Testimony of

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On Behalf of

THE AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Regarding

The Importance of Long-Term Surface Transportation Authorization in Sustaining Economic Recovery

Before the

Committee on Transportation and Infrastructure
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Mr. Chairman, Ranking Member Duncan, and Members of the Committee, I am. Carlos Braceras, Deputy Director of the Utah Department of Transportation and Secretary-Treasurer of the American Association of State Highway and Transportation Officials (AASHTO). Today I am appearing on behalf of AASHTO, which represents the departments of transportation in the fifty states, the District of Columbia and Puerto Rico.

First, I want to thank you, Mr. Chairman and Ranking Member Mr. Duncan, for holding this important hearing on the importance of a multi-year surface transportation authorization bill to replace the expiring SAFETEA-LU Act, as well as for your leadership in ensuring continuity of highway program funding just as we hit our stride in deploying economic recovery dollars.

Today I would like to cover three points:

- Transportation is a critical engine of the American economy, and we must continue to invest public resources at all levels of government in America's transportation system.

- We must have a predictable, well-funded, multi-year authorization measure that acknowledges and reinforces the long-standing federal-state partnership in financing and administering the federal highway program and in delivering a quality surface transportation system.

- Today we face an immediate crisis with an imminent shortfall in the Highway Trust Fund that must be addressed before Congress recesses for its August work period.

We must continue to invest public resources in America's transportation system to tackle today's challenges. We must continue to invest public resources in America's transportation system to tackle today's challenges, including congestion, connectivity, access, climate change and energy security, and to lay a sound, realistic, and practical foundation for a revitalized economy equipped to meet the needs of a growing and changing society.

Investment levels must keep up with growth in highway travel and transit ridership, we must address a massive investment backlog, and normal wear and tear on the system is substantial. In the *2009 Highway, Bridge and Transit Bottom Line Report*, AASHTO concluded that

- Between 2010 and 2015, an annual capital investment of $166 billion for highways and bridges is necessary to improve the condition and performance of the system, given travel growth at 1.4 percent per year. If travel growth is held to about 1.0 percent a year, then the needed capital investment would come to $132 billion per year. These are model-based investment estimates and reflect all projects, including expansion projects, for which benefits exceed costs. Additional investment requirements not covered by the model, including for example, environmental mitigation, highway operations, safety, and security, would add another $13 billion per year. Furthermore, major reconstruction of our aging Interstate Highway System will be required and those costs, which could be dramatic, are also not included in the modeled numbers and cannot be estimated at this point.

- In 2006, highway capital investment from all levels of government totaled $78.7 billion, according to the U.S. Federal Highway Administration (FHWA).

- An annual investment of $46 billion for public transportation is necessary to improve system performance and condition, given an expected 2.4 percent annual growth in ridership. If ridership growth rises to 3.5 percent, the level that would double ridership in 20 years, then the investment in public transportation would have to increase to $59 billion per year.

- In 2006, transit capital investment from all levels of government totaled $13.3 billion, according to the American Public Transportation Association.

These investment requirements are substantial but has an even larger economic payoff. Capital investment in our national surface transportation infrastructure is fundamentally different from other kinds of government operations spending. Investing in transportation assets that last 50 to 100 years or more produces economic and societal benefits for many generations to come. <u>Moreover, it creates and sustains good-paying American jobs.</u>

We must have a predictable, well-funded, multi-year authorization measure that acknowledges and reinforces the long-standing federal-state partnership. Building and preserving highway and transit systems require long lead times. Collaboration and coordination, planning, designing, funding and constructing projects takes years. The lead times that are needed for long-term planning and multiyear construction necessitate a long-term, stable funding commitment. Therefore, investment in our surface transportation infrastructure requires a predictable, well-funded, multi-year authorization measure that acknowledges and reinforces the long-standing highly successful federal-state partnership in delivering a surface transportation system that meets our social, economic and environmental needs.

AASHTO has spent two years developing principles and policies to help define what is needed for a long-term surface transportation program which incorporates substantial reform. Many of the key themes around program structure and accountability are reflected in the bill introduced by Transportation and Infrastructure Committee Chairman James Oberstar. Nevertheless, we have substantial concerns regarding many of the details of this bill and look forward to working with this committee to address those concerns. **Simply put, we want a well funded, six year bill that respects the essential role of the states in administering and delivering the surface transportation program.**

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

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

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

In September of 2008, when the U.S. Department of Transportation (U.S. DOT) announced that insolvency of the highway program was imminent, Congress transferred $8 billion back into the Trust Fund from the General Fund to enable U.S.DOT to honor the commitments made to the States through the end of Fiscal Year 2009. That action kept the program solvent and enabled billions in highway investments to continue. Unfortunately, we now know that will not be enough to sustain the program until September 30, 2009 and without an immediate fix, U.S.DOT will not be able to honor the commitments to the states for all of FY 2009. We estimate that $8 billion will be necessary to meet those commitments.

A second facet of the Trust Fund short-term funding crisis relates to what happens in Fiscal Year 2010. While AASHTO is committed to doing all we can to assist you in getting a new long-term authorization bill on schedule, the possibility remains that additional time will be required for the House, Senate and Administration to agree on a final bill. Interim funding should be provided to assure that there is no interruption in the highway program in Fiscal Year 2010 which begins on October 1, 2009. Therefore, we urge you to transfer sufficient funds into the Highway Trust Fund to assure that interim funding, if needed, will be at adequate levels. We concur with the Administration's estimate that an additional $10-$12 billion would be necessary for this purpose.

Failure to act would have devastating effects. If the Highway Trust Fund becomes insolvent before the end of this fiscal year, States will likely suspend new contract awards, halt right-of-way acquisition, and look for ways to stop on-going construction while maintaining public safety. If interim funding for FY 2010 is not available, then the federal highway program will have to be cut back to $5.7 billion, or 86 percent below the current program level, and States will have to reduce their programs by a similar amount. Given the severity of the current recession, States will not be in a position to step in and fill the void, plans will be put on hold or cancelled, contracts will be terminated, resulting in plant closures and layoffs.

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

AASHTO recently surveyed the States to ascertain the effect of a major reduction. At the time of the survey we projected a 35 percent reduction in the program. States responded and the following data sample shows the negative impacts of a major reduction.

State	FY 2010 Reduced Level	Number of Affected Projects	Dollar Value of Affected Projects	State Comments
ARIZONA	$436,826,558	17	$300,000,000	While the ARRA funding offset a portion of these reductions, an additional $300 million cut would negate the positive impact that the ARRA funding had in Arizona. It would severely impact ADOT's construction program and the Arizona economy by eliminating virtually every major project from the program in 2010 outside of the Phoenix metro area.
CONNECTICUT	$271,582,747	59	$151,200,000	If obligation authority was provided in FY2010 at the same level as FY2009, ConnDOT could start an additional 59 projects with the additional $151.2 million. These are the projects that would not proceed under the 35% ceiling reduction scenario.
GEORGIA	$746,516,328	n/a	$397,326,417	If this anticipated reduction in funding occurs, the need to maintain the existing infrastruction would virtually consume the limited funding provided and essentially eliminate some programs as well as constrict most all new construction.
KENTUCKY	$365,636,425	50 to 75	$202,500,000	With state road fund receipts continuing to decline, our state program has already been cut dramatically. While ARRA funds will help in the short-term, the long-term sustainability of our highway program in Kentucky is uncertain without an adequately funded and prioritized federal program. Kentucky operates on a cash flow basis and any changes or delays in federal reimbursement have to be carried by our state road fund. With ever shrinking state road fund cash balances, Kentucky cannot afford to carry reimbursements any longer than necessary.
MICHIGAN	$590,918,727	215	$400,000,000	Reductions in federal-aid at the proposed 35% level would adversely affect an already economically depressed economy. When FY 2009 apportioned program funding is combined with funding from ARRA, our drop in funding is 67% (from $1.8 billion to $591 million). This would result in 30,000 fewer jobs than is supported by the overall level of federal funding Michigan received in FY 2009.
MISSOURI	$490,242,398	59	$414,000,000	It will negate any job creation and economic benefits associated with ARRA funding in 2010. The loss would be catastrophic to Missouri's transportation system.
NEW HAMPSHIRE	$92,609,976	40	$57,000,000	NH relies solely on federal funds for transportation program with very limited direct State funding, so such significant reductions in federal funds would correspondingly significantly affect the State program.
NEW YORK	$914,849,737	102	$468,393,070	Would result in the loss of 13,100 construction jobs (based on FHWA coefficients).
NORTH CAROLINA	$600,800,707	400	$300,000,000	The proposed reduction could affect our State's GARVEE abilities and may influence the rate of our upcoming sale. The proposed reduction is approximately 50% of the amount of ARRA transportation funding just received, which in essence reduces the intended economic impact by half.
NORTH DAKOTA	$130,451,970	76	$94,300,000	NDDOT's own pavement-management-system estimation tool indicates that a 35% decrease in funding would mean that within 2 years NDDOT's overall system condition would drop into "Fair" condition and in less than 20 years would drop into "Poor" condition.
OREGON	$234,603,774	100+	$138,000,000	The cuts would come sooner than otherwise required because ODOT does not have sufficient balances in the state highway fund to cushion the federal cut. It is likely that basic pavement preservation, bridge, and maintenance would sustain the bulk of the cuts.
PENNSYLVANIA	$915,977,986	115	$528,000,000	The reduction of $528 million immediately following the "ramp-up" of ARRA monies will dramatically impact construction contractors and consultant engineering firms not to mention delay of greatly needed highway and bridge repair.
RHODE ISLAND	$101,190,176	20	$60,000,000	If the funding is reduced, we would not be able to begin any new transportation construction projects during FY2010 as the funding received would have to be used to pay GARVEE debt service and to continue funding projects already underway using advanced construction.
TEXAS	$1,867,967,643	96	$2,800,000,000	This level of reduction would result in no new construction or added capacity projects being awarded in Texas for the entire year. It would also result in our annual letting being reduced from a total of $4.357 billion to only $1.600 billion.
UTAH	$165,695,761	n/a	$73,000,000	If the predicted Highway Trust Fund shortfall occurs the cost/benefit of these dollars will be worse, as lower funding levels would require a shift to a more reactive type project.
VERMONT	$82,992,948	n/a	$50,000,000	Although it is too early to tentatively identify any specific project, it is clear that such a reduction would essentially negate any positive impact from the FFY-10 economic stimulus funds provided to Vermont. Like other small States caught in the economic recession, with an already high tax burden, we do not have the option of generating additional State funding to compensate for such a large reduction in federal funding.
WISCONSIN	$419,247,634	206	$223,400,000	Not only will current deficiencies go untreated, most will cost significantly more to address in the future.

Mr. Chairman, to summarize, the looming funding shortfall is consuming our attention, and we find ourselves at a crossroads. Will we step up and increase Trust Fund resources so that the Trust Fund can meet the short-term and long-term investment needs of the Nation? Or will we allow the Trust Fund to wither away—instead funding national surface transportation investment through the uncertainties of the annual Federal appropriations process or by relying more heavily on state and local governments to contribute a greater share of resources, which will be needed to sustain a viable, productive and economically competitive surface transportation system. These are essentially our choices.

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

Mr. Chairman and Members of the Committee, thank you for the opportunity to testify and share our views. I will be happy to answer any questions you may have.