it to the next level, get it ready so that in the next reauthorization, you all have the information you need to decide whether to go forward.

This is something other countries are already doing. The Germans are charging their heavy vehicles with a satellite based VMT. A number of studies have shown that it increased trucking efficiency in Germany. The Dutch are doing this in 2014. Every single car and light-duty vehicle in the Netherlands will be paying by a VMT charge in 2014. In Denmark, 2016, every single car will do this. So other nation's are moving ahead.

We think there needs to be a number of other supplements, and I agree with Secretary Miller. This should not be a debate in our view about gas taxes versus pricing or gas taxes versus tolls. The need is so great we need to do all of the above.

So we propose a number of recommendations with regard to tolling. We would argue that we should allow tolling for new capacity, as well as tolling on interstates' existing lanes for congestion relief in metros above million people. We would expand the Interstate Highway Reconstruction and Rehabilitation Pilot program to five slots.

In addition, we would propose that some of the moneys, if there were an increase in the Highway Trust Fund, some of those moneys go into a tolling incentive program to states and local governments so they have more ability to bring toll projects on line.

And then we would also propose increasing the State infrastructure bank funding $5 million a year, each year for the next 6 years and raise the ceiling on private activity bonds from $15 billion to $30 billion.

The reason we say that even those are essentially State revenues is that the needs are so great, particularly for new capacity, when you build a new interstate or a new lane in the metropolitan area, the gas tax revenues will make up about 15 percent of the costs. So you just simply cannot get there, particularly in metropolitan areas adding capacity whether it is road or transit.

So with that, let me close and say and thank you for inviting us to present, and we would be happy to help in any way as we go forward.

Thank you very much.

[The prepared statement of Robert Atkinson follows:]

PREPARED STATEMENT OF ROBERT D. ATKINSON, CHAIR, NATIONAL SURFACE TRANSPORTATION INFRASTRUCTURE FINANCING COMMISSION

Chairman Spratt, Mr. Ryan, and members of the Committee, I appreciate the opportunity to address the issue of budgeting for transportation before this committee and to share with you the relevant findings and recommendations of the National Surface Transportation Infrastructure Financing Commission, of which I serve as the commission chair. I am also President of the Information Technology and Innovation Foundation.

Congress established the National Surface Transportation Infrastructure Financing Commission in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users and charged it with analyzing future highway and transit needs and the financings of the Highway Trust Fund and making recommendations on alternative approaches to funding and financing surface transportation infrastructure. The Commission has recently completed and released our final report entitled "Paying Our Way: A New Framework for Transportation Finance." The recommendations offered in this report focus on transforming the way we, as a nation, pay for critically needed surface transportation investments. The report is signed on behalf of all fifteen Commissioners and represents a carefully deliberated consensus of opinion about the various strategies that we believe, together, can help solve our surface transportation investment crisis and provide a useful road map for transitioning to a new financial policy framework.

Today, I will share with you those findings and recommendations that I believe would be of most interest to the Committee on the Budget and relevant to this hearing. I will highlight the Commission's findings and recommendations as they relate to surface transportation investment and, in particular, near and longer-term budget implications as well as describe the full menu of options that the Commission considered.

BACKGROUND: A SYSTEM IN CRISIS

Our surface transportation system has deteriorated to such a degree that our safety, economic competitiveness, and quality of life are at risk. As a nation, we have reaped the benefits of previous generations' foresight and investment, generations that 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. Real highway spending per mile traveled has fallen by nearly 50 percent since the federal Highway Trust Fund was established in the late 1950s. Total combined highway and transit spending as a share of gross domestic product (GDP) has fallen by about 25 percent in the same period to 1.5 percent of GDP today. By not adjusting the tax rate for inflation, federal gas tax receipts have experienced a cumulative loss in purchasing power of 33 percent since 1993—the last time the federal gas tax was increased. And, not only have we failed to make the needed and substantial investment; we have failed to pursue the kind of innovation necessary to ensure that our infrastructure meets the demands of future generations.

An ever-expanding backlog of investment needs is the price of our failure to maintain funding levels—and the cost of these needed investments grows yearly. Without changes to current policy, the Commission has estimated that revenues raised by all levels of government for capital investment will total only about one-third of the roughly $200 billion necessary each year to maintain and improve the nation's highways and transit systems. At the federal level, the investment gap is of a similar magnitude, with long-term annual average Highway Trust Fund (HTF) revenues estimated to be only $32 billion compared with required investments of nearly $100 billion per year. The Commission relied heavily on previous efforts by the U.S. Department of Transportation, the National Surface Transportation Policy and Revenue Commission, and others to define the extent of the needs and forecast revenues for the future. The Commission did, however, develop its own refinements to account for currently available information as well as our own hypotheses for the future (see Chart 1 and 2).

Chart 1. Average Annual Capital Needs and Gap Estimates, **All Levels of Government, 2008 – 2035 (in 2008 dollars):**

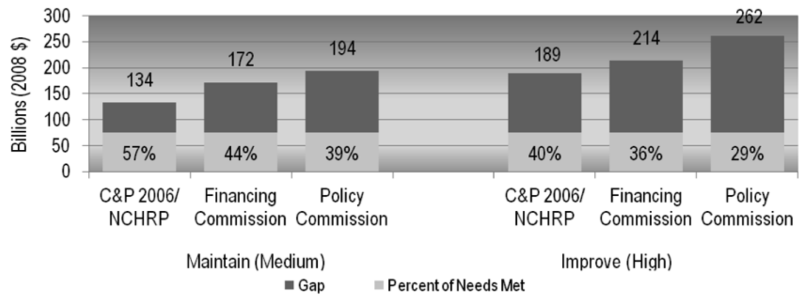
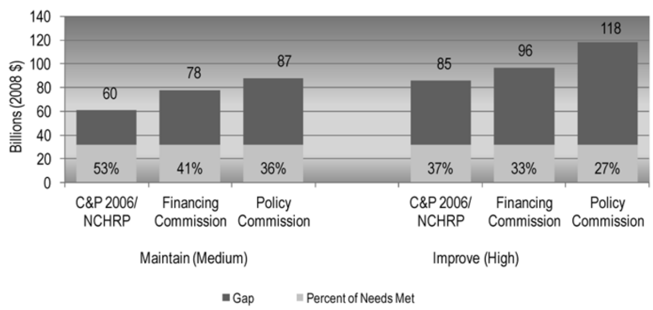
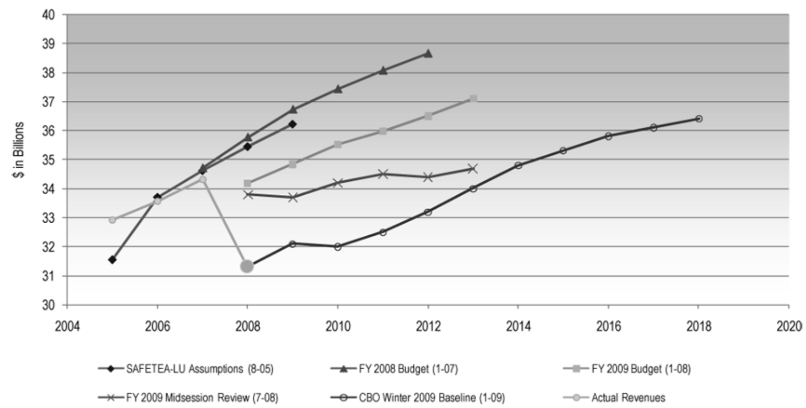


Chart 2. Average Annual Capital Needs and Gap Estimates, Federal Government, 2008 – 2035 (in 2008 dollars)



Meanwhile, the federal Highway Trust Fund faces a near-term insolvency crisis, exacerbated by recent reductions in federal motor fuel tax revenues and truck—related user fee receipts (see Chart 3). This problem will only worsen until Congress addresses the fundamental fact that current HTF revenues are inadequate to support current federal program spending levels. Comparing estimates of surface transportation investment needs with baseline revenue projections developed by the Commission shows a federal highway and transit funding gap that totals nearly $400 billion from 2010—15 and that grows dramatically to about $2.3 trillion through 2035.

Chart 3. Recent HTF / Highway Account Revenue Projections Since SAFETEA-LU



THE COMMISSION'S DELIBERATIVE PROCESS

To guide our work, the Commission developed a set of overarching principles to guide consideration of funding and finance approaches: The funding framework should:

- support enhancing mobility of all system users.
- generate sufficient funding to meet investment needs on a sustainable basis.
- cause users to bear the full cost of using the system to the greatest extent possible.
- encourage efficient investment.
- incorporate equity considerations.
- support energy and environment goals.

The Commission recognizes that there are inherent tradeoffs among these principles, which require some balancing among them. Working from the principles, the Commission developed systematic evaluation criteria to apply to a wide range of funding approaches. In recognition of the supporting role that financing mechanisms can play in leveraging resources—as distinct from the underlying revenue-raising mechanisms that generate net new resources—the Commission considered alternative financing approaches. The Commission developed specific policy recommendations to help narrow the federal funding gap and transform the funding and finance framework for the nation's investment in surface transportation infrastructure.

THE COMMISSION'S KEY FINDINGS

The Commission arrived at the following findings of relevance to this Committee and this hearing:

- There is no easy "silver bullet" solution to the problem of insufficient funding. As an important corollary, not all approaches work equally well throughout a geographically and economically diverse country. The Commission therefore assembled a broad menu of options for Congress to consider, with an assessment of the pros and cons of each approach.
- The current federal surface transportation funding structure that relies primarily on taxes imposed on petroleum-derived vehicle fuels is not sustainable in the long term and is likely to erode more quickly than previously thought—due in large measure to heightened concerns regarding global climate change and dependence on foreign energy sources, which are creating a drive for greater fuel efficiency and new vehicle technology.
- The current indirect user fee system based on taxes paid for fuel consumed provides users with only weak price signals to use the transportation system in the most efficient ways. This results from three primary factors: system users are typically unaware of how much they pay in fuel taxes; fuel taxes and other user fees account for less than 60 percent of total system revenue (with other revenues unrelated to use, such as general fund transfers, dedicated sales taxes and others making up the remainder), so that users do not bear the full costs of their travel; and

fuel taxes have no direct link to specific parts of the system being used or to times of the day and thus cannot be used to affect these kinds of traveler choices.

- A federal funding system based on more direct forms of "user pay" charges, in the form of a charge for each mile driven (commonly referred to as a vehicle miles traveled or VMT fee system), is the right foundation for the future. The Commission cast a wide net, reviewed many funding alternatives, and concluded that the most viable approach to efficiently fund federal investment in surface transportation in the long run will be a user charge system based more directly on miles driven (and potentially on factors such as time of day, type of road, and vehicle weight and fuel economy) rather than indirectly on fuel consumed. At the same time, this choice for the federal system provides a foundation for state and local governments that choose to use it to implement their own mileage-based systems that piggyback on the federal system in order to raise their share of needed revenues in ways that spur more efficient use of the system. The Commission believes that such a system can and should be designed in ways that protect users' privacy and civil liberties, that does not interfere with interstate commerce, and that support goals for carbon reduction. Moreover, greater use of pricing mechanisms, including both targeted tolling and broad-based VMT pricing systems, can spur more efficient use of our highway network and, by shifting demand to less congested periods of the day or to other modes, may in some areas of the country, reduce the need for additional capacity investments.
- We cannot afford to wait for a new revenue system to be put in place to start addressing the fundamental investment challenge. And, in the short term, effective and feasible options are limited. Given the significant current funding shortfall, the Commission concluded that the best near-term options for federal investment are increases to current federal fuel taxes and other existing HTF revenue sources. While the Commission believes these are the best near-term approaches, we acknowledge that other options are possible should Congress choose to pursue different revenue measures.
- Federal actions can and should help expand the options available to states and localities to fund their shares of investment. While many state and local funding options are not reliant on the federal government for implementation, several key federal actions could help facilitate and encourage the greater application of some—specifically, user-backed funding approaches such as tolling and pricing—to help meet a portion of state and local government investment needs.
- Funding and financing are not the same. Financing approaches are not a substitute for solving the underlying problem of insufficient funding. Properly structured financing techniques and governmental financial programs, including those focused on facilitating partnerships with the private sector, can play an important role in meeting our investment needs. Their success, however, will depend on their ability to leverage new revenue streams to repay upfront capital investments. Even with this, financing approaches will have limited positive impact if not coupled with substantial net new resources.

POLICY RECOMMENDATIONS

The Commission realizes that the transition from the current funding and finance model to a new model cannot be made overnight and that the immediate needs are simply too critical to wait until such a system is put in place. The Commission therefore makes the following recommendations for a multi-pronged approach to meet both short-term and longer-term challenges.

ENSURING THE SECURITY AND SUSTAINABILITY OF THE HIGHWAY TRUST FUND

The Commission recognizes the fundamental value of the Highway Trust Fund—not only today but also as the appropriate foundation for any new user-based revenue system for surface transportation investment in the future. The Commission therefore offers an overarching recommendation to preserve the Highway Trust Fund mechanism and take any necessary actions to help ensure its security and sustainability in the near and longer term. This should include ensuring the integrity of the HTF structure premised on the link between user fees and transportation spending upon which the Trust Fund is based. It also should include continued efforts to reduce and minimize tax evasion and methods to align spending and receipts, with interest earned on any balances accruing to the Trust Fund.

As an important side note, I and other commissioners view the proposed budget scoring change included in the Administration's FY 2010 Budget that would eliminate contract authority for the transportation program as quite troubling. The Commission's emphasis on the link between system use and funding would be severely undermined by such a change. Further, contract authority provides critical predictability for state and local governments to enter into multi-year commitments for major transportation projects. This predictability has proven invaluable not only to supporting states' ability to enter into multi-year contracts but also to facilitating financing arrangements that span multiple years and even authorization periods. The Commission views protection of the Highway Trust Fund mechanism and the link to system use as critically important to preserving and improving the nation's ability to meet surface transportation investment needs and to do so in an efficient manner. Moreover, in an era of growing concern over global climate change, ensuring that more, not less, of overall funding for surface transportation comes from user fees, as opposed to general fund subsidies, is critical to help send the right price signals for efficient system use and minimizing carbon emissions.

ADDRESSING IMMEDIATE FEDERAL FUNDING CRISIS

The Commission reviewed a wide range of options and concluded that the most viable option to meet near-term needs is to rely on existing HTF sources. The Commission, therefore, recommends that Congress enact a modest 10¢ increase in the federal gasoline tax, a 15¢ increase in the federal diesel tax—with 2¢ of the diesel tax proposal recommended to be dedicated for freight-related investments—and commensurate increases in all special fuels taxes. In addition, the Commission recommends that these taxes be indexed to inflation going forward. These adjustments should be enacted in conjunction with the upcoming reauthorization of the federal surface transportation programs. The Commission recognizes that the increases recommended here are not easy to achieve, especially in the context of the current economic recession, and that even larger increases would be even more difficult to enact. The Commission, however, views the need for this increase as critical to begin to stem the degradation of the Highway Trust Fund investments. It is also important to note that increases in fuel taxes, even in an economic slowdown would not have a contractionary effect on the economy as long as they are accompanied by increases in surface transportation investment—such investments therefore creating jobs across the country.

The Commission also recommends doubling the Heavy Vehicle Use Tax (HVUT) to account for the fact that it has not been increased since 1983, and indexing the HVUT and the excise tax on truck tires to inflation going forward. Meanwhile, the Commission recommends maintaining the current sales tax on tractors and trailers, which as a sales price-based tax is inherently adjusted (at least relative to the price of these items). The Commission considered a number of alternative freight-related revenue sources but determined that, while several of them may be viable options in targeted circumstances, most did not fairly account for the wear and tear on our transportation system by the freight community. The Commission therefore concluded that the best way to increase broad-based funds from freight sources in the short run is by adjusting the fees that the entire trucking industry currently pays into the Highway Trust Fund.

Together, these adjustments to current HTF funding mechanisms approximate the amounts required to recapture the purchasing power of the motor fuel taxes lost to inflation since 1993—the last time the federal HTF taxes were raised—and the purchasing power of the Heavy Vehicle Use Tax since 1983, the last time it was raised. These adjustments translate into approximately $20 billion per year in additional revenue for the Highway Trust Fund. While this is necessary to fund the current level of federal commitments and helps alleviate a portion of the funding gap, it does not eliminate it—closing approximately 43 percent of the "cost to maintain" federal funding gap and 31 percent of the "cost to improve" gap based on the Commission's estimates. Addressing the remaining annual funding gap will require either more substantial increases in current taxes or additional revenue from other sources, or both.

POSITIONING FEDERAL FUNDING FOR THE LONGER TERM

Beyond the Commission's near-term recommendations and in order to transition to the longer-term solution of funding based on mileage charges, the Commission recommends that the transition to a new funding framework based on more direct user charges be commenced as soon as possible and that a goal of deployment by 2020 be established Because of the complexity inherent in transitioning to a new revenue system and the urgency of the need, the Commission recommends that Congress embark immediately on an aggressive research, development, and demonstration (RD&D) program. This would identify and address critical policy questions such as privacy, administrative methods and costs, impacts to rural users, point of collection issues, the difference between passenger and freight vehicle deployment, and the interplay with climate change and other national policy goals. Comprehensive study of these issues will better inform Congress as it debates whether or not to move forward with a VMT system. The Commission recommends that Congress use the reauthorization of the federal surface transportation programs to make significant investments in VMT research and technology programs, including a variety of demonstration programs of mileage-based user fee systems.

The Commission notes that simply shifting from one revenue system to another will help but not solve the under-investment problem if rates are not set at sufficient levels and maintained over time to meet the needs. While a mileage-based direct user fee system is sustainable in the long term, it will suffer at least some of the same consequences as the motor fuel tax system if rates are not set and maintained at adequate levels. For illustrative purposes, the Commission estimates that to meet the base case "Need to Maintain and Improve" annual investment level, the federal VMT fee assessed on all miles driven, regardless of the system where they occur, would be roughly 2.3¢ per mile for cars (equivalent to a 48.4¢ gas tax). For a VMT system to raise the same amount of revenue as the Commission's recommendations to increase current motor fuel and truck-related taxes, the fee level for cars would be about 1.4¢ per mile. The fee level that equals current motor fuel and truck-related tax revenue would be about 0.9¢ per mile. These rates would be somewhat higher if assessed only on miles traveled on the federal-aid highway system as opposed to all highway miles. However much revenue Congress decides to raise at the federal level, the Commission believes it is critical to move forward with a VMT fee system.

Once a national VMT fee system is in place, and assuming that rates are set at a sufficient level, the need for the motor fuel—based revenue sources for the federal HTF will be eliminated. To the extent, however, that surface transportation fuels are subject to a charge in the future to account for their carbon emissions (e.g., a carbon tax or priced through carbon trading), an appropriate portion of those proceeds should be credited to the HTF and dedicated to funding carbon-reducing transportation strategies.

FACILITATING NON-FEDERAL INVESTMENT IN THE SHORT AND MEDIUM TERM

Beyond the immediate steps necessary to address the federal funding crisis and position the nation for a new direct user charge system, the Commission believes steps are imperative to expand the ability of states and localities to use other options to fund non-federal surface transportation infrastructure investment. Historically, states and localities have contributed over 55 percent of transit and highway capital investment, and they have shouldered primary responsibility for the extensive costs of operating and maintaining the system. The Commission believes that carefully targeted federal incentives can help spur new approaches at the state and local level, including tolling and pricing, thereby fostering greater overall investment that will in turn allow federal HTF dollars to go farther. The Commission offers the following recommendations for federal policy and programs to help facilitate state and local investment:

- Expand the ability of states and localities to impose tolls on the Interstate System by allowing tolling of net new capacity; allow tolling of existing Interstate capacity in large metropolitan areas (of 1 million or more in population) for congestion relief; expand the Interstate Highway Reconstruction and Rehabilitation Pilot Program from three slots to five; and support standardization of tolling and information systems by completing necessary rulemaking regarding electronic tolling and interoperability.
- Reauthorize the federal credit program for surface transportation (originally authorized by the Transportation Infrastructure Financing and Innovation Act of 1998 and now commonly referred to as TIFIA) with a larger volume of credit capacity, broadened scope, and greater flexibility to make credit commitments. In conjunction with core credit assistance, authorize incentive grants to support and encourage the development and financing of user-backed projects. Such funding from the HTF could leverage considerably more funding at the state and local level than it would cost the federal government. The Commission recommends a total of $1 billion per year in budget authority for the TIFIA program for the following purposes:

Credit Assistance ($300 million in annual budget authority)—to fund core credit assistance. The Commission also recommends several programmatic refinements.

Pre-construction Feasibility Assessment Grants ($100 million in annual budget authority)—designed to address a key obstacle that states and localities face in advancing user fee-backed projects.

Capital Cost Gap Funding Grants ($600 million in annual budget authority)—to provide incentive grants to states to complement TIFIA credit assistance. Recognizing that there are many projects for which partial (but not 100 percent) funding through user-backed revenue streams is possible, this program would provide grant funding to help close a portion of the estimated gap between the amount of capital for construction that can be derived from future user fees and the amount necessary to complete and maintain the facility for its useful life. Such a program could help spur states and localities to seek to build more new projects that rely at least in part on user-backed revenues, allowing federal funds to go farther since they would be supplemented by additional user-based revenues.

- Invest $500 million per year ($3 billion over a six-year authorization period) to re-capitalize State Infrastructure Banks (SIBs) and continue to allow states to use their federal program funds for this purpose. Providing this level of capitalization could help support a wide range of smaller projects that have the potential to leverage user-backed payments and other new revenue streams but that lack access to capital markets on a cost-effective basis.
- Take actions to facilitate and encourage private-sector financial participation where this can play a valuable role in providing cost-effective and accelerated project delivery, and support user fee—based funding approaches to meet capacity needs and, in particular, urban congestion. At the same time, ensure that appropriate governmental controls are in place to protect the public interest. Federal policy should also recognize the respective purviews of federal and state governments and should preserve and support the ability of state and local officials to impose appropriate restrictions on these arrangements.
- Expand the highway/intermodal Private Activity Bond (PAB) program from its current $15 billion national volume cap to $30 billion and limit the use of the program to projects that create net new capacity. Once the current turmoil in the financial markets subsides, it is anticipated that the existing capacity of the PAB program will be consumed quickly and more states and local sponsors will be looking to take advantage of this mechanism to lower financing costs for projects with private-sector financial participation.

THE PATH FORWARD—CONCLUSIONS AND NEXT STEPS

Mr. Chairman and members of the Committee, thank you for the opportunity to share the findings and recommendations of the National Surface Transportation Infrastructure Financing Commission with you today and for your interest in considering the Commission's findings in the context of setting the budget blueprint for the next ten years and beyond. On behalf of the Commission, I can state that the Commission members have appreciated the opportunity to serve on the Commission and to help Congress embark on this new era of surface transportation funding and to achieve a new and sustainable funding framework for the future. In offering Congress the results of our analytical and deliberative process, we recognize that there are no easy solutions. Looking to the future, however, we believe that transitioning to a system based more directly on use of the system, especially a mileage-based user fee system, is the right foundation.

I would be happy to answer any questions you may have.

Ms. SCHWARTZ. Thank you for your testimony and appreciate some of your explanations.

STATEMENT OF TYLER DUVALL

Mr. DUVALL. Thank you, Madam Chairman. We greatly appreciate the opportunity to appear before the committee today, Highway Transit System Finance, which was once considered a pretty uninteresting topic has become a fairly important national policy debate in recent years.

I am not going to spend a lot of time talking about the 2009 issues, which we can talk about it in a Q&A session, but I don't think the range of options are particularly great to deal with the shortfall that you are going to be dealing with in about 4-5 months. I want to focus more on long-term policy issues.

The Federal Government, in my view, has a very unique opportunity to transform the Nation's transportation investment strategy in the next authorization bill. Over the past 4-plus years, to Congressman Blumenauer's point, the Transportation policy community has achieved a very high degree of consensus about the need for major reform, and including many of the elements of that reform. That policy consensus, however, is not translated into a national political consensus, which is why we are talking today. I think it is likely that will only happen when Congress, the Obama administration, and particularly America's business leaders, really decide that reform is necessary and agree subsequently on the implementation elements of that reform.

Far too often, the transportation debate in the U.S. has really been consumed with discussions about symptoms, not causes. In our view, my view, the society of former assistant secretaries, the basic problems with the current strategy are as follows:

First, there is an underemphasis on quality of investment as compared to quantity of investment. A myriad of economic studies in the last 10-15 years basically show that we have had a dramatic decline in the returns on public investments, particularly in the highway sector. That is a fairly natural result of a huge network. We have built the largest highway system, I think, by a factor of two, twice as big as any other highway system in the world. But the projects that get done earliest in time are the ones that generate the highest returns.

So a natural result of any well-capitalized network is you see returns decline over time. But that's not the whole explanation. I think what is increasingly happening in the United States—earmarking has gotten a lot of attention, but I think earmarking is really just a part of the story, is that quantitative analysis, comparative economic analysis, using net present value calculations, something that every other country in the world that invests in the size that we invest in utilizes.

So you look at the costs of the project, you look at the benefit stream over time, and you evaluate projects based on that metric. That is fundamental to every private sector entity in the world who invests in capital businesses that utilize that mechanism.

We do not utilize that extensively in the United States. That is a very simple change. It is one that will produce much more transparency and disclosure to the public about which investments are the best ones, which ones are not. And I think you can have a lot of disagreement about the benefit, but assuming we are talking about the same concepts, over time you will see a convergence of views on how to do an adequate cost benefit analysis for these projects.

The reason this matters is because an annual surface transportation budget of $55 billion that produces 10 percent returns a year is going to produce far more public benefits than a program that is investing $70 to $75 billion a year. Particularly if these are long-term investments, if you are looking at a 30-40 year horizon of benefits, it is pretty clear that if you have a flawed investment strategy, you are going to see a lot less bang for the buck than if you had a really good investment strategy.

So I think it is really important that we talk not just about how much we are spending but how well we are spending, and I would encourage you to look beyond the "bridge to nowhere" discussion. It is an interesting discussion. It has obviously focused people's attention on this problem. But the reality is the fundamental processes we use today I think are lengthy, which should produce better results, but in many ways is producing the worst of both worlds. So we spent a lot of time planning projects, but the outcomes of that planning process is not producing the right projects.

I think the other really critical problem is that the Federal Government's current strategy is not leveraging additional resources. The GAO has done analysis on the extent to which increases in Federal spending crowd out State and local spending and found that a meaningful percentage of State and local spending is crowded out in that process.

If the Federal Government simply made a strategy shift and identified basically leveraging non-Federal capital as a specific objective with Federal capital similar to what Secretary Geithner is talking about when he talks about the Treasury programs that will be unveiled in the next week or so, bringing in additional capital, reducing risk for other investors, my sense is you would see a flurry of investment activity in the United States. There is a lot of pent-up demand to invest in U.S. infrastructure, but the Federal program today is not currently constructed to unleash that capital.

This is, again, a fairly simple policy change. And the reason this matters to this committee is, again, if you are talking about a $50 billion investment, if it produces a total of $130 billion of investment, that is a big difference than if it produces $250 billion or $300 billion. And we are here at this point in time, I think, capable of unleashing that capital investment in U.S. transportation systems.

There is little question also that in addition to unleashing capital inadequacies in the current program that the current structure is really not driving system efficiency. So you have got the upfront capital investment. That is a bit flawed or fairly flawed, but it is also not driving operational efficiencies once we do invest. In fact, the Federal Government asks very few questions about how systems perform once they have been invested in. This is a problem both on the highway and transit side. And I think virtually every economist and independent expert that has looked at this issue has concluded, as Rob has just testified, that the highway system in the United States is wildly mispriced. The charges on the people who use that system bears little or no relation to the cost of that system.

Nowhere is that more true than in the Washington, D.C. area and Los Angeles, all of the major metro areas. You are talking about a dramatic mispricing of highway capacity in the United States, which is producing all kinds of economic distortions, environmental impacts. And this is a policy consensus.

Back to Congressman Blumenauer's point. I think if you rack and stack the entities in the United States that have talked about this issue and have basically agreed—you have got the GAO, the Brookings Institute, the Washington Post, New York Times editorial page, the Cato Institute, the Environmental Defense, NRDC, the Reason Foundations, EPA and U.S. DOT experts, and now President's Obama's budget, that is a powerful bipartisan group of people that are saying a lot of the same thing about the nature of this problem. The difference is we have just not gotten that bipartisan policy consensus to translate into a political consensus, and hopefully that will happen in the next authorization bill.

A couple of potential policy responses that I think could get done in this next authorization legislation. I think it is helpful to kind of think about what does that mean in terms of specific proposals.

One, I would really reform existing programs to establish meaningful reward components for project sponsors that use Federal grants to attract other investment, and to operate systems more efficiently. Federal grants are really powerful when they are used to drive State and local reform. They are not particularly powerful when they are just used as a handout without performance strings attached.

We ran a nationwide competition in the last administration with a very small amount of Federal dollars. It produced sweeping proposals from metropolitan areas in the United States to do different things with pricing, with transit and with technology, very small amounts of Federal dollars produce a lot of State and local change. And I would encourage you all to think about that when crafting the next piece of legislation.

The other thing I think that is important, I think the Federal Government should start to rely more extensively on loans and other credit assistance, not just grants. The department operates a mini-infrastructure bank today called the TIFIA program. That is a very powerful tool to leverage a lot of additional capital without a lot of costs to Federal taxpayers. You can make that program more friendly. You can make the credit terms even more favorable to State and local borrowers, but do not lose sight of the opportunity to use Federal credit, not simply grants, to drive change at the State and local level.

The other thing I think, as I mentioned previously, we really need to reform the transportation planning process. Too often it is politics, relationships, and other non-economic criteria that are driving a lot of these investment decisions. I think the planning process at a minimum should disclose for the public ranking these projects using a clear, transparent data on a mode-neutral basis. We should not, on a Federal level, decide this investment is good over this one simply because it happens to be a certain mode of transportation. We should be indifferent to that, invest in what works and not invest in what doesn't work.

Let me conclude by talking real quickly about a VMT tax.

Rob mentioned that in his report, which is a great report. I would encourage you all to read that.

A VMT tax is getting all kinds of attention. I think there are great benefits to it. It clearly changes the current course we are on, which is a push towards fuel efficiency and economy, but it reverses the problems associated with the fuel economy producing fewer revenues. But if you don't use differential pricing as a part of it, it is not clear that it delivers benefits in excess of the gas tax.

I think you have got to have a tailored charging system. Simply charging a rural driver to drive 80 miles on an interstate in the middle of nowhere in uncongested conditions five times what you charge a person driving three miles in a heavily congested highway in an urban area is not good policy. Actually, it produces the exact sort of perverse incentives that you don't want to create, which is to flood the highway system during rush hour.

So a tailored VMT tax is a completely different animal than an untailored one, and I would encourage you all to have a vigorous policy discussion about that.

Let me conclude by saying this is a tremendous opportunity. The United States is obviously the world leader in many, many things. We are no longer the world leader in transportation. We have seen our infrastructure deteriorate; the quality and the performance is not what it should be. You have got a great opportunity. I think Federal policy could drive a sweeping change to how we move in the United States and how we invest. If we don't do it, you will see bubbling up with State and local experiments, but I think it is far more efficient at the end of the day to have the Federal Government use its capital weight and its regulatory policy to drive change in this area.

[The prepared statement of Tyler Duvall follows:]

PREPARED STATEMENT OF TYLER D. DUVALL, CONSULTANT, FORMER ASSISTANT SECRETARY FOR TRANSPORTATION POLICY, U.S. DEPARTMENT OF TRANSPORTATION

Chairman Spratt, Ranking Member Ryan, I greatly appreciate the opportunity appear before the Committee today. Highway and transit system finance, once considered a relatively uninteresting topic, has now become an important national policy debate. This is due to the confluence of a variety of factors, including: anxiety related to projections of federal highway trust fund revenue shortfalls ; growing public dissatisfaction with current transportation system performance; an emerging consensus among a variety of policy experts; a legacy of wasteful projects; and an array of real world policy experiments around the globe.

With respect to immediate term federal surface transportation spending, there appears to be little doubt that prior to the end of the fiscal year, Congress will once again be forced to grapple with the fiscal reality of annually spending billions more than is collected through taxes. USDOT's inspector general Calvin Scovel summed it up when he said at recent Congressional hearing, "the bottom has fallen out of the highway trust fund." Given the state of the economy and recovery efforts, it would be economically unwise to raise gasoline or diesel taxes. This leaves limited options for 2009 beyond increasing the general fund contribution and/or reducing/slowing spending.

Going forward, however, the federal government has a unique opportunity to transform the nation's transportation investment strategy. This Committee could play a leadership role in that transformation if it so chooses. Over the past four plus years, the terms of the debate about transportation have fundamentally changed, and the transportation policy community has achieved a high degree of consensus about the need for major reform. That policy consensus has not yet translated into any sort of national political consensus, however. It is likely that that will only happen when Congress, the Administration and America's business leaders decide that major reform is necessary and subsequently agree on the implementation elements of such reform.

Before discussing specific ways to improve upon the country's or the federal government's current transportation finance strategies, it is critical that the problem be defined correctly. In fact, far too often, the transportation debate in the U.S. has been consumed by discussions about symptoms, not causes. The basic problems with the current strategy are described below. Each can be remedied through Congressional action, and each has direct bearing on the work of this Committee.

1. There is an under emphasis on quality as compared to quantity of investment. A variety of economists have analyzed the social returns generated from highway investments in recent years and each has concluded that we are getting less and less from our investments.[1] In other words, a $1 invested today is producing far less

[1] Chad Shirley and Clifford Winston (2004), "Firm Inventory Behavior And The Returns From Highway Infrastructure Investments," Journal of Urban Economics, Volume 55, Issue 2; Marlon G. Boarnet and Andrew F. Haughwout (2000), Do Highways Matter? Evidence and Policy Implications of Highways' Influence on Metropolitan Development, Brooking; M.I. Nadri and T.P. Mamuneas (1996), Contribution of Highway Capital to Industry and National Productivity Growth, FHWA, USDOT; citied in USDOT (1997), Transportation in the United States: A Review, USDOT (*http://ntl.bts.gov/data/titustxt.pdf*).

in the way of reduced congestion, improved safety and enhanced business productivity than a $1 invested 30 years ago.

Some of this decline is the natural result of having an already massive transportation system. The earliest projects completed in the development of a new network are often the ones that deliver the most long-term benefits. However, there are strong reasons to conclude that other factors are at work in driving down societal returns. Most important among these is the lack of quantitative analysis in determining how to allocate transportation investment dollars and select projects at all levels of government. In the absence of this analysis, political forces, relationships and other non-economic considerations typically prevail.

Any successful capital intensive business in the private sector selects projects using some form of net present value and/or rate of return analysis. Projects that score poorly using these metrics are either shelved indefinitely or substantially modified. Unfortunately, the majority of surface transportation projects in the U.S. are pursued with little or no comparative economic analysis. The federal government requires that any federally funded highway or transit project navigate a labyrinth of complex process requirements prior to commencing construction. While these requirements do an excellent job of preventing rash decisions, they have done far too little to encourage productive and innovative investments. As a result, our current approach is often the worst of both worlds—lengthy and expensive processes without the productive outcomes that are supposed to attach to process-laden decisions. This perverse strategy is the natural result of poorly defined federal/state/local authority roles and responsibilities.

Why should this matter to Congress? Because resources are always limited (something this Committee probably appreciates more than any other), it is imperative that we understand with some degree of certainty what national investments can be expected to produce in the future. An annual national surface transportation investment of $70 billion that produces a societal return of three percent per year will yield dramatically fewer overall public benefits than an investment of $55 billion that produces an annual societal return of ten percent. Since these investments are intended to last many years, small differences will produce large disparities in results.

The national discussion regarding the "Bridge to Nowhere" has stimulated growing public hostility to wasteful federal earmarks, but it has not ushered in a nationwide consensus for an alternative investment approach with clearly defined criteria and rigorous post-investment analysis. In short, budget and policy are inextricably linked, and the timing is quite ripe for a major Congressional re-assessment of these programs.

2. Federal investments do not adequately leverage non-federal investments or promote system efficiencies. The federal government does not own or operate the vast majority of the nation's surface transportation systems. Instead, it contributes approximately 40% of highway and transit capital dollars and roughly 20% of all highway and transit dollars (figures vary from year to year). When the federal government invests, just as any other investor, it should have confidence that the owners and operators of the systems in which it invests have the right incentives. In other words, will the owner/operator efficiently design, capitalize, finance and manage the underlying assets?

With a few exceptions (the recently enacted stimulus legislation being prominent among them), current federal programs typically require minimum state or local funding matches and safety thresholds. These are broad-based regulatory requirements, however, not a targeted policy. What is badly lacking in the current framework is a specific focus on attracting capital from other sources that are likely to have better information and better incentives than the federal government. Thus, even if we were able to achieve federal reforms designed to increase investment returns on federal dollars as discussed above, we would still be missing an opportunity to specifically use those dollars as a means to generate investment interest from non-federal sources.

So, from the perspective of this Committee, the answer to the question of how much to spend at the federal level should vary depending on the degree to which such spending "crowds out" other spending or stimulates other spending. $50 billion of federal spending that facilitates an additional $80 billion in state, local and private sector spending should be considered differently than $50 billion that facilitates $150 billion in state, local and private sector spending. The former is the current policy, while the latter is achievable only with reforms. A 2004 GAO report that studied state and local spending in the last economic downturn found that, "in 2002, states and localities contributed 54 percent of the nation's capital investment in highways, while federal funds accounted for 46 percent. However, as state and local governments faced fiscal pressures and an economic downturn, their investment from 1998 through 2002 decreased by 4 percent in real terms, while the federal investment increased by 40 percent in real terms."[2]

There is little question that the federal program is underperforming when it comes to attracting capital from other sources, but it is also failing when it comes to promoting operational efficiencies. In fact, as currently constructed, the federal program is largely indifferent to how well surface transportation systems perform once they are constructed. With respect to the highway system, we have witnessed a precipitous decline in travel time performance (i.e. congestion) and reliability in the last 30 years. Contrary to media accounts, bridge safety and National Highway System pavement quality have actually improved modestly in the last 15 years.

Virtually every economist and independent transportation expert that has analyzed U.S. highway policy in the last 10 years has concluded that our highway system is badly mispriced (charges to system users are not linked to the true costs of travel) and that the current reliance on taxes (as opposed to direct user fees) is a chief culprit. The recently completed National Surface Transportation Infrastructure Financing Commission agreed with this assessment saying, "the current indirect user fee system based on taxes paid for fuel consumed provides users with only weak price signals to use the transportation system in the most efficient ways."

The just released Congressional Budget Office report entitled "Using Pricing to Reduce Traffic Congestion" identifies congestion pricing as "one fundamental way of improving efficiency" and recommends a variety of federal policy options to encourage state and local implementation. The USDOT's 2006 Conditions and Performance Report for the first time attempted to model the costs to maintain current highway system conditions and performance if "universal" congestion pricing was implemented and found that costs would be reduced by a dramatic 27.5%.

The 2008 version of this report is expected to build substantially upon this analysis, and I would encourage the Committee to review its findings closely. In fact, there are few, if any, policy ideas that garner the support of the General Accountability Office, the Brookings Institute, the Washington Post and New York Times editorial pages, the Cato Institute, Environmental Defense, the National Resources Defense Council, the Reason Foundation, experts at USDOT and EPA and the President's budget, among others. The best way to implement pricing and utilize corresponding revenues are indeed subjects of intense debate, but the degree of policy consensus that has emerged on this point in just the last three years is impressive.

Highway pricing strategies can be successfully integrated with transit investment and operational strategies, particularly in metropolitan areas. Because federal highways and transit programs are not integrated, our transit investments are typically made with little reference to highway policies or likely highway demand in the exact same corridor. For this and other reasons, a series of studies over the last 25 years have revealed a systematic underperformance in actual transit ridership relative to predicted ridership in the New Starts Program. In two Federal Transit Administration analyses conducted in the last six years, actual ridership for New Starts projects was 68.9% and 74.5% of forecasted ridership. In addition, the gap between revenues generated from passengers and total operating expenditures for U.S. transit systems more than doubled in nominal dollar terms from 1995 to 2006 according to the American Public Transportation Association 2008 Public Transportation Fact Book.

POTENTIAL RESPONSES

A variety of federal approaches relevant to this Committee are available to address these concerns in the context of the reauthorization of SAFETEA-LU, including:

- reform existing programs to establish meaningful reward components for project sponsors that use federal grants to attract private investment and operate transportation systems more efficiently. Over $150 billion of global private equity infrastructure capital has been formed in recent years (in spite of a relatively de minimis level of federal statutory support). Hundreds of billions of dollars of debt capital are also available for U.S. infrastructure projects.

It is now apparent that if Congress established programs and policies favorable to this capital, those figures would grow dramatically. It is also clear that this and subsequent capital will find a home in counties with more receptive policies, including Europe, Asia, South America, Canada, Mexico and Africa. Through its formal partnerships with urban areas in 2007 and 2008, USDOT also demonstrated that

[2] GAO-04-802, FEDERAL-AID HIGHWAYS, Trends, Effect on State Spending, and Options for Future Program Design.

small amounts of federal discretionary dollars provided powerful operational efficiency incentives for pioneering state and local officials.

Rewards could take the form of additional grants for other projects, ratings priority in competitive grant programs and increased programmatic/regulatory flexibility. A variety of federal tax code changes could also provide greater incentives for non-federal investment.

Specifically, the recently enacted stimulus package includes a new $1.5 billion program with broad implementation discretion for the Secretary of Transportation. A strong policy case could be made that the Department should utilize these resources to develop major projects that leverage private capital, test innovative risk sharing procurement strategies and promote new technologies.

- increase emphasis on federal loans and other credit assistance, not just grants. In addition to leveraging non-federal investments, such an emphasis provides multiple additional benefits: 1) it encourages the utilization of user fees—a more efficient payment mechanism than gasoline taxes; 2) it is significantly less expensive to the federal taxpayer than pure grants; 3) it reduces the risk of "wasteful" projects since credit provision requires more public and private lender oversight of underlying project economics; and 4) it reduces the cost of capital for infrastructure projects relative to other capital investments. The Department's TIFIA program could be greatly expanded in order to achieve these benefits.
- reform the transportation planning process to ensure that economic criteria is fundamental in project and plan decisions. Absent compelling circumstances, the highest rated project alternative (regardless of mode of transportation), using a present value of net benefits, should be pursued for all federally funded projects with project costs in excess of $100 million. In addition, statewide and metropolitan transportation plans (required under federal law) should rank and disclose project lists using a net present value calculation.
- clearly define the relative roles of the federal government, state government, local government/authority and the private sector. Until the relative roles of the various entities involved in infrastructure finance are clearly defined, budget and policy outcomes will be sub-optimal. Today, the federal government attempts to be all things to all constituencies. A better approach would be to identify a more limited number of areas for federal focus and provide clear discretion and performance targets related to those roles.
- assess transportation "needs" (and budgetary requirements) more accurately by separating condition and performance. Both recently concluded national commissions assess our system "needs" by largely assuming that spending and new capacity are the only available response in the near term to ensure that current system performance is either maintained or improved. As was revealed in the 2006 Conditions and Performance Report described above, large improvements in performance can be achieved with efficient pricing and technology proposals, not simply capacity expansion. In turn, pricing will send a clear signal to governments and investors as to where capacity constraints are most economically important (as well as provide revenues for such expansion). Maintaining and improving physical conditions requires improved targeting of capital resources so that the highest return rehabilitation and preservation investments are made.

VMT TAXES

With the recent comments of Secretary LaHood, as well as the recommendations of the Financing Commission, the concept of a federally-imposed vehicle miles traveled tax (VMT) has received growing attention. Such a tax offers the policy advantage of revenue sustainability even as the light and heavy duty vehicle fleets become more fuel efficient (through market forces and expected regulations). A VMT tax also offers the policy potential of tailoring travel charges more specifically to costs. In this regard, a VMT tax could conceivably achieve revenue and congestion relief policy objectives simultaneously.

However, from a policy perspective, a federally-imposed flat fee VMT may not be materially superior to a gasoline tax. In fact, even though the focus has been on revenue generation, the majority of benefits from such a system would come from the ability to differentiate charges more efficiently than traditional gas/diesel taxes. A driver who drives 90 miles on an uncongested rural interstate in a Volkswagen Jetta is imposing close to zero marginal costs on the transportation system or other transportation users. Another Jetta driver that travels 3 miles at 8:30 am on the Capital Beltway here in Washington, DC is often imposing more than $2.00 in costs on other drivers. Under a flat VMT regime, the first Jetta driver may pay 20 times more (depending on the charge) than the second Jetta driver. To the extent the system does not adjust for this mispricing, the transition and administrative costs are likely to overwhelm the incremental benefits the VMT may enjoy over gas/diesel taxes at the federal level (to say nothing of the political complexities associated with the federal government administering the charge). An additional research area related to the VMT tax that deserves more attention is its impact on fatality rates.

Regardless of one's views of the VMT tax in the future, a more aggressive deployment of current pricing technologies will achieve many of the theoretical benefits of a VMT tax in the near term. The technical sophistication of "open road" electronic tolling has advanced greatly in the last 10 years, even as implementation costs are declining. Just months following procurement, roads can be outfitted with sophisticated pricing technologies that provide powerful new speed and reliability choices for drivers. Almost 20 different metropolitan areas in the U.S. are developing projects today using readily available technologies. While the federal government is not the revenue collector in these projects, targeted federal assistance is proving crucial.

CONCLUSION

Meaningful reforms to our country's transportation finance policies will not come about easily or instantly. Clear leadership from Congress and the Obama Administration, backed by a growing body of policy research and an emerging bipartisan policy consensus, can move the debate from one focused on theory to one focused on real world implementation. Budget and policy are inextricably linked in this effort. Spending more without a coherent investment strategy and without clear policy objectives will be a largely fruitless endeavor.

Chairman SPRATT [presiding]. Thank you very much. I am sorry I was not here for your full presentations. Mr. Conrad and I had a meeting with the President this morning, and obviously that preempted this only by a small margin.

And the person that has been most consistent about seeing that we investigated, looked farther into the future and considered alternatives for building roads, bridges, and needed infrastructures is Earl Blumenauer, which I am going to yield my time to him.

[The prepared statement of Mr. Spratt follows:]

PREPARED STATEMENT OF HON. JOHN M. SPRATT, JR., CHAIRMAN, COMMITTEE ON THE BUDGET

Good morning. Today's House Budget Committee hearing on transportation will help inform the Committee and the FY2010 Budget Resolution on our investment needs and financing options, not only for the next highway and transit bill, but for a longer-term vision of transportation. This is a significant year for transportation. First, our transportation programs have been charged with pulling our economy out of a recession and into a recovery. The American Recovery and Reinvestment Act included $48 billion in transportation investments that create construction jobs now and larger economic returns with completion. But our programs will have a second opportunity to put a floor under vanishing jobs—4.4 million jobs were lost since the start of the recession. The current highway bill, SAFETEA-LU, expires at the end of Fiscal Year 2009 and will need quick reauthorization in order to protect and increase blue-collar construction jobs.

We welcome our witnesses, Ms. Debra L. Miller, Secretary of Transportation for the State of Kansas and member of the American Association of State Highway and Transportation Officials (AASHTO), Dr. Robert D. Atkinson, Chairman of the National Surface Transportation Infrastructure Financing Commission, and Mr. Tyler Duvall, consultant, and former Assistant Secretary of Transportation Policy at the U.S. Department of Transportation.

Before we hear from our Ranking Member and then our panel, I yield my time to Mr. Blumenauer for a additional comments.

Mr. BLUMENAUER. Thank you very much, Mr. Chairman.

I appreciate what the witnesses have established as a great platform for the conversation.

And I would like to just pick up where my friend, Mr. Ryan, left off, talking about vision. Because I think this is running through the conversation here is what is the nature of the Federal partnership. And I, of course, always cringe when you beat up on Republicans for the "bridge to nowhere." I think you have taken enough grief for that. But that is okay. You can work that out with Don Young. And I am pleased that in part, as a result of that experience, that we have moved forward to make the earmarking more transparent and to reduce it pretty dramatically.

I am willing to, just for a moment, not talk about that 1 percent of transportation funding. We can come back and deal with it. But my impression is listening to our witnesses that even if the 1 percent of ear marking funding disappeared and was put back into the system, we would be in exactly the same boat. In fact, it would displace some things that we needed, anyway.

So looking at the big picture, and I appreciate Congressman Ryan and Mr. Duvall talking a little bit about vision and value—because I hope that is what we can do as a committee because we want to squeeze more value out of this system—there are opportunities. For instance, maybe if we just had a uniform match ratio. We don't pay people more to build a bridge than to have a transit program, for instance, which might, in and of itself, be a little bit of an improvement so that it is mode neutral.

One of the discussions I had with the last administration, and was a little frustrated that we couldn't move to the point of how we actually moved along to squeeze more value. As we speak, there are people in the Department of Transportation who are cranking away on cost effectiveness formulas that have no relationship at all to how any transit system in the country operates. But it adds years of costs—I see my friend from Northern Virginia, no amount of Federal subsidy will make up for the cost to inflation of delay for the Dulles metro connection. We have skyrocketed those costs.

So I guess what I want to come back to here with our witnesses is dealing with the notion that even if we are doing some reform, even if we change the nature of the Federal partnership, which I hope we do, what I am hearing—and Mr. Duvall, you said the messy short-term 5- or 6-month problem, but I want to go back to that because we are faced with a Federal Government that has not dealt with any inflationary adjustment since 1993.

Is there any amount of tinkering around the edges that will replace the amount of costs, 80 percent, I think you said, Madam Secretary? Can you just help set that context in terms of what we should do while we are talking about reform, while we are talking about squeezing out more value, the notion of having more budget headroom.

Ms. MILLER. I guess I will start.

I would just say a couple of things.

One, I want to pick up on the remark you made about earmarks. It is an easy topic to kick around and make fun of, but the point you made is exactly right. If there were no earmarks and the dollars flowed back in, it wouldn't even come close to solving the problems we are facing.

We have, as a country, underinvested in transportation for decades. And the report that Dr. Atkinson was the chairman of, it is an excellent report—and if you have time just to read the executive summary, I would strongly recommend it—and I think they draw that conclusion very clearly. We have underinvested, and we have been living off the investment that was made really by our grandparents.

And once you have done that, getting caught up in infrastructure is a very difficult thing to do. Anytime you have seen a city who has allowed their street structure to completely deteriorate, the costs are so huge, I think that it is very hard to get caught up. I think that is where we are in our country.

So clearly, tinkering around the edges might stave off the absolute collapse, but it won't get us to where we need to be. We need not only to reform the system but to change the way that we are funding it, and I think we need to change our language, even.

And one of the things that I try to do when I talk in our State about what we are doing, is use the term "investment" and I feel so strongly about that. We are creating investments. And I don't know why we haven't, as a Nation, been able to make that clearer that this isn't just taxes and spending. It is creating things of value. And that is what we are building the back bone of our economy on. And we have completely lost that focus.

I will get back to your point before I get off on a tangent here. But I think sometimes if you think about the visual image of our country and our communities, we have allowed something that is very important to deteriorate. So when you look at our communities, we don't even look like a prosperous Nation when you look at our transportation systems.

Mr. BLUMENAUER. If I could turn to Dr. Atkinson, as I hear—you had a very diverse group of people on the Commission and you arrived at what I understand is a unanimous vote at the end. But it is one of sort of an "all of the above." You are talking about gas tax, you are talking about freight charges, you are dealing with Ms. DeLauro's vision of an infrastructure bank. You have all of these that, in your judgment, are necessary. Do I have that right? To make up for 16 years of just sort of on cruise control.

Mr. ATKINSON. One of the first and most striking things for our group is you look at the need. There is a chart that we have. It has the cumulative funding gap. If you just want to maintain the system and make modest improvements through 2035 and there is no revenue change now, it is a $2.7 trillion gap. So we can have a discussion about efficiency versus money or this versus that. At the end of the day, there has to be more money.

I am a big believer in efficiency. This system isn't as efficient by any means as it could be and should be, but we also have to have more revenues. And we went through a lot of different options, Congressman, and there were many that we rejected for a number of different reasons. The ones we picked we thought there needs to be all of those together.

So part of the challenge in this debate is there are some people who say only gas taxes and no tolls or other people say no gas taxes and only tolls. The magnitude of our problem is so great in our view that we really need to be focusing on all of that right now.

Mr. BLUMENAUER. Mr. Chairman, I want to express my appreciation for your willingness to have this hearing and for us to just sort of put on the table, I think there are a wide range of areas in the budget that we are going to have different fault lines. I hope that this is one area where people from different philosophical, partisan, and geographic areas, can come together to represent the same sort of consensus and need that we are hearing from each and every one of our communities and from the broad cross-section of business labor environment that this is an area that we need to move forward.

I appreciate your courtesy to allow us to explore it here this morning.

Chairman SPRATT. Thank you.

Mr. RYAN.

Mr. RYAN. Thank you, Mr. Chairman.

Mr. Duvall, I want to ask you a couple of questions about the VMT. I am a fairly new to this issue in that I haven't read your executive summary. And I have only heard about these. So I want to ask you just to give me the VMT 101. How are these systems designed to protect the privacy concerns which you mentioned, which I clearly share. How does the mechanism work, how does it work literally at the gas pump and all of that. Walk me through that, will you?

Mr. ATKINSON. The way it would likely work is you would have an on-board-unit, OBU, that would be on the car.

Mr. RYAN. Installed by the manufacturer?

Mr. ATKINSON. Ideally installed by the manufacturer. And this unit would have several parts to it. It would have a clock, so it would know what time of day you were driving, and it would have a one-way receiver to know where your car is. Your car would know where it is. No one would know where your car is. There is no way a system like that can be done so that it is—if it is a one-way system, there is no way anybody could know where your car is if they could read the data on your on-board unit.

So your on-board unit would have a clock——

Mr. BLUMENAUER. Cell phone.

Mr. ATKINSON. When you have a cell phone—Verizon actually knows where I am right now within about 30 yards. When you have a toll transponder, that could actually be a system that is much more private than the current toll transponder system. When I go over the Bay Bridge at 5 o'clock on a Friday, the State of Maryland knows that someone in my car went over that at 5 o'clock. This system would not pass this information along.

Mr. RYAN. It would be designed so it would be technologically impossible for that information to be passed.

Mr. ATKINSON. Yes. Let me walk through to be specific on that.

The other component of this OBU would have a pricing table in there. So it would have a table that says if you are driving on the beltway and it is 8 in the morning, you are going to pay this rate; and if you are driving on a rural road in the middle of the night, you will pay this rate. It all gets put together, and there is a series of charts.

And the other piece of this would be State and governments could also piggyback on top of this. Right now they have gas taxes.

So you would go to the gas pump and you would buy your gas. And what they did in Oregon is they would deduct the gas tax so cars that still had—that were older cars would still pay the gas tax. New cars would pay the VMT.

Mr. RYAN. So old cars would be gas tax and VMT?

Mr. ATKINSON. No. As they transition in, you would only do one.

If you are a new car, you are paying the VMT. The gas tax gets deducted, you then pay the VMT, and all that is transferred to the pump and then back into the computer system is you owe $1 to the State of Illinois and $1.50 to the Federal.

Mr. RYAN. And the gas retailer remits it to the State?

Mr. ATKINSON. Yes. Or the State and Federal.

Now, the one component of this, we would argue this system should be designed so that the consumer or the passenger has the choice. The only way you would ever want that data to be transferred is if you felt there was some discrepancy in your bill, and you didn't think you drove that, you would be able to, on your own choice, be able to then share the data on your OBU and say, Wait a minute, according to my OBU, I drove this. That would be an opt-in system. Only the driver of the car would make that choice.

Mr. RYAN. So when you are filling up, the OBU, there is a scanner or a reader on the pump that reads the OBU and transfers that into the price of the gas bill?

Mr. ATKINSON. Correct and deducts the gas tax.

Mr. RYAN. And deducts the gas tax. Older cars, just the gas tax. Newer cars with the OBU used on it, deduct it from the gas tax, the retailer remits it back to the State and Federal Government accordingly.

Mr. ATKINSON. That is correct.

Mr. RYAN. And when you were saying having States piggyback on the Feds, are you saying that States set their own? Because each state has their own level of gas tax. Each state sets their own rates, piggybacks their own rate on it?

Mr. ATKINSON. Yes.

Mr. RYAN. When I take my family to Florida, I am going State by State by State, I am paying that State's fee when I go through that State.

Mr. ATKINSON. That is correct, just as you would pay that fee.

Mr. RYAN. So when I go from Wisconsin to the Illinois border, I am paying the Illinois rate as I am driving through Illinois?

Mr. ATKINSON. That is correct. We strongly recommend that any system be fully transparent and a display on a display device the actual rate you are paying and also put this on the Internet so people could, for example——

Mr. RYAN. So people could plan a trip accordingly.

Mr. ATKINSON. Plan a trip so people would know how much they are going to have to pay for that trip.

Mr. RYAN. So if I want to take a loop around Chicago, that is going to be one rate, and if I want to take rural roads around, that would be a different rate. That is how you envision this?

Mr. ATKINSON. That would be ultimately be decided by each individual State if they chose to do that.

Mr. RYAN. Okay. But the Fed would be flat.

Mr. ATKINSON. That would be a flat rate.

We recommend on the Federal system that the Federal rate only apply to the national highway system. That is obviously a policy question that could apply on all roads or just the NHS. But the State rate—or there could be a local rate. Some localities have gas taxes too, for example.

Now the only caveat we have there is we do think at some point that there needs to be some mechanism at the Federal level, ideally in DOT, of some adjudication system because you don't want to have pricing set in a way that would interfere with interstate commerce.

Mr. RYAN. It sounds like that would be an issue.

What is the comparison for the average mile-per-gallon car under this system versus a gas tax system? Obviously, it is the rate you set it at, but is the goal here to get extra revenues? And how much more per mile would you be paying? What are the comparisons?

Mr. ATKINSON. We model that extensively in the report. We don't make a recommendation whether the VMT can be done to simply replace the current 18.4 cents. It could be done to augment it to 28.4, which is our recommendation on the gas tax, it could be done more. That is obviously a choice you all would make.

If we were to simply match the current HTF revenues, the average rate per mile would be .9 cents a mile, in other words, less than a penny a mile. If we were to match the 18.4 cents plus 10 cents, the rate would be 1.4 cents a mile.

Mr. RYAN. That is what I was trying to get at.

Mr. Duvall, quick question because I want to get to others.

Give us some more specifics of your testimony about how we can leverage private capital on these kinds of projects. How can we have a system where public money, which is pretty much all these budgets are, just public money, how can we transfer to a system that uses public money to leverage and can join private money in these kinds of projects?

Mr. DUVALL. I think the best way to do it is through either the reform of the Federal program structure to provide specific incentives to sponsors that are leveraging additional—not just private but not non-Federal resources. Private capital is going to come into the U.S. infrastructure in two forms: mainly equity capital in which the investor gets some sort of operating or rights to a revenue stream or rights to a revenue stream directly from the facility, a toll road or some other direct payment mechanism. But it also comes in through credit markets.

And obviously, what has happened with credit markets in the last 6 months is seriously impaired, I think, the valuations with a lot of infrastructure assets along with everything else.

What has not been deterred is the formation of private equity capital to invest a infrastructure. They would love to invest in the U.S., unfortunately, we are a relatively closed market to bring this capital in place. Federal programs should be structured, in my view, to give preferences, ratings criteria that drive utilization of these other capital sources—the Federal dollar could be stretched substantially further than it is stretched today. In fact, I think a lot of times as I said, it is really crowding out these other opportunities.

So if the Federal Government became a seed lender or provider of capital, I think the Capital Beltway project here in Washington, D.C. is a good example of that. They took about $400 million of Federal grants and leveraged another $1.3 or $1.4 billion in investment off that that you will see waves of capital flow into the U.S. system if you did that.

If you don't do it in the United States, the money will go to Europe, Asia, and South America, which is where it is going. You have to reform the programs, the over-arching policies. And you have got this credit tool that is extremely powerful at the department. Very patient lending terms. 30- to 35-year terms, very cheap principals and interest payments, deferral of those payments over long periods of time. That has become the major source for funding huge projects in the United States today.

I really would look at that program, look at ways to make it more hospitable to private capital.

Mr. RYAN. Very intriguing.

Chairman SPRATT. The other person on the committee who has been a persistent supporter of public works in general and in infrastructure, in particular, is Rosa DeLauro, and she has to leave for a leadership meeting.

So I would like to recognize Ms. DeLauro.

Ms. DELAURO. Thank you very much, Mr. Chairman, and I thank my colleagues, and I thank the panel.

Dr. Atkinson, the Commission is correct when it says that there is no easy—there is no silver bullet to the solution to the infrastructure problem. The Commission made many recommendations but at its heart subjected a shift, as I understand it, from our current funding approach that is based largely on indirect user fees, the gas tax, and a new system based around direct user charges in the form of the VMT.

In the short-term, what I gather the Commission recommends an increase in gas tax to preserve the Highway Trust Fund until we get to a new direct user-charge system. I think this represents a key and important change, but I am not sure that the Commission fully acknowledges that the capital markets, including central banks, pension funds, sovereign wealth funds, and others—they have a growing interest, as I think Mr. Duvall pointed out here. They have a growing interest in infrastructure investment. And that these sources of private capital haven't been fully engaged or harnessed to build new assets.

Let me just say there is an estimate 2006-2007, the world's 20 largest global infrastructure funds raised nearly $130 billion. Last year, Treasury Secretary Mary Peters noted that there was upwards of $400 billion available in private sector in the private sector right now for infrastructure investment.

The Commission does suggest facilitating and encouraging private sector financial participation and expansion of the Federal credit program, tax credit bonds, further investment in State infrastructure banks. But it appears—and I may be wrong—that you are lukewarm to the idea of a national infrastructure bank. And I do, and others have—we have legislation in this area modeled on the European investment bank that, in our view, harnesses private dollars that we can put toward big projects like high speed intercity rail.

How, in your view, can we best attract these substantial private dollars, what real changes we make in the immediate term to move away from our current system which is so reliant on the Highway Trust Fund and look at these in innovative ways in which we may again harness that private capital.

And Mr. Duvall and Ms. Miller, if you care to comment, I would love to hear your comments as well.

Mr. ATKINSON. I don't know that I concur. I don't know that I would say we are lukewarm to the idea. I think we were suggesting some considerations that might be thought about if an NIB were to go forward.

There is also some—one of the purposes of an NIB, at least from some supporters of it, is about project selection; and that fell into a category that we just simply didn't look at. We didn't deal with how the money is spent. So the question of how it is raised, you are absolutely right, that there is an enormous ability to raise more——

Ms. DELAURO. It may not have been—you know, I take it—not the scope, but I think you might concur that, with a new entity in place, you could take a look at a wide range of infrastructure projects across the spectrum; and, in fact, whether it is environmental or energy or telecommunications, that kind of lifts it out of the current way in which we take a look at projects that are of national interest or for the common—I am sorry to interrupt.

Mr. ATKINSON. Sure. That is one of the arguments; and, again, that—we did not have a position on that simply because that really wasn't our charge to look at that.

With regard to the part that was our charge—and that is about how do you raise the funding—again, our core point was that financing can play a critical role. I have an entire chapter on it, chapter 7 of the report, that goes through the financing questions, looks at the pros and cons and suggests some ideas.

With regard to an NIB in particular, we would have really two main suggestions, if you will. One is, if an NIB were to be created, in our view it needs to consider the role of TIFIA and perhaps bring TIFIA into that, rather than have two separate and perhaps competing entities.

The second is that one of the key needs, if you will, is really what—and Tyler alluded to this a little bit—is more seed capital, if you will. I think that is a key role that an NIB could play.

Because a lot of the cases here is that there is private capital out there, but the challenges to get projects ready for private capital—and in some cases States are hard-pressed to got the monies to do early stage project development. And if you can help them with that, getting projects ready, getting them planned, getting all the studies done—and Secretary Miller knows much more about that than I do—then you can then take those projects out to the private marketplace and get them funded.

But that in our view is a key role that an NIB could play, and if it were to be created we think should be considered.

Ms. DELAURO. Mr. Chairman, can I get a quick comment from our other two witnesses? I know my time is—and then I will leave. Mr. Duvall and then Secretary Miller.

Ms. MILLER. Thank you very much. I will just say a couple of things.

One, when we look at these options, it seems to me that we need to explore and probably utilize all of them. And to the extent we can get private capital into transportation, I am all for that, because we definitely need the investment.

I think we need to always remember there is a difference between financing and revenue; and while additional financing techniques can be helpful, we can't ignore the fact that we need additional revenue into the program.

And a final thing I would say is that every State is different. Actually, as much we are the same, I am amazed how different we are. So this wouldn't necessarily hold up for others, but, in the State of Kansas, the total revenue into our State program, Federal funds make up 20 percent of it. And that is at our State level. That is not if we also look at what locals are doing.

So to make the point that it is the Federal Government who is carrying the weight of all of the investment and crowding out State and local investment I think is just not correct. I mean, certainty that is not what I have seen in my State.

Mr. DUVALL. I think there is little question that a properly structured institution could leverage substantial resources. There is—now, you have got to be clear, though, that there is not a free lunch, that private investors are not investing in projects for fun. They want to generate returns.

And I think, to Rob's point, you do need to drive revenue creation from some of these projects. I think particularly in some of the heavily congested quarters you will have extremely so-called revenue-positive assets that will spill off excess cash to basically invest in other transportation facilities within that quarter. I think that, actually, the Dulles project is going to utilize basic revenues backed by—issued against the toll road to finance huge parts of the capital construction for a transit project.

There is little question that in these heavily constrained corridors you have got a lot of revenue-generating opportunities; And if the Federal Government took a policy stance, either through an infrastructure bank created or through a reform of program structures, that it could drive huge deployment of capital.

What has happened throughout the rest of the world needs to be learned and brought to the United States. This is a mega-trend around the globe. We are late to the party, so to speak, on this.

The other thing is you have got a really short-term opportunity in the stimulus bill. There was a billion and a half dollars allocated to the Department of Transportation with broad discretion to craft a program, including $200 million of that that could go to this lending program Rob mentioned. I think a good policy experiment would be to really utilize those program dollars to leverage a huge amount of additional opportunities and see what happens. So, I mean, you could take a slug of capital that is available today, discretionary to the Department, and really test these concepts more clearly.

The other thing, by the way, real quick, is the Tax Code in the United States also needs to be amended to be more favorable to this. You have got a lot of hostility under the current code, I think, towards private capital. There was some adjustment in the last authorization bill to give a slug of private activity bond money to these projects. That is what financed the capital beltway project. It would not have happened without that Tax Code change. But if you can level the capital into the capital costs to some extent between private and public sector borrowers, you will see an explosion of interests on this idea in the U.S.

Ms. DELAURO. Thank you very, very much; and I thank you, Mr. Chairman.

There is much to discuss in the President's budget outline that talks about an infrastructure bank, capitalized at $5 billion a year over 5 years. I think we also have to take a look at a way in which we view what we have as assets in terms of this—you know, we are not moving to capital budgeting, but how we view what we have as assets rather than as liabilities, if you will, in terms of trying to and how you can utilize that methodology as well as in terms of moving forward.

Thank you very, very much, Mr. Chairman. Thank you. I look forward to working with you.

Chairman SPRATT. Mr. Jordan.

Mr. JORDAN. I thank the Chair and the panel.

I would like to get maybe two questions in if I can for the panel.

First, I want to go back to the VMT concept. I find this whole idea of concern, particularly the privacy issue—I think it is, as the doctor pointed out, it is one thing if Verizon knows where you are at; it is quite another if the Federal Government has the potential to know where your car is at all times. So I think that is a valid concern that we need to look at and be cognizant of.

But, Mr. Duvall, you pointed out in your comments, references briefly the implications this could have for rural America, which—I represent 11 counties. Obviously, people in rural areas now drive more and pay more in gas tax. But talk to me about how it would work—and any of you can comment on this—the adjustments, how that would be made. And is it just from the State level, or would it be from the Federal level?

I want to make sure I understand that as well, at least how you envision that and the impact on rural America. And particularly you, Secretary, representing the State of Kansas.

Mr. ATKINSON. Well, Representative Jordan, with regard to the first point, I completely agree with you that it is inappropriate for the Federal Government to know about individual trips that American citizens take. I do believe that you can design and should design a system that would be fully privacy and civil liberty protective.

Now that is not to say there won't be a political perception—a perception issue among Americans who will be concerned about this. But I think in the reality of it, though, you can build a system that—you could even build a system if you wanted to, for example, that said under no circumstances can that data ever be transferred off the OBU. That could be a policy choice. We would rather leave that up to an individual. If an individual chooses to have that data transferred, that is up to them.

There was a Christian Science Monitor editorial on this, and it made the analogy, which I think is a good analogy, is when you or I watch NBC Nightly News, our TV knows that is receiving the NBC signal; NBC doesn't know that I am receiving it. And that is essentially the same thing with this.

With regard to the rural point, the rural concern, I think it is important to note, as you did, that if you are driving 80 miles in a rural environment to get to work and back, you are going to be paying a lot more in the gas tax than you would be if you were driving in a city and driving 10 miles a day. I don't see why that would be any different, frankly, with a VMT. It would essentially be the same. The only difference really is vehicle choice. If rural users used more fuel-efficient vehicles, they would be worse off. If they use less fuel-efficient vehicles, they might be better off.

Ms. MILLER. Yeah. I would add to that, I—coming from a rural State, this is certainly an issue that comes up. I think that there could be advantages, quite frankly. When I think about how it could play out, I think that our citizens would welcome the idea that when they are driving on a rural two-lane roadway the per mile charge would be less than when they are driving on an interstate roadway or on a congested urban interstate. So I think certainly the rural issues could be addressed and could be addressed in a way, quite frankly, that would be beneficial.

Mr. JORDAN. Is it your vision that that would be done at the State level or Federal? How would that work?

Ms. MILLER. I have to say, I think there are a lot of issues that still need to be teased out of this and figured out. As a State person, what I would hope ultimately is that the Federal Government would lead, that we would a VMT taxing system that would be available then to States and locals and that would all have the opportunity to——

Mr. JORDAN. One quick question and I want to come back to the Secretary for the second question.

Mr. DUVALL. Yeah. I think there is a concern that—as Rob mentioned in his testimony, that the objective should be to charge people the true cost of driving, driving along an uncongested rural interstate for hours and hours in a very light passenger vehicle imposes very little cost on the system or to other users. So the pricing mechanisms should be tailored towards the cost you are imposing on the system. So I think there is a concern of a national VMT that is not adjusted for those issues.

Mr. JORDAN. I want to move to high-speed rail. This is an issue in our State. Our Governor is looking at doing this, putting money, both stimulus dollars and State transportation dollars. I am getting comments from some of our local officials, some of our mayors who want to do it. Frankly—I will be honest and up front. I don't—I think the burden is really high to justify doing that in the kind of district that I represent in the State that I come from, west central Ohio.

Your thoughts on high-speed rail, the potential—would it be sustainable? Would there be the demand there? What would be the cost up front? And I want to go to the Secretary who is, again, from a rural State and in many ways like the part of Ohio that I get to represent.

Ms. MILLER. Well, I am not sure I am the best person to answer the question in terms of is it sustainable. I guess I would say almost as much as—I don't know—I am a citizen or an observer of transportation, I think the notion of our country much more aggressively pursuing a high-speed rail is a good one.

When I look at our State and think about the uses of those things, quite frankly, I don't think we are a good candidate for the system. I think that, generally speaking, we are talking about the more crowded corridors, California, on the east coast. And certainly we have the same issues, some cities and citizens who are very interested and excited. But when I start looking at the cost, quite frankly, I don't think it makes sense in our area. But I think for our country it makes a great deal of sense; and there are places where, in fact, it could be sustainable.

Mr. DUVALL. Yeah, I would agree. You have got to focus any sort of national capital investments in high-speed rail along relatively a small number of heavily traveled corridors.

The key policy issue in the U.S. is not simply how to pay for these systems up front, though. It is what is the operating model going to be. As we have seen with Amtrak, we have an operating model that is just not delivering as much efficiency as could be delivered. I think what you have seen in Europe and Asia is basically more efficient operating models with clear incentives to cap the public subsidies. What you don't want to create is a Federal program that just perpetuates operating subsidies indefinitely.

Mr. JORDAN. Well said. Well said.

Doctor, then my time is up.

Mr. ATKINSON. I don't have any comments on the areas we looked at.

Mr. JORDAN. Great. Thank you, Mr. Chairman.

Chairman SPRATT. Ms. Schwartz.

Ms. SCHWARTZ. Thank you, Mr. Chairman.

I wanted to actually see if we could focus a bit—we have talked a good bit about roads and bridges and highways, and I know we are focusing mostly on how do we finance all that. But I have particular interest in rail and light rail. And as we look at financing mechanisms, the issue to me is both how do we maintain the roads and bridges and highways that we have and rail. But how do we actually make an investment in the future?

I think your testimony suggested that—and your recommendations had suggested ways to maintain what we are already doing—in fact, if anything, go back to previous levels of funding to make sure we have the money in the system—but really does not make the kind of investment in the future that I believe that a lot of Americans are really interested in seeing us do.

And I think to just look at the last couple of years—and I represent part of Philadelphia and the suburbs of Philadelphia. So it is an urban/suburban area. When we saw gasoline at $4 a gallon, you saw really changed behavior. We had an increase of—overall, a 5 percent increase in the use of public transit. But, at the height, it was almost a 20 percent increase in the use of our public transportation system. And we were almost over capacity. The system almost—was using old cars that they weren't so sure they should use and not sure they could meet that capacity.

So I assume you agree that we have an overreliance on foreign oil. But one of our goals here is to figure out how we can both fund our system but also reduce our use of oil for a variety of reasons, and that does mean rail.

So I really wanted to just ask about how—I guess ask both the Secretary and then ask Dr. Atkinson, too, to just comment particularly on how public transit could be positively affected. Because there are many Americans who sit in traffic every day that lose literally time and dollars every day and certainly over the course of a year, as well as the high cost of fuel and using their cars.

If you could actually speak to how financing mechanisms—whether they are adequate to the task of really making the kind of investment in rail that we currently have and potentially light rail systems in the future that are proposed. And everyone always says, too expensive; we can't possibly do. But if we actually are going to end our reliance on foreign oil and if we are actually going to reduce the use of oil overall, because the planet requires it, and reduce costs to American families over time, could you speak to how your proposals and your thoughts would relate to really making the kind of investment in rail in this country that we have yet to do?

Do you want to start, Secretary Miller?

Ms. MILLER. I would be happy to.

The AASHTO proposal does contemplate exactly what you said, that we need considerably larger investments in transit generally and in a high-speed rail network specifically; and we have recommended $35 billion in a 6-year reauthorization cycle.

I think there has been a tendency in our country, for whatever reason, to kind of talk in terms of either/or terms, you either support transit or you support highways; and that is, quite frankly, nonsensical. We have underinvested in both. We need both.

Enormous investments in transit would still not change the fact that we need additional investments in highways, nor would additional investment in highways negate the need for transit. And I think you are exactly right. To the extent we want to both move away from foreign oil sources and deal with climate change issues, we are going to have to see increased investment in transit. I think it is important for our country.

Tyler made the point—and I would concur with it—that one of the things that I think you really do see, even from people who come from a lot of different ideological places, there is actually a great deal of agreement around these transportation issues. And so I think we can get to an agreed vision. I think figuring out how to fund it becomes the more complicated one. The transit really has to be a part of whatever we do.

Ms. SCHWARTZ. Dr. Atkinson; and then, Mr. Duvall, I ask you to weigh in on this, too.

Mr. ATKINSON. Congresswoman, as I alluded to before, I am not in the position really to comment on what kinds of investment we should be making, whether it should be high-speed rail or not. One of the things our Commission did agree to, though, is that the increased funding should go to transit, should go to highways, should go to making the system work better.

I think one key point, though, is, as we found in our study and in looking at a lot of different studies around the world and in this country, the system driving is essentially underpriced. So in the 1970s, the average driver—the amount of funding for the entire system that came from user fees—in other words, gas taxes, car registration fees and tolls—was around 74 percent. Today, it is about 60 percent. So, in other words, what we are really doing in this country is we are subsidizing driving and, at the same time, we are working to reduce greenhouse gas emissions. That is why we think it needs——

Ms. SCHWARTZ. Which is inconsistent.

Mr. ATKINSON. It is completely inconsistent. It is like the policy 10 years ago when we were—I hope I don't offend any members—funding—we were subsidizing tobacco but trying to get people not to smoke. An inconsistent policy at best. Somewhat what we are doing today. And I think a key there is if you——

Ms. SCHWARTZ. I hope we are not doing it anymore. But, anyway——

Mr. ATKINSON. We are not doing it anymore.

But if you think about one of the advantages of a VMT or pricing is that it basically lets people pay more of the full cost of what they are using. And that is why a number of studies show that if you move towards VMT what you get is an increase in transit or other modes because it now becomes more economical. They are paying their full share.

Ms. SCHWARTZ. The whole cost-benefit analysis that a family or an individual might make starts to be—it changes. If you actually can make sure it is even, it is a level playing field, it is not, in fact, a cost benefit to be able to—and I think you are right. We have to look at the policy as we create it, that we don't actually highly subsidize roads, bridges, and highways and encourage highway driving when, in fact, there is an option.

But people need to have a reasonable option, and they need to see it both financially, but they also need to know that the system is well funded enough to get close enough to their homes and to actually also be comfortable when they are using it and safe and all—and reliable. And all the things, we know, take some dollars.

Mr. ATKINSON. If I can just make one last quick last point to that point.

We strongly advocate that people should be paying the full cost of it, but we don't argue—there are some people who would argue—and I know you are not saying this—that we should price the system to force people off roads. We don't believe that. I think if we price it——

Ms. SCHWARTZ. My constituents would not be happy with that.

Mr. ATKINSON. My last point would be, one of our Commission members is Lee Sander, who is the Executive Director of the Metropolitan Transportation Authority of New York, runs essentially the bridges and the transit system and the buses. And Lee is a very strong supporter of this report and this Commission's findings, particularly on VMT, because he realizes exactly that point, this makes it a more economically viable system for transit.

Ms. SCHWARTZ. If there is a moment to—if the Chair will indulge, Mr. Duvall, be very, very quick.

Mr. DUVALL. I concur with the comments. Clearly, you cannot ignore highway demand when doing transit investments in the United States. The projections for demand for rail are driven a lot of times by the subsidies to the highway sector. Pricing a highway, as Rob said, though, is a pro-mobility strategy and not only provides incentives for providing transit, but it also increases the performance of the highway itself. So you can handle a lot more capacity in a specific corridor using pricing. It really is a win-win policy.

But we have pursued investments on this side of transit, kind of ignoring the fundamental problems on this side over here, the highway side; and it is just not a sustainable strategy.

Ms. SCHWARTZ. I just encourage you to talk about rail as you talk about—as part of some of the solutions to the issues, particularly to energy independence. Thank you.

Chairman SPRATT. Mrs. Lummis.

Mrs. LUMMIS. Thank you, Mr. Chairman.

I know that Mr. Jordan asked a question about rural highways, and I want to follow up on that.

I am from Wyoming, which is the lowest population State in the Nation and the ninth largest in terms of surface area. We have absolutely no intrastate air service. We have no rail transportation. We are totally dependent on our highways; and Wyoming has 29 people per lane mile, while the national average is 128. Because of this, Wyoming's per capita contribution to the highway account is $314; and the national average contribution is $109.

So my question, Dr. Atkinson, is how can we ensure fair treatment for rural Western States whose low population alone does not tell the whole story of their significance to our highway system?

Mr. ATKINSON. Well, I smile because in some ways that gets into the donor/donee question; and that was a question that simply again was not in our purview. We didn't focus on that question, and it is clearly a question of concern to some States more than other States.

Having said that, I do think that one of the—both a challenge and perhaps an opportunity to move to a system more along the lines of what we have described in here is one of the things that happens in the U.S. is that adding capacity in a rural highway is not as expensive as adding capacity in a big metropolitan area. And monies are tight and so monies go—may in some cases go away from a rural area to a metro area to pay for that capacity. If you can rely more on a system where we pay for some of that very expensive needed capacity in metropolitan areas with tolling and pricing, it can free up monies that would go to a rural area or a rural State, potentially.

Mrs. LUMMIS. Thank you.

A follow-up question. Dr. Atkinson, the current Surface Transportation Reauthorization Bill includes an estimated $24 billion in earmarks. Your Commission has recommended a transparent earmark system, which I applaud. Could you elaborate a little on findings by your Commission on how earmarking has affected the quality and direction of our Federal transportation dollars?

Mr. ATKINSON. We didn't actually look at that question in any level of depth. I think the biggest problem with earmarks—and not—let me preface—the biggest problem is the perceptual problem. It erodes America's trust in the system. Americans I think believe that most of the money is going to projects that aren't worthwhile. And while—so I think that is the biggest problem.

The second problem—there are certainly problems with some earmarks, and we think that there should be more transparency. There should be a straighter forward process. But, as I alluded to earlier, earmark reform is a useful thing to do, but it certainly cannot be the answer. It can be part of the answer.

Mrs. LUMMIS. Thank you.

Mr. Duvall, in the interest of controlling construction costs, which have been referenced, have you examined how much Davis-Bacon requirements have increased the cost of transportation projects?

Mr. DUVALL. Personally, I have not. There are a number of studies that refer to that, and you get a range of estimates. I think a number of States have—many of the major construction States have their own prevailing wage laws already, many Davis-Bacon. So the Federal policy doesn't have much of an impact at all there.

I will say, generally speaking, you know, national policies should be conducive to competition. But I think Davis-Bacon is in some ways an argument that is just not at the core of transforming our system in the U.S.

I would also say construction costs obviously were driven entirely or a lot by Chinese and Indian demand for commodities. That demand has collapsed. It is actually a great time to be constructing today relative to certainly a year ago; and, hopefully, that will sustain for the foreseeable future.

Mrs. LUMMIS. That is an excellent point.

Mr. Chairman, my next question is for Secretary Miller. You mention your goal of $545 billion in transportation funding through 2015; and that, of course, is beyond the capacity of the current highway trust fund. You mentioned a number of revenue sources. And, as our country battles this economic downturn, is now the time to be raising taxes which would have adverse economic consequences? And what alternatives could you recommend?

Ms. MILLER. Well, certainly I think as we look at the recession that we are in, you know, Congress, everyone, we are going to have to balance out what seems to be in the best economic interests of the country. I think certainly long-term quality investment is important. I think that you can see the creation of jobs that you get from a transportation program as being beneficial to an economy. Whether or not you feel that you can also raise taxes at that time I think is an open question.

But I also think that, severe though this recession may be, it is still ultimately going to be for a period of time and then our country is going to come out of this without question. And what we really need to be focused on is long term what should our investment level be in transportation and how should we get there. And if the short-term issue of the recession is that we can't do it today because of the recession, I certainly don't think it negates getting there; and I don't think that the length of the recession is going to be such that we can't start beginning to address it. And, ultimately, we will have to address it by looking at the issue of revenues.

Mrs. LUMMIS. Mr. Chairman, I certainly concur that deferring tax increases during tough economic times is a really good idea; and thank you very much, Mr. Chairman.

Chairman SPRATT. Thank you, Mrs. Lummis.

Mr. DOGGETT.

Mr. DOGGETT. Thank you, Mr. Chairman; and thank you for the testimony each of you have provided.

Dr. Atkinson, as you know, over one-fourth of the greenhouse gas emissions, the pollution that we have in greenhouse gases in this country comes from the transportation sector. In my hometown of Austin, Texas, the metropolitan planning organization has taken on its own initiative to place as one of the criteria in the planning process for long-range transportation plans and for the transportation improvement program how different projects affect greenhouse gas emission pollution. Do you think that is a desirable consideration for all of our MPOs and for transportation planning in general?

Mr. ATKINSON. Well, I may take somewhat of a heretical view here in the sense of, number one, speaking personally, I think that greenhouse gas emissions and global warming is a critical issue that we have to deal with as a Nation.

While I think that better land use planning—and, by the way, my Ph.D. is in city and regional planning, so I have long planning experience. While I think better land use planning is important and encouraging other modes is important, I don't think that can be the only answer. I think that, ultimately, the only sustainable answer is essentially nongasoline burning vehicles.

I really think that the only way to solve this—if you put in place all of the planning and zoning and other types of measures, we still are not going to reduce VMT very much just because of population growth, for no other reason. It is not to say we shouldn't take those steps. We could encourage those steps. But, at the end of the day, the real answer has got to be——

Mr. DOGGETT. I don't think my MPO has any zoning authority. It is just that one consideration that they used in developing their long-range transportation plans. I am just asking you if you think that should be a consideration in developing——

Mr. ATKINSON. I do think that it should be a consideration, as long as they also consider other factors as well and don't have that be the only factor.

Mr. DOGGETT. Of course.

Secretary Miller, as you know, for the first time in the economic recovery legislation we have provided that some of the funds would flow directly to metropolitan planning organizations. Has there been any problem with that in Kansas?

Ms. MILLER. Well, the suballocation to areas over 200,000, I mean, that has gone on in reauthorization bills long before this. So money going directly to areas over 200,000 is actually common in transportation. No, it certainly has not provided us with any problems.

Mr. DOGGETT. Giving them more authority over those allocations as we did in the economic recovery legislation has worked well in Kansas?

Ms. MILLER. Certainly the way it has worked in the economic stimulus bill is exactly the way we have always handled those funds in Kansas.

Mr. DOGGETT. Well, I certainly do think, as Dr. Atkinson said, developments here in Congress like the Republican road to nowhere, earmarking of that type does cause a lack of public confidence. In Texas, it has been the Texas Department of Public Transportation that has been—or the Texas Department of Transportation. There is not too much "public" in it in terms of funding any kind of rail systems—that has caused a great deal of public confidence. They are heavy on arrogance, and they are light on accountability. I am sure quite different than the way the Kansas department operates.

They, for example, took all of the economic recovery money that they spent in my home county and devoted it to one tollway exchange. They have devoted, I think, the largest proportion of the funds that they received in the economic recovery legislation to building tollways around Houston, while neglecting rural roads and many roads that may not be expressways but are the primary means of travel.

I just don't see any way to defend channeling more money to the Texas Department of Transportation, given the arrogance with which it has approached the transportation needs in our State, and certainly don't see any way to support a tax increase, given the way that they have chosen to allocate with a minimum amount of public input, unlike our metropolitan planning organizations, the dollars that they have just received which really provided a massive Federal bailout to Governor Perry and this mismanaged Texas Department of Transportation.

So while I am eager to address the concerns that each of you have raised, the idea of just channeling more money to a State agency that continues to have more arrogance than fiscal responsibility is not something that I can support.

I yield back.

Chairman SPRATT. Mr. Etheridge of North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman; and thank you for calling this hearing.

Let me thank each of you for being here.

When we start talking about our investments and infrastructure, we get a lot of support from a lot of folks. My question, though, is one of the challenges—one of the great challenges when we start talking about the upgrading of our national infrastructure, most folks when they hear—they are concerned about the road in front of their house or the street in front of their house. That sort of how they think of it. And if it is in good shape, the roads are okay. And if it is not, then somebody needs to be doing something.

So my question is this—and let me preface and ask Secretary Miller, you first, simply because I served in the State legislature. I chaired the appropriation subcommittee dealing with transportation. Then I chaired the overall appropriations committee.

It is amazing how parochial people get when it comes to appropriating money. And I am going to ask you another question about earmarks in just a minute, but my question to you is one that I think is difficult to deal with. We talk to you in terms of a broad spectrum of allocating resources, whatever percent that goes to State and whatever that may do. But it has been my experience the challenge is always the scrap between the urban and the rural. I would be interested in your thoughts, since Kansas has an awful lot of rural areas and concentrated urban areas, how that balance works out.

I know in North Carolina we have urban—which is called power funds, dedicated at the State level and Federal. I don't know how

Kansas does it. I would be interested in your thoughts of additional investments made, how you allocate that resource and make it work.

Ms. MILLER. You are exactly right. When you get right down to making the final decisions, it becomes very parochial; and a good decision is when it takes care of the roads you are most concerned about and the bad decision is when you are spending the money someplace else.

In terms of Kansas, we have been pretty successful as a State not tumbling too deeply into the rural/urban split. We have never divided our dollars up so that certain areas of the State are getting a set amount of money; and, to date, that has been acceptable. I sort of sense a greater rural/urban spat developing in our State.

One of the things we have tried to do as a State DOT in recent years—certainly I hope that none of our cities would describe us as arrogant or unwilling of having dollars spent. I spend a lot of time going to communities. We do what we call local consult meetings where we invite in regional people to talk about their priorities. We have tried to use collaborative decision making processes so people can have confidence in it; and one of the things we try to do is to help people understand that these are your regional concerns, but you need to understand these over here.

But I have to say certainly, any time I am in a regional area, they are most concerned about their projects. And it is just—as you know, you are a politician—it is just a balance. Everyone in the State has to feel like they have a fair opportunity; and they have to feel like at least if not always, at least at times, their needs are represented. And if we can't figure out some way to do that, we are just never going to be successful.

Mr. ETHERIDGE. It ultimately comes down to local politics at the end of the day.

Either one of you want to comment just briefly on it, or do you agree?

Mr. DUVALL. I think it is the major policy problem. I mean, coming up with a national framework is basically, as you said, driven by this problem in the U.S. North Carolina is a microcosm of the U.S., and policies in Charlotte should be very different than policies in the rest of the State. You have got different challenges.

In rural areas in most of the U.S., it is a maintenance, rehabilitation, and a safety problem. I mean, you have got a rural safety crisis, actually, in a lot of places in the U.S., particularly in the southeast; and I think you need a different policy prescription. Now, the question is, does the Federal program allow that? I mean, it is pretty flexible today, so it does. But does it take the next step, which is really kind of drive these solutions more efficiently. And that is——

Mr. ETHERIDGE. When you talk about safety, you are talking about really two different pots if you are talking about the allocation. Then you have got a safety issue that overrides the others you have to deal with.

Let me come back very quickly. Someone touched on earmarks, and I think folks around here get overly sensitive. And I think the truth is, whether it is earmarked at the Federal level, the State level or the local level or the council level, you have earmarks.

When you ultimately decide on who is going to get a road, as you said, Secretary Miller, it comes in front of my house, I am happy. If it goes in front of Dr. Atkinson's house and mine hasn't been fixed, you have earmarked that piece of money, wherever it came from. And most folks, whether they live in the urban sector or the rural sector, they really don't care. It is the road in front of their house. And as long as it is prudent—it is an interesting concept, but at the end of the day it is all driven—hopefully driven by good policy. But there are political decisions as you get to that policy.

Either one of you want to comment on that?

Ms. MILLER. Well, I would make a couple of comments. I want to be careful about what I say here, because I know earmarks really are a very sensitive issue.

I guess, first, I would say that over the years with our congressional delegation, we have worked closely with them; and I would have to credit them. They work regularly with our Department. We rarely get earmark dollars in our State that are not designed to be used on projects that I would describe as high priority. They are not frivolous places to spend money.

I have two observations that I think make the earmark situation difficult to deal with. One is that, increasingly, the planning process that is laid out in Federal law requires multiple steps, you know, a lot of collaboration. But an earmark project can just be written into law and all of a sudden it has the same or greater priority than projects that have been flowing through this planning process. So I think this inequity is developing in terms of how we get to things.

And then the final thing that tends to happen, there is a tendency—and we all fall into it because we are trying to balance out and make people happy—of giving smaller amounts of money to lots of projects. So we get a lot of earmarked projects which are $900,000 for a project that might ultimately might cost $75 million to build, and the $900,000 isn't even sufficient really to design the project. So we find some way to start using it, doing some planning processes and getting it started. Sometimes it certainly leads to a good project, but we are spending a lot of money doing some level of design. And I know all of the reasons why it is impossible to do this, but sometimes if we could at least put more money into fewer things but of more consequence, it would feel like we were getting somewhere with the process.

Mr. ETHERIDGE. And you also have got that at the State level, too?

Ms. MILLER. Absolutely.

Mr. ETHERIDGE. I would think it would be much greater there than at the Federal level.

Ms. MILLER. Just a very quick diversion. We have ultimately chosen to divide up money to all the cities and counties in the State of Kansas out of the recovery dollars so that they can choose their own project. We are right in that process. We used a formula to figure out what it was. But for the dollars we kept at the State level, we are only funding six projects. I think they are excellent projects. I feel like I can defend them to you. I can defend them to our State. I have not been criticized for it.

But when you only do six projects in a State, you certainly end up with lots of regions of the State who did not get a project; and there is a huge tendency to break it down into smaller but less significant pieces.

Mr. DUVALL. I think the other issue with the earmarks was mentioned. The outlay rate of the earmarks is significantly slower than the outlay rate of nonearmarks in the program. And that is because, you know, a lot of times, as was mentioned, the project costs are well in excess of the earmarks.

So the States take two strategies. They either divert money from other projects that are higher priority or they leave money lying around. And by the time—when I left the Department 7 weeks ago, we had estimated there is $13 billion in unobligated prior year earmarks. Now, all of those are not sitting around for years and years, but a lot of them were sitting around for years and years. So I think at a minimum there should be some provision that funds not spent within some period of time should be——

Mr. ETHERIDGE. Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Thank you, Mr. Etheridge.

Mr. BISHOP OF NEW YORK.

Mr. BISHOP. Thank you, Mr. Chairman; and I thank the panel.

Let me start—the questions that Congresswoman Lummis were asking certainly took the point of view that this is the wrong time to raise taxes. And I know that none of the three of you are economists. I am certainly not.

As I understand the recommendations of your committee, Mr. Atkinson, or your group, a 10 cent per mile increase in the gasoline tax would cost the average car owner approximately $60 a year per car, but it would generate approximately $20 billion worth of revenue that could then be used to invest in infrastructure projects. Is it not reasonable to assume that if there were, in fact, some sort of cataclysmic economic consequence from spending $60 more per year per car that that would be offset by spending $20 billion in infrastructure and creating or maintaining 8 or 900,000 jobs? Is that a reasonable assumption to make?

Mr. ATKINSON. Exactly reasonable. If taxes—if they are offset by spending—so you bring the money in but then you spend it, you have not created either an expansionary or a contractionary effect on the economy. It is neutral. So if you raise taxes in a downturn but then you don't increase spending—in other words, you reduce the deficit—that is contractionary. If you do surplus spending like the stimulus bill, that is expansionary. But if you raise the gas tax by 10 cents and then use all that money and get it out there into investment projects, that has no effect on the economy one way or the other in the short run.

Mr. BISHOP. Mr. Duvall, do you agree with that assessment?

Mr. ATKINSON. I think it depends on the quality of the investment. I do think it is a tough time to be taking money out of consumers' pockets now, even at the magnitude you are talking about. So if you do invest the funds to produce high returns, that is a different question. But, as I said in my testimony, I am not sure we have the mechanisms in place to produce really high returns.

Mr. BISHOP. Let us stay on that for a second, because there were two commissions. One was the Policy Commission, which your former boss chaired; and one was the commission that Dr. Atkinson chaired. The Policy Commission recommended an increase in the fuel tax of between 25 and 40 cents a gallon. Your recommendation was 10 cents a gallon. Secretary Peters issued a minority report in which she indicated that she did not support any increase in the fuel tax, either in the short run or the long run.

We have both a short-run and a long-run problem. It seems to me how we deal with the short-run problem makes the long-run problem either easier or more difficult to contend with. So if we were to follow Secretary Peters' recommendation—and based on what you just said, I am going to guess that you concur with her assessment—if we don't raise the fuel tax or come up with some other short-term mechanism of increasing funding into—or simply maintaining funding into the highway trust fund, if we were to then have a shortfall in investment, A, what do you see the implications of that being; and, B, how does that possibly make our long-term problem easier to contend with?

Mr. DUVALL. I guess my view is, now and then, is that you have got to reform the program before you can justify substantial tax increases, precisely because the question at the end of the day is what are we getting in this investment. It is a capital investment. Any investors should be looking at the returns that are going to generate from the investment, and I just don't think there is the confidence level right now.

It is not simply earmarking. I think there is a structural problem with the process requirements, with the allocation of resources at a very broad level.

So I guess my view is let us have a serious reform debate right now. Let us get the reform right and then let us talk about increased spending. Because I think increased spending could produce a lot of great things, or it could produce not a lot of great things.

Mr. BISHOP. Secretary Miller or Dr. Atkinson, could you respond to that?

Ms. MILLER. Well, one thing I would like to at least get on to the table is, if you are talking about a short-term and a long-term problem, there is also a short, short-term problem. That is the fact that, you know, we are likely not to have sufficient money to get beyond September of this year; and, absent any kind of action, there would be literally a 50 percent loss of funding in fiscal year 2010.

As we are moving beyond the recession, I think the point that spending on transportation create jobs and help sustain the economy is an important one; and I think that clearly has to be dealt with before we get to the issue of reform. AASHTO, along with a number of organizations, has called for performance measures, accountability techniques. I think there is absolutely no question if we are going to ask for additional monies so that we can make greater investments, we also have to be willing to show citizens what they are going to be getting for it in a transparent and accountable way; and I think we are ready and prepared to do that.

But I also think we can't put off dealing with any of the funding issues until we feel like we have got all the reform agendas right or we will really have tanked our national program.

Mr. BISHOP. Dr. Atkinson?

Mr. ATKINSON. One of the things that I think is important to realize from our perspective on the Commission is if you simply relied on solving this problem in the future just with the gas tax—in other words, a very large gas tax increase—you do reduce the move towards more innovative ways of raising funding in the future.

At the same time, though, if you don't do anything, you just say we are only going to wait for the reforms and the new innovative funding, our view is that the problem is so severe in the short run that really just isn't fair to Americans who have to face the system they have to face today. So that is why we came up with the 10 cent increase there, with the notion that it is a temporary measure.

Mr. BISHOP. It is a bridge——

Mr. ATKINSON. It is a bridge to somewhere.

Mr. BISHOP. Bad metaphor, perhaps.

Mr. DUVALL. Can I just say really quickly that I don't think it is going to take 10 years to reform some of these programs to achieve what we are talking about here. I mean—and maybe it is a semantics issue, but when I talk about reform, there are very kind of, you know, straightforward, relatively easy, tough politically but policy-wise relatively easy things to do to restructure this program to achieve better outcomes. And all I am saying is I wouldn't jettison those just because we have an urgent problem. That is part of the urgent problem, is fixing those issues, in my view.

Mr. BISHOP. Thank you.

My time has expired. Thank you, Mr. Chairman.

Chairman SPRATT. I beg your pardon. Mr. Schrader of Oregon.

Oh, Mr. Connolly, if you are here to claim your time, you are next. You barely made it.

Mr. CONNOLLY. Thank you, Mr. Chairman; and I appreciate very much our panel being here today.

I would like to ask two questions.

I have just spent the last 14 years in local government chairing one of the largest counties in the United States and have intersected with the Federal Government on almost everything we are talking about: big highway projects; big new interstates; the only Federally owned bridge in the United States, the Woodrow Wilson Bridge; and the largest single transit expansion in the United States, Rail to Dulles.

Rail to Dulles as an idea started 47 years ago. We signed the full funding grant agreement just last week. That is warp time in Federal Government context.

I believe that in my own experience—and I would like you to comment—that, frankly, the way we do transit versus highways and bridges absolutely discourages people from even looking at the transit option. The Federal Government pretty much is hands-off once it decides the size of the funding pie and the slice to go to your State with respect to roads and bridges. I mean, there is the need for process and so forth. But, by and large, it is up to Kansas to decide which projects to fund once it gets its Federal funding.

Not so in transit. In transit, you have to go through an enormous bureaucratic process. And, as Mr. Blumenauer indicated, it creates delays, just the very nature of the process itself, which adds cost.

The Federal Government decides on whether your financing program is viable, whether the public-private funding may work, whether you have met their environmental standards. They set a cost-effectiveness cap, which in my own opinion is, frankly, rather arbitrary. And all of that adds costs, all of that makes it very difficult to seek Federal funding or financing.

Here we are in the Nation's capital and the full funding grant agreement we agreed to last week will freeze Federal participation at $900 million, which means that the Federal participation in a rail line to the national capital airport, Dulles Airport, will be, at the most, 16 percent. What other OECD capital would that be true? That is certainly not what happened at Charles de Gaulle. It is certainly not what happened in London. It is certainly not what happened in Tokyo. It is certainly not what happened in Rome.

So I would like your comments on don't you think as we look at the Surface Reauthorization Act that maybe we need have more parity in the approach to transit as a funding spigot with roads and bridges so that more people might find it accessible and approachable?

And then the second question, if we get to it, just picking up on the whole idea of privatization, which I have also had a lot of experience with and I think it is both good and bad, but I would cite—Tyler, it is good to see you here today—the Dulles Greenway, which is a major toll road—piece of toll road out in Loudoun County getting commuters here to Washington, D.C., is entirely privately owned and privately operated. The problem is the costs of operation without public participation has risen so high that the tolls have become almost intolerable. We have even had Republican conservative Members of this body introduce legislation to cap private tolls on a private facility, which is an interesting point of view from an ideological point of view. So I just caution that privatization is not always a panacea.

If you would like to comment, we will start maybe with Dr. Atkinson.

Mr. ATKINSON. Well, thank you.

I can't really comment on the transit part, because it really wasn't our purview. But let me talk just a bit about the tolling question there.

I think one of the things that it reflects is that we underprice the system to begin with. So the fact that they are having to charge high prices means that that is what it costs to have an unsubsidized road. I think the answer is more towards moving to have people pay the full cost.

One of the problems with the challenge the Greenway faces is it is competing for free. So when I am out in Leesburg, I am making a choice. Do I want to come back to the District on 7, or do I want to come back to the Dulles Toll Road? I don't pay anything to go on 7 except time. And I think if I were paying something to go on to 7, in other words, a user charge, just like I was on the Greenway, it would make that balance work better, just like it makes the balance work better with transit.

Ms. MILLER. Well, Mr. Chairman, I am not the best conferee on behalf of AASHTO or our States to talk about—our State DOT doesn't own any of the big transit agencies. In our State, they are owned locally. But it has seemed to me also over the years that there are different approaches used by the Federal Transit Administration, Federal Highway Administration. I would concur with your basic premise that we need to have some parity, really, I think as we move forward into the future; and as we talk about issues to reform, I think that is one that should be on the table.

Mr. DUVALL. How are you doing, Congressman? Good to see you again.

I definitely agree that there is—it is basically a creature of the fact that you have got a discretionary program on the transit side and formula programs on the highway side. I think what you need to do is start adding some discretion at the Federal level on the highway side, create parity in terms of analysis.

You are 100 percent correct that it is extremely difficult to make discretionary decisions in the Federal Government. And I spent 7 years and—I mean, it was a huge frustration for us trying to get decisions through this morass.

So I think to the extent that Congress is going to be creating discretionary programs, they should really be looking at the processes that are required to produce decisions out of those programs, because you will undermine the efficacy of these programs to the extent you don't look at process requirements. And you are right. These process requirements are layered on top of State and metropolitan planning process requirements, which are also pretty severe.

So the short answer to your question is, you are correct. There needs to be some serious reevaluation of the process requirements for all discretionary programs.

Secondly, on the question of tolls or privatization, I agree with you that it is not a panacea to everything. But, to Rob's point, at the end of the day, the real question is, are the users of the Greenway paying approximately what it costs to be using the Greenway? The one thing the Greenway doesn't do is do more peak charging. You could have rush hour charges that are—they have some of it, but it is pretty weak. You could have free off-peak charges, that kind of stuff.

The reality is we haven't even scratched the surface for the level of discretion people have to shift trip times an hour or two hours. If we had a more dynamic system, my sense is, based on the travel data we have observed, that you will see people shift trip times by an hour and a half and save potentially 30 or 40 cents a mile to do so.

We just—employers would respond to that as well. Employers today I think are—obviously, particularly in Tyson's and other places, people are flooding these major hubs during rush hour precisely because there is not a real price incentive to operate more officially and to telecommute and to use other modes.

Mr. CONNOLLY. Thank you.

Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Schrader.

Mr. SCHRADER. Not to belabor the hearing, I appreciate everyone's patience, for goodness sakes.

A couple, I think, quick questions, one for Mr. Atkinson.

Did the Commission talk about or develop a 20-year time horizon to go from the fossil-fuel-based transportation system we now have to the vehicle miles traveled or weight mile or pick your alternative? Did they talk about how one—because businesses, obviously, like some sort of predictability; and I think consumers would enjoy that, too. Was there any discussion about how you would transition?

Mr. ATKINSON. There was. What we had proposed was essentially a process whereby this reauthorization would put in place a number of studies, pilot programs, projects that would help us get farther down the road in terms of things like a free pilot program dealing with issues of privacy, dealing with issues of how you would deal with people who don't have bank accounts and dealing with securities, how all that would work, with the idea that the next reauthorization, if everything is positive, then the decision to go forward could go forward.

The idea then would be that there would be some sort of in-vehicle requirement, that cars coming off the assembly line in some year, say, 2017—2017, let us say, would have this on-board unit. At some point shortly after that, there would be a decision that would say those cars with the onboard unit would be paying this VMT fee; cars without it wouldn't.

And then what would happen, in our view, is that over about a 10-year period you transition in the fleet. So, by 2030, you would then have cars that still—that are older would have to have an aftermarket installation; and then at some point every car would pay this VMT.

Mr. SCHRADER. I guess what I was looking at is more of an economic analysis, like the gas tax or the diesel tax we phased out at this rate over this period of time as we got to 10 years. And then as the—assuming technology——

Mr. ATKINSON. Yes. In our view, you really would not pay—no one would be paying both of those. So there would be—cars would only pay one or the other. And eventually at some point you would turn the switch and eliminate the gas tax or call it a carbon tax and do something else with it, but it wouldn't be used to fund the roads directly.

A key point is the issue of transparency and predictability. We do think you have to have a system that lets people know what they are going to have to be paying.

Mr. SCHRADER. Last comment. I guess I am a bit of the dinosaur generation.

The privacy issues are still a big deal; and until the new generation takes over, where I don't think they have quite the concerns that my generation does, I think you are going to be up against it when you come to the VMT system. Any consideration of doing just a cruder, less costly, simpler system using just a weight-mile-based system, at least for the business community, and then with the passenger community doing something based on type of car to induce smart technologies and that sort of thing?

Mr. ATKINSON. If the only concern is that you want to somehow pick up vehicles that use very little gas or no gas, plug-in hybrids or electrics, then a kind of odometer charging would be an okay way to do it. You would just—when you register your car every year, you pay on that basis.

I don't think, though, that ultimately that is the system that would give us the most performance. What we want to ideally have is a system that would be able to allow congestion charging or for trucks, for example, something that is more realtime related to weight and the type of road. So in trucking—in freight, for example, you could design a system that if you are on a road that is not engineered for a heavy vehicle you are going to pay more than if you are on a road that is engineered for that heavy vehicle. It would be hard to do that, practically impossible with just an odometer tax.

Ms. MILLER. There were just a couple of things that I wanted to add to the discussion.

One is that I sat on a committee of the Transportation Research Board that looked at the question of the long-term viability, the motor fuels tax a number of years ago and concluded that, in fact, it isn't sustainable and at that time said probably within 15 years we would need to transition. Many of the other reports have picked that up, and I would just like to point out that the report was actually released 3 years ago. So we continue to talk about this 15-year window to transition, but I am not sure it is that long.

Plus, while I can't predict, it just feels like, with all of the things that have been happening, that technology might start moving more rapidly. So I think if we are going to transition in this direction, we need to start getting serious about figuring out all of the steps. Because I think a lot of those issues are out there.

And the final thing I would say is I am currently sitting on a policy committee for the National Research Council that is looking at putting together a research agenda, if you will. And certainly the Commission's report had a lot of those elements, but a much more step by step by step as a country if we were serious here would be a recommendation of a funded program that could be put into authorization to help us move in the direction of the VMT tax.

Mr. SCHRADER. Thank you very much.

Chairman SPRATT. Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chair.

I have two questions, but I am going to make some brief comments. Part of that—that is Martin Sable up there from Minneapolis, and I am from St. Paul. So part of what I am concerned about is we are talking a lot about raising revenue for doing new construction. And we have the I-35 W Bridge which connected our cities. That fell down, and people lost their lives. We also know we have, in Minnesota, many other bridges, some as large and significant as the I-35 W bridge that crosses the Mississippi River, one of them in my district.

It has now—in part because of that bridge collapsing—has moved up in scale for Minn DOT for replacement. There is more urgency for this. But without more revenues, both at a State level and a local level, we will continue to fall behind in doing what we know we need to do for health and safety. So at some point if there is time, if someone wants to chime in and respond to my comment on that, I would be interested.

The question of legislative directives or earmarks, I will give you an example of a highway, one. All politics is local. I started at the city level, the State local, and the Federal level in finishing off a project. County road becomes a major highway, divides a city that is three square miles with the lake, the churches, the schools on one side, the business district on the other.

For over close to—getting close to 70 years, "We will fix it, we will give you an overpass, we will give you a State crossing." In the meantime, we have kids crossing the highway at dusk, no light, in the morning, in the ice, in the dark, four lanes of highway to go to high school. Takes 60 years to do it. I am very proud, both as a City Council Member, the State legislature, and then here in the Congress, I pushed for a legislative directive earmark so the kids aren't standing out in the cold in the dark crossing the street. And now it has even become a model project for the way it is being built from Minn DOT.

I would like to touch on rail and transit for my original questions on this. The longer you sit here, the more questions you have.

We have an option for fighting congestion in our cities, and that is going to be investments in transit and intercity rail. Heavy highway RAIF bills and commuter trains are an important part of our 21st century system. In many cases, these passenger trains will share corridors that are owned by private freight railroad. And some of the upgrades to do this, both the Federal and State governments will be making, will have a benefit, I believe, for the passenger rail but it also is going to benefit the freight rails.

So have you talked about any possible savings and efficiencies that might be gained by partnering with private railroads in these or corridor investments?

And then to touch a little bit about what was said about our transportation and transit starts.

Eight years we dealt with the new-start process in St. Paul, Minneapolis, and I think we paid for a lot of consultants. I think we paid for a lot of bureaucrats, and in my opinion, we are not building the best system because of the analysis that was in there.

So what advice for those of you who have worked on this could you maybe give us as we do our reauthorization. And as the Obama administration looks forward, how we should be doing new starts? In other words, so we don't just build something that isn't the smart, I like the fact that it was New Start, but we didn't build the smartest system available.

So if you could comment on rail, both heavy and light, and maybe some of your thoughts about not having kept up with inflation with our repair needs.

Ms. MILLER. I am sorry to say again I think in some cases, I don't think I am the best person to address some of the rail issues or the New Start issues because I haven't been as involved in them in our State.

In a couple of things in terms of rail, I think it is true and we do need to have a clear understanding we are talking about passenger rail service. We are generally doing that on freight rail lines, and that has a lot of consequences both in terms of the quality of service you can provide passengers but also what sort of upgrades we may need to the system in terms of siding so that we can have both surfaces continuing to move. And as you look at the projections for freight, for commercial freight rail system is going to be stressed as well.

And somehow or another, just those considerations need to be brought to the table, whether or not that is a viable way to build a passenger rail system utilizing the freight rail network, and if so, how you divide up those costs.

I think that is a legitimate one for consideration. It is certainly one I have a lot of concern about, and I have a lot of concern when I look at our State about the issue of freight rail movements generally because of what it does to communities and to traffic because of lack of rail grade separations. I think there are a lot of rail issues we will be dealing with in the next 20-30 years in our country.

The New Start program, I am afraid I can't address very well, but even on certainly on the highway side, you know, the average length of time it takes to get a project from conception to being under construction is far too long. One of the things AASHTO looked at is called project delivery, and our goal has become to come up with a project delivery mechanism so we can deliver better projects in half the time. And I think that is going to require both some loosening and changing of the Federal regulations, and quite frankly, it is going to require some changes just in terms of the way we do business that we have under our control.

One of the other issues, I think, that gets complicated in terms of the time frames, this certainly is a frustration for States' DOTs. I think everybody has their own frustrations, but we are very focused on delivering the project. But we have to get a sign-off from both State, local, and Federal institutions' resource agencies. And they don't always have the same goal that we do.

So being able to get all of those sign-offs at the same time is a difficulty, and I think creating some greater priority around participating in that process in a timely way would be very helpful.

But I don't know enough about the New Start program to know if that is a factor in those projects.

Mr. DUVALL. I will start with the back on New Starts. I do know a little about that.

I will say, as Congressman Connolly indicated, there is a lot of frustration from project sponsors. I would be a little careful about critiquing the quality of the work. I mean, the FTA career staff who work on this program are extremely good, recognized around the world as some of the best modelers and analysts with respect to transit investment. Obviously, they are working in processes that can themselves get politicized and layers and layers of approval.

Again, I don't have a specific experience with your—maybe I do—with your project. But the reality is it is a program that needs improvement. We need to look at the process time frames. But in terms of the quality of the analysis that is being done by these people, it is kind of State of the art, in my understanding, around the world. So they should always improve it.

On the rail side, I agree with you that private freight rail system in the U.S. is going to undergo some fairly substantial changes in the future. You have a lot of shippers that are concerned about pricing. At the same time, though, you have got a lot of railroads that have huge capital needs that they have got to reinvest in their own networks.

You are going to have to form public-private partnerships with these railroads to expand these lines. They own the right of way, they own the track, and you are going to need to sit down with them and explain these public investments. They will partner with you if there are opportunities to do so, though, obviously, they will be threatened if it appears you are coming in to try to mess around with the efficiencies of their network. So it requires a balance, but my sense is they are ready to talk. They are certainly willing to co-invest in some of these corridors that make sense.

Let me conclude on I-35. Obviously a horrific, terrible story.

Preservation and maintenance costs in the United States are rising, and we have got an expert here to my right. There is no question as to percentage total of cost that is going to be higher and higher in the future given the age of the system. So we need a dedicated commitment to restore the state of good repair on existing facilities. That said, bridge quality in the U.S. is actually a bit meaningfully better than it was 10 years ago. I think the percentage of structurally deficient bridges has fallen from 19 percent nationwide to about 12 percent today. That is still not great. But it is certainly getting better nationwide, but we need to continue to focus on that and ensure that the preservation and maintenance costs are covered.

Chairman SPRATT. Mr. Berry.

Mr. BERRY. Thank you, Mr. Chairman.

I thank all of you for taking your time to appear before the committee.

It seems to me we don't have any problems money won't solve. That is a good thing. And I certainly agree with your comments about setting priorities and getting focused on a few projects and finishing them before we start more. That just makes a whole lot of sense. We tried to follow that in our office as we do this. But I appreciate all of the other ideas that you have brought to us today, and hopefully we are going to be able to look at some of those and be able to come up with a way to get this job done.

Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Garrett.

Mr. GARRETT. Good afternoon. I appreciate the chairman for having this meeting.

First of all, I acknowledge, as I am sure my colleagues all have, the extraordinary importance that our Nation's infrastructure plays in this country and our economy in going forward and must be addressed.

And most, I presume, are the folks who spoke before me who have probably advocated for more in additional spending as the solution to the problems that face us.

But I think you have to dig in the weeds a little bit more and say, Well, reform is probably needed, maybe the reform is actually how we spend the money instead of just saying more money thrown into the pot, for a couple of reasons.

One is that the distribution of highway funds has increasingly become politicized over the years. Some folks talked about the earmark situation. But just the overall nature of how the funds are distributed is politicization at its best.

And secondly, I think it is true that with additional funding simply coming from Washington, the facts show that it has not increased the mobility and has not necessarily improved the condition of our infrastructure. I cite for that a 2005 support American Society of Civil Engineers issued a national infrastructure report card and roads received a D, stating that poor road conditions cost motorists $54 billion in repairs and $275 per motorist and so on.

They had recently released an update to that report in 2009, and now we have moved from D to D-minus. So throwing the money at it through Washington in the mechanism that we are doing right now may not be the way to do it.

Let me throw this out to you. Instead of having the decision making made here primarily from Washington, should not the decision making actually be made by the folks back at home who are actually using the roads and know what is best for them? I have cited, for year in and year out, when we have these meetings, examples of when I talk to my local county road department engineers and what have you, Their preferences on how to spend funds and what projects they would like to do and how they would like to spend it.

But they would tell us, you know, Scott, we would like to fix this road over here or repair this bridge over here. We are restrained in certain ways, shapes, and forms through Washington that we have to build it with so much of an edging with a guard rail over here and a "this" on over here, they are restricted.

So to that end, I have drawn legislation over the years and I think the last DOT Commissioner suggested there may be some merit to this to allow states to simply opt out of the Federal transportation system and allow the States to keep their own money in their own respective States and not send it to Washington so that they actually keep that 18 some-odd cents transportation dollar and make the decisions at home.

What is wrong with allowing those decisions to be made locally and without the encumbrances of Washington so long as we can address the issue of interconnectivity and the like.

Ms. MILLER. I will start with that, Congressman.

One, to begin with, the premise that AFCE first has shown a D and then a D-minus, I don't think you can get around the fact that we have simply been underinvesting. And even smart processes in a grossly underinvested world is going to give you deteriorated systems. Everybody can throw out all sorts of statistics in terms of the huge growth we have had in vehicle miles traveled as contrasted to the increases in the size of the system.

But I think there is no question that while reform is necessary, and I think, you know, for one, as our country grows, as technology changes, as our needs change, we always need to be modernizing and updating and improving our processes. And I am not sure we have kept pace with that.

So I certainly don't disagree with the notion of reform. But I would say that to say all we need to do is reform is inaccurate. It is an investment problem, and we do need investment resources.

I am not from a State that would advocate just turning the Federal program back to State DOTs.

A couple of things I would say about that is one, with very few exceptions, our State is making the decisions about where we invest our transportation dollars. We use very collaborative processes, and I think—not that you could not find critics, because there always are—I think you would find a high level of satisfaction, generally speaking in terms of the processes we use, in terms of my state.

Mr. GARRETT. So in your State, you find out that your folks back at home aren't smart enough to do this by themselves; they need Washington to do this?

Ms. MILLER. I don't feel we are being directed inappropriately by Washington. Generally speaking, the State dollars that flow, particularly on the highway side, the terminology that has been used is a federally assisted State selected system of projects, and that is generally what we have found. I don't feel that we have been mandated to select projects that do not make sense for our State. I have seen very little evidence of that.

And the final thing I would say, and in some ways this is my own philosophy or conclusion working in this area, I think there is a huge national interest in a transportation system that matters to our country and our economy. And while I am and have spent most of my working career working at the State level and would staunchly defend our credibility and our capability, I don't think managing a national need for transportation through 50 State DOTs gives you the system that you need to serve our national needs.

And I think increasingly, we see freight issues and we sea port issues that are having a major impact on our ability to have an efficient transportation system, and those issues are not going to be solved if you simply flow the program through State DOTs.

So I don't philosophically believe that we are going to get the right answers for our Nation if what we do is simply turn the Federal program back.

Mr. ATKINSON. This, as you may know, was a question that we were required by our authorizing legislation to address and we did in the report. And there is an appendix in the report that looks at that question.

We did agree as a commission that we didn't think an opt-out approach right now was the best way to go. We didn't agree actually on what the right Federal role was. We agreed on that, but we didn't have full agreement on the right Federal role.

But one of the areas I do think, though, I guess our concern with that would be really two-fold. One was the issue around connectivity and national needs, and the second was the ability to raise sufficient funds if States are acting only on their own.

The needs are so great right now. We are investing about a third of what we really need to invest.

Having said that, I do think that your point is right on the mark which is about giving States the flexibility to do what they need to do. The reason States don't have the flexibility to do what they can do is because there is no accountability. So we have, instead, substituted a system of bureaucratic regulation for accountability.

And if we move to a system that was more based on accountability, one would argue that you could move away from some of the restrictions and give States more choice.

Mr. DUVALL. Rob's comments are, I think, right on. You have a program today that is national in scope but certainly they are not national programs. There is the New Starts program, which is a national discretionary transit program. On the highway side, there was a project of national regional significance program that was entirely earmarked.

So there isn't any discretion at the Federal level to do much of anything other than the TIFIA program or the New Starts program from an investment standpoint. There is a lot of discretion over processes, but those have become somewhat rigid. So we are not achieving the right outcomes particularly related to the process requirements that we are imposing.

I think if you had a system of national programs that were trying to achieve clearly-defined national objections, the program could work. But that is what precisely what we don't have today.

Chairman SPRATT. Thank you, Mr. Garrett.

Anything further?

Ms. KAPTUR.

Ms. KAPTUR. Thank you, Mr. Chairman.

My questions center on two areas, and I apologize for not being here earlier. I read the testimony. I was at a defense hearing so I am coming here second this morning.

My concerns involve tolls, and then the other area I wanted to discuss this morning a little bit was high speed rail.

In the area of tolls, I know that particularly, Mr. Duvall, I think you have been considering efforts to increase private investments and State and local use of tolling. And as you do that, do you see a decreased role for the Federal Government in transportation funding?

And I wanted to just share an experience in Ohio with you on the tolling issue because what I really see as a shifting in the tax burden. I haven't really seen a savings on to the public in all of this. And there is an increased cost to users on toll roads. I happen to represent the longest segment of the Ohio Turnpike. And in the 50 years of its existence, it hasn't gotten a dime of Federal money even though it is I-80/90.

And when I was first elected, I began to look at where do all of those Federal gas tax dollars in Ohio go. And boy, did I find them. They went into freeways—underline "free"—to the public on I-30, on I-70, going through Columbus so through Finley to wall-to-wall Indiana to Pennsylvania all the way down our State. And I am looking at our area saying, Oh, this is interesting.

So we have got a double tourniquet. We are taxed on the Federal gas tax, the money goes to Washington, and then we are tolled on this Ohio Turnpike. So our people are really doubly taxed, but they don't get the benefit. The benefit goes to other places in the State that don't have toll roads that use all of this Federal money. And we have never gotten a dime.

My argument is they ought to make it free and we ought to get our money back up north, the area of the State with the highest utility rates and the highest level of unemployment right now. It's just very interesting to me.

So toll roads don't always work in the way you think in benefits. It benefits certain individuals, but it doesn't really benefit the region, in my opinion.

So I wanted you to comment on that, Mr. Duvall and Ms. Miller.

Mr. DUVALL. There is no question when you kind of pursue isolated toll lanes that it can create some distortions and inequities. That said, I mean, it is a compared-to-what question. You have got a road that has a stable revenue stream in that facility. You can recapitalize the asset if you need to. I assume the revenues are not going off to education and other purposes on the Ohio turnpike?

Ms. KAPTUR. They tried.

Mr. DUVALL. Well, beat them back.

That is precisely what is being talked about which is a creation of a self-financing mechanism so that every 6 years you are not trying to—you, as you said, the Ohio Turnpike may not be benefiting from Federal grants, but it is certainly benefiting from the facts that it has got more than one stable cash flow in the United States. So they can maintain it, they can preserve it, and they can upgrade it.

Now, as you said, as a policy matter, it is better to have a broadbased tolling strategy if you are going to do tolling because you can reduce some of the unfairness and distortions and incentives to use other facilities that are untolled.

But all in all, I think it is better to have toll facilities and turnpikes that are continuing to generate revenues. They preserve your options, your policy flexibility. I know a number of States have talked about taking tolls off. I think as a policy matter, that would probably be a long-term mistake.

Ms. KAPTUR. The thing is if you encourage the growth of other regions, which is what is happening with Federal highway dollars because you offer them free roads, unimpeded travel, then this part of the State that I represent, which has been so economically challenged is really disadvantaged in the flow of Federal dollars.

So it depends on how broad your—how you define the economic area. And I wanted to place that on the table.

I have very little time left, and I wanted to ask Ms. Miller in the area of high speed rail. Again, northern Ohio, Cleveland to Chicago corridor, Chicago to St. Louis corridor. What are some of your thoughts of how we finance and maintain a high speed rail system.

Ms. MILLER. I wish I had some good quality thoughts on that. We talked briefly and earlier this morning about the notion of a national high speed rail network and AASHTO, in its recommendations for authorization, recommended that there be a national high speed rail program at roughly $35 billion over a 6 years period of time but that the funding come from outside the Highway Trust Fund.

Certainly, we have got a long list of possible revenue approaches to consider, but how that program would be funded is, I think, an open question. I think that there is a great deal of public interest and appetite for moving to a high speed network. But I don't think the funding mechanisms are as clear.

Ms. KAPTUR. Thank you.

Mr. Atkinson, did you have a comment on that?

Mr. ATKINSON. I just had one on with your concern to the toll road in Ohio.

I think part of your concern is that the users there are paying twice and the users of a free road are only paying once. And I think in some ways that is one of the reasons why the Commission unanimously supported moving to a VMT, because if there was a VMT that you people were paying to drive on a road, then everybody would pay the same essentially the same rate, if you will. So people driving on the free road would also be paying, people driving on your road wouldn't be paying the gas tax anymore; and it would make these systems much more equitable than what we have today where some people are twice and some people are only paying once.

Ms. KAPTUR. Would that be hard to administer?

Mr. ATKINSON. It would certainly be a little more difficult to administer than what we have today, but we think it certainly could be easily administered. That is one of the things we need to be focusing on in this reauthorization. The Dutch are doing this, the Danes are doing this. You would administer this very effectively.

Chairman SPRATT. Just to wrap up.

Most of the questions I had have been asked by others and answered. I go back several years when it appeared that we had excess reserves in our Highway Trust Fund, and those who are the advocates for more highways, more infrastructure insisted that these are user fees that weren't being used, and that was a breach of faith with the citizens who had paid that amount of money. So we came up with a compromise that largely washed out the reserves and left us this year where we are about to be short of money.

Do you think in calculating what we need to fund this program, which is substantial and substantially more than we provided in the budgets at hand, do you think we need to also build in a significant reserve fund in case we have cyclical developments in the economy that wipe out the reserve fund from time to time?

Mr. ATKINSON. I think the issue of reserve funds and the trustworthiness of the Highway Trust Fund are what happens to those reserve funds are they siphoned off, and what happens to the interest and what—the position we have taken is that interest should be stayed within the Highway Trust Fund. If that is the case, then building up reserves to me is not a problem and frankly is a good thing to do to give you a cushion when there are problematic times.

Ms. MILLER. I was going to say I, too, remember, as I used to say, our rallying cry was let us spend down the balances. That has happened and that happened in spades. So I think indisputably if you are going to have a trust fund, you do have to have some level of balance because there is always going to be some cyclical nature to it. While there was a period of time where the balances were much too high and weren't defensible, now we are in a situation where there are not adequate balances.

Mr. DUVALL. I think for planning purposes, what we have discovered in the last few years you can get yourself into trouble pretty quickly. Demand changes have pretty big impacts.

The other thing is some of the taxes in the fund are pretty volatile taxes, particularly the heavy truck sales tax which swings literally $2 to $3 billion every 5 years. I think some of the components are excessively volatile for what you are trying to achieve.

Chairman SPRATT. At that point in time there was also a popular prescription, and that is, let us get out of this business. Let us remit most of these taxes, if not all, back to the States and decide how they should be used State to State.

As I heard what you are all saying in one form or another, the Federal Government has to be a participant in this process and a lead participant because of the magnitude of the requirement and the significance of the shortfall. Without the Federal Government, we will simply guarantee that there are not enough resources to get the basically required infrastructure built, renewed and maintained.

Am I reading it wrong or right?

Mr. ATKINSON. No. I think that is the one of the major conclusions of our commissioned report with the caveat being that as other members have said today and other speakers have said, that reform is an important point.

Mr. GARRETT. I have seen the report, and I felt the addendum was short on addressing what we are looking for in there.

If that is the case, that is presupposed that somehow or another the Federal Government is able to produce this source of income, whereas the States can't. At the end of the day, it all comes from the motoring public out of a gasoline tax or a VMT tax. It all comes from the respective States. It is not—well we do have a Fed that prints money now, but prior to that date it comes from the States.

So it is the same pot of money. It is who is going to be the one to shift it around. And I guess I go to Ms. Kaptur's comments. In her State, she is not able to shift it around quite the way she and her constituency would like to see it shifted around. And they are more than willing to pay for it in their own States. So it is not—we are not making money down here. We are taking it and shifting it around.

So why is that any better?

Mr. ATKINSON. I think just a couple of factors on that.

One is there is some reluctance of States to raise fuel taxes producing smaller States where there is cross-border issues where people feel like if their tax is too high, the residents will go across State lines to get cheaper gas. And so that does limit, to some extent, the States relying on their own.

However, if we move to a VMT fee, you don't pay based upon where you bought your petroleum. You pay on where you are using the system. A VMT would reduce that distortion. And maybe that is something that needs to be looked at farther down the line.

Chairman SPRATT. Thank you once again for your testimony, for your excellent answers and forthright answers.

I would ask as a housekeeping matter that unanimous consent be given so that all members can submit an opening statement and, in addition, any questions for the witnesses which they were not able to ask today.

Thank you again for your testimony.

[Questions for the record and their responses follow:]

QUESTIONS FOR THE RECORD SUBMITTED BY MR. ADERHOLT

DR. ATKINSON TESTIMONY

The Commission's report maintains it is critical to move to a vehicle-miles-traveled [VMT] tax to sustain the Highway Trust Fund in the long term. I represent a district with little or no public transportation. The vast majority of my constituents commute in their vehicles, some over long distances. With a VMT tax, would low-income groups be subsidized? If so, what was the Commission's definition of "low income" for determining who should pay?

Given the current economic environment, can you tell me what would be the impact on the economy, climbing out of a recession, of an immediate 10-cents-per-gallon increase in the gasoline tax and a 15-cents-per-gallon increase on diesel fuel.

SECRETARY MILLER TESTIMONY

Has AASHTO (American Association of State Highway Transportation Officials) examined how much Federal mandates such as Davis-Bacon and Buy America requirements increase the cost of Federal-aid or transit projects, as well as the impact of similar State and local requirements?

Do you support increasing the Federal gasoline tax, and if so, why?

MR. DUVALL TESTIMONY

GAO has concluded that the current Federal surface transportation spending has a very large substitution effect (states/localities substitute Federal spending for their own such that overall aggregate infrastructure spending does not increase). Before we spend more or raise the gas tax, how would you address this?

Given that States and localities choose, plan, design, construct, and maintain most surface transportation projects and finance some or all of their transportation spending with a state gasoline tax, what is the essential Federal role and mission?

RESPONSES TO MR. ADERHOLT'S QUESTIONS FROM MR. ATKINSON

1. The Commission's report maintains it is critical to move to a vehicle-miles-traveled [VMT] tax to sustain the Highway Trust Fund in the long term. I represent a district with little or no public transportation. The vast majority of my constituents commute in their vehicles, some over long distances. With a VMT tax, would low-income groups be subsidized? If so, what was the Commission's definition of "low income" for determining who should pay?

While it is not exactly clear, it is likely that moving to a VMT user fee would have no differential impact on rural drivers relative to what they currently pay under the fuel taxes, assuming that they two are overall revenue neutral. The reason is that drivers now essentially pay by the mile, its just that the tax is applied to the burning of fuel. So if a rural driver has a car that gets 20 mpg and they drive 40 miles round trip to work each day, he will pay 36.8 cents per day in federal fuel taxes. If they pay a VMT fee of 0.92 cents per mile they will also pay 36.8 cents in fuel taxes. If an urban driver drives 10 miles a day to and from work in a car that gets 20 mpg, he will pay 9.2 cents in gas taxes and 9.2 cents in VMT. One issue that could lead to differences between urban and rural users with a VMT concerns fuel efficiency. If rural users (and low income users) drive less fuel efficient cars (e.g., older cars) than urban drivers, then a revenue neutral shift to a VMT would actually lead them to pay less than they would under a gas tax. To answer your specific question, the Commission did not define "low income."

2. Given the current economic environment, can you tell me what would be the impact on the economy, climbing out of a recession, of an immediate 10-cents-per-gallon increase in the gasoline tax and a 15-cents-per-gallon increase on diesel fuel?

The answer depends on whether the revenues are invested back into the economy and when. If the monies were collected without an increase in spending then their would be a contractionary effect on the economy. In contrast, if all the revenues raised were immediately invested back into the surface transportation system then their would be neither a stimulative nor a contractionary effect on the economy. If the there was a delay between when the tax revenues are collected and when they are expended then there would be a modest contractionary effect during this one-time initial phase-in period. However, if policy makers and the federal and state DOTs are aware of the tax increase and the likely increase in revenues they could plan for this in their expenditure plans.

[Whereupon, at 12:34 p.m., the committee was adjourned.]

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