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# REAUTHORIZATION OF THE INTER-MODAL SURFACE TRANSPORTATION EFFICIENCY ACT OF 1991 (ISTEA)

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(104-77)

## HEARINGS

BEFORE THE  
SUBCOMMITTEE ON  
SURFACE TRANSPORTATION  
OF THE  
COMMITTEE ON  
TRANSPORTATION AND  
INFRASTRUCTURE  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTH CONGRESS  
SECOND SESSION

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March 28, 1996 (Importance of Transportation Infrastructure Investments to the Nation's Future)

May 2 and 7, 1996 (Federal Role for Transportation and National Interests)

May 16, 1996 (Transportation Finance in an Era of Scarce Resources—The Highway Trust Fund)

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# **ISTEA REAUTHORIZATION: THE IMPORTANCE OF TRANSPORTATION AND INFRASTRUCTURE INVESTMENTS TO THE NATION'S FUTURE**

**THURSDAY, MARCH 28, 1996**

**U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON SURFACE TRANSPORTATION,  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,  
Washington, DC.**

The subcommittee met, pursuant to notice, at 11:31 a.m. in room 2167, Rayburn House Office Building, Hon. Thomas E. Petri (chairman of the subcommittee) presiding.

Mr. PETRI. The subcommittee will come to order.

I'd like to welcome those who are here for the kickoff hearing on the reauthorization of ISTEA. The 1991 ISTEA law expires on September 30, 1997, and it's my intention that Congress have passed a new authorization well in advance of that date.

Today's hearing is the first step of a long journey. It's the first step in a series of comprehensive hearings that this subcommittee will hold to examine all facets of ISTEA, which authorizes the Nation's highway, transit, research, safety, and motor carrier programs. I expect that these hearings will continue throughout the rest of this year.

As we begin the ISTEA reauthorization process, I look forward to continuing to work closely with Chairman Bud Shuster, with my democratic colleagues, Nick Rahall and Jim Oberstar, as well as all members of the committee as we conduct these hearings and as we work to write the reauthorization legislation.

Today's kickoff hearing will feature a panel of nationally-renowned economists and forecasters who will speak to the future demands on our transportation system. This is a very appropriate start to the reauthorization process. Transportation projects take many years to plan and build.

The types of transportation improvements that are financed with the Federal funds authorized in this next surface transportation bill will form the basis of the transportation system of the future.

Just as the highways, bridges, and transit systems of today were first planned years, and in some cases decades ago, transportation infrastructure of tomorrow will be determined in the next few years.

We already know all too well that our current transportation needs are not being met. The most recent Department of Transportation needs report estimates that the current shortfall in capital

expenditures for highways and bridges approached 30 percent. The average age for transit and para-transit vehicles is beyond their useful life. We also know that it will take a substantial investment just to maintain our current system.

We will also explore the contribution that transportation investment makes to our economy and to our productivity. This importance certainly cannot be overlooked. We spend roughly \$1 trillion on various modes of transportation, and an efficient transportation network is essential to move goods and people throughout the United States.

Public investment in highways and transit is necessary to support public investment and to support private investment, as well, and to ensure that we maintain, if not improve, our economic prosperity and continue to grow into the future.

So I look forward to hearing from our panel of witnesses regarding this aspect of transportation spending and how we can achieve the greatest benefits from the wise investment of transportation dollars.

I know that other Members may wish to make statements. I think Mr. Rahall is on his way and will be here shortly. We've been joined by our colleague from Texas, Bernice Johnson, and from Ohio, Tom Sawyer. We would like to welcome you both. Do either of you have any opening statements you'd like to make at all?

Mr. SAWYER. Mr. Chairman, I don't have an opening statement. I just want to thank you for calling this timely hearing and look forward to my first hearing as a member of the subcommittee. I hope to learn a lot.

Mr. PETRI. Very good.

Mrs. Johnson?

Mrs. JOHNSON. Thank you, Mr. Chairman. Thank you for having this committee meeting. I want to express my desire and elicit support to have a field hearing in Texas, preferably Dallas, as we plan our schedules.

Thank you.

[The prepared statements of Mrs. Johnson, Mr. Poshard, and Mr. Borski follow.]



**Opening Statement for Congresswoman Eddie Bernice Johnson (D-TX)  
Reauthorization of the ISTEA  
March 28, 1996**

**Mr. Chairman, first let me commend you and the rest of the Subcommittee members for holding the beginning of what is expected to be a series of important hearings in reference to the reauthorization of ISTEA, the Intermodal Surface Transportation Efficiency Act, which is set to expire in September of 1997.**

**This legislation - passed with bipartisan support - led America into a new transportation era following completion of the Interstate Highway System. In the intervening years, this landmark law has accomplished its primary objectives: encouraging more efficient investment of federal transportation dollars, placing a greater reliance on state and local decision making, and spurring new partnerships among various transportation providers and stakeholders.**

**While debating the reauthorization of ISTEA, I would implore to my colleagues to remember that through this important piece of legislation we should not only strengthen our ability to compete but also help build strong regional economies, preserve and strengthen**



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**partnerships and help meet the nation's diverse needs.**

**Mr. Chairman, it is my opinion that to help meet these diverse needs, my State of Texas, will play an integral part in the reauthorization of ISTEA. To successfully compete with other countries in the global marketplace in this post-Interstate era, we must take steps now to develop the system that will move our goods and people efficiently into the next century. The I-35 corridor in my district is important to international trade with Canada and Mexico and that is why I am suggesting that a regional hearing be held in the State of Texas so that the Subcommittee will receive hands on knowledge of how the State will be an essential link among the modes and facilities that make up the total transportation network that span the continent. It is also my belief, Mr. Chairman, that the Subcommittee will see that the benefits of making investments in this system are significant to economic growth, national security, intermodal connectivity, system connectivity, commercial vehicle compatibility, safety, and the ability to accommodate expanded trade between the United States, Canada, and Mexico.**

**Mr. Chairman, I hope you and the members of this Subcommittee will join me and my colleagues of the North Texas delegation in welcoming you to the Dallas/Fort Worth, North Texas area to emphasize the impact the I-35 corridor will have on surface transportation laws.**

**OPENING STATEMENT**

**Congressman Glenn Poshard  
of Illinois**

**Transportation and Infrastructure Committee: Subcommittee on Surface Transportation**

**ISTEA Reauthorization Kick-Off Hearing**

**March 28, 1996**

Thank you Mr. Chairman. I want to thank our panelists for being with us this morning, and thank you Mr. Chairman for holding this hearing on the reauthorization of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA).

This hearing will focus on surface transportation needs in the future and the importance of transportation infrastructure investment to the country. ISTEA reauthorization is important to the people I represent, and I look forward to working with all Members to craft a bill that reflects the Committee's continued dedication to improving of our nation's transportation infrastructure.

Rep. Robert A. Borski  
Subcommittee on Surface Transportation  
Opening Statement  
March 28, 1996

MR. CHAIRMAN, I WANT TO THANK YOU AND RANKING MEMBER RAHALL FOR MOVING AHEAD WITH A COMPREHENSIVE SET OF HEARINGS ON THE REAUTHORIZATION OF OUR SURFACE TRANSPORTATION PROGRAMS.

AS SOMEONE WHO SERVED ON THE ISTEA CONFERENCE IN 1991, I KNOW WHAT A HUGE TASK YOU HAVE AHEAD OF YOU. THIS LEGISLATION TOUCHES EVERY COMMUNITY AND EVERY INDIVIDUAL IN THIS NATION, SO THE DECISIONS WE MAKE WILL HAVE A MAJOR, LONG-LASTING IMPACT.

ISTEA WAS TRULY LANDMARK LEGISLATION THAT STANDS AS A TRIBUTE TO OUR FORMER CHAIRMAN, MR. ROE, AND OUR PRESENT CHAIRMAN, MR. SHUSTER.

ISTEA STANDS AS A CLEAR MARKER, MR. CHAIRMAN, BETWEEN THE BUILDING OF THE INTERSTATE HIGHWAY SYSTEM AND THE RECOGNITION THAT TRANSPORTATION POLICY MUST ADDRESS A BROADER SET OF ISSUES SUCH AS URBAN CONGESTION, AIR QUALITY, INNOVATIVE FINANCING, NEW TECHNOLOGIES, AND INTERMODALISM.

UNDER ISTEA, FOR THE FIRST TIME, LOCAL OFFICIALS WERE BROUGHT INTO THE TRANSPORTATION PLANNING AND PROGRAMMING PROCESSES IN A MEANINGFUL WAY.

THEY WERE EVEN GIVEN THEIR OWN SOURCE OF MONEY SO THEY WOULD NOT BE DEPENDENT ON STATE TRANSPORTATION DEPARTMENTS DURING THE DECISION-MAKING PROCESS.

ABOVE ALL, MR. CHAIRMAN, THE HALLMARK OF ISTEA WAS FLEXIBILITY -- THE AUTHORITY FOR STATE AND LOCAL OFFICIALS TO MAKE INVESTMENT DECISIONS BASED ON THEIR OWN DETERMINATION OF TRANSPORTATION NEEDS.

STATE AND LOCAL DECISIONS WOULD NO LONGER BE PRE-DETERMINED BY DECISIONS MADE IN WASHINGTON ABOUT FUNDING, MATCHING SHARE AND VARYING PROCEDURAL REQUIREMENTS, SUCH AS THE ALTERNATIVES ANALYSIS REQUIRED FOR TRANSIT BUT NOT FOR HIGHWAYS.

ISTEA WAS ABOUT BETTER, MORE EFFECTIVE WAYS OF INVESTING OUR DOLLARS TO MEET THE TRANSPORTATION NEEDS OF OUR COUNTRY.

MR. CHAIRMAN, I HAVE A TREMENDOUS CONCERN THAT IN ALL THE BATTLING OVER REDUCING SPENDING AND BALANCING THE BUDGET, OUR NATION'S INVESTMENT AGENDA IS BEING NEGLECTED.

THERE HAS BEEN NOBODY AT THE TABLE SPEAKING FOR THE INFRASTRUCTURE INVESTMENT AGENDA AND MAKING THE CASE THAT INVESTMENT MEANS LONG-TERM ECONOMIC GROWTH.

IT IS ESSENTIAL THAT WE MAKE THE CASE FOR PLACING INFRASTRUCTURE INVESTMENT AT THE TOP OF OUR NATION'S AGENDA WITH A PUSH FOR INCREASED INVESTMENT ACROSS-THE-BOARD.

AT THE SAME TIME, IT IS IMPORTANT THAT WE CONTINUE THE POLICIES THAT WERE BEGUN IN ISTEA OF ADDRESSING A BROAD RANGE OF TRANSPORTATION ISSUES.

IT IS CRITICAL THAT THE REAUTHORIZATION HAVE AS ITS MAJOR FOCUS SOLUTIONS TO THE NUMBER ONE TRANSPORTATION ISSUE IN OUR COUNTRY -- URBAN CONGESTION.

OUR METROPOLITAN AREAS ARE WHERE THE PEOPLE ARE, THEY ARE WHERE THE VEHICLES -- CARS AND TRUCKS -- ARE, AND THEY ARE WHERE MOST FREIGHT SHIPMENTS BEGIN AND END.

WITH ALL DUE RESPECT TO THE DONOR STATES, THE METROPOLITAN AREAS ARE WHERE MOST GAS TAX MONEY IS COLLECTED.

FOR PEOPLE WHO LIVE IN THE LARGE METROPOLITAN AREAS, WHETHER THEY LIVE IN DONOR STATES OR DOWN STATES, THEIR MONEY IS GOING TO SOLVE SOMEONE ELSE'S TRANSPORTATION PROBLEMS.

JUST AS ITS TIME TO ADDRESS TO DONOR STATE ISSUE, IT IS TIME TO ADDRESS THE 40-YEAR FLOW OF TRANSPORTATION MONEY OUT OF METROPOLITAN AREAS.

IF TRANSPORTATION INVESTMENT MEANS JOBS AND ECONOMIC GROWTH, THE NATION'S METROPOLITAN AREAS ARE BEING PUT AT A SEVERE DISADVANTAGE.

I KNOW IT'S NOT FASHIONABLE TO TALK ABOUT THE PROBLEMS OF CITIES BUT WE DESERVE TO HAVE A MORE LEVEL PLAYING FIELD.

I KNOW IT'S MORE DIFFICULT -- AND LESS REWARDING -- TO DEVELOP TRANSPORTATION SOLUTIONS IN URBAN AREAS. BUT IF THE CITIES GET THE MONEY THEY DESERVE, THEY WILL SOLVE THEIR TRANSPORTATION PROBLEMS.

IN PENNSYLVANIA, THE FIVE-COUNTY PHILADELPHIA REGION IS RECEIVING ONLY ABOUT HALF OF WHAT IT SHOULD FROM THE STATE ON ANY MEASUREMENT -- POPULATION OR TAXES PAID. WE'RE GETTING 21 PER CENT OF THE STATE'S TRANSPORTATION INVESTMENT INSTEAD OF 40 PER CENT.

IF WE HAD THAT MONEY, THERE'S A LOT THAT COULD BE DONE TO MEET THE NEEDS OF OUR REGION. IN SOME CASES, ROADS WOULD BE BUILT.

IN OTHERS TRANSPORTATION PLANNERS COULD LOOK AT ALTERNATIVES -- TRANSIT, ADVANCED TECHNOLOGIES, OR REBUILDING OF EXISTING ROADS.

THAT'S THE WAY ISTEA IS SUPPOSED TO WORK -- AND IN MANY CASES IT HAS. JUST LAST WEEK, THE SURFACE TRANSPORTATION POLICY PROJECT HELD A CITIZENS HEARING IN WHICH PEOPLE FROM ALL OVER THE COUNTRY RECOUNTED THEIR SUCCESS STORIES.

BUT THERE'S MORE THAT CAN BE DONE. TRANSPORTATION IN THE 1990'S MEANS MORE THAN HIGHWAY BUILDING. THE SOLUTIONS OF THE 1950'S MAY BE GOOD FOR SOME AREAS BUT NOT FOR OTHERS.

LOCAL OFFICIALS MUST BE GIVEN THE AUTHORITY TO CHOOSE THE SOLUTIONS FOR THEIR OWN COMMUNITIES FROM A BROAD RANGE OF OPTIONS.

FINALLY, MR. CHAIRMAN, LOCAL OFFICIALS MUST HAVE THE MONEY TO MAKE THE DECISION-MAKING AUTHORITY SOMETHING REAL.

IF WE DON'T TAKE STEPS TO RETURN THE MONEY TO METROPOLITAN AREAS THAT PAY THE TAXES, WE ARE CONTINUING A MASSIVE 40-YEAR SUBSIDY OF RURAL AREAS BY THE NATION'S CITIES AND SUBURBS.

I HOPE, MR. CHAIRMAN, THAT THE SUBCOMMITTEE WILL LOOK AT THIS TRULY IMPORTANT ISSUE DURING THE HEARINGS.



Mr. PETRI. Thank you. Yes. We have been, as you know, working with your office and that of other Members of the Texas delegation, as well as State and other officials, in hopes of having either a hearing or at least a sort of inspection tour to several sites, both in southern California and California generally and Texas, and perhaps other places in the country. There is a lot going on along our southern border—it's going on everywhere, but particularly along our southern border—and we want to be made current on that.

We're joined by a distinguished panel of four transportation experts, and I think we may as well take it from the top, unless you've arranged a different procedure.

Dr. T.R. Lakshmanan is the director of Bureau of Transportation Statistics of the U.S. Department of Transportation. Welcome. We look forward to your remarks.

**TESTIMONY OF T. R. LAKSHMANAN, DIRECTOR, BUREAU OF TRANSPORTATION STATISTICS (BTS), U.S. DEPARTMENT OF TRANSPORTATION, WASHINGTON, DC; DAMIAN J. KULASH, PRESIDENT AND CEO, ENO TRANSPORTATION FOUNDATION, INC., LANSDOWNE, VA; DAVID L. GREEN, SENIOR RESEARCH STAFF MEMBER, CENTER FOR TRANSPORTATION ANALYSIS, OAK RIDGE NATIONAL LABORATORY, LOCKHEED-MARTIN ENERGY RESEARCH CORPORATION, OAK RIDGE, TN; RANDALL W. EBERTS, EXECUTIVE DIRECTOR, W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH, KALAMAZOO, MI**

Mr. LAKSHMANAN. Thank you, Mr. Chairman and members of the committee. I thank you for the opportunity to appear today to testify on the state and performance of the U.S. transportation system.

I have submitted written testimony, which I request be entered into the record.

As I discuss the transportation challenges we face, let me briefly review as to where we are, what demographic and economic factors signal change in the transportation system, and the implication of these changes.

The U.S. transportation system is large, complex, and dynamic, and offers its residents the highest level of personal mobility in the world.

In 1994, transportation activities accounted for 11 percent of the economy. Comparable numbers would be 14 percent for health, 7 percent for education, and food, for example, 12 percent.

The dynamism in the transport sector is evident in the growth of the economic productivity of the transportation carriers, which are progressively out-pacing the productivity of the overall economy, reflecting the effects of deregulation and technological change.

Let me also note that transport infrastructure reduces the costs of logistics and production and contributes to economic growth and productivity, as a clear majority of recent empirical studies in the U.S., Europe, and Asia clearly attest.

While fatalities, injuries, and environmental damage from transportation continue to adversely affect our society, the system, over the last 20 years, has become safer and cleaner, even while the amount of travel and freight have increased sharply.

Despite this progress, data from the last 2 or 3 years show some steady increase in highway fatalities, in air emissions, and THE tapering off of the energy efficiency gains that have experienced in the last 2 decades.

Such recent trends in these unintended consequences of transportation need to be closely watched in the years to come.

The factors that may contribute to the demand for future personal travel include demographic factors as: population growth, labor force growth, domestic migration patterns, immigration, evolution of women's travel, and growth in travel by the young, the old, and persons of low income. I discuss these factors in my testimony, and would be happy to elaborate on them later.

The prevailing view of where we are headed is that the pace of aggregate growth in transportation demand in the next decade or so is likely to be more moderate than in the recent past.

Even under this scenario of moderate growth, the transportation system will undergo major changes in response to ongoing technological change, economic restructuring, and market volatility. Such major changes take four forms.

First is *sectoral change*. The American economy is dematerializing from a can energy and material-intensive system to a knowledge-intensive economy, in the process favoring transportation services that are fast and flexible.

The second is *structural change* taking place in transport logistics and in the production system.

These developments have far-reaching impacts in terms of dynamic changes in both what is transported and how it is transported. In such a context, the ability of different factors in an intermodal system to effectively communicate, cooperate, or compete will require efficient connections among different modes. In other words, technological or efficiency improvements in the dynamic transport industries are possible only with improved coordination between both private and public intermodal factors—implying the need for a number of institutional innovations, in order to promote further technical change and productivity gains.

Another form of change is *spatial*, or geographic. One of the more swift and dramatic spatial shifts in the last decade and a half is the recent east-west Pacific-oriented flows of freight in the United States.

Finally, *external change*—in the globalizing U.S. economy where exports are increasingly important, the likely explosive growth in population, urbanization, and the consequent transportation demand in Asia and Latin America offer high opportunities for the U.S. export of vehicles, engineering services, technologies, and management services. These developments may lead, in the next decade or more, to more business travel and freight movement.

So our ability to predict the exact nature of these changes at the turn of the millennium is somewhat limited. This uncertainty, in my view, requires flexible response to changing situations.

The U.S. Congress anticipated this need when it enacted ISTEA, the Intermodal Surface Transportation Efficiency Act, which, in addition to investment-oriented capacity expansion, provides for flexible, management-oriented strategies. In ISTEA, Congress emphasized consideration of technology, information, management, flexi-

bility, and an inclusive coordinating form of decision-making at the State and local levels.

The forces and trends I described here, and in more detail in the prepared testimony, were beginning to be evident in 1991 as ISTEA was formulated. These forces and trends are continuing and are likely to strengthen as the technology and the organizational forces play out in the future.

The flexible ISTEA strategy is a good hedge against the uncertainty that is likely to confront us in the next decades and beyond.

Mr. Chairman, this concludes my prepared remarks.

Mr. PETRI. Thank you very much. There will be questions when the full panel is complete, and we thank you for your testimony.

Mr. RAHALL, did you want to make an opening statement?

Mr. RAHALL. Thank you, Mr. Chairman. I apologize for being a few minutes late, and I do commend you for not only your punctuality, but for our timeliness—early timeliness in which you have called these hearings on topics relating to the reauthorization of the Federal aid to highway and transit programs.

As we all know, these programs are embodied in the Intermodal Surface Transportation Efficiency Act of 1991, which expires at the end of fiscal year 1997.

I believe one of the fundamental questions we face on this subcommittee is going to be: do we engage in a substantial rewrite of ISTEA, or do we maintain the act pretty much as it is and extend it for several more years?

Mr. Chairman, Thomas Jefferson once wrote, "Some men look at constitutions with sanctimonious reverence and deem them like the Ark of the Covenant—too sacred to be touched. They ascribe to the men of the preceding age a wisdom more than human, and suppose what they did to be beyond amendment."

I think those are fitting words as we begin the consideration of the post-ISTEA era. I, for one, do not view ISTEA with sanctimonious reverence, and I certainly do not ascribe to the men and women of the preceding age who drafted ISTEA as having a wisdom more than human. Now certainly some would say that those members of this distinguished committee, like Bob Roe, Bud Shuster, Norm Minata, Tom Petri, Jim Oberstar, and Nick Rahall, were wise in what they were doing, but as to having a wisdom more than human, well, even for politicians that's something more than we can claim, except perhaps for our full committee chairman, Chairman Shuster.

But to the question: do I believe ISTEA to be beyond amendment? Certainly not. However, I do not believe that it is fitting to engage in a substantial rewrite of that law during the reauthorization process, either.

ISTEA, as we've heard and will continue to hear from our witnesses today, sought to revolutionize the way the Federal Government views the surface transportation requirements of our Nation. Yes, increased flexibility in the use of Federal funds; yes, the promotion of innovative financing; yes, the greater emphasis on planning and increased sensitivity to the environment all, of course, are mainstays of that act. However, revolution of the type envisioned by ISTEA takes time. They take time.

To date, I think that we have made a great deal of progress in implementing the ISTEA revolution, but I also believe it will take more than 6 years to fully realize the benefits to our society and our economy of the types of reforms that we made in ISTEA.

So my bottom line, Mr. Chairman, is I will be advocating that we stay the course in this reauthorization process. Certainly we should not turn a blind eye to suggestions for improvements or further innovations.

I do not suppose what we did to be beyond amendment in ISTEA, but I would suggest that we not turn back the clock to pre-1991, to the days before the enactment of ISTEA.

With that, Mr. Chairman, I again commend you for the early time in which you called these hearings on the reauthorization process.

Mr. PETRI. Thank you. We look forward to an extensive series of hearings, and are happy that we're having a distinguished panel to kick them off.

Our second panelist is Damian Kulash, president and CEO of Eno Transportation Foundation of Lansdowne, Virginia. Welcome. We look forward to your statement.

Mr. KULASH. Thank you, Mr. Chairman and members of the committee. It's a pleasure to be here to talk to you today about the economic implications of transportation investments.

I, too, commend this committee not only for starting these hearings when you're starting them, but for starting them on the subject you're starting them on, namely, the national economic returns on transportation investment.

I think all too often, as you get into the reauthorization process and the hearings that go with it, the discussion turns and focuses on all the site-specific, route-specific, project-specific details of the thing. Those are very important, as you well know, but the transportation investment that this committee makes also has profound effects on the whole economy, not just transportation carriers, not just on users of the transportation system, but on everything we make and sell in this country.

That was clearly shown in an analysis that's just now recently been completed by Ishaq Nadiri that points out the rate of return on our investment in the highway stock in this country. He found that during the 1950s and 1960s that investment had a return of about 35 percent. During the 1980s it had dwindled down to about 10 percent.

If you look at just the non-local roads, somewhat analogous to the national highway system, you find that even in the 1980s this investment was returning 16 percent—still substantially better than most private capital could do, and better, I think, than the return that's found for other Government investments.

This is somewhat puzzling and exciting. It's puzzling because we don't quite know why this pattern of very high returns, tapering off somewhat in the last three or four decades has occurred, but it's exciting because it goes against the grain of much conventional economic thinking that says a dollar spent on transportation facilities is just like a dollar spent any place else.

Why is there this economic difference? If you look at the development of this country, you see that the economic development from

the time of the ports, the railroads throughout our history, that economic development has always traced transportation development.

Economists that have looked at development of other nations have observed that infrastructure revolutions have always preceded industrial revolutions.

There has been a presumption, I think, among many economists that once you've reached development everything's in equilibrium and you don't need to separate out transportation investments as having special returns, but recent experience is showing this is not so. A study also to be completed this year by the World Bank shows that this rate of return does not diminish as countries industrialize. They found a return of some 22 percent on their transport projects, compared to 15 percent for other investments that they make.

So, in short, the investment in transportation infrastructure appears to have yielded surprisingly large returns above that that has been experienced in other private parts of the economy and higher than that associated with other Government expenditures.

Where do these returns come from? It's because the benefits of this investment benefit the whole system, not just specific projects. They end up having productivity improvements throughout American industry.

For example, just-in-time delivery systems allow companies to reduce their inventories, build smaller storage facilities, greatly reduce their handling costs, provide higher levels of service to customers. The extensive highway system and other transportation facilities allow companies to reach broader labor markets and such other factors of production. They allow them to reach a broader sales territory and achieve new economies of scale in production.

You can see these benefits if you look at Coca-Cola or GM or Campbell's Soup or any other major U.S. corporation. They're not enjoyed strictly by transportation interests; they're enjoyed throughout the economy. And this also shows up in the Nadiri analysis that looks at 35 different industrial sectors and finds that these benefits are spread throughout the economy.

But what of the future? As you look at the highway reauthorization here and specific programs like the National Highway System, can you expect a return of 16 percent, 22 percent, 35 percent? Where? And how does it apply to your decisions?

The Administration's recent budget shows an expenditure this coming year of about \$7 billion a year for the national highway system. If you put that together with matching local State funds, that might come to something like \$15 billion national investment in that system. That is beneath the levels of support that are estimated to be needed by the Federal Highway Administration—about \$21.5 billion a year just to maintain the system, or about \$29.5 billion if we try to improve that system.

So there is a significant shortfall in this budget. Why? Well, if you look at the growth in the highway trust fund during the next six periods they forecast, that grows from \$21 billion to \$60 billion, so we're deferring highway investment, if you will, to achieve deficit reduction goals.

Is that the strategy that this committee will wish to take when it gets into its hearings? One thing I would certainly urge you to take into account are these rates of return. If it's a 16 percent rate of return, your investment pays off in 6 years. If it's 22 percent, it pays off in 4 years. If it's 35, it pays off in less than 3 years.

I don't know which of those numbers best fits the investment in the national highway system, but I would observe that they are all significantly beneath the 7 years in which you're trying to balance the budget. And if you are a private firm looking at these same numbers, that is not an investment that you would defer.

Thank you, Mr. Chairman.

Mr. PETRI. Thank you.

Our third witness is Dr. David L. Graen, who is the senior research staff member of the Center for Transportation Analysis, Oak Ridge National Laboratory, Oak Ridge, Tennessee.

Welcome, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman and members of the committee. I'm happy to be here today. I've been asked to address the likely future growth of surface transport in the U.S., and I hope that my testimony, which will focus on quantitative issues, will prove to be useful to the committee.

My basic point is pretty simple: we should not be surprised if surface transport, and particularly highway vehicle travel—we should be surprised if it does not grow in rates in the vicinity of about 2 percent a year for the next 25 years. That would imply a total increase by the year 2020 of about 65 percent in highway vehicle miles.

This reasoning is based on historical trends, which are very consistent, and based on population and economic projections that suggest a population growing at 1 percent per year or less, and an economy growing at about 2 percent a year. It is also based on likely trends and travel behavior, which I'll say more about in a moment.

I would like to direct your attention to Exhibit 1 in my written testimony, which shows the long-term trends in light-duty vehicle travel for all U.S. roads from the 1950s to the present. There are only two periods of time in which vehicle travel decline. Those were following the oil price shocks of the 1970s.

I've also plotted on this graph the annual growth rate in vehicle travel. The dashed line shows the actual annual growth rates, and the solid line with squares shows the 10-year average growth rates. I think the 10-year average growth rate is more indicative of long-term trends.

These growth rates were in the vicinity of 4 percent through the 1950s and 1960s, 4 percent annually, declining down into the range of about 3 percent annually through the 1970s and 1980s.

This fairly consistent rate of growth in travel I think suggests that it would take a major change in our society for travel to grow at significantly lower rates in the future. It does suggest a gradual decline in the rate of growth of vehicle travel.

The forecasts which I present in my testimony are based primarily on demographic projections, income growth, the cost of transport, and assumptions about the speed of transport.

I'd like to direct your attention to Exhibit 2, which illustrates the very significant differences in passenger miles of travel by highway for all age groups, for the various age groups in the population, but it also shows that travel has been increasing over time for all of these age groups.

There is a 23 percent increase in travel, as shown in the nationwide personal transportation survey, from 1983 to 1990, which is very consistent across all age groups. It's due to a variety of factors, which I address in the written testimony.

But vehicle miles of travel has been increasing faster, and the reason it's been increasing faster is that vehicle occupancy rates have been declining. A decline in vehicle occupancy rates in the United States is a long-term trend that shows up in all of transportation surveys, starting from 1972, when the number of passengers per vehicle was about 2.1, all the way to the most recent 1990 survey, which shows a vehicle occupancy rate of 1.6. The decline in vehicle occupancy rates, alone, added 1 percent per year to the growth in vehicle travel.

Obviously, this is going to slow in the future, and my forecast suggests about a half a percent a year increase in vehicle travel due to further declines in vehicle occupancy.

I'd like to direct your attention to Exhibit 3, which highlights another—which I think is one of the most significant potentials for growth in personal travel in the United States in the coming decades, and that is the still-significant gap between the travel behavior of men and women.

The passenger miles traveled by women is about 80 percent of that of men, and there is a gap in nearly all age groups, although that gap seems to be larger for the older population. There is an even more significant gap in the amount of driving that women do per vehicle mile traveled.

If these rates were to converge in the future, this would accelerate another source of acceleration of the rate of travel growth in the U.S.

Employing a range of assumptions about these various factors, and based on census projections of population growth, one can come up with a range of future vehicle travel growth rates from 1.6 to 2.3 percent for the next 25 years. This suggests that by 2020 light duty vehicle travel in the U.S., cars and light trucks, will be somewhere between 50 and 75 percent higher than it is today.

As Dr. Lakshmanan pointed out, freight ton miles are fundamentally related to GDP, and we do see a dematerialization of the economy that is fewer freight ton miles per dollar of GDP over time, but it's a slow dematerialization and it implies that, in an economy growing at about 2 percent a year, we would see a growth rate in freight ton miles of about 1.5 percent a year over this period.

Combining the dematerialization of the economy with the increasing value of freight, value per ton, and declining load factors for trucks—load factors have been declining at about 3/10ths of a percent per year—leads to the conclusion that truck travel is also likely to grow at rates of 2 percent a year or higher.

I believe that the prediction that highway travel will increase at about 2 percent a year for the next quarter century is relatively robust, based, as it is, on a population growing at 1 percent, an econ-

omy growing at 2 percent, and the extrapolation of fairly well-established secular trends in travel behavior.

I would not be surprised if highway vehicle travel, especially for heavy trucks, grew at slightly higher rates, but it would require major changes in the cost or speed of highway travel for it to grow at significantly lower rates.

Thank you.

Mr. PETRI. Thank you.

We have a series of votes, but I think we probably, if we adhere to the 5-minute rule, can conclude with Dr. Randall Eberts' opening remarks. He's the executive director of the Upjohn Institute for Employment Research in Michigan.

We welcome you and look forward to your statement.

Mr. EBERTS. Thank you. I'm pleased to be given the opportunity to appear before this committee to testify on the importance of transportation infrastructure to the Nation's future economic prosperity.

There should be no doubt in anyone's mind that transportation infrastructure is the backbone of our market economy; therefore, in considering reauthorizing the Intermodal Surface Transportation Efficiency Act, the question is not whether the existing highway system is important, but rather what is the best strategy for additional investment in transportation infrastructure.

Five years ago, when Congress began to deliberate on what eventually became ISTEA, policy makers were told of a large deficit in infrastructure investment and how this deficit was linked to the general slow-down in U.S. productivity growth. Estimates were offered that showed high returns to the economy from additional infrastructure investment.

The prospects of high returns to Government capital stock shows that infrastructure investment is critical for economic development and future prosperity.

Today we benefit from even more research that we've heard about today already here in these hearings. These results point to two important considerations for infrastructure policy.

First, public capital stock shares the stage with private capital investment, research and development, and education and training as the most important factors contributing to U.S. productivity growth.

Second, there are significant regional and sectoral imbalances in meeting transportation needs, and these must be addressed. The Nation benefits from a system of highways that appears to be meeting the current needs of the economy, but this system is maturing and considerable investment is needed to maintain and enhance the system to meet future needs.

The Nation depends upon its extensive highway system. Highways are the primary means by which businesses transport their products and markets are linked together. More than 70 percent of the Nation's manufactured goods are transported by trucks.

A recent survey that we conducted of midwest manufacturers underscores their dependence upon trucks to deliver their products within 24 hours to customers located up to 500 miles away.



Well-maintained highways are critical for cities and States to retain and attract businesses. CEOs list access to major highways as a key factor in their location decisions.

My research shows that highway investment generates additional jobs from new business start-ups, and these are primarily from small businesses.

The United States needs to continue to invest in highways. There are many regions that experience bottlenecks and benefit considerably from additional highway investment. We also must understand there are other regions that appear to have more than adequate infrastructure, considering their current levels of economic activity.

Studies also show that additional highway infrastructure will benefit specific industries. For example, there is evidence that regions with heavy concentration of primary metals plants, motor vehicle assembly plants, or printing and publishing facilities would benefit from additional highway investment.

On the other hand, areas with high concentration of service and retail establishments appear to have more than adequate highways.

Therefore, it is my view that considerable public investment in highways is required, and that infrastructure investment decisions must be assessed on a region-by-region, project-by-project basis using sound benefit/cost analysis to determine the projects' effect on local economic development.

One of the important innovations of ISTEA is to give those governments that are best suited to make infrastructure decisions the responsibility, flexibility, and means to do so. This empowerment and partnership is critical for strategic planning necessary to make optimal use of increasingly scarce Government funds.

Reauthorization of ISTEA should continue to extend greater responsibilities to States and local governments; however, it is also important to strike a balance between allowing local jurisdictions to pursue their own interests and ensuring that the Federal Government retains the means and expertise to maintain and improve the network that links the regional markets that comprise our complex national economy.

In closing, an efficient transportation system is the foundation of our Nation's commerce, and highways is an integral part of that system. We must ensure that our highway system is properly maintained and strategically enhanced.

The allocation issue comes into focus at the regional level, and wise investment calls for all levels of government to come together and identify, assess, and undertake highway infrastructure investment that will pay the greatest dividends for the Nation now and in the future.

Thank you.

Mr. PETRI. Thank you. I apologize for the confusion, but we'll—

Mr. SHUSTER. Can I interrupt?

Mr. PETRI. Yes, Mr. Chairman.

Mr. SHUSTER. Thank you. I just want to report to you, Mr. Chairman, and the distinguished ranking member of the subcommittee, that Congressman Oberstar and I have just come from the Budget Committee, where we presented our case for taking the transpor-

tation trust funds off-budget. One of the most extraordinary experiences, I think, that we had was that those who oppose us want to argue that you don't count the interest paid into the highway or aviation trust fund and you only talk about the revenue coming in and not the interest which, under the law, must be paid. So if somebody wants to change the law, fine. But I think that much of this battle is going center around the whole issue of whether or not you count the interest that gets paid into the highway trust fund.

There is a small thing called Federal law that says you must count the interest, so I think we're on about as solid a ground as we possibly can be on when we go to the floor in the next few weeks to debate that issue.

Of course, this issue has very great impact on ISTEA, too, or NEXTEA, or whatever we're going to call it, because the funds will or will not be available.

I came away from that Budget Committee hearing, I'd like to report to you, feeling that we are on extremely solid ground.

I also learned that nine members of the Budget Committee are cosponsors of our Truth in Budgeting Act, as are nine members of the Appropriations Committee, and it's those two committees, of course, which are opposing us.

One final point: if, indeed, we don't count the interest—and of course, there is nothing different between the Transportation Trust Funds and the Social Security trust fund, perhaps they're suggesting that we don't count the interest in the Social Security trust fund, either. 50 percent of the reserves in the Social Security trust fund are based on interest. So if some of my colleagues want to argue that you don't count the interest in these trust funds, I think they are reaching and grabbing hold of the third rail in politics.

Thank you.

Mr. PETRI. Maybe they can convince my banker not to count interest on my mortgage, then I'll agree with this analysis, but otherwise it's sort of an artificial way of going about this.

We're going to have to adjourn. I think maybe if we could get back together at 12:20 for questions, we have two votes on the House floor, and so the committee will stand adjourned until 12:20.

[Recess.]

Mr. PETRI. The subcommittee will reconvene.

I understand our colleague, Frank Mascara from Pennsylvania, wants to offer an opening statement. He's not here now. If for some reason he is unable to return, we will put it in the record by unanimous consent.

Now, to start the round of questioning, I'd like to recognize our ranking democrat, Mr. Rahall.

Mr. RAHALL. Thank you, Mr. Chairman. I thank the panelists for their testimony today. I think it's very important that we have some of the theories on the role transportation plays in our economy outlined for us as we look at the reauthorization of ISTEA and as we look at Federal aid to highway and transit programs going into the next century.

I would like to turn the attention of the panel to the transit arena and ask a question about the role of transit as it pertains to our Federal investments.

As we're all aware, back in 1984 Congress first passed UMTA. It was supposed to be somewhat of a quick fix, a short-term solution, if you will, to bailing out failing, privately-owned transit properties. Today, 32 years later, that Federal commitment is anything but short-term.

Motor fuel taxes, as we all know, have been earmarked in the mass transit account in the trust fund and we annually dole out over \$4 billion in Federal funds to support local transit operations like those in L.A., New York, Chicago, with a much smaller share going to rural areas.

So let me ask the panel, as we prepare our new bill, what type of Federal commitment do each of you see as being appropriate in the new ISTEA? It doesn't matter what order.

Mr. LAKSHMANAN. In my testimony I talk about the patterns of passenger travel that have been observed in the last two decades. We know that, for instance, transit travel has grown significantly in the last two decades, and that, as part of the Bureau of Transportation Statistics, we focus on what kind of pattern we have and what are the implications.

The level of transit use is more or less, at this point, at a stabilized level, so, in terms of your question, I would like to say that I have no specific position on what kind of programs are reflecting the Bureau of Transportation Statistics. We basically observe the trends and discuss what's going on.

I'll pass it on to some of my colleagues as to what they might say in terms of a program focus.

Mr. KULASH. I'm not sure what the appropriate level of support is, Congressman, but I think the impact of support or investment for transit is probably, in many respects, similar to that for investment in other forms of transportation.

This analysis that I describe here that showed very high rates of return on transportation investment in the 1950s and 1960s, tapering off somewhat in the 1980s, probably reflects the investment in the interstate system during that same period.

And if you look at what we really did with that investment, the statistics don't fully reflect what's different about it. It's not a big addition to the Nation's road mileage. It's a mere 1 percent more. It didn't do dramatic things to decrease over-the-road speeds. If you look at those, those trends are pretty similar to other things.

What it did do is get rid of bottlenecks and allow the Nation to function as a system, and many of those bottlenecks presumably were in urban areas, and there is no doubt that transit also serves a function in eliminating those urban bottlenecks.

And while I don't know of anyone who has done an economic analysis on the national level to look at what the return on that investment is, I don't think there is any reason going in to think that it wouldn't show similar strong positive things such as were found for other forms of transportation.

Mr. GREEN. I, too, cannot recommend to you an appropriate level of funding, but I would like to make a few observations that pertain to the difference between transit and the highway system.

Transit doesn't only provide transportation services, but in many cases it provides what I would call "public goods," one, by alleviat-

ing congestion in the most congested urban areas at the peak congestion times of day.

The most recent estimates from the Texas Transportation Institute, who do nationwide tracking of congestions, suggest that in 1992 congestion cost travelers on the highway \$48 billion in wasted time and wasted fuel.

So if a transit system can help to relieve traffic congestion, it provides benefits to all the other travelers on the highway.

Second, the NPOs, in their plans, foresee increased use of transit, primarily as a tool to reduce air pollution and help them meet their air quality goals.

Whether these projects are realistic or not is a different question, but they are highlighting the role that transit could conceivably play in reducing air pollution.

And, finally, transit plays a role for people who have a lesser access to highway vehicles. Although in the U.S. today we have 13 percent more motor vehicles than we have licensed drivers, according to the Federal Highway Administration's statistics, still there are groups within the population where access to a motor vehicle is a limitation on their use of the highway system, and transit provides an alternative for these people.

So I think, in considering the appropriate investment in the transportation system, you have more of a variety of different issues to look at than you do in the highway system.

Thank you.

Mr. EBERTS. My comment pertains to the role of transit in the local economic development schemes of cities or plans that cities are undertaking. I was just coming through Union Station to see what Washington, D.C. has in mind, and transit is part of that.

My point would be that transit needs to be flexible enough that local governments and local entities that are looking at ways in which to enhance their own environment can use transit in ways that they see fit.

I'm thinking of what happened in Portland when there was the tradeoff between an interstate highway going up through the mountains and the Banfield Express, which was the light rail system, and the Portland metropolitan area opted for the latter. I think it's very important that they have the flexibility to do that so that they can achieve the kind of environment that they are looking for in their own area, but also have the financing to go about that.

Thank you.

Mr. PETRI. Mr. Mascara, did you have a statement you wanted to make?

Mr. MASCARA. Yes. Thank you, Mr. Chairman.

I'm pleased to be here today to lend my support for the reauthorization of ISTEA. For 6 years, I served as chairman of the Southwestern Pennsylvania Regional Planning Commission and chairman of the Transportation Plan Policy Committee, which had the responsibility of implementing the ISTEA, the Intermodal Surface Transportation Efficiency Act, which I've often said, as one of the people responsible for implementing it, that that was an oxymoron, and I'm looking forward to having some input into the reauthorization.

Mr. Chairman, I'd like to place these in the record, my opening remarks.

[Mr. Mascara's prepared statement follows:]

**STATEMENT BY CONGRESSMAN MASCARA  
SUBCOMMITTEE ON SURFACE TRANSPORTATION  
HEARING ON THE REAUTHORIZATION OF ISTE  
MARCH 28, 1996**

**I AM PLEASED TO BE HERE TODAY TO LEND MY  
SUPPORT TO THE REAUTHORIZATION OF ISTE.**

**FOR SIX YEARS I SERVED AS THE CHAIRMAN  
OF THE SOUTHWEST PENNSYLVANIA REGIONAL  
PLANNING COMMISSION AND CHAIRMAN OF THE  
TRANSPORTATION PLAN POLICY COMMITTEE.**

**DURING THIS TIME, ONE OF MY  
RESPONSIBILITIES WAS TO IMPLEMENT ISTE AND  
ADMINISTER THE NATIONAL HIGHWAY SYSTEM  
THROUGHOUT SOUTHWESTERN PENNSYLVANIA.**

WORKING AT THE LOCAL LEVEL, I WITNESSED FIRST-HAND THE CRUCIAL ROLE THAT THE FEDERAL GOVERNMENT PLAYS IN ENSURING THAT ALL REGIONS ARE ABLE TO APPROPRIATELY RESPOND TO LOCAL INFRASTRUCTURE NEEDS.

MY SERVICE AT THE REGIONAL LEVEL ALSO TAUGHT ME THAT LOCAL GOVERNMENTS MUST HAVE ADEQUATE FLEXIBILITY AND INPUT IF ISTEA IS TO BE SUCCESSFULLY ENACTED THROUGHOUT THE NATION.

SERVING NOW AT THE FEDERAL LEVEL, I LOOK FORWARD TO WORKING WITH THE MEMBERS OF THE SUBCOMMITTEE TO REAUTHORIZE A STRONG, VIABLE, AND IMPROVED ISTEA.

IT HAS LONG BEEN MY BELIEF THAT AMERICA'S HIGHWAYS, BRIDGES, WATERWAYS, AND AIRPLANE AND TRAIN ROUTES LAY THE FOUNDATION FOR AMERICA'S ECONOMIC PROSPERITY. AS A NATION, WE MUST NOW COLLECTIVELY WORK TO STRENGTHEN AND SUSTAIN THIS INDISPENSABLE STRUCTURE.



Mr. MASCARA. I have a question as it relates to the gas tax, and I believe it's \$0.164 that's currently being levied. Is that correct?

Mr. LAKSHMANAN. I think. I don't know exact amount.

Mr. MASCARA. And that each cent generates approximately \$1.1 billion. If my math is correct, then the annual revenues would be \$20.24 billion annually. And if the reauthorization is for 6 years, then that would be approximately \$121 billion, and we'd add the 10 percent tax on airline tickets. The last ISTEA was somewhere around \$155 to \$156 billion.

My question is: we had \$0.025 for deficit reduction. I came down as a county commissioner and lobbied to have that removed and returned to the trust fund. And then an additional \$0.043 was added for deficit reduction, and that generates about \$4.75 billion annually.

Does the \$0.164 include the \$0.043, or is it \$0.227 gas tax that we're currently levying? Does anybody know where that money is? And is it apart of the reauthorization? Are we going to be generating \$0.043 less each year, or is that—

Mr. PETRI. It's included in the \$0.184, I'm informed.

Mr. MASCARA. So then out of the \$0.184 we'd have to take off \$0.043, and it seems to me—what I'm trying to get to is what kind of dollars can we expect in the reauthorization for the next 6 years?

Mr. LAKSHMANAN. I don't know. I'll have to get back to you on that sir. I have no knowledge of that, but I'll be happy to get back to you.

Mr. MASCARA. And the \$0.025 did get back to the trust fund. That was going in, and I don't remember for what number of years that was, but that was \$2.75 billion a year that was going to deficit reduction and not going into the trust fund.

If you could get back to me with that, I would really appreciate it.

[The information received follows:]

The Federal gasoline tax is currently 18.3 cents per gallon of which 12 cents per gallon goes to the Highway Account of the Highway Trust Fund (HTF) while 2 cents per gallon goes to the Mass Transit Account of the HTF and 4.3 cents per gallon goes to the General Fund for deficit reduction. Similarly, the diesel fuel tax is 24.3 cents per gallon of which 18 cents goes to the Highway Account and 2 cents goes to the Mass Transit Account and 4.3 cents per gallon to the General Fund. The gasoline and diesel fuel taxes are the main source of revenue for the HTF, however, the HTF also receives revenue from excise taxes on alcohol blended fuels such as gasohol (using ethanol or methanol) and from taxes on sales of heavy trucks and heavy tires, and from an annual heavy vehicle-use tax.

The 2.5 cents portion of the gas tax, noted by Mr. Mascara, was established in 1990 and originally dedicated to the General Fund for deficit reduction. It was scheduled to expire on October 1, 1995; however, Congress extended the tax to September 30, 1999, and, beginning on October 1, 1995, was assigned as 2 cents to the Highway Account and a 1/2 cent to the Mass Transit Account. These amounts are included in the tax rates discussed above.

The Highway Account of the HTF is projected to receive an annual average of approximately \$24.9 billion in tax receipts and the Mass Transit Account would receive approximately \$3.3 billion. These figures are based on the latest estimates of receipts from the Treasury Department. They could change depending on variables such as increases in fuel prices that could in turn curtail automobile driving and fuel use. However, the Administration has not yet determined what funding levels we will recommend for reauthorization of the Department's surface transportation programs in the post-ISTEA period or how many years the reauthorization will cover. Those recommendations will be included in our proposed reauthorization legislation that we will submit to Congress early next year.

Mr. MASCARA. Thank you.

Mr. RAHALL. Would the gentleman yield?

Mr. MASCARA. Yes.

Mr. RAHALL. It's my understanding that, as of October 1 of last year, the 2.5 cents that was going to deficit reduction expired and reverted back to the trust fund.

Mr. MASCARA. Thank you, Mr. Rahall.

Mr. PETRI. I'd like to thank all of the panelists for some very well-prepared statements and for helping us to kick off this series of hearings as we attempt to improve the ISTEA legislation that's on the books in our reauthorization.

I, myself, am very impressed by the increased efficiency that we've seen over the last few years in our transportation sector, which sometimes I don't think is widely appreciated in how much it's added to not only our standard of living and enjoyment of life, but to our national growth, as well. I think the transportation sector is taking an increasingly small percentage of our overall GNP, while still delivering the goods and doing it more and more efficiently.

One concern that I have, and I think all of us on our committee have, is that we've been funding at the Federal and State level our transportation investments largely out of fuel taxes, both for aviation, trucking, and auto, and we've seen dramatic increases in fuel efficiency, which is good, but I think, for example, in the truck fleet some companies used to get about 2.8 miles for a gallon of diesel fuel and they're getting over 7 now. They're driving, in other words, or using the roads more and paying less for that use.

We've got to figure out how to maintain and even increase our investment in infrastructure because, as Dr. Greene also pointed out, there is a very good rate of return if we make that investment.

Any ideas you might have about how we do this, if there is some way of switching to the miles traveled tax instead of a gallon tax, or—I guess we do that with toll roads, in effect. That would be welcome, or any other comments you could make about—we don't want to be yelling "wolf" or sort of beating the horse if it's not making a case, if it's not true.

I think our sense is that there is a good return on the dollars that we do, and if we under-invest it will pinch our economy and it will cost us a lot more than we save, and that to finance it adequately we may have to not only get things off-budget, but think of new ways of developing revenue streams as we move to other forms of providing energy, and as we use the energy that we're now using more efficiently.

Any comments that you would have on that sort of rambling observation I would very much appreciate.

Yes, Doctor?

Mr. LAKSHMANAN. Thank you, Mr. Chairman. If I may, you made a number of points. Let me comment on them.

You began by talking about how efficient the transportation sector is. I happen to agree with you, and in my testimony I talked about how, on an average, over the last 10 years not only have transporter industries become more efficient than the rest of the economy, but increasingly more efficient than the rest of the economy.

If you look at what proportion transportation is part of the GDP, there has been a constant at a time when travel has increased and freight has increased in the country, as a whole.

I think there have been some important structural changes induced by information technologies in the transport sector, and one of the things that you surely are familiar with is logistical systems like just-in-time systems.

In our annual report last year we showed how, based on some studies, for a given level of freight, because you break them into smaller packets, there is a lot more highway travel per million dollars of industrial output, and so on.

So, on the one hand, the actual level of usage on the highway is increasing. Level of use of fast modes of transportation is increasing.

And if the efficiency in the intermodal forms of transportation—we just completed a commodity flow survey. One of the things we found out, for instance, we not only recognized the usual modes like rail, road, and air, but intermodal combinations.

For instance, we had a mode called "parcel post," which includes Federal Express, etc. That is less than .1 percent of total freight moved in weight, but almost 10 percent of the total value of freight moving in the country.

So these kinds of changes are taking place, and when you have a lot of intermodal transportation, the transporter industries have got to produce—reduce cost on the link and add value.

Most of that is controlled by other people, so there is a very important need for all of these people to be able to coordinate effectively to exchange information, and that's a point I tried to make. That's one way to increase economic efficiency.

The other point that you made about energy efficiency taking place, we had a considerable amount of energy efficiency gains in the 1970s and after the oil crisis in the 1980s, but some of them have been tapering off.

As you are well aware, if you add just for inflation, our gasoline prices are much lower than they were in the 1930s and the 1970s now, so that all—and the pattern of usage, light trucks are used much more than before, so that is also trends that are working against energy efficiency.

I think we have to keep all of these things in mind when you think about the ISTEA legislation, but my own plea would be that we have emphasized in ISTEA how we can deal with passenger travel, but how we can help freight movement and transportation industries function more efficiently, because they're reducing cost in the economy. I think that's very important. There must be a certain direction oriented towards how we can have more coordination, more integration, and greatest kinds of internal innovations and the flexibility that's really important. We should maintain that. I should think so.

Mr. KULASH. Mr. Chairman, you are, of course, correct in terms of the pattern of improving fuel economy and its effect on the highway trust fund. The key sources of support, of course, are the fuel tax and heavy vehicle use fees, and you can adjust for increasing fuel efficiency on the heavy vehicle side, but not so much so on the automotive side.

The amounts that are available in the highway trust fund, of course, are a result of decisions that this Congress makes, and the amounts that are in there for deficit reduction, the increases that have been had in the past, and so forth, are Congressional decisions.

In terms of alternatives, intelligent transportation systems and electronic license plates will be here some day and will make different forms of user fees feasible. They certainly would not be until a fleet of such vehicles is phased in, and so there is nothing in the immediate horizon that's going to change that's going to help there.

Toll roads help on specific routes, but their administrative cost compared to the administrative cost of motor vehicle tax fees is very high.

So, in terms of the efficient and most broad-based way to do this, it's hard to imagine a better alternative than fuel taxes.

If you conclude in your wisdom that increases in transportation are investment, it's hard to find a more effective vehicle than the fuel tax, in spite of all the difficulties that obviously raises.

Other forms of innovative financing are being used and should continue to be used in terms of assessments on land and buildings and industries that are particularly well-served, and those can support high-priority projects, but they don't support this national system aspect, which is exactly what I believe should be the central focus of your committee.

Mr. GREEN. I'd like to just elaborate a little bit on the point about fuel economy, fuel efficiency, and the tax.

Since the early 1980s—about 1982, 1984—the fuel economy of new passenger cars and new light trucks in the U.S. has not significantly improved. It's about the same.

As those vehicles have turned over in the population of vehicles on the road, their efficiency has improved, but the latest statistics indicate that, since 1992, the average fuel economy of vehicles on the road has not improved.

So we are not seeing at the present time improvements in the efficiency of motor vehicles on the road, and so, unless something happens to change that—much higher prices for gasoline, new fuel economy standards, or something along those lines—then I think we can anticipate that fuel use will grow essentially at the same rate as vehicle travel, until something happens to change that relationship.

The only other thing I would like to say is to agree very strongly with Damian Kulash that the intelligent transportation system technologies will open up a wide range of possibilities for road use taxing and vehicle use taxing that are presently not feasible, not practical.

Thank you.

Mr. EBERTS. To answer your question, if I may, just a little observation from what we see in Michigan, and that is that there appears to be widespread support for improvements in maintenance of highways there. We recognize the deterioration of our highway system, and there appears to be support for a \$0.15 a gallon tax.

Unfortunately, the problem is that they can't figure out among the State and local governments how they're going to allocate that,

and that's one of the drawbacks, and if there was more partnership and cooperation, I think that certainly could come about.

Even in my city where I'm from, Kalamazoo, infrastructure improvement, highway improvement has been the number one priority. So I think people will recognize that the means to finance these things should be found.

Thank you.

Mr. LATOURETTE [assuming Chair]. Thank you very much. The Chair is now pleased to recognize the gentlelady from Missouri for 5 minutes, Ms. McCarthy.

Ms. MCCARTHY. I thank you, Mr. Chairman.

I would like to ask Dr. Eberts a question. Based on the summary testimony, first of all I'm very pleased with your stress on coordinating planning efforts among all planning organizations as we look to reauthorizing ISTEA. That has worked very well in my region, and I am in a unique position. I'm in the Kansas City area. We have a State line, but we must work in a broad metropolitan way for transportation needs, and I heartily concur with your thoughts on that.

In your testimony that I reviewed, you indicated that the primary role of transportation infrastructure is to add to a region's resource base and provide the foundation for economic growth.

With that in mind, I'd like to ask you if you believe there is a need for a massive infusion of Federal funds to provide for the financial support of the development of those regional transportation infrastructure projects.

I speak not only with regard to my particular district, but to others in my region, as well, reflecting on St. Louis in their most recent effort with Metrolink, that without an infusion of Federal dollars would not have provided that wonderful light rail system that is, in fact, affecting the economic productivity of the area.

Mr. EBERTS. The research that has come about since ISTEA was first enacted in 1991 has shown that infrastructure has a significant role in economic performance. But at the same time what it does is gives us, I think, a more comprehensive view of how infrastructure impacts local economies, as well as the national economy.

My take on the research is that we need to enhance and maintain the maturing infrastructure that we have, but, at the same time, if we think about the possibility of replicating the entire interstate highway system as massive infusion, that certainly isn't something I don't think is on many people's minds, even though some of the earlier numbers might have suggested that.

But, at the same time, what we need, as you mentioned, is to be able to have the flexibility to provide the different combinations of modes in order to, as I mentioned earlier, provide the environment that local areas like Kansas City would like to have for their citizens, and the means and the flexibility to do that I think is very important.

Ms. MCCARTHY. On that we quite agree, and my District is diverse. It has the older infrastructure needs of a metropolitan area, such as Kansas City, and the high-growth suburban areas that are crying out for new roads, better roads, and other infrastructure needs.

But my question really was about a massive infusion of additional Federal funds to provide this opportunity for development. I quite agree with you—we shouldn't be reinventing the interstate highway system, but the question really goes to the role of the Federal Government and the need for funds.

Mr. EBERTS. Well, the highway system only benefits local areas if there is a network, and the network needs to be maintained by a higher level of government, being the Federal Government. And so the Federal Government needs to maintain an active role in making sure that that network is adequate to link all these local economies, and whatever that—I guess I'm moving away from the word "massive." Is that the word you want me to—

Ms. MCCARTHY. Or "infusion." Yes. I'm not hearing any kind of degree of Federal involvement, other than, of course, there must be.

But, just in my own experience in the Fifth Congressional District of Missouri, there is truly never enough money from the State or Federal Government, or even local efforts, and that seems to be a hue and cry for mayors, county executives, and others, as well.

Mr. EBERTS. Right.

Ms. MCCARTHY. Right? Are you agreeing then?

Mr. EBERTS. Well, never enough money for things. We have to prioritize what we feel are important. And I think, in doing that, it takes the recognition of what's important from all levels of government, because at the local level and the Federal level there might be some disagreements, but it all works together for the whole.

As an economist, we're always looking at scarce resources and trying to allocate those things in the best possible way.

One of the points I tried to make here is that what we need to do is have strategic investment, and "strategic" meaning be able to assess as well as we can which projects are going to pay the highest dividends.

Ms. MCCARTHY. I thank you, Mr. Chairman.

Mr. MASCARA. Would the gentleman yield?

Ms. MCCARTHY. I would certainly yield to the gentleman.

Mr. MASCARA. I might be able to shed some light, given my responsibilities back in southwestern Pennsylvania, that although the Regional Planning Commission played a major role in ISTEA, that ultimately the State makes the decision.

For instance, in Pennsylvania I think our cut was somewhere around 9 billion. Pennsylvania decided that 80 percent of that was going to maintenance, which meant that 7.2 billion of the 9 billion would be spent on maintenance, and very little new money for new construction.

That's a decision back in your area that you might want to talk to your State DOT and find out where they're putting the money that's coming out of ISTEA.

Thank you.

Ms. MCCARTHY. Thank you, Mr. Chairman.

Mr. LATOURETTE. Thank you very much.

It's now appropriate and a pleasure to introduce the gentleman from Illinois, Mr. Poshard, for 5 minutes.

Mr. POSHARD. Thank you, Mr. Chairman.

I just have maybe one question that I'm interested in.

From your perspective, should we be building more interstates in this country? I mean, I read your statistics about the incredible economic output that has resulted from our being able to move goods more efficiently and cost-effectively across this Nation, and all the things that that has contributed to. But I also know that now it's—the last figure that I think USDOT gave me was \$3.5 million a mile on the average to \$4 million per mile to build one mile of interstate highway.

I'm wondering, given the fact that we have overwhelming considerations by the environmental community for wetlands preservation and other things, and the difficulty of being tied up in court and all those kinds of things, should we be considering building, in your judgment, more interstates in this country?

We passed a national highway system with an arterial highway system incorporated into that for priority consideration over the next many years. Is that sufficient, or should we be looking at these supposed proposed routes to four lane?

Mr. LAKSHMANAN. Let me begin by trying to address your question.

I think in my testimony, and I think in some of my colleagues' statements, we made the point that there are significant awards to investment in transportation infrastructure.

We had a recent study that Mr. Kulash mentioned about—it was the Nadiri study. He was looking at the high rates of return associated with the interstate system when it was in the early stages.

When you have—when you are starting a new system, the benefits are high, and as the network becomes more and more and more developed, the benefits increase enormously.

So it's not surprising that in the 1960s and in the 1970s the high rates of return came around. By the 1980s it is more stabilized to 8 or 9 percent.

So there are clearly, as long as the economic growth is evident, there are clearly benefits accruing to investments in highways and other forms of transportation. There is no doubt about it.

And I think the Congress has enacted the national highway system, which is a configuration of some of those ideas, and I think where, exactly, that is—where you make the investment is as important as how much investment you make. I think we are very fond of quoting a speech that Abraham Lincoln made in 1846, believed to be the first speech that he made. It was on the subject of road investment and roads, apparently. In the speech he says, "It is not only important how much we invest, but where we invest. We can avoid mistakes by not investing in the wrong places."

That's a part of an issue that we need to bring in in looking at this investment that we need to have in the transportation.

Another point that I want to make is the fact that there are such dynamic changes in the transportation sector. Not only new logistical systems are coming in. It is: how can we facilitate intermodal combinations, because what you are investing in is minimizing the cost of moving a particular good for a distance.

I think, in order for the American industry to compete, both nationally and internationally, anything we do by increasing value in the system is important by facilitating more intermodal combina-



tions, and that's partly investment, partly institutional developments, and coordination mechanisms so that people who are sharing assets in the whole system are able to do that more effectively.

So I would suggest that in order for technology to be implemented effectively beyond a particular point, you need much more institutional innovations to make it more possible.

If you take the example of the American system in the last century, when the country was rapidly urbanizing in the late 19th and early 20th century, what you had was we invented the whole idea of bonding systems by which we can raise public capital so every city could raise infrastructure systems.

Those kinds of things are as important as investments in capital capacity expansion.

Mr. POSHARD. I appreciate that.

Mr. Chairman, may I ask Mr. Kulash to take one shot at this, since he wrote extensively about the benefits in interstate system also?

Mr. LATOURETTE. Absolutely.

Mr. KULASH. Congressman, we've obviously learned a lot as we built the interstate system, and times have changed in terms of society's expectations. We've learned a lot about the effect on adjacent land, the effect on cities where we have a new set of concerns about environmental problems, new scale of environmental problem.

So when you look at that question today, obviously all those other concerns had to be taken into account, as well.

I do believe that the very high rates of return that we see on the highway investment in the 1950s and 1960s are attributable to the introduction of the interstate. They are spectacular. It's 35 percent. That's plausible in terms of economic history in other areas where major infrastructure investments have yielded major, major economic payoff.

What does that mean for the future? Obviously, given our concerns about the quality of life in cities, about the environment, we're not going to go turn the clock back to 1955 and barge in and build roads like might have been done then.

But I think an attempt at trying to find the most important parts of the system and single them off has been attempted with the national highway system.

The interstate, as I mentioned, accounts for 1 percent of mileage, but it accounts for about 25 percent of our travel. The national highway system peels off that next most important, most national portion. It's about 3 more percent, a total of 4 percent, not including the interstate, and that accounts for about 40 percent of our national travel.

So I think if you are going to look at the portion of the system that is most likely going to have interstate-type pay-offs, that's it.

Now, would you do it like the interstate? No. And I think the way the routes have been selected, the other provisions dealing with the national highway system in terms of giving NPOs and others a voice in the process reflect an accommodation to today's needs and concerns. But I think if you're going to try to seize the economic benefit that we get out of the interstate, the national highway system is the place to look.

Mr. POSHARD. I thank both of you gentlemen for your observations.

Thank you, Mr. Chairman.

Mr. LATOURETTE. Thank you, Mr. Poshard.

The Chair would like to thank each member of the panel for your testimony this morning in getting this kickoff hearing underway. The committee will be having many more comprehensive hearings in the future, and if there are no other questions from Members, the hearing—well, all right, then, we're going to yield to our good friend from Pennsylvania, Mr. Mascara, for questions.

Mr. MASCARA. Thank you.

I'm interested in knowing whether or not you would recommend to this committee or to the Congress considering the tolling of existing interstates as a method of raising revenues to help fund the national highway system. There are existing interstates out there, and the question has been, for a number of years, by people in transportation, that some of those highways are bottomless pits, and that perhaps Congress should consider permitting each State to toll. Do you have any thoughts concerning that?

Mr. KULASH. I suspect that's really more a question of political acceptability than it is of any inherent economic advantage.

I think the interstate system includes some 45,000 miles. Any system of tolling would have significant administrative cost implications and probably some service implications in terms of people slowing down and a lot of people to collect the tolls and so forth.

There is no doubt that that could be done, and that could result in a more automatically self-supporting kind of system. Whether it's worth all those transitional costs is your judgment.

Mr. GREEN. I would like to make a couple of points on that.

First of all, if you do toll the interstate system, I think one should look for technology to do this efficiently without slowing down the traffic at toll booths and that sort of thing. I think that technology is coming and can be used.

Also, one must consider the effect on the surrounding roads and whether traffic will be diverted to non-toll roads, or whether you're going to toll those roads as well. I think that's an important issue, as well.

And then, finally, the most important place for tolling roads will be in congested areas, and there is a very good study by the Transportation Research Board that I'm sure you're aware of on pricing congestion that came out a couple of years ago on that subject.

Mr. MASCARA. The point I wanted to make, given the problems associated with balancing the budget, and given the problems in many States with highways that are really not in good shape and their shortage of money in those States also, there has been a lot of talk for a lot of years about getting permission from Congress—apparently they cannot toll those roads. I even understood that they'd have to buy them back, even if Congress did agree or this committee did agree to tolling.

I was just wondering whether anyone had given any thought to that concept.

Thank you.

Mr. LATOURETTE. Thank you, Mr. Mascara.

Dr. Greene, in Mr. Mascara's question, what sort of technology is developing to collect tolls without toll booths? Are those the little baskets that you have to throw things in as you go by real fast?

Mr. GREEN. No, Congressman. I'm referring to the use of electronic identification of vehicles, and I think that technology is already here on a scale that is being tested for trucks, for example, and should eventually be available for automobiles and could be used for a wide variety of road pricing or vehicle pricing systems.

Mr. LATOURETTE. Good. Thank you very much.

Again, thanks to each member of the panel. You got us off to a good start.

This meeting is adjourned.

[Whereupon, at 1:03 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

PREPARED STATEMENTS SUBMITTED BY WITNESSES

Testimony to the

**Subcommittee on Surface Transportation  
Committee on Transportation and Infrastructure  
U. S. House of Representatives**

on

**The Importance of Transportation Infrastructure Investments  
to the Nation's Future**

by

**Randall W. Eberts, Ph.D.  
Executive Director  
300 South Westnedge Ave.  
W.E. Upjohn Institute for Employment Research  
Kalamazoo, MI 49007  
(616) 343-5541**

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### *Summary*

Mr. Chairman, I am pleased to be given the opportunity to appear before this Committee to testify on the importance of transportation infrastructure to the nation's future economic prosperity. There should be no doubt in anyone's mind that transportation infrastructure is the backbone of our market economy. Therefore, in considering reauthorizing the Intermodal Surface Transportation Efficiency Act, the question is not whether the existing highway system is important, but rather what is the best strategy for additional investment in transportation infrastructure.

Five years ago, when Congress began to deliberate on what eventually became the ISTEA, policy makers were told of a large deficit in infrastructure investment and how this deficit was linked to the general slowdown in U.S. productivity growth. Estimates were offered that showed high returns to the economy from infrastructure investment. Such extraordinary returns to public capital implied considerable under investment in the nation's public capital stock. The prospect of high returns to government capital stock suggested that infrastructure investment plays a central role in economic development and future prosperity.

Today, we benefit from more research on the linkage between highway infrastructure and economic performance. These results point to two important considerations for infrastructure policy. First, public capital shares the stage with private capital investment, research and development, and education and training as the most important factors contributing to U.S. productivity growth. Second, significant regional and sectoral imbalances in meeting transportation needs exist and must be addressed. The nation benefits from a system of highways that appears to meet the current needs of the economy. However, the system is maturing and considerable investment is needed to maintain and enhance the system to meet future needs.

The nation depends upon its extensive highway system. Highways are the primary means by which businesses transport their products and markets are linked together. More than 70 percent of the nation's manufactured goods are transported by trucks. A recent survey that we conducted of midwest manufacturers underscores their dependence upon trucks to deliver their products within 24 hours to customers located up to 500 miles away. Well-maintained highways are critical for cities and states to retain and attract business. CEOs list access to major highways as a key factor in their location decisions. My research shows that highway investment generates additional jobs from new business startups, primarily from small businesses.

In addition to providing a direct service to businesses and households, highways affect economic performance by enhancing the productivity of other factors of production, such as labor or private capital, and by creating an attractive economic climate. In addition, highway construction contemporaneously stimulates local economies.

The United States must continue to invest in highways. The needs vary widely across regions and across industries. There are many regions that experience bottlenecks and could benefit considerably from additional highway investment. There are other regions that appear to have more than adequate infrastructure, considering their current levels of economic activity.

Studies also show that additional highway infrastructure would benefit specific industries. For example, there is evidence that regions with heavy concentration of primary metals plants, motor vehicle assembly plants, or printing and publishing facilities would benefit from additional highway investment. On the other hand, areas with high concentration of service and retail establishments appear to have more than adequate highways.

Therefore, it is my view that government must remain committed to improving its comprehensive transportation system, and that infrastructure investment decisions must be assessed on a region-by-region, project-by-project basis, using sound benefit-cost analysis to determine the project's effect on local economic development.

One of the important innovations of ISTEA is to give those governments that are best suited to make infrastructure decisions the responsibility, flexibility, and means to do so. This empowerment and partnership is critical for the strategic planning necessary to make optimal use of increasingly scarce government funds. Reauthorization of ISTEA should continue to extend greater responsibility to state and local governments. However, it is also important to strike a balance between allowing local jurisdictions to pursue their own interests and ensuring that the federal government retains the means and expertise to maintain and improve the network that links the regional markets that comprise our complex national economy.

In closing, an efficient transportation system is the foundation of our nation's commerce, and highways is an integral part of this system. We must ensure that our highway system is properly maintained and strategically enhanced. The allocation issue comes into focus at the regional level, and wise investment calls for all levels of government to come together and identify, assess, and undertake highway infrastructure investment that will pay the greatest dividends for the nation now and in the future.

## I. Introduction

Five years ago, when hearings began on what eventually became the Intermodal Surface Transportation Efficiency Act of 1991, public infrastructure received considerable attention as a key factor in the performance of the U.S. economy. Researchers at that time linked assessments of a severe deficit in public infrastructure investment to a period of sluggish productivity growth. A few studies found extraordinary returns to public capital investment, which indicated significant under funding of public capital stock. These estimates also promised almost immediate payback in terms of higher output growth from investment in public capital. The returns were so large that it appeared that a broad-based investment strategy was warranted. The nation appeared to be so under invested in public infrastructure, that an additional dollar invested in any project located anywhere in the United States would reap huge returns.

Since that time, these estimates have been subjected to considerable scrutiny. More recent studies, which addressed many of the criticisms leveled against the previous studies, found more modest results. Still, the emerging consensus is that transportation infrastructure contributes to economic productivity. However, there is little evidence of a broad under provision of transportation infrastructure throughout the nation. Therefore, the call for a massive infusion of investment dollars into the nation's transportation infrastructure, along the same magnitude of replicating the current interstate highway system, is not supported by the more recent research.

What did emerge from the research was strong evidence that infrastructure needs varied widely across regions and industries. Furthermore, research emphasized the need for pursuing prudent investment strategy. Since the returns to infrastructure investment are more modest than previously estimated, it becomes apparent that the nation can benefit most from infrastructure investment if projects are carefully selected using sound benefit-cost analysis. However, measuring benefits is difficult. Infrastructure capital lasts a long time, and it has the potential to affect a broad spectrum of economic activities within regional economies.

Consequently, the purpose of my remarks is to identify the various channels through which transportation infrastructure can affect regional economic development. Assessing the importance of transportation infrastructure on regional economies is useful for three related reasons. First, most of the transportation infrastructure is put in place by state and local governments. Second, it is at the regional level that most of the effects of infrastructure investment will be observed. Third, in order to accurately assess the merits of investing in particularly projects, the benefits and costs must be measured within the context of a regional economy.

I will address two broad issues. First, I will highlight various features of transportation infrastructure that are different from other forms of infrastructure and other factors in the regional economic growth process. Second, I will summarize the evidence from current research about the various ways in which transportation infrastructure affects the regional growth process.

## II. Transportation Capital Stock

Before considering the effect of transportation infrastructure on economic output, it is instructive to understand the capital stock estimates used in linking infrastructure to productivity growth. In most of the literature, transportation infrastructure is measured as highway capital stock. The value of highway capital stock is estimated using a perpetual inventory technique in which highway investments (minus depreciation) are summed over time. Since the average life of a highway is around 40 years, using assumptions of the U.S. Department of Transportation, more than 50 years of annual expenditure data are needed to construct capital stock estimates.

A study sponsored by the National Cooperative Highway Research Program estimated state and local highway capital stock, which includes the interstate highway system and national roads, in 1989 to be \$508 billion in 1987 constant dollars.<sup>1</sup> These investment figures include expenditures by state and local governments. In contrast, the private capital stock of the U.S. manufacturing sector totaled \$998 billion in constant 1987 dollars.

According to the depreciation assumptions, \$18.5 billion (in 1987 dollars) was needed in 1989 to simply maintain this stock of highways and roads at its current level of service. This investment amounts to about 3.6 percent of total infrastructure investment. According to the estimates, \$30.4 billion of constant 1987 dollars were invested in 1992. Subtracting out the \$18.5 billion leaves about \$12 billion for additional investment.

Therefore, when studies consider a 10 percent increase in public capital stock, they mean 10 percent over the amount required to maintain a constant level of public infrastructure. In 1989, the net addition to the state and local highway and street capital stock totaled \$12 billion, or 2.4 percent of the capital stock. A 10 percent increase would amount to \$50.8 billion above the \$18.5 billion needed to cover depreciation. As will be shown later, current studies show that such an increase would bring about only a half a percentage point in the productivity of the manufacturing sector.

I should caution that these numbers are presented here only to provide a perspective on the analysis that is reported later in this document. These estimates do not indicate the amount needed to maintain or improve the U.S. highway system.

## III. Transportation Infrastructure as a Productive Input

When considered as a determinant of local economic development, transportation infrastructure possesses several characteristics that are unique from other factors of production. First, public capital is site-specific. Once highways and bridges are put in place, their use and thus their economic value depends on the economic activities that utilize them.

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<sup>1</sup>Michael Bell and Therese McGuire, "Macroeconomic Analysis of the Linkages Between Transportation Investments and Economic Performance," NCHRP 2-17(3), 1993.



and this depends largely on the level and type of activity located immediately around these facilities.

Second, public infrastructure is typically an unpaid factor of production. Although firms pay taxes to finance the construction and maintenance of highways, for example, the payments by firms are not on a per unit basis and are less than the cost of constructing an additional mile of highway around that particular facility.

Third, public infrastructure is more a necessary condition than a sufficient condition for economic development. While public infrastructure construction can provide local jobs, unless the project is of considerable size and ongoing, sufficient demand to sustain local economic development must come from other sources.

Fourth, while the cost of constructing additional highways within a region is shared by all taxpayers, taxpayers typically use only a small portion of the infrastructure they help finance. Consequently, the distribution of benefits of highway (or other transportation facility) construction are not uniformly distributed among taxpayers nor are they distributed according to their share of the costs.

Fifth, infrastructure, particularly transportation infrastructure, has the greatest economic value as a network. Within a region, streets and roads link households to other households, firms to other firms, and households to places of work. On a broader scale, highways connect regional markets to other regional markets.

Sixth, in assessing the effect of transportation on economic development on a regional basis, it must also be asked whether the development was a new activity or was it really a shift in activity from prior location to new sites served by the highway construction.

#### **IV. Transportation and Regional Economic Development**

Transportation infrastructure affects both the supply and demand factors of regional growth. Supply factors expand the production capabilities of the area either by increasing the amount of resources in the region or by enhancing the productivity of existing resources and consequently lowering production costs. Demand factors utilize existing resources, without necessarily expanding the region's production capabilities. The primary role of transportation infrastructure is to add to a region's resource base and provide the foundation for economic growth. Transportation infrastructure does not directly stimulate a local economy. Obviously, infrastructure construction creates jobs, but this effect is shown to be short-lived and to be small relative to the combined supply-side impact. Therefore, the discussion will focus primarily on transportation infrastructure as a stock of physical capital providing essential services to businesses and households over an extended period of time.

### *Direct Service to Businesses*

Transportation services are fundamental to a firm's production process. Without transportation, the flow of inputs into a plant and the shipment of products out of a plant would not be possible. Moreover, markets could not exist without the physical means of bringing producers and consumers together. An increase in the stock of highways and streets would then increase the quantity of transportation services available to firms and potentially reduce their costs of producing a given level of output.

However, the proportion by which transportation services increase with expansion of the stock of highways and streets depends on the specific conditions of the individual regions, particularly the utilization of the present transportation system and the geographic location of economic activity. For example, if the present system of highways and streets in a region is generally underutilized, then adding to the stock of highways should have little effect on the amount of transportation services available to a firm. On the other hand, if the location of firms changes within a region, adding highways to link these firms with others in the area increases aggregate transportation services within a region, even though the other arteries may still be underutilized. In either case, if the present highway system is over utilized to the extent that congestion commonly occurs, increasing highway stock will expand transportation services within the region and lower the cost of transportation services to individual firms.

Studies by Aschauer linked public infrastructure to macroeconomic performance.<sup>2</sup> His results showed that the slowdown in the growth in public infrastructure, primarily after most of the interstate highway system was completed, coincided with the protracted slowdown in U.S. productivity. His estimates of extraordinary returns to public infrastructure indicated a severe shortfall in the provision of public infrastructure and called for a large infusion in infrastructure investment. According to his estimates, a dollar invested in public infrastructure would be five times more stimulative to the national economy than a dollar invested in private capital.

Several studies criticized the magnitude of Aschauer's estimates, pointing out several statistical problems.<sup>3</sup> Aaron (1990), in discussing Aschauer's work, argued that time series data do not vary enough to be given serious consideration, leading to spurious correlation. Tatom (1990) has further pointed out that there are many confounding factors that occur over time, such as oil price shocks and demographic changes, that are not accounted for in these two

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<sup>2</sup>David A. Aschauer, "Is Public Expenditure Productive?" *Journal of Monetary Economics*, 23, March 1989, 177-200.

<sup>3</sup>These studies include Douglas Holtz-Eakin, "Public Sector Capital and the Productivity Puzzle," *Review of Economics and Statistics*, 76, February 1994, 12-21, and Henry Aaron, "Discussion" in *Is there a Shortfall in Public Capital Investment?*, Federal Reserve Bank of Boston, 1990.

studies.<sup>4</sup> Tatom found that by including energy prices and first-differencing the time series the effect of public infrastructure on output was not longer statistically significant.

Further analysis reveals that the impact of public infrastructure is much lower. For example, Nadiri and Mamuneas's recent analysis of the effect of highway infrastructure on production shows that a 10 percent increase in highway infrastructure would reduce the cost to manufacturing of 0.5 percent.<sup>5</sup> Furthermore, this study shows no evidence of over or under investment in highway capital stock.

Estimates at the state and metropolitan are in line with the results of Nadiri and Mamuneas. Results from several studies support the notion that public infrastructure, and more specifically transportation, is a productive input in the production of goods and services, but the magnitudes of these effects are modest. I looked at the effect of local public capital stock in the manufacturing production process for 40 metropolitan areas between 1958 to 1978.<sup>6</sup> I found that public capital stock makes a positive and statistically significant contribution to manufacturing output, supporting the concept of public capital stock as a factor of production. In my study, public capital stock includes all components of public infrastructure put in place by state and local governments within the region. The magnitude of the effect of public infrastructure on output is relatively small when compared with the contribution of labor and of private capital to output. A one percent increase in public capital stock increases manufacturing output by 0.03 percent. In contrast, a one percent increase to labor (hours worked) increases output by 0.66 percent, and a one percent increase in private capital stock increases output by 0.32 percent.

The effect of public infrastructure on output varies widely among regions, and in some cases the effect is negative. I found a wide variation in the contribution of total public capital to manufacturing output among the 38 metropolitan areas I analyzed.<sup>7</sup> Eleven of the 38 cities experienced negative relationships between public capital stock and manufacturing output. All but one of the negative elasticities was found in older northern cities, where the infrastructure is likely to be more developed and perhaps underutilized as evidenced by the large stock of public capital relative to other factors of production. Another interpretation is that public infrastructure in the northern cities is less effective because it is less well maintained or out-of-date, or because it does not serve the changing spatial arrangement of cities.

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<sup>4</sup>Jack Tatom, "Should Government Spending on Capital Goods be Raised?" Federal Reserve Bank of St. Louis, Mimeo, December 1990.

<sup>5</sup>M. Ishaq Nadiri and Theofanis P. Mamuneas, "Highway Capital Infrastructure and Industry Productivity Growth," studied prepared for the Federal Highway Administration Office of Policy Development BAT-94-008, 1995.

<sup>6</sup>Randall W. Eberts, "Estimating the Contribution of Urban Public Infrastructure to Regional Growth," Working paper #610, Federal Reserve Bank of Cleveland, December 1986.

<sup>7</sup>Randall W. Eberts, "Regional Differences in the Effect of Public Capital Stock Manufacturing Output," Federal Reserve Bank of Cleveland, Research Department, Mimeo, July 1990.

Other studies have also reported differential regional effects. Costa and others estimated a negative correlation between several states' public capital output elasticities and their per capital stock of public capital.<sup>8</sup> They find negative effects of public infrastructure on manufacturing in ten states, generally those with high per capita public capital. With respect to transportation, there is some evidence that investment in highways may help stimulate lagging areas. Deano observed that highway capital stock made a significantly larger contribution to manufacturing output in declining regions than in growth regions.

Nadiri and Manasseas also show considerable variation across industries in the effect of highway infrastructure investment on productivity. They find the greatest productivity effects for the tobacco manufacturers industry and primary metals industry. They also find that highway investment reduced productivity for agricultural services and crude petroleum refining.

#### *Infrastructure and Structural Changes*

The role of transportation varies not only across regions, but also over time. Within manufacturing, for example, innovations in inventory management, such as the adoption of "just-in-time" techniques and the shift to more customized products, make efficient transportation systems that place a premium on the timeliness of the shipment essential to the productivity of firms and to the comparative advantage of regions. Evidence of this change has been the intermodal switch from water and rail transportation to air and truck shipments.

These innovations have also changed the relative demand for intraregional transportation versus interregional transportation. A study by the U.S. Department of Commerce (1987) argued that with the widespread adoption of computer-integrated flexible manufacturing systems, production will become much more of a local matter.<sup>9</sup> Plants will be able to make a batch of differentiated products almost on demand. These manufacturing centers will have the capability of manufacturing nearly an infinite variety of classes of products. Major cities will tend to become ringed by companies operating these systems, instead of importing the products from other regions. The same study also cites evidence supporting the notion that future economic growth will require less in the way of transportation of heavy industrial raw material per unit of output. This shift from heavier inputs and outputs to lighter high-value products have important implications for the relative use of competing transportation modes. The relentless rise of the service sector will undoubtedly reinforce these trends.

#### *Enhancing the productivity of other inputs*

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<sup>8</sup>Costa, Jose da Silva, Richard Eilon, and Randolph C. Martin. "Public Capital, Regional Output, and Development: Some Empirical Evidence," *Journal of Regional Science*, vol. 27, (August 1987), pp.419-37.

<sup>9</sup>U.S. Department of Commerce, *Effects of Structural Change in the U.S. Economy on the Use of Public Works*, prepared for the National Council on Public Works Improvement, Washington, D.C. 1987.

Transportation services may have indirect effects on a firm's productivity by enhancing the productivity of other inputs. For example, the accessibility of workers to their workplace is a growing problem in urbanized areas. As workers spend more time commuting, they may be inclined to work fewer hours and the hours actually spent on the job may be less productive because of the energy and aggravation spent getting to and from work. In addition, highway (and mass transit) congestion coupled with poor transportation systems to accommodate commuting patterns limits the pool of workers for some business establishments. For example, several studies have documented the problem faced by poorer households in urban areas to finding convenient public transportation to the service and manufacturing jobs that increasingly locate in suburbs.

The semiconductor industry in the Silicon Valley is a graphic example of the effects of an inefficient transportation system.<sup>16</sup> As housing prices in the northern part of the valley escalated, production workers in the industry, who were typically lower paid than engineers, were forced to find homes further away from the production facilities, commuting longer distances which led in part to greater traffic congestion. The reduction in the labor pool immediately around the plants increased labor costs, and eventually forced much of the production side of the semi-conductor industry to leave the area. An efficient transportation network would probably have helped to hold down labor costs and keep facilities in the region.

#### *Creating an attractive environment*

The previous two channels have considered the effect of public infrastructure on a region's output, holding other inputs constant. However, a region's infrastructure may also be attractive to firms and households, and it consequently may induce additional resources to move into a region. In this case, public infrastructure has its effect on output indirectly through increases in the quantity of labor and private capital, and not because it is directly productive. As additional labor and private capital move into an area, the per unit cost of these inputs falls, giving these firms a competitive advantage over firms outside the region.

Firms find a region with an ample and high quality infrastructure attractive for two reasons. The first is for the reasons noted in the first two sections: public capital is a productive input, and it enhances the productivity of other inputs. The second reason is that in most cases a firm does not pay the full price of using the public capital stock. For example, highways are typically financed by taxes that are levied on households, as well as on firms. Furthermore, the use of highways by households and by firms varies depending upon their location and the type of economic activity they engage in. To the extent that the tax system does not charge the full value they place on the use of the public facility, an individual is subsidized through the shared nature of public infrastructure. Owners of firms, then, extract rents by locating in an area that provides infrastructure at a cost below their valuation of the use of the infrastructure. The same can be said of households. However, as more firms and households move into an area, causing congestion on highways and on other infrastructure

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<sup>16</sup>Saxenian, A. "The urban Contradictions of Silicon Valley: Regional Growth and the Restructuring of the Semiconductor Industry," in L. Sower and W. Tabb, *Sunbelt/Snowbelt*, Oxford University Press, Oxford, 1984.

facilities, extractable rents are diminished, and existing infrastructure becomes less attractive to firms and households.

The free movement of firms and households within and between regions raises another issue with respect to the effectiveness of infrastructure. While infrastructure may be attractive to firms and households and to some extent it may determine their location, it is also possible that public infrastructure may become underutilized because spatial patterns of firms and households have changed. Consequently, it may appear that an area has sufficient transportation infrastructure when viewed in the aggregate by looking at miles per person or dollars of investment. However, chronic congestion and costly bottlenecks may exist and be observed, when attention is given to smaller geographical grids within a region.

Firm location studies that have included various measures of public infrastructure have found that certain forms of infrastructure are attractive to firms. Some of the strongest results were reported by Fox and Murray, who found that the presence of interstate highway systems had a positive and highly significant effect on the location of individual establishments in the State of Tennessee. Bartik, using a national sample, also found that the number of new branch plants was higher within states with more miles of roads. Some of my work offers evidence that public infrastructure positively affects the number of firm openings in metropolitan areas.<sup>11</sup>

Public infrastructure may also affect the migration decisions of households by enhancing an area's amenities. However, the existing literature related to household location decisions does not focus much on public infrastructure. Labor migration studies tend to concentrate primarily on demographic characteristics and wage differentials to explain migration flows. Urban quality-of-life comparisons, which deal with the same underlying decision process, come closer to addressing this issue, but their major focus is on attributes such as air quality, climate, and so forth.

When considering the movement of businesses and households among regions in response to infrastructure investment, one must question whether the ultimate effect is simply to rearrange a fixed pool of resources. Individual regions gain or lose, but the nation realizes little net gain. To the extent that infrastructure investment makes resources more efficient by reducing bottlenecks and congestion in various locations, the overall economy can benefit. Still, the net effects will be mitigated by the fact that bottlenecks could also be reduced by simply moving firms or households to less congested areas, assuming all other factors are the same.

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<sup>11</sup>Fox, William F., and Matthew N. Murray. "Local Public Policies and Interregional Business Development," mimeo, Knoxville, Tenn.: University of Tennessee, June 1988; Bartik, Timothy J. "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes, and Other Characteristics of States," *Journal of Business and Economic Statistics* vol. 3, no. 1 (January 1985), pp. 14-22; Eberts, Randall W. "Some Empirical Evidence on the Linkage between Public Infrastructure and Local Economic Development," in Henry W. Herzog, Jr. and Alan Schloemann, eds., *Industry Location and Public Policy*, Knoxville, Tenn.: University of Tennessee Press, forthcoming 1991.

### *Stimulative Effect of Infrastructure Construction*

The construction of transportation infrastructure, particularly when the financing comes from outside the region, directly stimulates the local economy. A recent study sponsored by the Federal Highway Administration found that 8.95 full time jobs are created for each \$1 million of investment in highway construction projects.<sup>12</sup> The effect of construction activity on area residents depends on a variety of factors related to the local economy. For example, the FHWA-sponsored study found variation in the employment impacts across regions, ranging from a high of 11.4 jobs per \$1 million of investment in the South Central region (Arkansas, Louisiana, New Mexico, Oklahoma, and Texas) to a low of 6.28 jobs per \$1 million in the West (Arizona, California, Hawaii, and Nevada).

The demand-side effects of additional public infrastructure investment are still small relative to the cumulative supply-side effects over the life of the capital stock. A recent study I conducted with Duffy-Deno found that a 10 percent increase in public expenditures for infrastructure construction expands personal income by 11 percent.<sup>13</sup> However, the effect of construction on the local economy is short lived, lasting less than a year after the construction is completed. The study also compared the "construction" effect of public infrastructure with the supply-side productive effects, as described earlier, and found that the effect of public capital as an input has nearly twice the effect on personal income as does public capital as a construction activity. Although highways were not examined separately, there is little reason to expect the qualitative results to be much different.

### V. Assessment and Conclusion

The United States Congress once again has the opportunity to examine the way transportation infrastructure decisions are made and projects are financed. The challenge is more than simply maintaining or replacing existing structure. Rather it is to meet the future infrastructure needs of a U.S. economy that is undergoing dramatic changes with the restructuring of both manufacturing and service industries and the spatial redistribution of these activities. Results from growing a body of research on infrastructure and economic development reported in this paper underline the importance of maintaining, improving, and expanding public capital stock in order to support future economic growth. Nonetheless, the different circumstances of each region will dictate the types of investment that will be most effective in supporting future economic development.

One of the innovations of ISTEA is to give state and local transportation planning organizations more responsibility and thus more flexibility in determining the levels and types of

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<sup>12</sup>"FHWA Direct Employment Impacts: A Quantitative Analysis," prepared by Apogee Research, Inc., 1995.

<sup>13</sup>Duffy-Deno, Kevin T., and Randall W. Ebers. "Public Infrastructure and Regional Economic Development: A Simultaneous Equations Approach," *Journal of Urban Economics*, forthcoming 1991.

transportation projects for their jurisdictions. This move to extend greater responsibility to states and local governments has intensified during the past five years. However, a balance should be struck between allowing local jurisdictions to enhance their nodes on the nation's integrated transportation networks and ensuring that the federal government retains the means and expertise to maintain and improve the network that links together the regional markets that comprise the complex national economy.

In reauthorizing ISTEA, I encourage you to continue to strengthen the partnership between local, state and federal planning organizations and give each the means to make the decisions they are best suited to make. Transportation infrastructure is the foundation for this nation's commerce. The allocation issue comes into focus at the regional level, and wise investment calls for all levels of government to come together and identify, assess, and undertake infrastructure investment that will pay the greatest dividends for the nation now and in the future.



**Testimony to the Subcommittee on Surface Transportation  
Committee on Transportation Infrastructure  
United States House of Representatives**

on

**THE OUTLOOK FOR SURFACE TRANSPORTATION GROWTH**

by

**Dr. David L. Greene**

**Center for Transportation Analysis  
Oak Ridge National Laboratory  
P.O. Box 2008, Bldg. 4500N, MS-6207  
Oak Ridge, Tennessee 37831**

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Prepared by the  
**OAK RIDGE NATIONAL LABORATORY**  
Oak Ridge, Tennessee 37831  
managed by  
**LOCKHEED MARTIN ENERGY RESEARCH CORP.**  
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## THE OUTLOOK FOR SURFACE TRANSPORTATION GROWTH

### I. INTRODUCTION

The United States transportation system annually produces 4.4 trillion passenger-miles of travel and carries 3.5 trillion ton-miles of intercity freight shipments, according to the most recent statistics published by the U.S. Bureau of Transportation Statistics (BTS) (1995). Passenger travel has been increasing at an average annual rate of 2.9 percent per year since 1960. Over the same period, intercity freight movements have been growing at 2.6 percent per annum. While there is reason to believe that future rates of growth may be somewhat lower, transportation activity in the U.S. will continue to grow at substantial rates for decades to come.

The highway mode, and particularly light-duty vehicles (passenger cars and light trucks) are, and will continue to be, the predominant mode of passenger travel. Highway vehicles produced 91 percent of passenger miles in 1994; light-duty vehicles (passenger cars and light trucks) accounted for 83 percent of total passenger-miles. Public transit (including buses and rail), commuter rail and Amtrak carried just over 1 percent of total passenger traffic, while air travel claimed 9 percent in 1994. From 1960 to 1994, the highway mode's share of travel decreased from 96.7 to 90.6 percent as commercial air's share grew from 2.0 to 9.1 percent. At the same time, the share of other public transport modes shrank from 3.7 to 1.2 percent (BTS, 1995, table 6).

Intercity freight traffic is more evenly distributed among the various modes.<sup>1</sup> Rail movements account for one-third of total intercity ton-miles, trucks for about one-fourth. Domestic waterborne transport, including coastal, lake, inland waterway, and intraport activity accounts for slightly less than one-fourth, and oil pipelines (crude and product) move about 17 percent of total domestic ton-miles (BTS, 1995, table 7). Despite its rapid growth, air freight is still a very small proportion of total ton-miles: 0.33 percent in 1994. In terms of revenue, the highway mode again predominates with a share of about four-fifths. Intercity truck revenues per ton-mile are about ten times those of rail and are one-third as great as air transport (BTS, 1995, table 2).

The dominance of the highway mode and the relatively faster growth of air travel are not trends limited to the United States but can be seen around the world in developed and developing economies alike. Over the past twenty years, automobile ownership and highway vehicle travel have been growing at faster rates in Europe and in Japan than in the United States. In the rest of the world, automobile registrations have been increasing since 1970 at more than twice the U.S. annual rate of 2.6 percent (Davis, 1995, tables 1.1 and 1.2). Demand for ever greater mobility, both for persons and commodities, is a worldwide phenomenon. And although it is reasonable to

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<sup>1</sup>Intercity freight movements exclude local deliveries which are made nearly exclusively by truck. The BTS estimated that local truck deliveries made up about 10 percent of total freight ton-miles in 1990 (BTS, 1994, table 7).

expect slower rates of growth in already highly mobile societies such as the U.S., where there are already 13 percent more highway vehicles than licensed drivers (FHWA, 1994, tables DL-1A and MV-1), the growth of vehicle travel is still likely to substantially exceed population growth and to approximate the growth of the economy for decades to come.

## 2. THE OUTLOOK FOR PASSENGER AND FREIGHT VEHICLE TRAVEL

One can become convinced that highway travel will continue to increase at annual rates of 2 to 3 percent in the coming decades either by looking back or by looking forward. Looking backward, one can see a stable pattern of growth extending back to the 1950s. It is difficult to imagine what sort of discontinuity might disrupt the trend. Looking forward, one can see modest population growth of 1 percent per year and economic growth of 2 percent per year, or so, providing a base for travel growth that is likely to be augmented by further declines in vehicle occupancy and increased driving by females, as well as by rising demands for mobility with rising incomes.

### 2.1 PASSENGER TRAVEL

Since the 1950s, passenger car and light truck miles have been increasing at slowly decreasing rates. Exhibit 1 shows the growth of light-duty vehicle travel from about 0.6 to 2.2 trillion vehicle-miles over four decades. Vehicle-miles decreased only twice over this time span, during the oil price shocks and economic recessions of 1974 and 1979-80. The trend in annual growth rate is illustrated two ways in Exhibit 1: 1) simple annual growth rates, and 2) a smoothed ten-year average rate.<sup>2</sup> By averaging over a longer period, the ten-year rates tend to better reflect the long-term trend. From the vicinity of 4 percent per year in the 50s and 60s, annual growth rates appear to have declined into the neighborhood of 3 percent in the 1980s. If this downward trend were to continue, we might expect annual growth rates declining to the range of 2 percent by about 2015. Given the relative stability of trends in vehicle travel growth over the past 40 years it would seem to require a major upheaval to disrupt them in the future.

Forecasts of future light-duty vehicle travel may be based on econometric models, statistically estimated using historical data, or on parametric models driven primarily by demographic projections. For short-term forecasting of five years or less, I prefer econometric models. For longer-term forecasting I prefer parametric models because of the greater stability of demographic trends and the ability to explicitly consider factors that might alter past trends ("what-if" analyses). Both of these methods are incorporated in a vehicle travel forecasting

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<sup>2</sup>The ten-year average rate is centered. That is, the value plotted at 1975 would be the average annual rate from 1970 to 1980.

model my colleagues and I developed recently for the Federal Highway Administration (FHWA) (Greene, Chin, and Gibson, 1995). I will discuss the long-term predictions, through 2020.

The forecasting procedure begins with demographic projects of future populations by age group and gender. There are very significant differences in both passenger- and vehicle-miles traveled by persons of different ages and gender groups, as shown in Exhibits 2 and 3. Only passenger travel by light-duty vehicles is shown in Exhibits 2 and 3. Passenger travel increased for all groups from 1983 to 1990 (Exhibit 2). The average miles per person by vehicle increased from 7,525 in 1983 to 9,283 in 1990, a 23 percent increase at an average annual rate of 3 percent per year. In 1983 gasoline cost \$1.75/gallon (1994 \$) while in 1990 the average price was \$1.35/gallon, which accounts for part of the increase. The rest is due to a combination of a 14 percent increase in per capita disposable income over that period, and many other factors (U.S. Dept. Of Commerce, 1993, table 696).<sup>3</sup> The lower figure in Exhibit 2 shows vehicle-miles driven by age of driver. Miles driven shows an even greater increase, 36 percent from 1983 to 1990. This reflects a decline in vehicle occupancy rates that has shown up in every Nationwide Personal Transportation Survey. Average person-miles per car-mile have declined steadily from 2.07 in 1972 to 1.62 in 1990. This decline alone boosted 1972-1990 vehicle travel growth by more than 1 percent per year over what it would have been had vehicle occupancy rates remained constant.

If nothing else but demographics were to change, our model would estimate future travel by multiplying future populations in each age-gender category by the average miles driven per person for that group in 1990. But other factors will change. Incomes will rise, prices will change, and societal roles may change, as well. The model allows for adjustments for all these factors, as well as other changes in travel behavior. Exhibit 3 illustrates a striking aspect of vehicle travel behavior in the U.S. that may change in the future with important implications for travel growth. In every age category, travel by males exceeds travel by females by a significant amount. Even more striking are the differences in vehicle miles *driven*. On average, in 1990, males logged 45 percent more miles behind the wheel, per capita, than females.<sup>4</sup> Female driving rates could increase in two ways: 1) females could drive a greater percentage of the time when in a car with male drivers, or 2) females could drive more miles on their own. Given recent changes in social roles, both seem likely in the future. The second would lead to still lower vehicle occupancy rates and more vehicle travel.

In the past, highway capacity has been expanded as vehicle travel demand grew. However, capacity expansion has not kept pace with travel growth, with the result that traffic congestion

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<sup>3</sup>Some suspect that a change in the survey's method may have produced a more complete reporting of personal travel in 1990 than in 1983. This does not affect our model's forecasts, which are based on the 1990 data but calibrated to 1990 FHWA national vehicle travel statistics.

<sup>4</sup>Our analysis of the data show that this ratio has not changed a great deal from previous surveys. Published survey data, however, do show an increase in miles per female driver (as opposed to per capita) relative to male drivers for the 1983 to 1990 period. Further analysis of the survey data is needed to resolve this inconsistency.

has been increasing. It is estimated that thirty-five of the fifty largest urban areas experienced a 15 percent increase in traffic delays from 1986 to 1991, and eleven had at least a 50 percent increase in time wasted in traffic (Schrunk, Turner, and Lomax, 1994, p. 30). The total cost of traffic delays in all 50 cities has been put at \$47 billion (1994 \$) annually (Schrunk, et al., 1994, p. 32). More than 90 percent of the cost of congestion is wasted time due to slower average travel speeds. Unless research on Intelligent Transportation Systems can come up with new ways to significantly increase highway capacity without building new roadways, congestion is likely to continue to increase in the future. Congestion might also be mitigated by strategies such as road pricing (e.g., NRC, 1994), but in either case the cost of travel (time or money) will increase, tending to depress travel growth. Either effect can be incorporated in our "what-if" long-term forecasts.

## 2.2 FREIGHT TON-MILES

Freight movements are fundamentally related to total economic output. We take a very simple approach to forecasting future freight traffic, yet one that allows for gradual changes in the relationship between Gross Domestic Product (GDP) and ton-miles shipped, by mode. The precise determinants of freight movements are exceedingly complex, having to do with the details of input-output requirements of production in the various economic sectors, the sectoral structure of the economy, the technologies of production, the geographical locations of firms, their inventory and logistics strategies, as well as the costs and characteristics of transportation modes. The 1993 Commodity Flow Survey (CFS) is only now beginning to provide the kind of nationwide data that will permit analysis of such complex interactions on a national scale. For this reason, and because of the relative transparency of simpler models, our forecasts are based on an aggregate national model, primarily driven by total GDP.

Ton-miles of domestic, intercity freight grew from 0.6 trillion in 1940 to 3.2 trillion in 1994 (Eno, 1995, p. 44). A remarkably simple function of GDP fits the historical trend reasonably well, as Exhibit 4 illustrates. The simple equation at the bottom of Exhibit 4 states that ton-miles of domestic intercity freight grows in proportion to dollars of GDP, with the proportion declining over time. In 1996, for example, the equation predicts 0.58 ton-miles per dollar of GDP. By the year 2020, this would have decreased to 0.5 ton-miles per dollar. The rate of decline is about 0.6 percent per year, so that in an economy growing at an average rate of 2 percent per year, domestic intercity ton-miles would increase at 1.4 percent per year. This relationship quantifies what has been called the "dematerialization" of the economy. As ever greater shares of GDP are made up of services and information, and as production of commodities shifts towards higher value per ton products, fewer tons are produced and even though products may be shipped greater distances, the net result is fewer ton-miles.

A general caveat is required, however. The historical data on freight activity are extremely weak, and must be interpreted with caution. Although the general trends are probably sound, we really have had very little solid data on ton-mile movements by mode until the 1993 Commodity

Transportation Survey. Freight modelers and forecasters are anticipating a significant improvement in the knowledge of freight activities due to the 1993 and future Commodity Flow Surveys.

Evidence from many quarters suggests that the U.S. freight transportation system is becoming increasingly flexible, increasingly specialized, and tailored to specific needs. The 1993 CFS reveals a complex freight transport system in which modes not only serve distinct markets, but combine to create additional varieties of service. Although private and for-hire trucking are predominant in terms of value of goods carried (accounting for 75 percent), various intermodal combinations are significant among the remaining modes. Not counting truck-only moves, postal and parcel service, and unknown, rail accounts for 38 percent of the value of remaining moves, but truck and air intermodal shipments account for 16 percent, and truck-rail intermodal 13 percent (BTS, 1995, table 133). Interestingly, the average value per ton of truck-rail intermodal shipments is three times the average value per ton of truck-only shipments, and the value of air freight shipments per ton is 75 times that of truck-only freight. And while rail load factors (ton-miles per car-mile) have increased dramatically from 18.5 tons per car in 1960 to 41.0 in 1994, intercity truck load factors appear to have declined from 10 ton-miles per truck-mile in 1960 to 8.3 in 1994. All this while the average size of intercity trucks has increased. Following the increases in truck size and weight limits allowed by the Surface Transportation Assistance Act of 1982, truck miles by double and triple trailer trucks grew by 140 percent from 1982 to 1992. At the same time single trailer miles increased by 40 percent (Bureau of the Census, 1995, table 13; 1985, table 13). We interpret these patterns and trends as evidence that the freight transportation system is evolving as an integral part of more efficient and more competitive systems of production, systems that trade-off inventory for transportation, and demand real-time responsiveness. All of these complex changes, of course, are either glossed over or implicit in other trends within our aggregate modeling exercise.

### 3. FORECASTS OF HIGHWAY VEHICLE TRAVEL

The forecasts presented here are intended not to reveal the truth about the future, but to suggest the range in which future highway vehicle travel is likely to fall. Key parameters of the passenger and freight forecasting models are varied to create a range of forecasts illustrating the sensitivity of projections to key factors as well as a possible range of future highway traffic. The passenger travel forecasts are driven by the U.S. Bureau of the Census "middle series" population projections by age and gender (Bureau of the Census, 1995, table 17). Thus, the aging of the U.S. population is taken into account. This projection anticipates a relatively modest rate of population growth of 0.8 percent per year through 2030. Income and GDP forecasts are taken from the U.S. Department of Energy's (DOE's) Annual Energy Outlook (AEO) 1995, Reference Case, and foresee a 2 percent rate of economic growth through the forecast period. Other key assumptions about fuel prices and vehicle efficiencies are also based on the DOE's 1995 AEO projections. All in all, the population and economic growth forecasts expect modest growth for

the United States over next three decades. Higher growth rates would obviously produce higher travel forecasts. Other key parameters include the sensitivity of vehicle travel to total travel costs, including the value of time and the sensitivity of travel demand to income. It is assumed here that a 1 percent increase in total travel costs will result in a 1 percent decrease in VMT, and a 1 percent increase in income (resulting in a 1 percent increase in the value of time) will result in a half percent increase in VMT. This sensitivity is reduced by half again in the "smaller income effect" case below.

Five different passenger vehicle travel forecasts are created by varying the rate at which male and female driving and travel behavior converge, the sensitivity of travel demand to income, and the average speed of travel (Exhibit 5). In the "Rapid M-F Convergence" case, miles traveled per female of every age group, and miles driven by females per mile traveled are assumed to converge on the rates for males in the same age group, at the rate of 5 percent of the current difference per year. At this rate, by 2020 females travel virtually the same (97 percent) miles as males and drive just as frequently when they travel. As a result, average vehicle occupancy rates fall to 1.4 by 2020. Light-duty vehicle travel increases at an average rate of 2.3 percent per year through 2020. If we assume approximately half the rates of convergence (3 percent/year for travel and 2 percent/year for driving rates) the rate of VMT growth drops to 2 percent per year from 1990 to 2020. If we assume no convergence at all (females travel about 80 percent as many miles as males and drive about 75 percent as often as males) the rate of travel growth falls to 1.6 percent.

Vehicle travel is also quite sensitive to income growth. One might expect that income would have a decreasing effect on travel as both incomes and the quantity of travel consumed grow. Because personal income grows at 1.8 percent per year, over a 30-year period it increases by 70 percent, with a major impact on travel demand (increasing it by about 30 percent). If we halve the income sensitivity parameter, the effect of income on travel falls to about a 14 percent increase. Assuming the high rates of convergence of male and female travel behavior, this results in vehicle travel growth of 1.8 percent per year through 2020.

Because a major component of the cost of travel is time, decreasing the average speed of travel would have a major effect on vehicle miles traveled. Estimates of the effects of future travel growth on speeds in the Los Angeles Metropolitan Area indicate that not expanding highway capacity should result in average travel speeds declining by approximately 30 percent by 2010 (EEA, Inc., 1995, p. 1-3). We assume that average speeds decline nationwide by 33 percent by the year 2020. This is an extreme assumption, and not intended to reflect a likely future result but rather to show the potential effect on travel demand. In this scenario, vehicle travel grows at an average rate of only 1.1 percent annually through 2020. However, the lower speed costs travelers nearly fifty billion hours of increased travel time annually in 2020 (at the lower rate of travel demand).

Simulated truck freight forecast scenarios are based primarily on the assumed rate of "dematerialization" of GDP. Another key assumption is the rate of decline in ton-miles per

truck-mile, or load factor. No change in truck costs relative to rail or any other mode are assumed. Assuming no dematerialization at all and that load factors decline at their historic rate of about 0.3 percent per year leads to heavy truck travel growing at about 2.3 percent per year, essentially doubling by 2020. A relatively slow rate of dematerialization, about 0.3 percent per year, produces an average growth rate of 2 percent per year, for an 80 percent increase by 2020. Doubling this rate depresses annual growth to 1.6 percent, and further adding no change in tons per truck drops the average rate to 1.1 percent per annum. Certainly even higher rates are likely if the nature of freight changes in ways that continue to make truck transport more attractive. Our modeling framework does not allow for increasing freight value to weight and its effect on modal shares. No doubt it should, and as better freight data become available, such relationships can be incorporated. The effect of including increasing freight value to weight would certainly be to raise the rate of growth of truck transport.

#### 4. CONCLUSIONS

It appears very likely that highway vehicle travel for both passengers and freight will grow at rates in the vicinity of 2 percent per year for the next two to three decades. Such projections can be inferred from fairly conservative assumptions about population and economic growth, and by extrapolating trends in travel behavior. Substantial highway travel growth is virtually certain to occur whether or not highway capacity is expanded to partially accommodate it. Although the slow growth and aging of the U.S. population will tend to hold down future travel growth and despite the fact that motor vehicle availability is not a constraint on travel in the U.S., there is substantial room for future expansion. Perhaps the greatest potential for accelerated growth lies in the still large differences between male and female travel behavior.



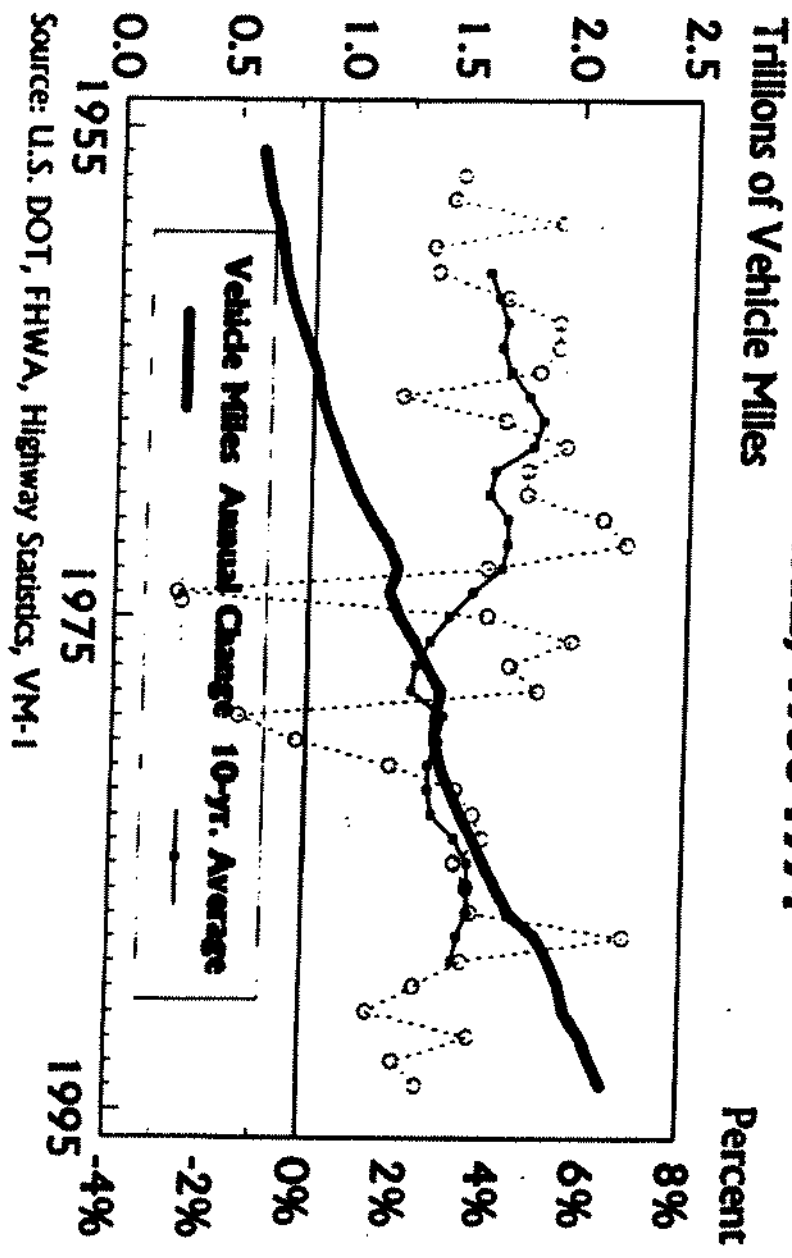
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**EXHIBIT 1**

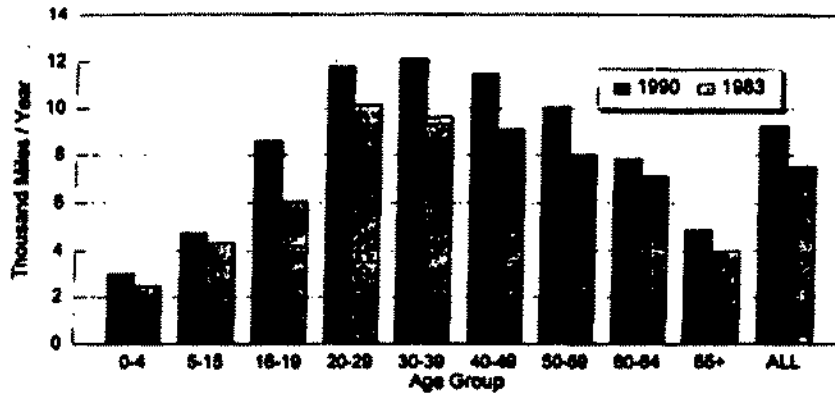
**Long-Term Trends in Light-Duty Vehicle Travel  
All U.S. Roads, 1956-1994**



Source: U.S. DOT, FHWA, Highway Statistics, VM-1

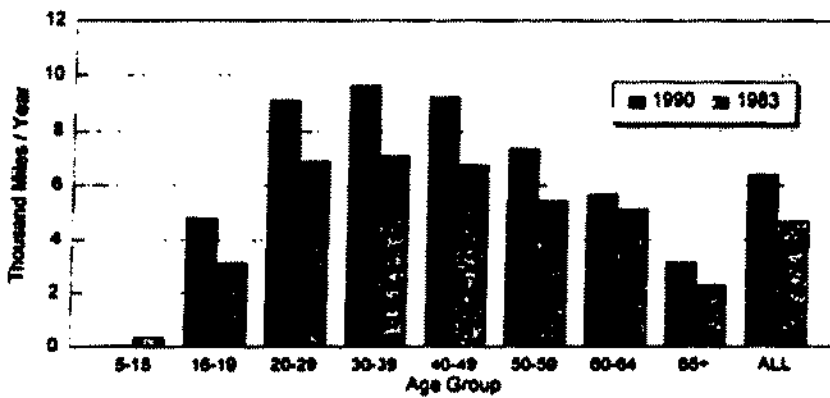
EXHIBIT 2.

PASSENGER MILES BY AGE OF TRAVELER



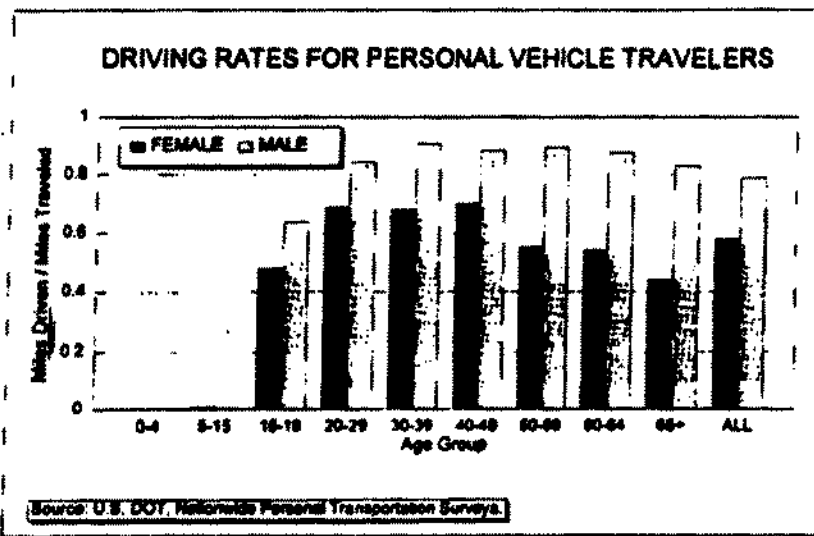
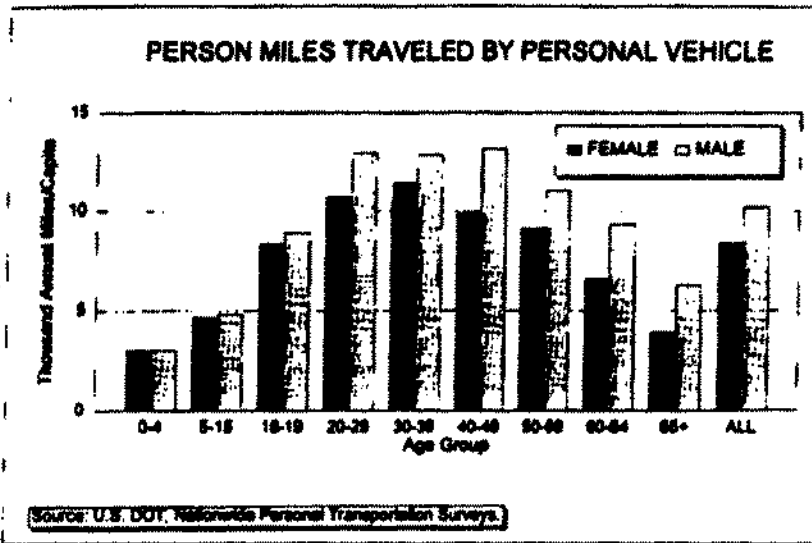
Source: U.S. DOT, Nationwide Personal Transportation Surveys

VEHICLE MILES BY AGE OF DRIVER

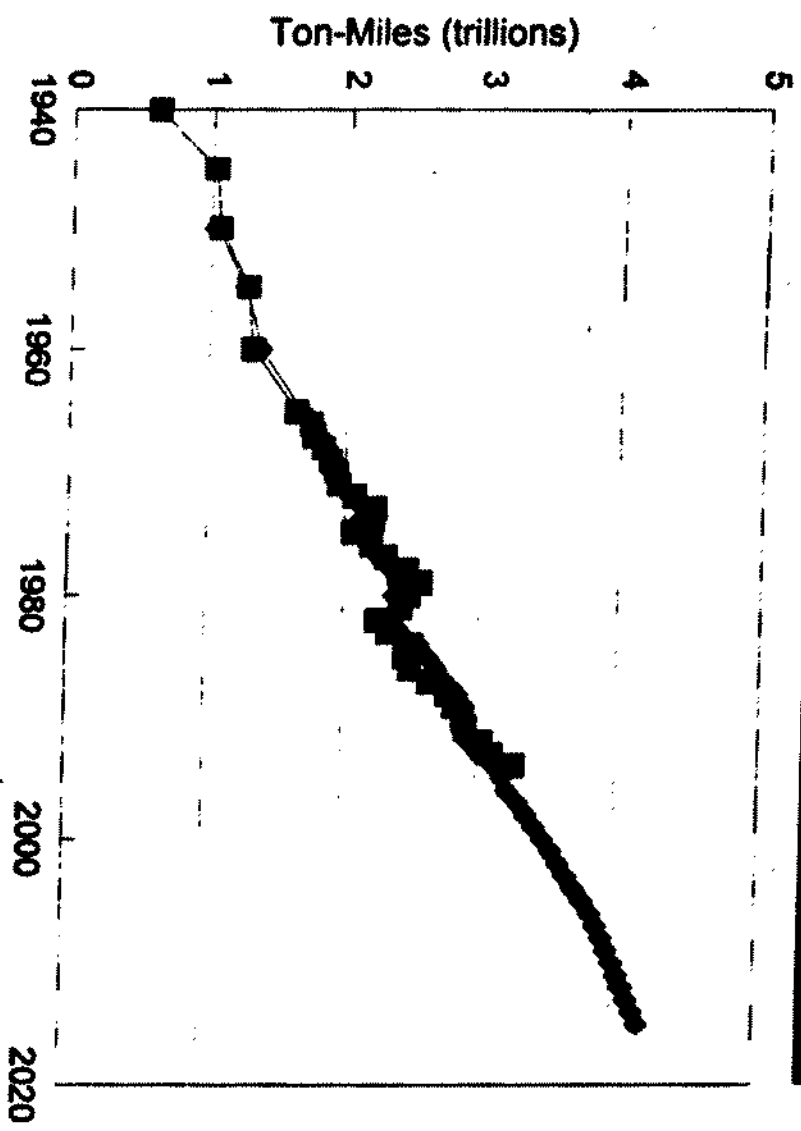


Source: U.S. DOT, Nationwide Personal Transportation Surveys

EXHIBIT 3

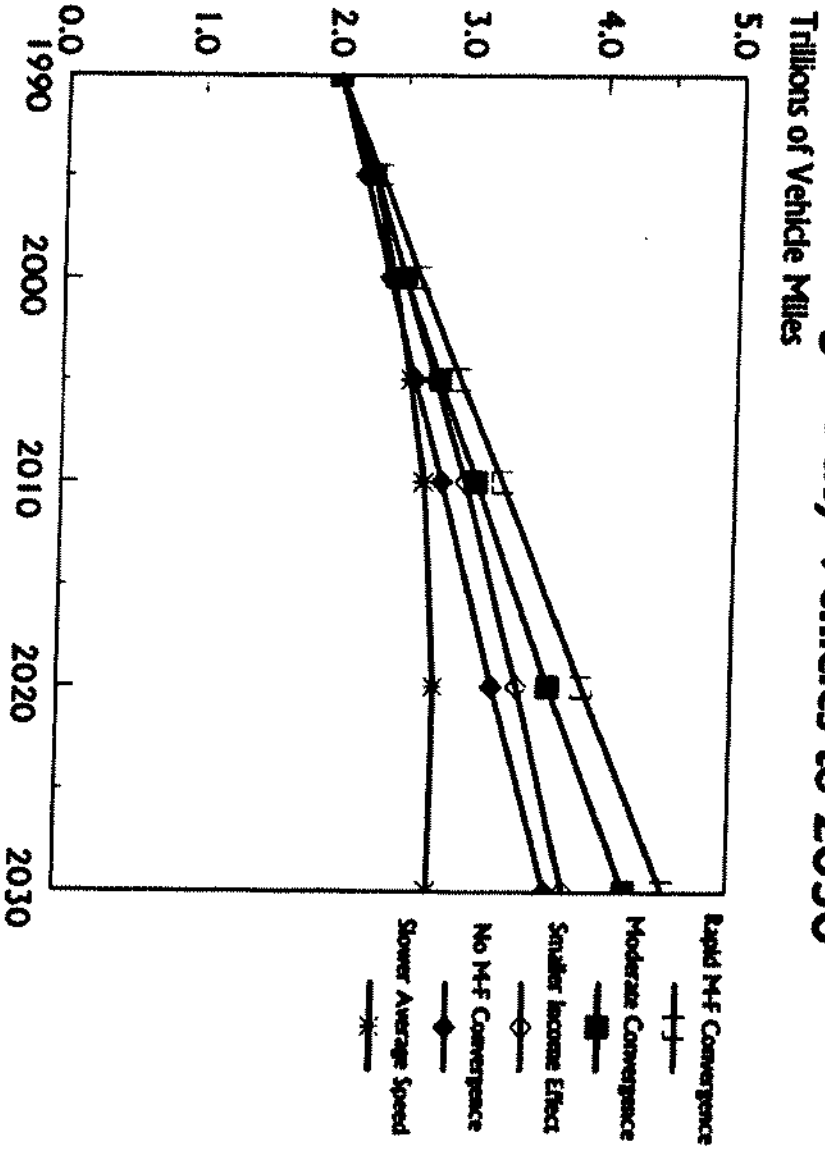


**EXHIBIT 4. Domestic Intercity Ton-Miles**  
**Time Trend in Ton-Miles / 1987\$ of GDP**

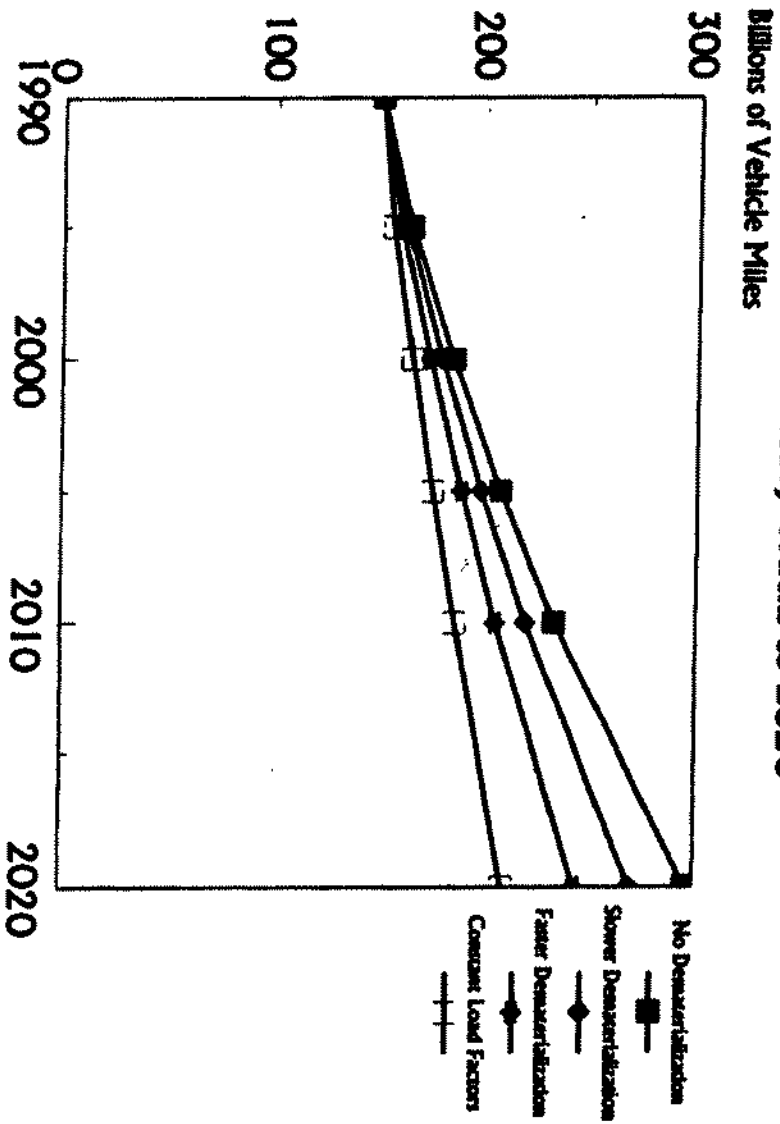


Ton-Miles = (0.732 - 0.00327[year-1949]) \* GDP  
 Source: Eno Transportation Foundation, Inc., 1995, p. 44.

# EXHIBIT 5. Alternative Vehicle Travel Forecasts for Light-Duty Vehicles to 2030



**EXHIBIT 6. Alternative Vehicle Mile Forecasts  
for Heavy Trucks to 2020**





**Economic Returns on Transportation Investment**

Statement of  
Damian J. Kulash  
President and CEO, Eno Transportation Foundation, Inc.  
44211 Slatestone Court  
Lanodowne, VA 22075

Presented to the  
House of Representatives  
Committee on Transportation and Infrastructure  
Subcommittee on Surface Transportation

March 28, 1996

Good morning, Mr. Chairman and members of the committee. My name is Damian J. Kulash, and I am the President and CEO of the Eno Transportation Foundation, Inc. The Eno Foundation is a 501 c-3 charitable operating foundation. It was founded by William Phelps Eno in 1921 to further his activities in transportation improvement. Mr. Eno was avidly interested in improving traffic control and highway safety, and most of the Foundation's initial work dealt with improved traffic-control techniques and development of more effective safety policies as the nation was rapidly turning to automotive transportation. Over the years, the Foundation's activities have evolved to meet changing needs. Today, the Foundation remains dedicated to transportation improvement, and has become truly multimodal in its activities, its Board of Directors and its Board of Advisors, and in the many contributions of professional effort that advance its work. Its activities have earned an excellent reputation for objectivity and reliability. Most of the Foundation's work is supported from its endowment; about 25 percent is supported by contracts or grants from government and industry. The Foundation operates educational study programs, publishes technical monographs, produces a quarterly journal dealing with transportation policy, and conducts policy forums which bring together people from different perspectives to share their views in a neutral, constructive setting. One of the topics that we plan to address in the policy forum series during July is very close to the focus of this hearing, namely reviewing recent studies of the economic return from transportation investment, interpreting the patterns that are observed, and exploring their ramifications for future policy.

I am delighted to be able to share my thoughts with you as you begin your deliberations about the next surface transportation authorization bill. It is timely and commendable that you begin your hearings by focusing on the macroeconomic effects of the transportation system. All Americans have a massive, shared interest in the total economic benefits of this system: it increases the productivity of each industrial sector, it boosts our competitiveness in the global economy, it increases the market for goods and services, and it widens the market for labor and for the other factors of production. Too often in the authorization process, these shared objectives are left unstated, and the discussion immediately turns to the distributive implications of the subject: which programs go up and which go down; which states get more and which less; which modes and regions will grow; which states will be net donors, and the like. Obviously these are vitally important issues, but they secondary to the common interest we have in setting an overall investment level that gives the greatest boost to the nation's economy and which targets that investment to the most effective programs.

From previous debates in this room, you know how strongly transportation investments influence the location of economic activity. From the time of the nation's first transportation plan -- the Gallatin Report at the beginning of the nineteenth century -- political leaders responsible for transportation investment have been keenly attentive to the substantial regional impacts of such investments. As different ports competed to be the gateway to the west, as the first national system of post roads was designed, and as the Interstate Highway System was designed, states and regions have competed for access. Transportation facilities are major magnets for growth. Many kinds of economic growth will be attracted to one of these magnets or another, but will not end up in between. States and regions do not want to be left in those gaps. These are important economic consequences, but they are not the types of economic return that we are discussing here today.

The economic consequences on the agenda today are changes over and above those tied to the geographic redistribution of growth. The social rate of return is a total for the nation as a whole, and not a measure of project impact on specific affected areas. This is clearly the relevant basis for weighing national policy choices, and it is important to distinguish it from the analyses that are frequently done to estimate the regional benefits and costs of specific project investments. For example, an investment in one project may promise to yield great benefits because it would consolidate future growth and activity around the new project, and thereby stimulate the economy in the surrounding region. But had a similar project been built at a different site, the growth would have concentrated in another region instead. All transportation investments create important site-specific effects, but these do not necessarily represent a system-wide improvement with net national benefits.

Developing countries place high priority in investments in rail, port, highway, transit, and other transport infrastructure, recognizing the strong ties between transportation infrastructure and overall economic performance. Many historians and developmental economists believe that the Industrial Revolution was a direct consequence of the transportation development that preceded it. Similarly, the economic history of the United States can be traced from its transportation investment history -- from the initial dominance of eastern port cities like New York and Boston to the growth

of railheads like Chicago and Omaha to the boom in the Sunbelt which is possible because of ubiquitous air and road access. The linkage between the overall economy and investments in infrastructure such as power supply, water supply, and transportation has been of particular interest to developmental economists. All industrial revolutions have been accompanied by development and expansion of such infrastructure. While there has always been a vigorous debate about how to trace the linkage between infrastructure investment and economic return, the British economist A. J. Youngson sums the matter up by noting that the vital significance of improved transportation to economic development is "one of the few general truths which it is possible to derive from economic history." (1.) Surprisingly, this "general truth" often gets ignored in the economic analysis of national budget issues.

A study soon to be released by the World Bank notes that the importance of transportation does not diminish as countries industrialize. (2.) The growth of Japan, Korea, Taiwan, Malaysia, and Thailand has been spurred by globally integrated production and assembly chains that depend critically on high quality domestic, regional, and international transportation. The World Bank report observes that cross-country studies have confirmed that investment in transport raises growth by increasing the social return to private investment without "crowding out" other productive investment. The Bank's transport investments have shown a rate of return of about 22 percent, comparing favorably with a rate of about 15 percent for all World Bank investments

Recent studies of the investment in transportation infrastructure in the United States suggest that there are sizable economic returns on this investment. Several years ago, Bates College economist David Aschauer performed a simple analysis in which he separated the economic investment in infrastructure from other government, and he found a high rate of return on such public investments. (3.) This study flew in the face of the prevailing economic assumptions used in budgetary analysis, which was, in effect, that the return on investments in infrastructure are no different from any other government spending, and could be lumped in with other government spending when economic impacts are being estimated. This analysis stirred up considerable controversy, both about the methods used and the significance of the findings. Although the methodology can be refined in various ways, this work nonetheless helped to focus renewed attention on the returns from public investments in infrastructure.

More recently, M. Ishaq Nadiri, an economist at New York University, developed a cost-function model to estimate the relationship between the capital stock of highways and the net social rate of return. (4.) He found that during the 1950s and the 1960s, the net social rate of return of the nation's highway network was extremely high -- around 35 percent, which is far above the rate of return that could be expected from private investments. He also found that in the past two decades, the returns on highway investment have been lower, averaging about ten percent during the 1980s -- a rate of return similar to realized on private capital. These findings are both puzzling and exciting. They are puzzling because they show very different returns in different periods, raising the question of exactly what led to the extremely high returns in the 1950-1970 period, and what future public investments in transportation infrastructure might have similarly massive impacts. They are exciting because if public policy can be targeted to produce such high returns in the future, this will have vital impact on the nation's economic health, its international competitiveness, and its quality of life.

Will future investments in the highway system yield returns above 30 percent, as in the 1950-1970 period, or 10 percent, as in the last decade? Was it the building of the Interstate Highway System that caused the high rates of return, and are there similar public investments facing us today? Do the National Highway System or the widespread introduction of Intelligent Transportation Systems have similar potential? Do investments in airports, transit, ports, intermodal facilities, and other forms of transportation promise similar economic benefits? There will probably not be widespread agreement about these matters, but this hearing and broad discussion of these questions will be useful in making a balanced interpretation of all the available evidence on economic returns from transportation investment.

As we search for possible causes of the pattern of returns found in Professor Nadiri's analysis, by far the most obvious change during the period was the building of the Interstate Highway System, a huge program of unprecedented proportions. Some 45,000 miles of multilane, limited access freeways linking coast to coast and north to south. We all know that this system has profoundly reshaped our economy and our lives. Trips and shipments that formerly were long and unreliable have become routine. The *Highway Statistics* published each year by the Federal Highway Administration fill nearly 500 pages and contain hundreds of thousands of useful numbers. But few of these numbers can capture the changes that this system brought. For example, the new system added barely more than one percent to the nation's total road mileage, yet nearly one mile in four of all our highway travel now takes place on this system. We all know it made high speed travel possible in many areas where it had not been possible before. Nevertheless, highway speeds had been increasing for decades, and the increase in rural highway speeds from 1950 on does not appear especially out of the ordinary in this context. The biggest changes in door-to-door speeds probably occurred by eliminating urban bottlenecks. You can now ship goods from Richmond to Hartford without wondering if you would ever get through Washington, Baltimore, Wilmington, New York, and New Haven. One quarter of our personal travel and our truck freight now occur on these roads that were not here 40 years ago. The Interstate has not only changed where we live, work, and shop: it has also allowed industry to reduce inventories, achieve economies of scale, access broader markets, and operate plant and equipment more economically.

The nation's successful companies reap these benefits every day. (5.) For example, the Coca Cola Midwest bottling plant has been shipping their product over highways using "double bottoming," a tandem trailer arrangement that reduces handling costs, reduces overall mileage, and increases driver productivity. Special refrigerated "Rolling Warehouses" make it possible for the Coca Cola plants to pre-load trailers to meet orders at the point the product is manufactured. Drivers come with their tractors and have the trailers ready to deliver, with exactly the right mix of products. Wal-Mart Stores, Inc. quick response program works out of a set of distribution centers located on key north-south and east-west routes on the Interstate Highway System. It has improved its ability to schedule production and reduce its inventory, as well as improve customer service. General Motors Just-in-Time production system uses about 7,000 trucks to provide daily support to its 29 domestic assembly plants. A typical plant unloads about 120 truckloads of parts and supplies each day, and speedy, reliable highway access allow General Motors to meet very precise production schedules. This system has reduced inventory costs and improved competitiveness. Campbell Soup Company is also using Just-in-Time delivery, together with its Select Supplier program, to reduce

inventory, cut waste, and reduce handling costs. It has also allowed the company to improve product quality by using fresher ingredients.

As these illustrations show, the benefits of the nation's highway system are felt by a diverse array of industries. One of the key findings of the Nadiri analysis, which examined the rate of return of the highway stock on 35 different industries, is that the economic benefits are distributed across all sectors of the economy.

Throughout the economy, highway transportation is doing things today that it could not do before the Interstate System was built. Elimination of congested urban bottlenecks allows intercity shipments to extend for longer ranges with greater reliability. This allows consolidation of production and warehousing facilities, lets industries to reach broader markets, and creates economies of scale. Companies are able to locate facilities on lower cost land, can reach larger labor markets, and can cut inventory, storage, and handling costs. By reducing the costs of haulage, transportation investments have broadened the market area for industry, both domestically and internationally. Improvements in the speed and reliability of transportation permit the uninterrupted supply of raw materials, components, and finished goods, allowing plants and equipment to run more efficiently. Reliable transportation is key to Just-In-Time inventory systems, which diminish the need for large inventories.

Productivity improvements like these have been stimulated in all transportation-using industries, and that means in every sector of the economy. These are systems effects: elimination of a bottleneck in Saint Louis may benefit a manufacturer in San Francisco or a retailer in Orlando. The interstate interdependency of the haulage is reflected in the pattern of ever longer shipments. An average shipment by truck traveled 410 miles in 1992, up by 74 percent above the average shipment length of 235 miles in 1950. The substitution of highway transportation for other factors of production is also reflected in total trucking tonnage, which grew by 413 percent between 1950 and 1994, while the GNP grew by 369 percent during that same period. (6)

You need no reminder that the funds to support transportation investment will never be easy to find, and throughout our nation's history we have augmented direct authorizations of public funds by using land grants, tolling authorities, bonding, and numerous other devices to make long-term investments without being unduly constrained by short-term financial limitations. With today's intense concern about budgetary pressures, the pendulum appears to have swung to the other extreme, however: the nation's highway program is increasingly being used to bankroll deficit-reduction efforts. Estimates from the Federal Highway Administration project that federal and state governments need to spend about \$21.5 billion a year for the next twenty years just to maintain the roads and bridges designated as the National Highway System, and about \$8 billion more will be needed to make necessary improvements to this system. These numbers appear consistent with engineering experience based on the mileage of the system and the volume of traffic that it carries. Reflecting the severe budgetary constraints of the times, however, the Administration's recent budget provides only about \$7 billion for the federal share of support for this system, leaving a substantial shortfall even if an equal state share is assumed. What the budget does instead is show the balance in the Highway Trust Fund increasing from about \$21 billion this year to about \$60

billion six years from now, in 2002. This reflects a decision to fund deficit reduction at the expense of transportation investment. Is this a good choice? Is this a strategy that you should consider as you draw up surface transportation legislation for the coming years? This is the question that brings us together today. It is an immensely complicated question.

Developing an effective national transportation investment strategy is complicated not only by the divergent stakes involved, but also by fundamental questions of what is fact and what are untested assumptions. We are at a juncture where the unifying national purpose that created the Interstate Highway System has not yet been replaced by an equally compelling vision. We are faced with evidence that the conventional economic assumptions do not fit actual experience. You are reviewing the nation's transportation investments in an atmosphere where short-term budgetary pressures are overwhelming. I recognize that there are many areas where the Congress is constrained -- programs where you are not spending enough to do the job right, programs whose economic benefits would outweigh their costs. Why should you think there is anything different about transportation investment? I believe that there are three reasons:

1. You have just witnessed a revolution. The Interstate Highway System, which you began 40 years ago, has transformed the way Americans work, live, and shop. It has had profound effects on how industry operates in this country. Whether one loves this system or hates it, no one dreamed of the massive impact it has had on our economy and our lives. Today's press is full of stories that speculate about the information superhighway and what it will do, but for some strange reason we accept the massive changes that have come with the building of the Interstate System as if they were ordinary, business-as-usual, and inevitable. They were not. They were dramatic reactions to unprecedented investments. We should learn from this experience as we chart a strategy for future transportation investments.

2. The nation's stake in this matter is vast, and it pervades every sector of the economy. The nation spent \$1,139 billion on transportation in 1994 -- about one sixth of the GNP. This includes \$331 billion in trucking expenditures; \$610 that people spent to buy cars, gasoline, tires, insurance, parking, and the like; \$73 billion for passenger airline fares; and \$130 billion that federal, state, and local government spend on transportation services and facilities. (6.) The U.S. total transportation bill is about three quarters the size the Federal Budget. The decisions that you make about federal investments in transportation infrastructure have profound effects on this huge sector. The linkage between investments in transportation facilities and the performance of transportation industries is readily apparent and obvious. More important, however, and far less understood, is the connection between transportation investment and everything else in the economy. The efficiency, speed, and reliability of transportation have vital consequences in every other sector of the economy, whether it be agriculture, construction, manufacturing, or the service industries. Everything we produce has a substantial transportation input. The quality of transportation has important consequences on every sector of the U.S. economy. Public investments in facilities and private investments in vehicles, communications, and control systems keep the quality and capacity of the nation's transportation meet the needs of a growing economy.

3. The macroeconomic impacts of recent investments in transportation do not appear to fit with

the prevailing assumptions of economists who evaluate government programs. Outside of studies that are specifically aimed at development issues, economists do not feel the need to separate public investments in transportation from other federal spending, nor do they believe such investments could yield rates of return higher than those produced by private investments. But these prevailing macroeconomic assumptions do not appear to correspond with historical experience, with the analyses of developmental economists, and with a recent macroeconomic study. This recent study of the economic return on the nation's capital stock of highways casts doubt on these assumptions: the return on transportation capital does indeed appear higher than that of other government spending, and it also appears higher than what private capital could earn. We cannot afford to accept the traditional assumptions if they are selling the nation short. History suggests that this recent analysis may be on the money.

You will soon need to reauthorize the nation's surface transportation programs, and you will do this as you face intense budgetary pressures. The Interstate Highway System has been completed, and the various candidate highway and bridge programs have not yet generated the same commitment to common purpose that characterized the Interstate System. The National Highway System, which focuses on the principal routes of interstate commerce and travel, is still emerging and the funding to maintain this system has yet to be provided. This is a difficult time to deal with long-range investments in a businesslike way. Further, in the absence of a strong and unifying interest in the nation's transportation programs, rivalries between states, modes, or projects are eclipsing the fundamental questions.

As you look ahead, further growth in the economy and in transportation are to be expected. If the past is a guide, this growth will be substantial. During the past decade, freight transportation grew by 30 percent and passenger transportation grew by 44 percent. The highway portions of these totals grew even faster: intercity truck ton-miles increased by 50 percent, and intercity automobile passenger miles increased by 44 percent. If these growth rates persist throughout the next decade, both passenger and freight volumes on the nation's roads will be more than double what they were ten years ago.

Actual future growth will of course depend on many economic and demographic factors, but it may be somewhat slower than in the past decade. (7.) The worker boom appears to have come to a close, and there will probably be low overall growth in population and population of working age during the next decade. Immigration will continue to influence transportation demand. During the 1980s, about 8.7 million immigrants came to the United States. About 80 percent of these are of working age, and most have gone to our most populous states and many to central cities. Transportation growth has roughly paralleled the growth in the GNP. In the 1960's, the nation's transportation bill (expenditures by all parties on all modes of transportation, both passenger and freight) grew at 6.24 percent and GNP (in current dollars) grew at 7.02 percent. In the 1970's, the transportation bill grew at 10.77 percent and GNP grew at 10.44 percent. In the 1980's, the freight bill grew at 5.92 percent and GNP at 7.34 percent. Future growth in GNP will be accompanied by further increases in the amount of freight and passenger transportation.

In conclusion, it is safe to assume that growth in the economy and the volume of transportation services will go on. Sound investments in the nation's transportation capacity will continue to yield substantial returns to the nation's businesses. Budgetary pressures will make it exceedingly difficult to free the funds that are needed for investment. The Congress will have to make the difficult allocation of resources between transportation investments, deficit reduction, and other priorities. As you do this, it is essential for continued economic health that you fully weigh the costs of not making necessary transportation investments. Recent information indicates that economic analysis may have systematically undervalued these investments in the past, not through a deliberate policy decision but through inaccurate economic assumptions. The economic implications of a sound transportation investment policy are immense, and this is certainly a matter that warrants your attention as you begin to develop the transportation investment policy that will be reflected in the next surface transportation authorizing legislation.



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**Statement of**  
**T.R. Lakshmanan, Ph.D.**  
**Director**  
**Bureau of Transportation Statistics**  
**Department of Transportation**

**before the**  
**Subcommittee on Surface Transportation**  
**Committee on Transportation and Infrastructure**  
**U.S. House of Representatives**

**March 28, 1996**

Mr. Chairman and Members of the Committee, I am T.R. Lakshmanan, director of the Bureau of Transportation Statistics (BTS). Thank you for the opportunity to appear today to testify on the state and performance of the U.S. transportation system.

BTS, established by the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), is the newest operating entity of DOT. It is responsible for compiling, analyzing, and disseminating information on the nation's transportation systems, including intermodal transportation. BTS is also responsible for enhancing the quality and effectiveness of DOT's statistical programs through research and improvements in data acquisition and use. A better understanding of the performance of the transportation system and the potential for its improvement require both better coverage and increased quality of existing data.<sup>1</sup>

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<sup>1</sup> Most of the information in this statement is taken from U.S. Department of Transportation, Bureau of Transportation Statistics, *Transportation Statistics Annual Report 1995* (Washington, DC: 1995); and U.S. Department of Transportation, Bureau of Transportation Statistics, *National Transportation Statistics 1996*, DOT-BTS-VNTSC-95-4, prepared by the Volpe National Transportation Systems Center (Washington, DC: 1996).

As I present my remarks on the transportation challenges we face, I will proceed in the following sequence. First, I will briefly review where we are with a focus on patterns of passenger and freight travel and the economic performance and other consequences of transportation. I will then proceed to a discussion of the various factors that may signify changes in the system and the implications of these changes.

#### WHERE WE ARE

The United States has been a pioneer in the development of transportation infrastructure. It has invested heavily in this infrastructure, as well as in the production of a variety of vehicles, and the human and organizational capital needed to create an impressive transportation system. This system, serving 258 million people, 6 million business establishments, and 86,000 units of governments, is a vast enterprise, accounting for over 4 trillion passenger-miles and 3 trillion ton-miles of domestic freight annually.

Over the years, the U.S. transportation system has played a critical role in the expansion of agriculture, resource industries, manufacturing, and urban centers. Currently, innovative intermodal logistical developments are emerging to support the American economy as its firms compete in global markets. Further, the U.S. transportation system offers its residents a very high level, indeed the highest level, of personal mobility in the world -- as measured by passenger-miles traveled per capita (see figure 1).

One way to characterize the role transportation plays in the economy is to gauge the proportion of the gross domestic product (GDP) arising from transportation-related activities. In 1994, the portion of the GDP attributed to transportation-related demand was \$712.7 billion, or

10.8 percent of overall GDP. Thus, transportation is a large economic sector, broadly comparable to health (14.2 percent), education (7.2 percent), and food (12.4 percent).

### Passenger Travel

Between 1970 and 1994, U.S. passenger travel increased by 87 percent -- an average growth rate of about 3 percent annually (see figure 2). Passenger-miles per capita increased from around 11,000 miles in 1970 to nearly 16,600 miles in 1994.

Air travel and passenger travel in light-duty trucks (including pickups, sport-utility vehicles, and mini-vans) more than tripled over this period. Air passengers traveled 388 billion miles in 1994, compared with 118 billion miles in 1970. This reflects an annual growth rate of about 5 percent. In terms of absolute miles traveled, the growth in automobile use overshadows all other modes, growing by over 900 billion passenger-miles between 1970 and 1994. Transit travel grew significantly in the 1970s, before leveling off in recent years. Passenger-miles traveled on commuter rail increased from around 4.5 billion in 1970 to around 7 billion today.

Passenger travel is partly related to travel to and from work. The number of jobs has increased significantly over the past 25 years due to the baby boom generation moving into the labor force and a dramatic increase in labor force participation by women. In 1970, there were about 83 million people in the civilian labor force (including the unemployed), 38 percent of whom were women. In 1994, women accounted for 46 percent of the 131 million people in the civilian labor force.

The growth in passenger travel is also related to household activities such as shopping, recreation, and taking care of children's needs. The number of households grew rapidly over the

past 25 years as the population increased and household size declined. The average household was 3.14 persons in 1970 and 2.67 in 1994. The number of households grew by 51 percent between 1970 and 1994, while the population grew by only 28 percent over the same period.

Changes in the distribution of jobs and population in metropolitan areas have contributed to increases in private vehicle use. According to decennial census data, metropolitan areas grew from 140 million in 1970 to 189 million in 1990.<sup>2</sup> Central city areas grew from 64 million to 72 million, but suburbs grew from 76 million to 117 million. Between 1980 and 1990, central cities lost population while suburbs grew (see figure 3). The suburban share of metropolitan population was 62 percent in 1990, compared with 54 percent in 1970. The share of jobs in the suburbs also has increased: 42 percent of jobs in 1990 were found in suburbs, up from 37 percent in 1980. In 1990, suburb-to-suburb commutes accounted for 44 percent of all metropolitan commutes while suburb-to-downtown made up only 20 percent of all metropolitan commutes. Suburb-to-suburb commutes usually are more easily accomplished in a private vehicle. As metropolitan areas have expanded and low-density suburbs have spread into the rural areas, mass transit has had difficulty providing the same level of service in suburban areas as in higher density core cities.

Transportation often spills over state boundaries. According to the 1992 Truck Inventory and Use Survey (TIUS), half the vehicle-miles of travel by trucks used in for-hire transportation occur outside the vehicle's base state. Over 10 percent of the vehicle-miles of travel by vans and minivans used for personal transportation occur outside the vehicle's base state. We do not have

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<sup>2</sup> Figures for 1990 are calculated using 1980 metropolitan area definitions and therefore differ from figures based on current U.S. census definitions.

equivalent data for automobiles, but can assume that they are used by households in similar fashion to vans and minivans for personal travel.

### **The Movement of Freight**

Freight transportation grew substantially between 1970 and 1994 in all land modes and air cargo. The ton-miles carried by Class I railroads increased 57 percent, while ton-miles carried by oil pipelines increased 41 percent. Using vehicle-miles of travel of combination trucks as a surrogate for ton-miles, freight transportation by truck increased 210 percent. The biggest relative growth was in air cargo ton-miles, which increased 434 percent. As shown in figure 4, this growth has been uneven in response to general fluctuations in the economy.

For the first time in nearly two decades, we are able to report on how much freight is moved by all modes in the United States, including trucking and intermodal combinations. In keeping with the mandate of section 5002 of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), BTS worked with the Bureau of the Census to conduct the Commodity Flow Survey (CFS) in 1993. Preliminary results from the CFS show that the nation's freight transportation system carried more than 12.4 billion tons of goods valued at more than \$6.3 trillion for a total distance of 3.7 trillion ton-miles in 1993. As shown in figure 5, over half the weight of all freight was moved by truck, with rail and water transport accounting for most of the remaining tonnage. In terms of ton-miles, the split between truck, rail, water, and pipeline transportation is more even, given the greater distances moved by large shipments in the non-highway modes. Nearly three-quarters of the value of items transported moved by truck, followed in order of magnitude by intermodal, rail, water, and pipeline transport.

The CFS shows the importance of local transportation to the nation's commerce. Nearly 30 percent of the value and over 56 percent of the tons of all shipments represented by the CFS occur between places less than 50 miles apart. Over 38 percent of the shipments measured by value, and two-thirds of the shipments by weight, are sent less than 100 miles.

Although local transportation is important, significant quantities of goods are shipped across the entire continent. For example, for shipments originating in California, the top five destinations ranked by value were Texas, Arizona, New York, Illinois, and Florida, according to the Commodity Flow Survey.

Fast, flexible forms of transportation have emerged in recent years. Parcel, postal, and courier services account for about 9 percent of the value of all shipments. When shipments reported as being sent by more than one mode are added to moves by parcel and courier services, intermodal transportation exceeds 200 million tons valued at \$660 billion. In particular, about 38 million tons, worth \$83 billion, moved by the "classic" intermodal combination of truck and rail. Assuming 50,000 pounds of payload per truck, this intermodal combination would represent 1.5 million large trucks diverted from our highways for a major part of their trips.

Intermodal shipments tend to be high in value. Shipments by parcel, postal, and courier services are worth \$15.08 per pound. Truck-rail intermodal shipments are worth \$1.09 per pound. Although these statistics are far short of the \$26.77 value per pound of air and air-truck shipments, they are significantly higher than the 35 cents per pound for truck-only shipments and the values per pound for railroads, water transport, and pipelines which are less than a dime.

Growth has been particularly dramatic in the use of trucks. According to the Census Bureau's TTUS, the number of trucks used in for-hire transportation has increased by 24 percent.

Vehicle-miles of travel grew even faster for these trucks, which traveled approximately 46,000 miles per truck in 1982 and 58,000 miles in 1992. Combination trucks with more than one trailer traveled the farthest per vehicle in 1992, averaging 79,000 miles per vehicle. The number of these multiple combination trucks doubled from 1982 to 1992 to 58,902, and their vehicle-miles of travel increased 152 percent. In comparison, there were 1,670,455 single combination trucks (most typically a 3-axle tractor with a 2-axle semi-trailer) in 1992.

The truck fleet appears to be getting heavier as well as traveling farther. Between 1982 and 1992, trucks with typical operating weights above 80,000 pounds increased in number by 180 percent and in miles traveled by 193 percent. Trucks below 33,000 pounds increased 77.5 percent in number and 120 percent in miles traveled. Relative increases for trucks in the intermediate weights were substantially less. The policy implications of these changes are under study by the Federal Highway Administration, which is expected to report its results later this year.

International trade is a basic source of growth, placing demands on the domestic transportation system for access between ports of entry and the interior. The North American Free Trade Agreement has added a north-south focus to the traditional concern with east-west freight movements for international movements. Based on information collected through the Census Bureau under contract to BTS:

\$259.3 billion in goods moved through land crossings between Canada and the United States between April 1994 and March 1995, an increase of 15 percent over the preceding 12 months. In terms of value, 76 percent of this trade was moved by truck, 20 percent by rail, and 4 percent by pipeline.



- \$90.7 billion in goods moved through land crossings between Mexico and the United States between April 1994 and March 1995, an increase of 16 percent over the preceding 12 months. In terms of value, 87 percent of this trade was moved by truck and the remainder by rail.

Although transborder land crossings are important, most international trade moves in and out of the United States through ports. Seaports handled international cargo valued at \$565 billion in 1994, an increase of 92 percent over the cargo handled in 1980.

Changes in the structure of the economy have had major ramifications for freight transportation. Between 1977 and 1984 -- a period of substantial economic growth and structural change -- use of highways, air and water transport, and urban transit increased. According to the Department of Commerce, industry's use of infrastructure grew faster than the economy as a whole. Industry's share of highway use climbed from 34.5 percent to 40.2 percent, partly reflecting the effects of new logistical systems, such as just-in-time methods, that rely heavily on trucking to provide rapid and frequent delivery of small shipments. Durable goods manufacturing, wholesale, and retail services, other services, and public enterprises accounted for much of the increase. These groups also increased their proportional share of air transport. The changing use of highways and air transport provide insights into the growth of higher value goods. Aside from the transport service sector, the most intensive industrial users of highways are the wholesale and retail trade, and the construction industry. While the material intensity in the overall economy may have declined -- indicating less material transport per unit output -- the rise of the new logistical systems may signify more use of highways and bridges.

### **Economic Performance of Transportation**

The transportation share of GDP has held steady since 1980 -- a period of considerable dynamism and technological and structural change in the transportation industries and the larger economy these industries serve. Indeed, transportation for-hire industries have performed well in terms of economic productivity in the last two decades. Their labor productivity, measured by value-added per worker, is well above that of the economy as a whole (see figure 6). In 1978, transportation sector labor productivity was 9 percent higher than the economy as a whole. By 1992, the sector's labor productivity had climbed 19 percent higher than the economy as a whole, reflecting the effects of deregulation and technological change in the transportation for-hire industries.

Within the transportation sector, labor productivity increased most rapidly and is projected to continue in railroad and air transport industries. The rise of labor productivity in air transportation has been accompanied by rapid growth in the employment and industrial output. Between 1978 and 1992, employment in this industry increased 77 percent (from 418,000 to 739,000), while its value-added increased 123 percent, from about \$20 billion (1987 dollars) to \$45 billion (1987 dollars).

There is evidence that investments in highways and other public transport capital reduce the costs of transportation and production, and contribute to economic growth and productivity. A clear majority of recent empirical studies in the United States concludes that highway capital makes a positive contribution to total economic output, although small relative to private labor and capital inputs. Studies in Europe and Asia also find positive contributions of transportation infrastructure to national economies. (See table 1). Further, one retrospective benefit-cost study

of the U.S. federal highway system concluded that even under pessimistic assumptions, the benefits accruing to Class I trucks in the form of cost savings amount to one-third of the cost of the Interstate system alone. Under some more generous assumptions, the benefits may have been as high as three-quarters the cost of the Interstate system. The study did not include the benefits to final consumers such as households (see box 1).

#### **The Unintended Consequences of Transportation**

The U.S. transportation system provides Americans with enormous economic and societal benefits, and highly valued personal mobility. Over the last 25 years, transportation has become safer and cleaner and also somewhat more energy efficient while the amount of travel and movement of freight have increased. However, fatalities and injuries from crashes and their related costs, and environmental damage continue to affect our society, the economy, and the efficiency of our transportation system in significant ways.

The number of motor vehicle traffic fatalities has declined since 1970, when over 54,000 people died in motor vehicle crashes. Even so, in 1995, an estimated 41,700 persons lost their lives in motor vehicle traffic crashes -- about 115 people per day -- and motor vehicle crashes are the leading cause of death for Americans aged 5 to 27. Moreover, after many years of steady decline in annual highway fatalities, the number of deaths increased every year since 1992, when there were 39,250 deaths.

The annual costs of highway crashes have been estimated at \$137.5 billion (1990). Part of these costs are borne by taxpayers through medical treatment (e.g., Medicare, Medicaid) and income support (e.g., Social Security Income disability). Taxpayers pay more than one-quarter of

the first-year medical costs of hospitalized crash victims and pay more than one-half of the medical costs for those injured seriously enough to be admitted to a rehabilitation hospital.

Far less air pollution is emitted from cars and other highway vehicles today than 25 years ago. This improvement, in turn, has helped to make air quality better in most metropolitan areas. Lead has been all but eliminated from gasoline, and total emissions of carbon monoxide and volatile organic compounds are much lower in absolute amounts today than in 1970. Nitrogen oxide (NO<sub>x</sub>) emissions remain roughly the same in amount -- but are much lower if measured on the basis of emissions per mile.

One way to examine these trends is to analyze what would have happened if conditions present in the early 1970s had continued unabated. Had transportation fatality rates remained at 1972 levels, twice as many lives would have been lost in transportation accidents in 1992. At 1972 rates, the transportation sector in 1992 would have used 3.8 quadrillion Btu's more energy. It also would have produced several times as much air pollution, and would have produced 15 percent more carbon dioxide emissions.

Despite the progress, the unintended consequences of transportation continue to be significant. Moreover, while the historical record over the last 25 years is impressive on many counts, some recent developments will need to be watched closely. Data from the last two or three years show some slight increase in some emissions. Energy efficiency gains also have tapered off. It is too soon to know whether these recent developments will continue. Given the expected increase in transportation use, however, the trends in the various unintended consequences will need to be watched closely in the years to come.

## **FACTORS AFFECTING CHANGE IN TRANSPORTATION**

### **Passenger Travel**

The rapid growth in personal transportation that has characterized the last half century shows signs of leveling off. However, some forces of change could stimulate new growth in future travel demand, albeit not as great as in the past. Factors contributing to the demand for personal travel include the following.

**Population.** The growth of the U.S. population between 1980 and 1993 was 13.4 percent. Had there been no immigration, the natural increase in population would have been closer to 9 percent. The Bureau of the Census projects that the U.S. population could grow 14 percent between 1995 and year 2010. Immigration into the United States is expected to be a major component of future growth. Immigrants have a more immediate impact on travel activity than natural increases in population because most immigrants are in their twenties and thirties.

The American population is aging. The relative proportion of different age groups will change over the next 15 years as the baby boomers move into old age. The number of people aged 55 to 64 years is expected to increase by 63 percent, from 21 million to 34 million. During the same period, the number of people 65 years or older will increase by 19 percent from 33 million to 40 million.

The growing share of people over age 65 is already changing transportation needs. Should travel trends remain at 1990 levels, the total annual person-miles traveled would be expected to moderately increase across all age groups through the year 2010. For drivers between 55 and 64 years of age, however, the increase by 2010 could be as much as 63 percent over 1995 levels.

**The labor force.** As mentioned earlier, America had an extraordinary increase in the labor-force in the 1970s and 1980s. Although the labor force will not grow at such high rates in the foreseeable future, the absolute numbers of new participants in the labor force will continue to increase. The impact of increased employment on travel to work will be affected by telecommuting. The number of Americans who worked at home increased from 2.2 million in 1980 to 3.4 million in 1990.

**Domestic migration patterns.** Major changes in domestic migration patterns have changed transportation demand. During the 1970s and 1980s, almost 90 percent of U.S. population growth occurred in the South and West -- more than half of it in Texas, Florida, and California. These trends have moderated. One explanation may be that as workers age, the tendency to move long distances for job-related reasons declines, and the explosive growth of many metropolitan areas of the South and West -- along with accompanying transportation demands -- can be expected in moderate.

**Immigration.** During the 1980s, almost 40 percent of the U.S. population increase came from immigration, largely from Central and South America and Asia. (See figure 7.) This high level of immigration continues today. The greatest impact on transportation demand comes from young immigrants. About 80 percent of immigrants are of labor-force age, and most immigrants locate in metropolitan areas. It is expected that continued immigration at recent growth rates will have a major influence on increasing future urban travel demand.

**Evolution in women's travel.** Many factors have contributed to increased travel demand by women. These include a greater percentage of women in the work force and a higher proportion of licensed women drivers. In 1990, the daily number of trips by women exceeded

those by men, although the overall travel volume of men remained greater because of the longer average length of men's trips.

**Growth in travel by the young and old.** The growth of travel by the youngest and oldest age groups in the United States has been great. Although additional growth may occur, the rate of change has slowed. National travel demand continues to rise because today's 20 year olds make more trips than those of past generations (and young females have increased their trip-making to equal that of males), while those 65 and older likewise make more trips (and today's older females, unlike those of the past, are making nearly as many trips as older males).

**Travel by persons of low income.** Vehicle ownership and the propensity to travel are affected by income. Most aspects of travel increase with income -- trips, miles, and the use of a car. As vehicles have become more ubiquitous, used vehicles have become increasingly available. Moreover, as the average age of vehicles increases, used vehicles become more affordable. Although the number of those with low income may not be falling, the proportion of the U.S. population with access to a vehicle has been growing, and thus more travel by car is likely. As greater proportions of the lower income populace come to own cars, there is likely to be some decline in carpool use, in transit patronage, and in pedestrian travel. Overall, as car ownership by those with lower incomes rises, the result will be greater demand for highway travel. However, many people depend on mass transit. Households with income below \$15,000 per year and those that qualify for the earned income tax credit account for 60 percent of total transit use.

### **Forces for Change in Freight Transportation**

Freight transportation has changed in response to many factors. We are moving lighter goods, either because traditional products like automobiles are being manufactured with lighter materials, or because the economy is emphasizing light-weight products such as consumer electronics. Just-in-time logistical systems have placed new demands for faster and more reliable service to support manufacturing, wholesale, and retail. The combination of toll-free telephone numbers and overnight parcel delivery services has allowed small retail establishments to serve national and international markets, resulting in more growth for carriers specializing in small shipments.

International trade will probably continue to place increasing demands on the domestic transportation system. Although overall global economic growth rates are likely to be uneven, economic growth in regions such as Asia, the Pacific Rim, and Latin America may continue to be significant. This growth will provide new markets for U.S. products, and be the source of both imports and tourists to be carried on the domestic U.S. transportation system.

### **WHERE WE ARE HEADED: IMPLICATIONS FOR THE FUTURE**

Our assessment of where we are headed in the next decade and a half is framed by our current perceptions of the balance of the above demographic and economic trends. The prevailing view (as indicated by DOT and Department of Energy reports<sup>3</sup>) is that the *pace* of this aggregate growth in the next decade and a half is likely to be more moderate than the recent past.

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<sup>3</sup> U.S. Department of Transportation, *1995 Status of the Nation's Surface Transportation System: Condition and Performance, Report to Congress*, FHWA-PL-96-067 (Washington, DC: 1995); U.S. Department of Energy, Energy Information Administration, *Annual Energy Outlook 1995*, DOE/EIA-0383(95) (Washington, DC: January 1995).



The personal propensity to travel will *increase*, unless constrained by environmental concerns, finances, road capacity, or the attractiveness of transportation substitutes such as telecommuting.

Personal travel, comprised largely of highway travel in automobiles and light trucks, and air travel are likely to grow in response to increasing population, GDP, and personal income. Highway travel by light-duty vehicles, which grew at 2.8 percent per year between 1970 and 1991, may increase at a more moderate rate. The growth of air travel is expected to slow, reflecting maturation of the industry.

Freight transport, driven by industrial output growth, will continue to increase in all modes. Air cargo and trucking are expected to grow faster than water and rail transport.

#### **Characteristics of the Future Transportation System**

To refer to the next decade as one of moderate growth is in many ways too bland a characterization, which conceals more than it reveals about the *vitality and dynamism* of the emerging transportation system. Underlying the aggregate demand there appears to be a diverse set of demographic processes (noted above), as well as processes of economic structural change. The latter processes, which derive from technological and logistical evolution underway in the last decade, are very dynamic and may lead to further changes in the *sectoral, structural, and spatial composition, as well as the external aspects of the emerging transportation system*. These *compositional changes* in the emerging transportation system are likely to be both significant and difficult to anticipate. They are important to consider for a variety of reasons.

Extensive technological change, restructuring, and market volatility are evident in the transport sector so that there may well be major transformations in this sector in the next decade or so. Such changes could take the form of:

**Sectoral changes.** Sectoral changes are occurring in the economy. One example is the relative change in the fortunes of different transport subsectors as the larger economy is "dematerializing." Dematerialization refers to the ongoing evolution from a material-intensive production system based on economies of scale (where efficiency is attained by concentrating resources in large firms) to the emerging, flexible, knowledge-intensive production system with agile firms exploiting economies of scope (where firms offer a broader range of services). Predictably, this development is favoring (and will continue to favor) the transport industries offering faster, flexible services (e.g., air, truck, and intermodal services).

**Structural changes.** Over the last decade, new information technologies (IT) and transport logistics produced major structural changes and, in turn, were influenced by a structural evolution in the larger economy. Not only did these technologies introduce a broad variety of products and services but a shortening of the half life of products, and a need to rush ideas to markets in ever shorter times. These developments have far-reaching impacts on both the production system and the transportation system.

On the transportation side, firms, aided by deregulation, have responded to this high level of technological uncertainty and market volatility with new logistical systems. Now, just-in-time deliveries of customized commodities at the moment they are needed require flexibility as well as information handling and prompt decisionmaking among networking firms. This restructuring of the transport sector will continue with greater use of IT.

On the production side, many manufacturing firms are responding to the changing demand for new products by becoming what might be termed "knowledge coordination centers." These firms use a wide network of other firms that are suited to the rapidly expanding technologies and the growing diversity of demand. In other words, new products (with short half lives) are made by a frequently changing coalition of firms. For the transportation industry, this means that *what is transported will frequently change*. In effect, a trend that is emerging from the use of new logistical systems is that, in growing parts of the economy, commodity flow patterns may be *variable and unpredictable*.

For such emerging production and transportation systems to continue to operate efficiently, there is a need to coordinate the wide variety of actors -- shippers, carriers, other private service providers, public actors at different governmental levels, ports, airports and others -- in large intermodal networks. A challenging problem is to lower costs and add value along an entire network, where the relevant assets are controlled by many private and public actors.

Two important points are evident. First, the ability of the different actors to effectively communicate, cooperate, or compete will require *efficient connections among different modes*. In other words, efficiency improvements in the dynamic transport industries could require improved coordination among different public and private actors -- implying the need for *institutional innovations*. Second, it is clear that the transportation system as a whole is more critical than any one part.

**Spatial changes.** Spatial changes are a corollary of the above-mentioned sectoral and structural changes. One of the more swift and dramatic spatial shifts in the last decade and a half is the recent east-west Pacific-oriented flows of freight in the United States. This is dramatically

illustrated by the growth of intermodal container traffic through East Coast and West Coast ports. In 1980, the Port Authority of New York and New Jersey oversaw the largest volume of container traffic in the country, double the combined traffic through the ports of Los Angeles and Long Beach. The relationship was reversed by 1993, with Los Angeles and Long Beach handling twice the traffic as New York. Given the quickening pace of changes, other spatial shifts could be expected.

**External changes.** In a globalizing U.S. economy where exports are increasingly important, the likely explosive growth in population, urbanization, and the consequent transportation demand in Asia and Latin America offer big opportunities for U.S. export of vehicles, engineering services, technologies, and management services. These developments may lead to more business travel and freight movement.

#### **Implications**

The transportation system at the turn of the millennium offers us fresh challenges. Although we believe there will be *sectoral, structural, spatial, and external shifts in the next decade or so*, our ability to predict their exact nature is limited. While the moderate aggregate growth forecast suggests a strategy that includes capacity expansion, the somewhat uncertain compositional changes may require flexible responses to changing situations.

The U.S. Congress anticipated this need when it enacted ISTEA, which provides for flexible, management-oriented strategies in addition to investment-oriented capacity expansion. In ISTEA, Congress emphasized consideration of technology, information, management, flexibility, and an inclusive coordinating form of decisionmaking at the state and local levels.

Congress also created BTS in order to develop the information and knowledge base necessary to support strategic decisions by key private and public transportation actors in such a distributed system of decisionmaking.

The forces and trends we describe were beginning to be evident even in 1991 as ISTEA was formulated. These forces and trends are continuing and are likely to strengthen as the technology and organizational forces play out in the future. The flexible ISTEA strategy is a good hedge against the uncertainty that is likely to confront us in the next decade and beyond.

Mr. Chairman, this concludes my prepared remarks.

### Box 1: Cost Savings from Investment in the U.S. Federal Highways

Between 1950 and 1973, the stock of U.S. federal highways grew from \$44.3 billion to \$185.8 billion (in 1973 dollars), which, with a 12-percent interest rate and 25-year lifetime, would yield an annual capital cost of \$17.8 billion. One study estimated a cost function for the Class I trucking industry over this period that yielded a cost elasticity of -0.07 for highway capital.<sup>1</sup> Then, with simulation techniques, they explored the value of cost savings for the entire trucking industry over this 24-year period.

If alternative assumptions are made about the price elasticity of demand for freight transport and the social discount rate for public investment in highways, the cost elasticity of the infrastructure (-0.07) implies savings in the cost per revenue ton-mile carried by the trucking industry from 0.038 cents in 1950 and to 1.93 cents by 1973. These figures represent an annual saving of 19.3 percent (or \$9.73 billion) for transport (at 1973 levels) on 1950 highway infrastructure.

The table below shows the cost savings for Class I trucking firms alone from the Interstate Highway System under alternative assumptions about the price elasticity of freight transport and the social discount rate for highway investment. In the more pessimistic case, which assumes a high price elasticity (-2) for freight transport and a high social discount rate (12 percent), one-third of the cost of the Interstate system can be counted as a cost savings just to Class I trucking firms. Under the reasonable case of -1 price elasticity and a 6 percent social discount rate, 72 percent of the cost of highways can be counted as savings to the same firms. These estimates do not include the benefits to passengers or those obtained from the improved quality of freight service.

Scenarios	Assumptions	Cost savings for Class I trucking firms only
I.	"Pessimistic" case (a) High elasticity of freight carriage to be -2 (b) High social discount rate (12%) for highway investments	33% of the total capital cost of the Interstate Highway System (\$5.97 billion)
II.	(a) Price elasticity of freight carriage to be -1 (b) High social discount rate (12%) for highway investments	44% of the total capital cost of the Interstate Highway System (\$7.85 billion)
III.	(a) Price elasticity of freight carriage to be -1 (b) Social discount rate (6%) for highway investments	72% of the total capital cost of the Interstate Highway System (\$12.84 billion)

Source: U.S. Department of Transportation, Bureau of Transportation Statistics, *Transportation Statistics Annual Report 1995* (Washington, DC: 1995), p. 169.

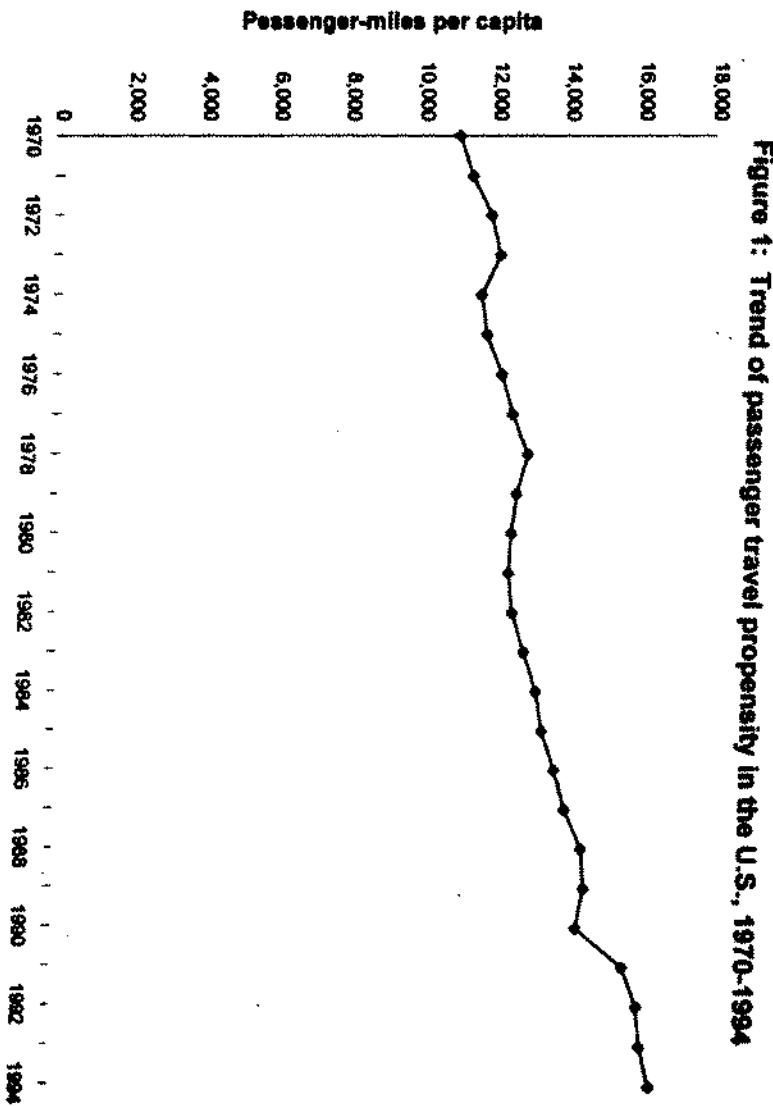
<sup>1</sup> J.E. Keeler and J.S. Ying, "Measuring the Benefits of a Large Public Investment: the Case of the U.S. Federal-Aid Highway System," *Journal of Public Economics*, vol. 36, 1988, pp. 69-85.

Table 1: Summary of Output and Cost Elasticities of Highway and Other Public Capital in Various Countries

Country	Sample	Infrastructure measures	Elasticity range
United States	aggregate (us)	public capital	output: 0.05 to 0.39
	states (xs)	public capital	output: 0.19 to 0.26
	states (s/xs)	highway capital	output: 0.04 to 0.15
	regions, trucking	highway capital	cost: -0.07
Japan	regions (s/xs)	transportation and communication	output: 0.35 to 0.42
United Kingdom	aggregate (us)	infrastructure public capital	cost: negative, statistically significant
France	regions (xs)	public capital	significant output: positive, statistically
Germany	industry (s/xs)	public capital, highway capital	cost: negative, statistically significant
India	aggregate (s), states (xs)	economic infrastructure: roads, rail, electric capacity	cost: -0.01 to -0.47 significant

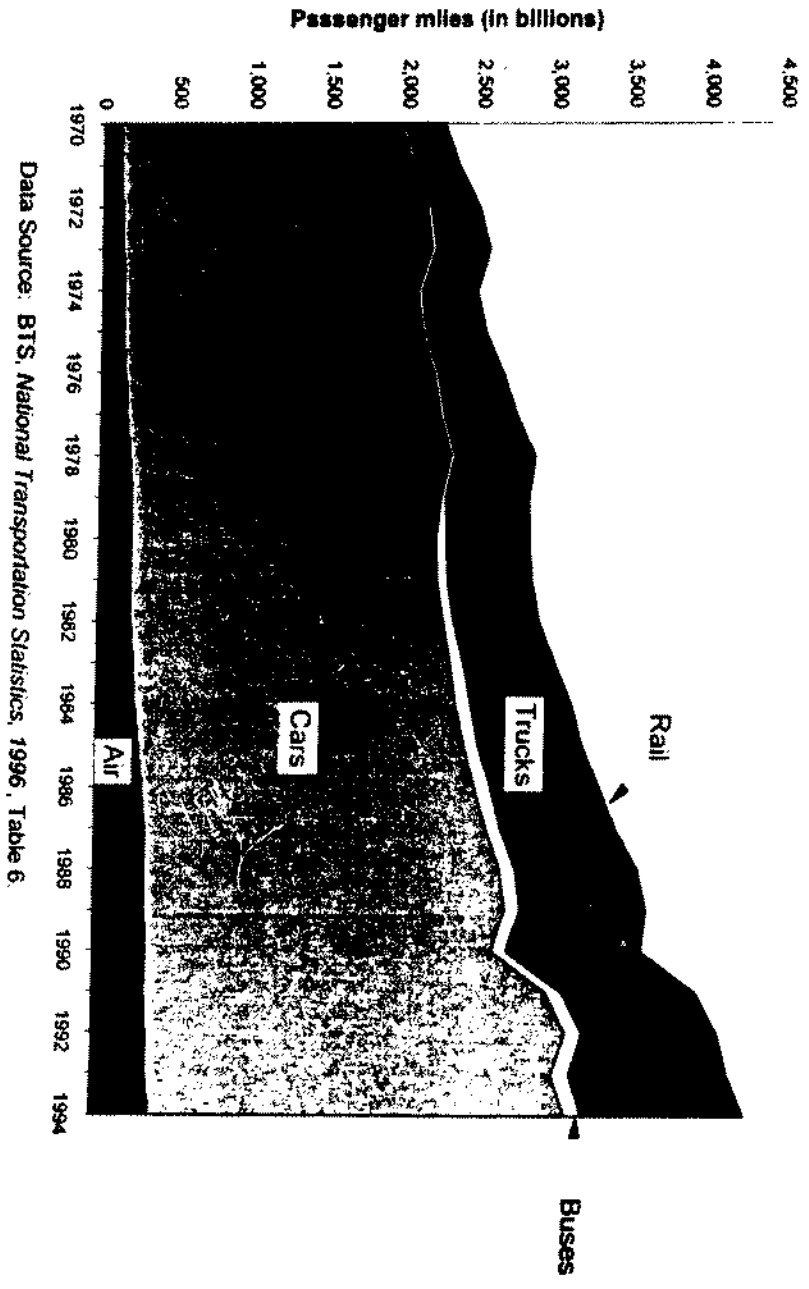
Note: s=time series, xs=cross section

Source: U.S. Department of Transportation, Bureau of Transportation Statistics, *Transportation Statistics Annual Report 1995* (Washington, DC: 1995), p. 171.



Data Source: BTS, *National Transportation Statistics*, 1996, Table 6, and Bureau of the Census, *Statistical Abstract of the United States*, 1995, Table 2.





**Figure 2: U.S. passenger transportation by mode, 1970-1994**

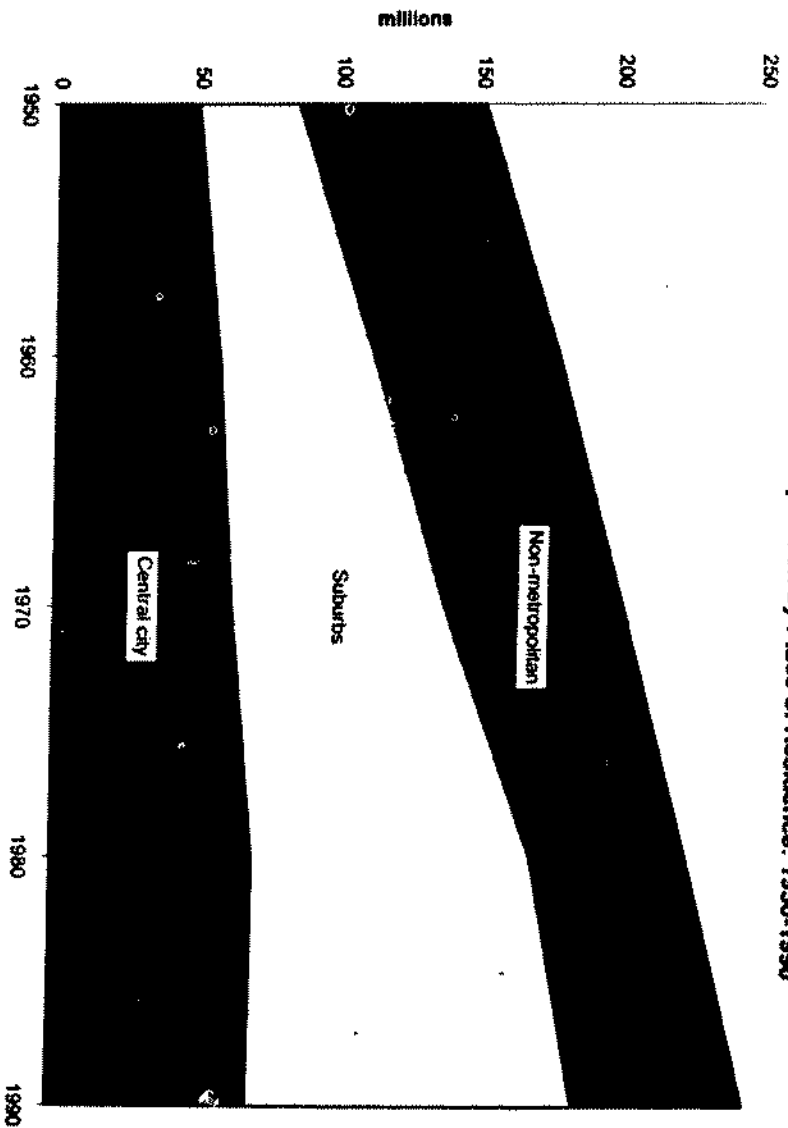
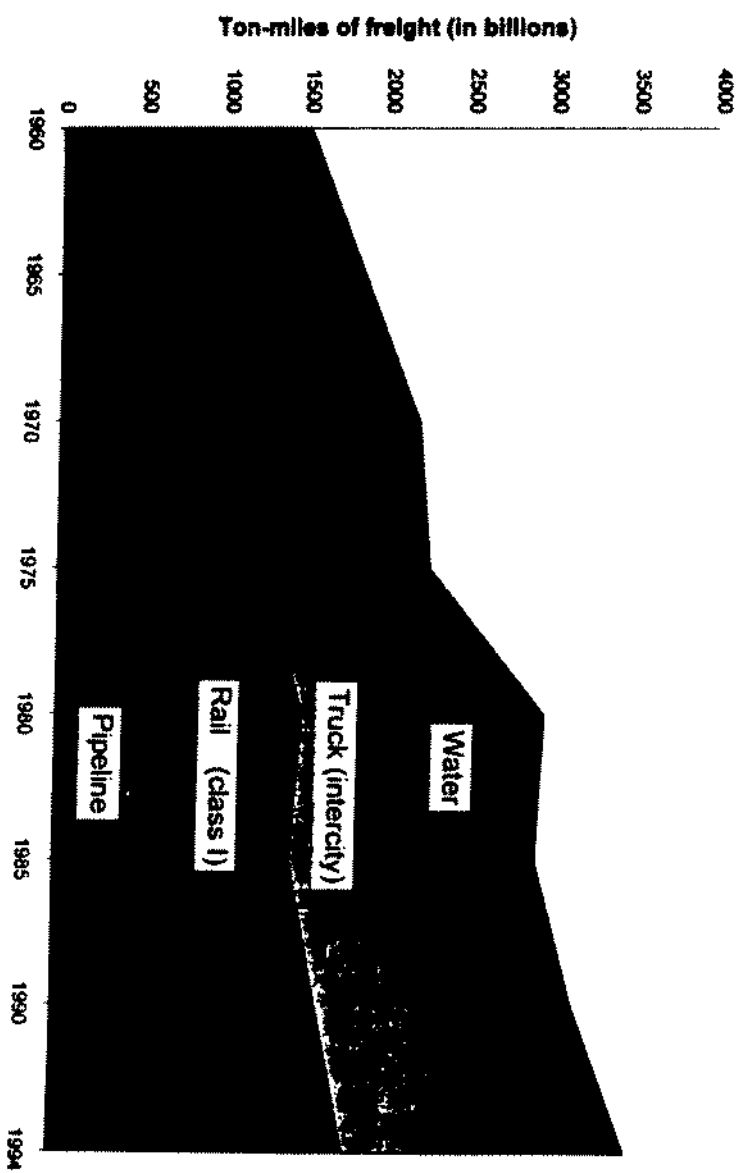


Figure 3: U.S. Population by Place of Residence: 1950-1990

Source: Alan E. Pisarski, *Commuting in America* (Washington, DC: Eric Foundation for Transportation, forthcoming)

**Figure 4: U.S. freight transportation by mode, 1960-1994**



\* Air freight was about 12 billion ton-miles in 1994, less than 0.4% of the total.  
 Data Source: BTS, *National Transportation Statistics, 1996*, Table 7.

Figure 5

Modal shares (DRAFT)

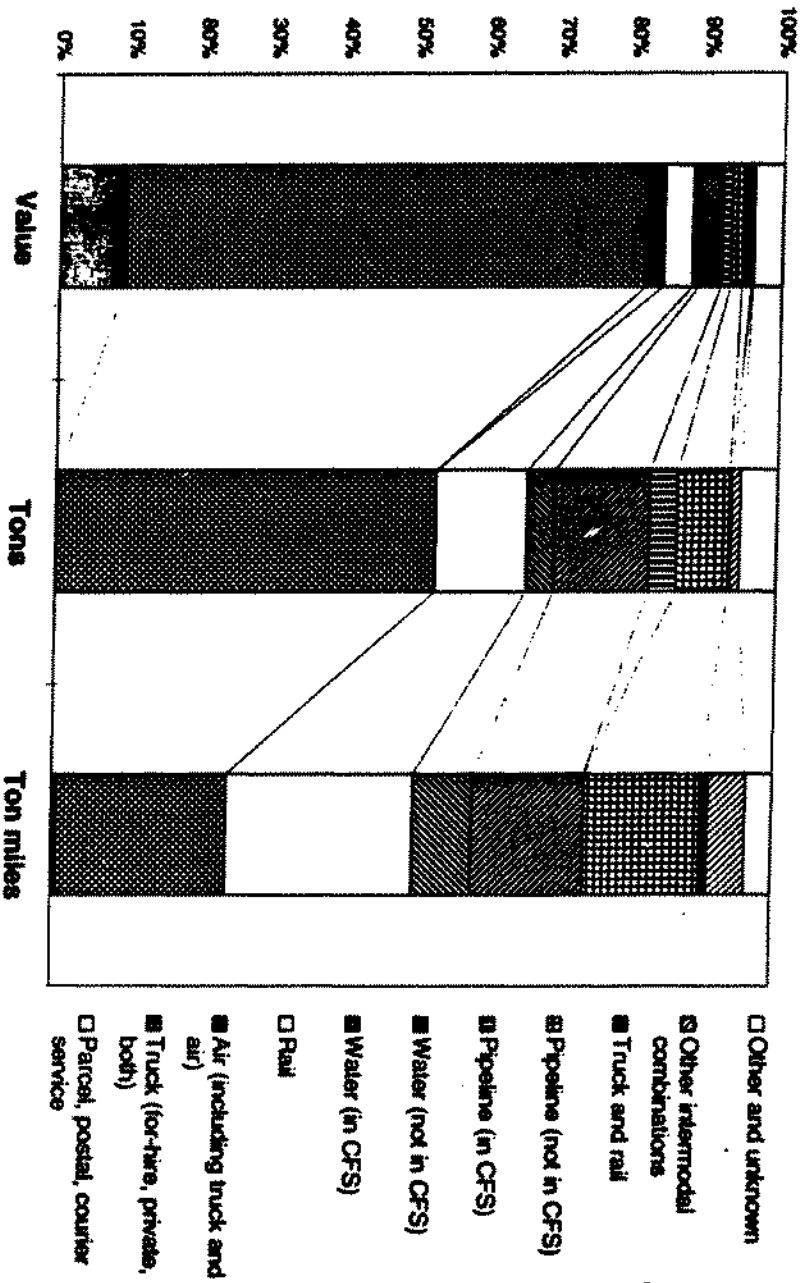
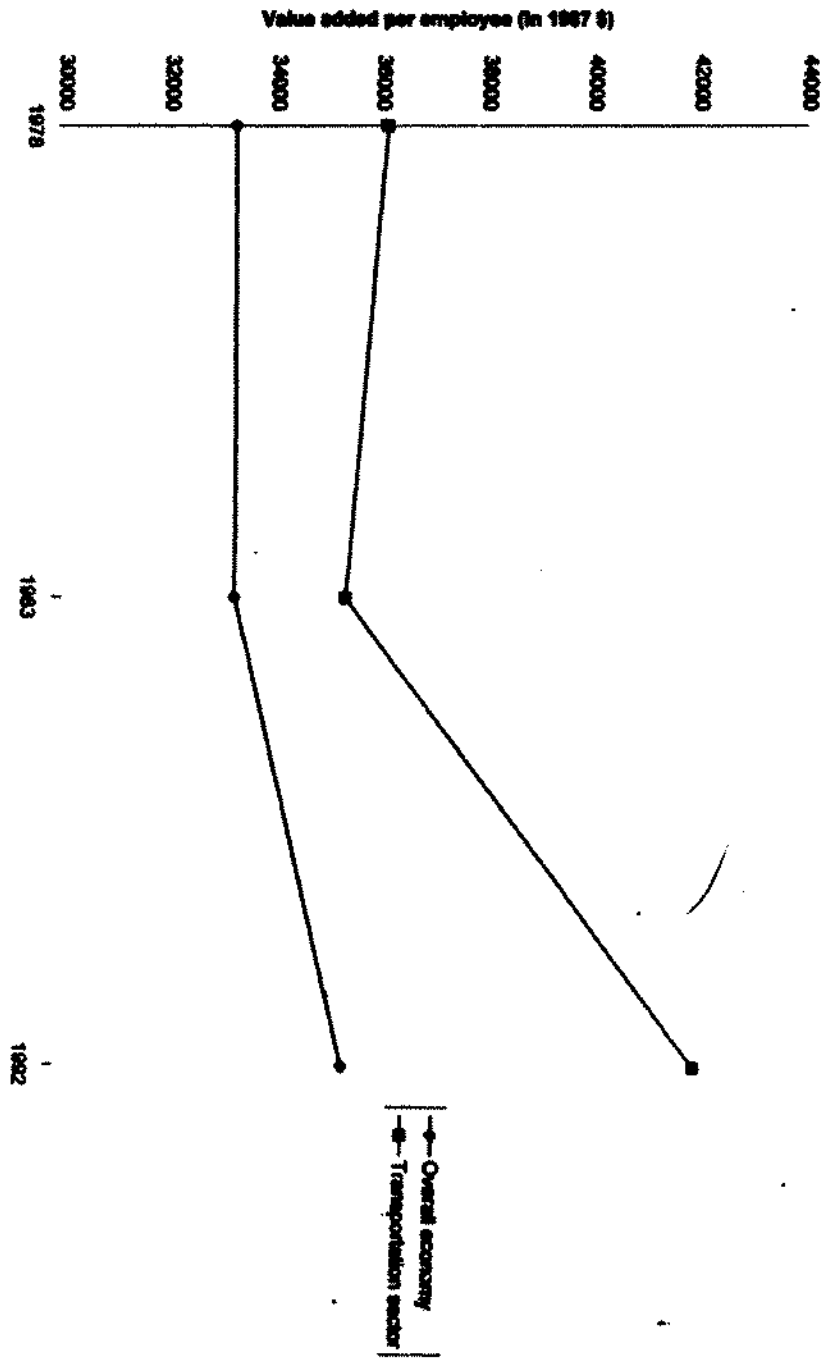
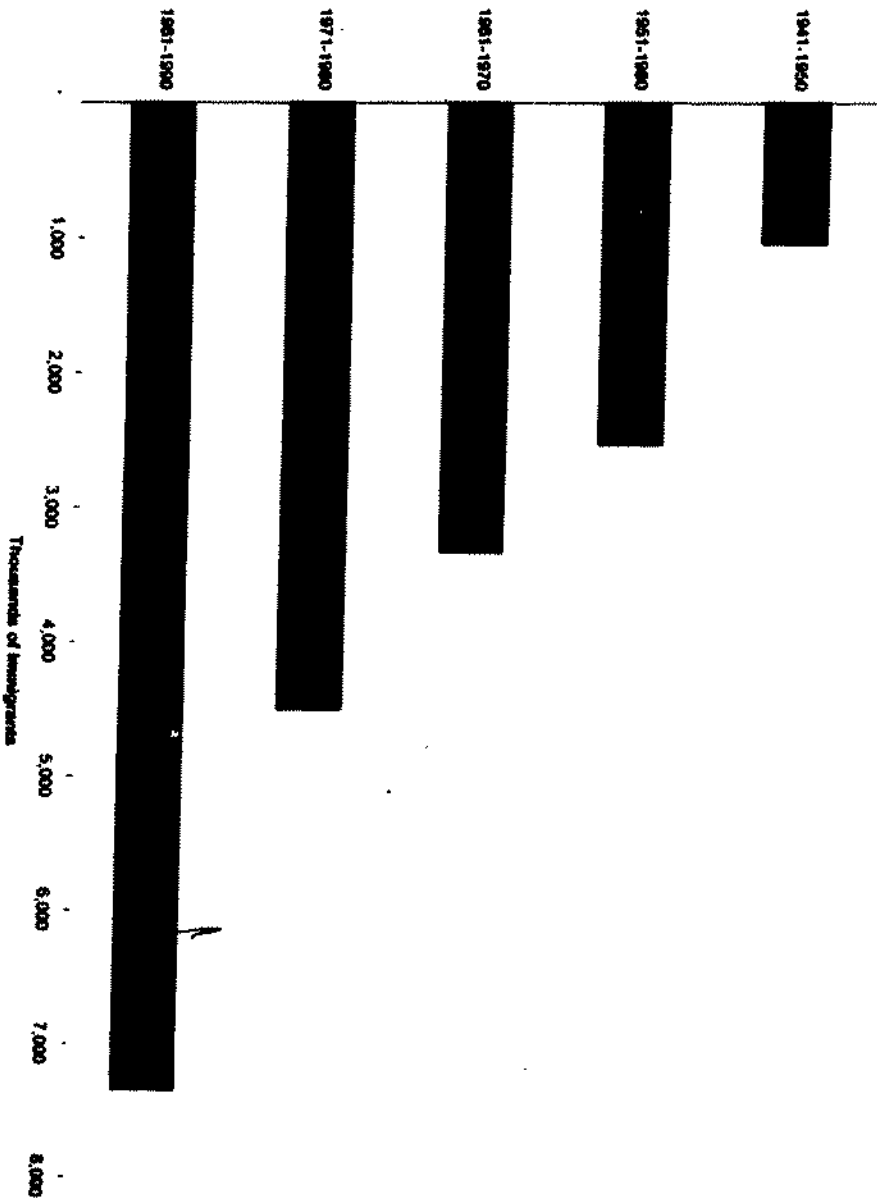


Figure 6: Trends of labor productivity



◆ Overall economy  
■ Transportation sector

Figure 7: Foreign Immigration, 1941 - 1990





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# **ISTEA REAUTHORIZATION: THE FEDERAL ROLE FOR TRANSPORTATION AND NA- TIONAL INTERESTS**

**THURSDAY, MAY 2, 1996**

**U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON SURFACE TRANSPORTATION,  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,  
Washington, DC.**

The subcommittee met, pursuant to notice, at 9:37 a.m. in room 2167, Rayburn House Office Building, Hon. Thomas E. Petri (chairman of the subcommittee) presiding.

Mr. PETRI. The subcommittee will come to order.

Today's the first in a series of two hearings on the Federal role in transportation. This is a particularly timely issue since there is renewed interest on the part of some of substantially reducing or eliminating certain aspects of our Federal transportation program.

Today we will hear from the U.S. Secretary of Transportation, who's accompanied by many of the modal administrators, and an impressive array of State and local officials who can personally relate just what the Federal transportation program means to their States and to their communities.

Federal involvement in our Nation's roads extends back to our early history, even before the Revolutionary War, when postal roads were built to carry mail between the colonies.

In 1806, President Thomas Jefferson approved an act to facilitate construction of the National Road, extending from the head of the Potomac to the head of the Ohio River. Later it was extended to the Mississippi River and was intended to open the western territories.

Our first Federal Highway chief, General Roy Stone, was appointed in 1893. In the Federal Aid Highway Acts of 1938 and 1943, Congress called for studies of a national super-highway network. This eventually led to our interstate system which was constructed, in large part, as a result of efforts by President Eisenhower, who, as a young Army officer, had the misfortune of leading a convoy from Maryland to San Francisco and learned first-hand during his slow journey of the need for a national system of roads, not only to provide for military movements, but also to facilitate interstate commerce and the movement of people around our growing Nation.

Now we're privileged to have before us General Stone's successor, Federico Peña, and our other distinguished witnesses who will share with us the importance of transportation and how the Fed-



eral program affects their ability to stimulate economic development, insure mobility for all of our citizens, reduce congestion, and encourage clean air.

This hearing will provide a foundation for our consideration of individual programs in the future and as we consider the general goals and purposes of our reauthorization bill next year.

I'd like to again welcome our witnesses today. I look forward to their testimony before this committee, as they have appeared a number of times in the past.

I'd like to yield to the ranking—well, actually to my colleague, Mr. DeFazio, who is sitting in for the ranking democrat on the Surface Transportation Subcommittee, Congressman Nick Rahall.

Mr. DEFAZIO. Thank you, Mr. Chairman.

Ranking member Rahall is over at the Senate attempting to impart some wisdom to our colleagues on the other side of the Hill, and he'll be here as soon as he can.

I, too, would like to welcome the Secretary here before us today. I think, despite the differences that we may have with our majority colleagues, that there is extraordinary agreement across the aisle that one of the most appropriate roles and one of the most vital roles of the Federal Government is investment in transportation infrastructure. It has been a key to the economic growth and competitiveness of our Nation, and I think that the Secretary has admirably filled the shoes of General Stone—I appreciated the history lesson, and we'll some day be introducing people as his successor in the very distant future, of course, in talking about the great legacy left by this Administration.

I welcome the Secretary and look forward to his remarks.

Mr. PETRI. Thank you.

Are there other opening statements? Yes, Ms. Johnson?

Ms. JOHNSON. Thank you, Mr. Chairman. Let me commend you for holding this very important hearing and welcome our Secretary of Transportation and other witnesses, and especially those from Texas.

This committee has operated as a bipartisan body, and I've been very delighted to have that experience. As we embark upon our hearings for this reauthorization of ISTEA, one of our most important pieces of legislation, especially from our State of Texas, that you cannot see without using the highway, I consider it very important.

Mr. Chairman, I want to again welcome you and our committee to a regional hearing in Texas. We would welcome you to the north Texas area because we feel very, very strongly that the I-35 corridor that runs right through my District is important to the international trade with Canada and Mexico, and that is why I'm suggesting it, because I think you have to see a part of it to recognize its real value and also to get a little taste of heaven on earth if you come into Texas.

I thank you very much for this time, and I'll ask for unanimous consent to submit the rest of my remarks.

[Ms. Johnson's prepared statement follows.]



**Opening Statement for Congresswoman Eddie Bernice Johnson (D-TX)  
Reauthorization of the ISTEA  
May 2, 1996**

**Mr. Chairman, first let me commend you and the rest of the Subcommittee members for holding the beginning of what is expected to be a series of important hearings in reference to the reauthorization of ISTEA, the Intermodal Surface Transportation Efficiency Act, which is set to expire in September of 1997.**

**This legislation - passed with bipartisan support - led America into a new transportation era following completion of the Interstate Highway System. In the intervening years, this landmark law has accomplished its primary objectives: encouraging more efficient investment of federal transportation dollars, placing a greater reliance on state and local decision making, and spurring new partnerships among various transportation providers and stakeholders.**

**While debating the reauthorization of ISTEA, I would implore to my colleagues to remember that through this important piece of legislation we should not only strengthen our ability to compete but also help build strong regional economies, preserve and strengthen**

partnerships and help meet the nation's diverse needs.

Mr. Chairman, it is my opinion that to help meet these diverse needs, my State of Texas, will play an integral part in the reauthorization of ISTEA. To successfully compete with other countries in the global marketplace in this post-Interstate era, we must take steps now to develop the system that will move our goods and people efficiently into the next century. The I-35 corridor in my district is important to international trade with Canada and Mexico and that is why I am suggesting that a regional hearing be held in the State of Texas so that the Subcommittee will receive hands on knowledge of how the State will be an essential link among the modes and facilities that make up the total transportation network that span the continent. It is also my belief, Mr. Chairman, that the Subcommittee will see that the benefits of making investments in this system are significant to economic growth, national security, intermodal connectivity, system connectivity, commercial vehicle compatibility, safety, and the ability to accommodate expanded trade between the United States, Canada, and Mexico.

**Mr. Chairman, I hope you and the members of this Subcommittee will join me and my colleagues of the North Texas delegation in welcoming you to the Dallas/Fort Worth, North Texas area to emphasize the impact the I-35 corridor will have on surface transportation laws.**

Mr. PETRI. Thank you. Are there other opening statements? Mr. Kim?

Mr. KIM. Mr. Chairman, I'd like to thank you again for calling this hearing.

In addition to our hearing in Washington, I hope that our committee will be able to accept my offer to hold a field hearing in Southern California this summer, Mr. Chairman. After all, California is our most popular State. It's home to the freeway, home to innovative financing, and intelligent highway systems. I believe our committee would benefit tremendously from the field hearing to southern California.

Again, I would like to also look forward to discussing the Federal responsibility in transportation projects on our Mexican border.

Since the implementation of NAFTA, commercial border traffic has increased over 20 percent in southern California, alone. While our country benefits tremendously from the new trade, the border States got stuck with all the expensive road builds. In essence, NAFTA is, again, a huge unfunded mandate on the border States such as California, Texas, etc.

California, alone, has more than 300 million worth of NAFTA border projects to build. I think it's the Federal Government's role, not the State's.

I'm going to introduce a bill that addresses this problem in the very near future.

I look forward to working with the committee on these NAFTA projects and the many other ISTEA issues facing our committee.

Thank you, again, Mr. Chairman, for calling this hearing.

Mr. PETRI. Thank you. Are there other opening statements? Mr. Filner?

Mr. FILNER. Thank you, Mr. Chairman.

I, too, of course, would like to welcome Secretary Peña and the other members of your Department here with us to talk about such a critical issue as the reauthorization of ISTEA.

I would second Mr. Kim's request for a field hearing in southern California, as long as southern California is defined as San Diego.

[Laughter.]

Mr. FILNER. I would also urge you, Mr. Chairman, as long as we have a committee here—I want to address ISTEA in a minute—but I think it's incumbent upon this committee to look at what is going on with the gasoline prices that have become now one of the most important issues in this Nation. I think this committee ought to be looking at what has caused this price increase and what we do with it.

In California, as you know, prices have gone up even more than they have on the east coast, and in San Diego they're going up to \$1.60 and \$1.70 a gallon. People fear it's going to hit \$2 soon.

The proposal to repeal the 4.3 gas tax I don't think comes anywhere near either to solving the problem or looking at what has been the cause of it.

It is, I think, important that this committee look at what's going on with the consumers, what's going on with the—if there's any anti-trust violations, etc., and to make sure that anything that we do with the gas tax does, in fact, benefit the consumer.

I urge you and Mr. Rahall to call and schedule hearings soon. This is, obviously, a very timely subject.

Mr. Secretary, I would hope that whatever this committee does with field hearings, that you also come back to southern California. You've been there many times. Certainly, as Mr. Kim stated, the impact on our infrastructure of the NAFTA agreement has imposed additional burdens on our infrastructure.

Mr. Kim, I welcome you to come aboard my Border Infrastructure Improvement Act. I already have the solution before your bill comes up.

Clearly, we need to work together to deal with the situation that Mr. Kim described very clearly, that the national trade policy has imposed incredible burdens on our infrastructure, and we need to see it again, to get some testimony from our transportation community leaders and activists, and we welcome you back to the border area to see what's going on.

I would also hope that Ms. Molitoris—welcome—from the Federal Railroad Administration will provide us today with information on the role of railways in this ISTEA legislation. As you know, my community is seeking to re-establish an eastbound rail line that will mitigate congestion and pollution and, at the same time, ease the flow of commerce. I'm interested in any assistance ISTEA may be able to provide us with that.

Lastly, I'm concerned also about issues of automobile safety, and I hope Dr. Martinez will address the issues around the safety of the automobile steering lock and its adequacy as a deterrent to car theft, as I know you've had some concern and interest in that.

I thank you, Mr. Chairman, for having this hearing, and look forward to the testimony this morning.

Mr. PETRI. Thank you.

With your indulgence, Mr. Secretary, Mr. Horn has to go to another hearing at 10:00 and wondered if he could ask one question before the formal panel.

Mr. PEÑA. Sure.

Mr. PETRI. Mr. Horn.

Mr. HORN. Thank you, Mr. Chairman, and thank you, Mr. Secretary.

We appreciate the innovative financing and the commitment you've had for a number of years to what is known as the Alameda Corridor, which combines three railroad lines in southern California so those train cars can move right up to the ships at the Port of Los Angeles and the Port of Long Beach, both of which are in my District and are the main corridor from the Pacific Rim to the rest of the United States.

I was delighted to see in your testimony, on pages 15 and 16, your strong commitment.

I simply want to support that and perhaps clarify one aspect.

When the chairman opened this hearing, he talked of the national road, and that national road today would probably be called pork by somebody in some Member's District, but what it is, is a national infrastructure that permitted America in the east to move west. The Alameda Corridor is not a southern California facility, it's national infrastructure to permit Pacific Rim trade to go to every State in the union.

Last year I asked the Port of Los Angeles to prepare a videotape for Members on this, with the economic impact on Connecticut and New England and Georgia, and so forth. The fact is, there is an economic impact on every State.

Some think, "Gee, this is a demonstration project and we shouldn't be in demonstration projects." I never heard of it described as a demonstration project. This has been, thanks to you and this committee, an intermodal project—the largest intermodal project in the Nation.

I wonder if you just care to comment on the intermodal nature, the national infrastructure aspect, and that this is not a demonstration project.

Mr. PEÑA. Congressman Horn, members of the subcommittee, Mr. Chairman, you're absolutely correct. We support your view of this very important national project.

The reason that we believe this is an important investment for the country is for the reasons that you stated. The cargo that comes through those ports impacts almost all of the country in a very dramatic way, and this is but another example of why there still is an important role for Federal involvement in these projects of national significance.

Second, in addition to its intermodal nature, it is an example of creative financing. One of the things that the President has asked us to do is to change the way in which we do business, and ISTEA gave us the authority to look at creative financing as a way of funding projects in the future.

In the last 2 years, we have done about 70 projects around the country amounting to about \$4 billion where, because of creative financing, a somewhat limited Federal injection of Federal dollars leverages private sector investment and other local or State dollars. That's precisely what has happened in the Alameda project, where a discrete amount of Federal involvement is leveraging almost \$2 billion of additional resources primarily from the private sector in a very creative way.

So for those reasons I would agree with your characterization of the project. This is a national intermodal project, and an example of another way of creative financing very important infrastructure for our country.

Mr. HORN. Thank you and the Administration for your strong support of this project. This project has had absolute bipartisan support in the 103rd Congress, from this subcommittee to the full committee through the floor on both sides of the Capitol.

Thank you very much.

Mr. PETRI. Thank you. Are there other opening statements?

[No response.]

Mr. PETRI. Any by the Members who aren't here will be inserted in the record with unanimous consent.

[The prepared statements of Mr. Filner and Mr. Rahall follow:]

**BOB FILNER**  
5TH DISTRICT, CALIFORNIA

500 CANNON BUILDING  
WASHINGTON, DC 20543  
TEL: (202) 225-6000  
FAX: (202) 225-6000

207 F STREET, SUITE A  
CARLA PITA, CALIFORNIA 95003  
TEL: (916) 422-7828  
FAX: (916) 422-7228



CONGRESS OF THE UNITED STATES  
HOUSE OF REPRESENTATIVES

PUBLIC WORKS AND  
TRANSPORTATION COMMITTEE  
VETERANS' AFFAIRS  
COMMITTEE

**STATEMENT OF CONGRESSMAN BOB FILNER**

before the

**HOUSE SURFACE TRANSPORTATION SUBCOMMITTEE**

**The Federal Role for Transportation and National Interests**

**May 2, 1996**

Thank you Mr. Chairman.

I would like to welcome Secretary Pena and the other members of this distinguished panel from the Department of Transportation. Reauthorization of ISTEA is critical to our nation's transportation health—and I look forward to your testimony.

The original ISTEA legislation has been critical in improving our national transportation infrastructure. As we continue these hearings in preparation for reauthorization of this legislation, I would like to take a moment to discuss an issue that is on the minds of all Americans—the price of automobile gas.



We have all heard reports of the sudden and dramatic increase in auto gasoline prices recently. I imagine we each of us has also experienced this crisis first hand.

While news accounts report that the average price of a gallon of automobile gasoline is slightly more than \$1.30, gas prices in my district in San Diego average \$1.50 and higher. Automobiles are an integral part of the daily conduct of life and commerce in California and our citizens cannot long tolerate these increases.

I welcome news that Attorney General Reno has directed the Justice Department to investigate these sudden increases, but I believe it is incumbent on this committee as the legislative body in the House of Representatives responsible for transportation to conduct its own hearings on this situation. We cannot stand idle while consumers are gouged and oil companies appear to register record profits. The American public deserves to know the truth about these apparently unwarranted increases.

We have heard numerous calls for repeal of the 4.3 cent gas tax and some voices are now also calling for repeal of the federal gas fees that are deposited into the Highway Trust Fund. These voices simply call for repeal of the fees and do not at the same time call for Congressional hearings. Before any repeal is considered, thorough investigations are needed. Among other issues, we must determine the cause of the recent increases; ensure anti-trust laws are not violated; and examine what effect repeal of these fees would have.

I urge you Mr. Chairman and Mr. Rahall to call for and schedule these hearings as soon as possible and before we begin the summer travel season.

On other notes, Mr. Secretary I would like to restate the invitation you received to hold DOT hearings on ISTEA in San Diego. Our location on the U.S.-Mexico border dramatically impacts our transportation needs and the NAFTA agreement has imposed additional burdens on our infrastructure. I welcome you and

members of your delegation to visit San Diego, see our needs and receive testimony from our transportation community leaders and activists.

I also hope Ms. Molitoris of the Federal Railway Administration will provide us with information on the role of railways in the new ISTEA legislation. As you may recall, my community is seeking to re-establish an eastbound rail line that will mitigate congestion and pollution and at the same time ease the flow of commerce, and I am interested in any assistance ISTEA can provide us with this.

Finally, I am concerned about issues of automobile safety and at the appropriate time I will ask Dr. Martinez to discuss the safety of the automobile steering lock and its adequacy as a deterrent to car theft.

Thank you Mr. Chairman.

**OPENING REMARKS OF U.S. REP. NICK J. RAHALL  
Ranking Democrat  
Subcommittee on Surface Transportation  
May 2, 1996**

**Mr. Chairman, the purpose of this hearing is to examine the national interest in our federal highway, transit and transportation safety programs.**

**I suppose one's view of the extent to which there is a national interest in maintaining and improving our highway and transit infrastructure is a matter of where one comes from.**

**Apparently, some in Florida do not believe there is a national interest in surface transportation anymore. They would outright repeal the federal motor fuel taxes which finance the Highway Trust Fund. Then there are others, such as myself, who so strongly believe in the federal role that yesterday I introduced legislation to dedicate to the Highway Trust Fund the 4.3 cents per gallon motor fuel tax currently going to deficit reduction.**

**I would submit that the highways of Florida do not just benefit Floridians, and the highways of West Virginia do not just benefit West Virginians. Many of them are interstate in nature, over which people and commodities travel regardless of State jurisdictions.**

**This country is a Republic, comprised of States which banded together out of mutual interest and benefit. I think we must bear this fact in mind when discussing the national interest in transportation.**

**However, as we begin to consider the reauthorization of ISTEA, I see some very disturbing trends.**

**The age-old conflict between donor and donee States has once again reared its ugly head. Some of the donor States are threatening secession, a civil war if you will, over the issue of highway apportionments. This type of activity is shortsighted and ill-serves not only their transportation needs but those of the Nation as a whole.**

Mr. PETRI. We're honored to have a distinguished panel, led by our Secretary of the Department of Transportation, Federico Peña, and he is accompanied by: Rodney Slater, the administrator of the Federal Highway Administration; Gordon J. Linton of the Federal Transit Administration; Ricardo Martinez of the National Highway Traffic Safety Administration; and Jolene Molitoris, Federal Railroad Administration. We welcome you all and look forward to your statement, Mr. Secretary.

**TESTIMONY OF FEDERICO PEÑA, SECRETARY, U.S. DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY RODNEY E. SLATER, ADMINISTRATOR, FEDERAL HIGHWAY ADMINISTRATION, GORDON J. LINTON, ADMINISTRATOR, FEDERAL TRANSIT ADMINISTRATION, RICARDO MARTINEZ, ADMINISTRATOR, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION; JOLENE M. MOLITORIS, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION**

Mr. PEÑA. Thank you very much, Mr. Chairman and members of the subcommittee. Let me thank you for giving us this opportunity to participate in what we believe to be one of the most important issues facing our country, and clearly the committee.

In the spirit of the intermodal aspect of ISTEA, I have with me today four key members of the Department of Transportation, whom you have already introduced: Mr. Slater, from the Federal Highway Administration, who is administrator; Gordon Linton, the Federal Transit Administrator; Dr. Ricardo Martinez, the National Highway Traffic Safety Administrator; and Jolene Molitoris, the Federal Railroad Administrator.

Mr. Chairman, I'd like to formally submit my prepared comments for the record, and I would like to abbreviate those comments in a shortened introductory statement, and then we'd be happy to answer your questions.

Mr. PETRI. Thank you.

Mr. PEÑA. Mr. Chairman, as we reauthorize ISTEA, we want to build upon the leadership and the vision of the Congress in the 1991 legislation. President Clinton has stated that our competitiveness in the world economy rests on the foundation of our infrastructure. Under his leadership, Federal transportation investment the past 3 years has been 10 percent higher than it was in fiscal year 1993.

It's worth reminding ourselves that America's economic progress has always been closely linked to advances in transportation, and the most dramatic advances have always occurred through strong Federal leadership.

For example, the canals and the post roads that you referred to earlier, Mr. Chairman, of early America; the trans-continental railroads; and the interstate highways are examples of that.

As America increasingly becomes part of a larger global economy, transportation will only become more important to our standard of living. Logistical innovations such as flexible just-in-time delivery systems have been essential to maintaining our productivity advantage worldwide against other countries that compete primarily on the basis of low wages.

Not only have we invested more; we have worked with State and local governments to invest better.

Americans are getting more for transportation dollars because ISTEA provided the strategic investment framework. It did so through stronger planning requirements and programs such as the National Highway System and completion of the Interstate system that focused resources on national priorities.

ISTEA's authors also had the vision to create programs such as the Surface Transportation Program that provided unprecedented flexibility to State and local officials and helped assure that transportation investments would meet the unique needs of their communities.

But the job, as you know, Mr. Chairman, is by no means done. If we are to remain competitive in the global marketplace and maintain our quality of life, we must aggressively meet at least four national challenges: first is safety; second is continued growth of traffic and travel and its attendant congestion; third are environmental concerns; and fourth is responding to demographic changes.

Let me first address safety.

We have made great progress in the face of increasing travel. Even so, motor vehicle crashes are the leading killer of America's youth. Most people are unaware of that. They think it's crime; they think it's disease; they think it's accidents at home. That is not the case. The leading killer of our youth is on our highways.

After years of steady decline, total highway deaths are increasing. These increases come prior to the repeal of the speed limit and motorcycle helmet provisions of the past year.

Transportation deaths and injuries place a huge burden on our economy—an estimated \$140 billion annually. Through Medicare and Medicaid, much of this burden falls directly on the American taxpayer. Reversing this trend will be a challenge requiring Federal leadership.

The national minimum drinking age law, credited with saving more than 10,000 lives in the past 10 years, illustrates the importance of the Federal role.

Our second challenge is traffic growth. Traffic congestion in the Nation's 50 largest cities cost travelers more than \$40 billion annually. Delays are likely to increase over the next two decades as travel nationwide increases by over 50 percent. These are delays that translate directly into cost to businesses, which ultimately are passed on to consumers, and that also rob Americans of precious personal time.

Our third challenge is the environment. Nearly one-quarter of the areas that failed to meet ozone standards in 1990 have been reclassified as attainment areas by EPA, but many of our largest cities are continuing to have problems meeting air quality standards. We must continue efforts to reduce air pollutant emissions in light of the continued rise in vehicle miles and the threat posed by global climate change.

Fourth is our demographic changes. Mobility for older Americans, as well as those with disabilities, is a critical need. The elderly are the fastest-growing component of the U.S. population. Today more than six million Americans are already over age 85. That will increase 400 percent by the year 2050.

The majority of this population is accustomed to relying on self-operated automobiles, and as they grow older, special transportation needs will require national attention.

If we are to retain our high standard of living and competitive edge, we must have effective Federal involvement in maintaining and improving transportation.

To catch up with the United States, many other nations around the world are making huge commitments to transportation infrastructure. I was in Asia in November and learned that those fast-growing economies, many of them competitors in a global marketplace, are planning to invest \$1.2 trillion in infrastructure over the next 10 years, with over \$500 billion in transportation, alone. The Europeans and the Japanese are investing a much higher proportion of their GDP in infrastructure than our own country.

These countries are pursuing national transportation investment strategies to overcome the fragmented, inefficient transportation they now have, and we have to do the same.

It is critical that our connections across the country to ports, to airports, to major transportation facilities, effectively link us to our global partners.

We are concerned about transportation improvements, particularly in north-south corridors and along the Mexican and Canadian borders, that will facilitate enhanced trade resulting from the North American Free Trade Agreement.

The Department's latest report on America's infrastructure concludes that we have about a \$17 billion annual investment shortfall. That report, in my view, and in the view of many others, is a wake-up call. We can begin to close the gap by investing in intelligent transportation technologies to make current infrastructure more efficient. About two-thirds of the capacity needed in our most congested corridors can be provided by intelligent transportation systems, and we can marshal more resources through innovative financing and policies, encouraging the private sector to finance, construct, and operate transportation systems.

Latin American and Asian officials are already aggressively recruiting the private sector to address the infrastructure needs of their countries.

As we confront these challenges, we must also build upon our successes. The reauthorization of the surface transportation programs must retain the key elements that made ISTEA such a success in a few short years. To benefit all users, each mode must complement the others. ISTEA brought us closer to that goal through intermodalism.

Through CMAQ we have funded an innovative truck/rail transfer facility in Stark County, Ohio, and projects in Portland, Oregon, and Seattle, Washington, designed to unsnarl traffic, to clean up the air, and to improve rail and truck access to the commercial waterfront.

Reauthorization, we believe, must continue the progress towards intermodalism so modal categories of the early 20th century don't dictate the transportation system of the future.

We are looking for ways to promote projects of national significance—projects that have benefits that extend beyond State and local jurisdictions and include multiple modes and multiple parties.

The Alamada Corridor in Los Angeles, which I've already talked about, is a good example, because it will dramatically improve cargo flows between the Ports of L.A. and Long Beach and the heartland of America.

We also have to improve planning and public participation. ISTEA brought new players to the table. A more inclusive process, we believe, yields better results in the form of more feasible and publicly-acceptable plans.

The fiscal constraints ISTEA applied to transportation plans means that these plans reflect the reality that real planning requires making hard choices based on realistically-available funding. There should be no question of turning back. We must continue to guarantee that investment decisions are the product of an inclusive planning process and informed political decision.

ISTEA, Mr. Chairman, created flexible programs such as STP and CMAQ and increased State and local officials' ability to target funds to projects that made sense for their communities. They responded enthusiastically to increased flexibility. More than \$2 billion has been flexed.

By their own actions, these officials have demonstrated a commitment to even greater flexibility. In Wisconsin, New Jersey, and Missouri, State government leaders are committed to flexing State money for transit and rail projects.

We must continue leveling the playing field so that all types of transportation projects, including perhaps rail and intermodal projects, can be chosen based on their transportation merit.

We have to continue to promote innovative financing. We began our partnership for transportation investment to jump start innovative financing suggested by ISTEA. In 1994 I issued a challenge to States and localities. We said, "If you propose new ways to finance projects, we will waive old procedural requirements."

Mr. Chairman, the response was overwhelming. Barely a year later, we have approved more than 70 new projects. At least \$4 billion worth that would have been delayed or perhaps never built are all getting under way now, all without spending any new money and with substantial private sector participation.

The pilot program for State infrastructure banks builds upon that progress. By the end of this year, we expect to have State infrastructure banks in 10 States.

ISTEA's successor should continue efforts to create new ways of providing the transportation that America needs. We also have to encourage new technologies. Advanced technology is vital to improving safety, system capacity, efficiency, and travel times.

We've expanded an investment in research and development through increased funding and new private sector partnerships, and with a deployment-oriented strategy we focus on closing the gap between state-of-the-art and state-of-the-practice.

The successful intelligent transportation system and GPS deployments that we are seeing today are products of these initiatives. These show that for the consumer and for industry we need national standards and a national approach.

In January I launched a challenge called, "Operation Time Saver," an initiative designed to cut daily travel time of Americans in congested metropolitan areas by 15 percent over the next 10



years. Americans who now commutes 2 hours a day would save 80 hours a week [sic], the equivalent of a 2-week vacation.

We must continue our commitment to develop and deploy technologies that benefit Americans in their daily lives.

In conclusion, Mr. Chairman and members of the subcommittee, let me say ISTEA is visionary legislation. Its central elements—strategic infrastructure investments, intermodalism, flexibility, inter-governmental partnership, a strong commitment to safety, and enhanced planning—and strategic should be preserved.

The forces shaping the debate over the role of the Government in our society will influence the reauthorization debate. What is the Federal role in surface transportation infrastructure? What's worked under ISTEA and what hasn't? What can we do to improve our safety record? How can we increase our resources? How can we benefit more from the fiscal resources we have? Should we expand eligibility for Federal Funds—for example, to rail and intermodal projects?

Most of these questions require additional study and discussion, but I am confident that in one case, the Federal role, the answer is clear: we need strong Federal leadership.

As the President recently pointed out, the interstate system brought Americans closer together, connecting region to region, city to city, family to family, in ways that were undreamed of half a century ago. That same spirit has long been a driving force for Government investment in transportation. Efficient national cargo movement is key to our ability to benefit from expanding trade opportunities. Truckers and other freight operators need national uniformity in facilities and regulatory standards. We also need national consistency if we're going to move forward with deployment of new technology.

We cannot achieve other key national priorities—linking Americans to jobs, to health care, to education—without efficient transportation, and the challenges we face in the areas of safety and the environment don't stop at State borders.

Clearly we can all agree that investment in our Nation's transportation infrastructure is vital to preserving our competitive advantages throughout the world and maintaining the well-being of our citizens.

Mr. Chairman and members of the subcommittee, that concludes my statement. My colleagues and I are very happy to respond to your questions.

Thank you.

Mr. PETRI. Thank you very much, Mr. Secretary.

Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman.

Mr. Secretary, I guess, in trying to distill down your testimony and look to the—I mean, we're going to be going through the reauthorization process. One of the things that got my attention, of course, and always has been a concern is what we identify as the annual investment shortfall, and you pegged it at about \$17 billion.

You mentioned a number of ways to begin to fill that gap—by spending money smarter, and making the existing system work better and more intelligently.

What would you need in terms of a reauthorization or tools from the committee that would help fill that gap in terms of our needed investment?

Mr. PEÑA. Congressman, if I understand your question, let me offer a preliminary answer at this point.

Clearly, we see that part of that deficit gap can be made up by at least the full implementation of technologies. In those 75 metropolitan communities that we've identified, there are about 7 components in Intelligent Transportation Systems that we think could reduce delay by at least 15 percent.

That investment is relatively modest, contrasted to perhaps billions of dollars of infrastructure investments. In some cases it might be intelligent highway in communities that no longer have land for any more highway, so anything we can do in the reauthorization to encourage communities to embrace these technologies, to use them, to recognize that these are not Buck Rogers sorts of technologies—these are technologies that exist today. In fact, if you have the opportunity to go to Atlanta for the Olympics, we have worked very closely with Atlanta to showcase all seven components of ITS in a way which we think the world will see how we can make that system more efficient.

Point number two: we recognize that the Congress and the Administration and the American people want us to eliminate the deficit over a reasonable period of time. We have agreed to do that over a 7-year period.

In that context, I have assumed that we are not going to have the kinds of full Federal resources that we would otherwise wish to have for investment in our transportation infrastructure. Therefore, we have concluded we've got to find creative ways to leverage our dollars with our partners at the State and local level, but, most importantly, with the private sector. That is why we have been very impressed with the response from States and communities and the private sector to our creative financing proposals. We've done \$4 billion in 2 years.

As respects this creative financing approach, we strongly support the creation of State infrastructure banks. We're going to do 10 this year. We had originally proposed doing one in every State, but the thought was to start with 10. But let me say the interest is growing, as States seek to become members of this family of infrastructure banks. That will give us another tool to leverage the limited dollars at the Federal, State, and local level and, more to attract more private sector involvement.

Clearly, those are two things that we need to expand upon, and that will help bridge the funding gap.

Will it satisfy the \$17 billion deficit? No. But it will help significantly.

Lastly, Congressman, is the question of how we think about future financing of our infrastructure in the reauthorization process, and I'm sure there will be lots of time for debate and analysis about that in the context of deficit reduction. Perhaps in that environment we can be more creative in coming up with some additional dollars that hopefully will even do more to fill that gap over the next several years.

So I think those three things are at least a direction that we can move in to help fill that deficit.

Mr. DEFAZIO. Thank you, Mr. Secretary. I appreciate that. I assume that, as we go through this process and you go through your hearing process, you'll continue to advise the committee in areas that you identify as perhaps needing some changes in the upcoming reauthorization.

I think that we are on a good track here, and want to continue down that. I appreciate your creative thinking, because I think you're right in surmising that, particularly with the proposal to reduce the gas tax, supposedly to help offset the extraordinary run-up in the price of gasoline—I didn't support that going to the deficit, so I'll probably support repealing it, but my preference would be to take that 4.3 billion and move it over to invest in infrastructure. I think we'd all be well-served by that, but that's a debate we'll have another day.

Thank you, Mr. Secretary.

Mr. PETRI. Mr. Kim.

Mr. KIM. Thank you, Mr. Chairman.

Mr. Secretary, I do have a couple of questions for you.

I agree with what you said, how important this ISTEA program is. Even Mr. Clinton has stated that America's competitiveness in the world market depends on highway system, foundation of highway system. I agree. I think transportation is key to our success.

Yet then the American motorists pay about \$0.09 or \$0.10 per gallon of gas tax right now, but yet historically or traditionally all of the money has been deposited into highway trust fund, and money has been set aside for the highway projects.

Now in the last 3 years what happened? Highway trust fund has been gutted. Now only \$0.12 goes to highway projects, the rest of them go to social programs.

Let me be more specific. In 1993, your Administration raised the gas tax by \$0.043. Not even a penny goes to highway projects. All of those additional gas tax increases go to someplace else, some other social program.

Does it make sense now to repeal that so that we give nickel back to the American motorists? It's not going to hurt the ISTEA program anyway, because the money was never used for the ISTEA. That's my first question.

My second question is NAFTA. NAFTA is clearly a Federally-mandated policy, and southern California is suffering because we have to come up with the money to build all this infrastructure along the borderline. That is not really a State's responsibility. I believe that money should be coming from your agency. Perhaps NAFTA projects should be funded from perhaps crossing fee or some other source rather than gas tax money.

That's my two questions.

Mr. PEÑA. Thank you, Congressman Kim. Let me respond to both of those, if I might. And, by the way, anywhere along the line if you would like any of the administrators to join in an answer or if you'd like to direct a question to them, I'm sure they're very happy to respond and are prepared to do so.

Congressman, let me respectfully disagree with the characterization of the \$0.043 gas tax that the President recommended a few

years ago. That was done for the purposes of deficit reduction, so it was not done to fund other programs.

Second, let me remind the Members that we had, under a previous situation, a gas tax used for deficit reduction. This was not the first time that the gas tax has been used for deficit reduction. And, in fact, that previous gas tax, as of this year, has now been put back into the trust fund. So the President was not the first to look at the gas tax revenue as a source of deficit reduction.

We can obviously argue about the merits of whether it should go into deficit reduction or not, but at least that is the factual record of the act.

As respects NAFTA, I share your concern about the impact of NAFTA on, in particular, the border communities. I believe that there is a shared responsibility here on behalf of the Federal Government and a Federal role in investing in, for example, NAFTA-related infrastructure and in NAFTA corridors.

We are now seeing States that want to form these corridors from Canada all the way down to the Mexican border, and we believe that there is a Federal role there.

That can be done, for example, as was done in the environmental area with the creation of the environmental infrastructure bank, which primarily went for environmental purposes. And perhaps in the reauthorization of ISTEA the Congress might want to pursue or think about a separate national fund for those kinds of projects on the transportation side.

Secondly, we have worked with the States to give them a little more flexibility, in the area of creative financing. For example, the Laredo Bridge, we have facilitated infrastructure necessary to accommodate the increased traffic because of NAFTA.

So I think the combination of those things—more flexibility, a strong Federal presence for NAFTA, but also a shared involvement with the States that, in fact, benefit from NAFTA in a very significant way—we believe is perhaps the approach to take here.

Mr. KIM. Thank you, Mr. Chairman. Thank you, Mr. Secretary.

I want to repeat again that I respectfully disagree with you. Again, let me state my question again. None of that \$0.043 goes to highway projects? That's what I'm asking. You agree with that?

Mr. PEÑA. Yes.

Mr. KIM. Therefore, is it okay to repeal it? What's wrong with repealing it. It's not going to hurt the ISTEA program anyway, because none of that money is ever spent on highway projects. I'm not blaming.

Mr. PEÑA. I just wanted to emphasize, Congressman, that the \$0.043 gas tax was not to fund other domestic programs; it was for deficit reduction. But let me answer your question directly.

The proposal to eliminate the \$0.043 gas tax is a proposal that the Administration is willing to examine in the context of deficit reduction, in the context of achieving a balanced budget over a period of years.

The chief of staff, Mr. Panetta, made that statement the other day.

Secondly, if that sort of agreement can be reached in the context of reaching a balanced budget, we would hope that any elimination

of that \$0.043 gas tax, if it were to occur, would inure to the benefit of consumers.

So if there is a way to do that, obviously the Administration is prepared to have those sorts of discussions.

Mr. PETRI. Thank you.

Ms. JOHNSON, do you have any questions?

Ms. JOHNSON. No thank you, Mr. Chairman.

Mr. PETRI. Mr. Sawyer.

Mr. SAWYER. Thank you, Mr. Chairman. I really don't have any questions. However, I wanted to thank you for continuing with this hearing today, despite the inconveniences of the schedule. I think it's a good start.

And I'd like to say thank you to my old friend, Secretary Peña. We were mayore together, and it gives me absolute confidence that the perspective that he brings to the regional and local importance of connectivity is something that will benefit not only local communities, but all communities across the country. Transportation is not something that affects just one area.

It's good to see you here, and good to see you doing well.

It's also a particular pleasure to see Jolene Molitoris, who is a friend from Ohio, and to welcome all of the administrators from your various programs. Thank you very much for being here.

Mr. PETRI. Thank you.

I have a fairly long series of questions, and with your indulgence I'll submit most of them to you for preparation and written response, which will help us get started in a number of areas that we need to be communicating about.

Let me ask just a few questions.

One question is if you have any ideas or suggestions about how the Federal Government can move toward streamlining its program delivery to States and local governments to reduce the bureaucratic overhead and eliminate unnecessary cost so that a greater percentage can be spent on actually doing what the money is there for.

I have, in that context, maybe just one area, and that is whether there are improvements that can be made in the regional offices of the Department of Transportation or reorganization or changes. I don't know if that's appropriately part of ISTEA or not, but it's certainly an area that has excited some interest on the part of different States departments of transportation.

Mr. PEÑA. Mr. Chairman, we agree with both of those ideas, and we're acting on each of them.

On the first—and that is how to reduce overall cost of the Administration of these programs—we have instituted everything from electronic documents, electronic billing, so that we don't have to require the States to fill out massive amounts of paperwork for that. We have eliminated 13 percent of our regulations thus far, and we're going to do more of that.

Each of the administrators here could probably give you an example—and perhaps I should ask them to do that—in their own administrations about how they have tried to streamline the paperwork and facilitate the relationship between each of their modes and the States and their customers.

Second, as respects your second question on the—

Mr. PETRI. Regional offices.

Mr. PEÑA.—regional offices, we have had significant work done already in working towards either a consolidation or a restructuring of our regional offices. As a former local elected official, I always was a bit perplexed why I was in Region X for highways and Region Y for transit, and so these Administrators have been working over the last several months to find a way to co-locate, or to synchronize their operations so they can speak with one voice in communities around the country.

We hope to complete that work in the next several months and then present that to you, but I think both of those steps will help greatly in increasing efficiency.

Let me ask perhaps each of the Administrators to give you one example of what we're doing in that regard. Perhaps let me start with Mr. Slater and then Mr. Gordon Linton.

Mr. SLATER. Mr. Chairman, echoing the comments by the Secretary, we have been working very aggressively on both of these matters, really from day one, starting first in the headquarters when we learned that, for the first time since the establishment of the Department, all of the modes have been meeting with the Secretary on a weekly basis, actually twice a week, Mondays and Thursdays, so as to better coordinate our activities.

And then, as the Secretary noted, just last week all of our regional administrators were in town to follow up on the Secretary's charge to us to figure out a way to more effectively streamline our operations and activities in the field offices and at the field level where the decisions are actually being made. That process is moving forward.

More specifically, as relates to the Federal Highway Administration, in our western regional offices, really dealing with those offices west of the Mississippi, we have already implemented a process that allows us to share various administrative functions among the regional offices. Now that is just within highways, and we are moving now to work across the modes to do that across the country, moving beyond the west all the way across the country.

We have also utilized improved technology to allow for the automatic transfer of resources from our accounts to the State accounts. We've seen that utilized in a most effective way as we've responded to natural disasters. That is also a part of our everyday practice, and that's through the electronic signature program that the Secretary made reference to.

Mr. LINTON. Let me add, Mr. Chairman, that we, in the Federal Transit Administration, have done just as described by my colleague, Administrator Slater. We have moved to electronic grant-making. We have greatly reduced the number of papers that are required in terms of providing grants to our customers. We have also moved to reduce our Buy America provisions to the extent that it's very easy for our customers to respond to the Buy America requirements, eliminating once again an excessive amount of paperwork, saving time and money that they spend in meeting those requirements.

We have also reduced our third-party contracting certification requirements, once again trying to reduce those burdens.

But, more importantly, as was described earlier, we are working to do collaborate in our regions with FRA, FHWA, and NHTSA, as

well, and our staffs are working to provide one-stop service to our customers so they can go to a single location and get response to things such as joint certifications, joint planning, so that we can have one point where they can get an immediate response to their inquiries for infrastructure investments needs.

Ms. MOLITORIS: Mr. Chairman, all of the things that have been mentioned are going on at the Federal Railroad Administration, but also a couple of other items.

Across the board in the Department we are downsizing, and we are doing that also in the Federal Railroad Administration. We are about the business of closing small field offices to save money and co-locating with our colleagues in the other modes.

We are also pursuing and have active now a program of telecommuting, which enables more efficiency in terms of lowering rental costs and expanding and leveraging travel dollars for our inspectors.

We have, in a number of major urban centers, intermodal meetings monthly where all of the modes meet together to share problems and develop answers intermodally. Chicago is a very good example of where this is going on and where there is a record of giving customers or immediate and comprehensive response so they don't have to go across the modes to get answers.

Finally, we are employing a whole decentralization process, so that, with regard to our inspection process, customers at the local level can get their problems answered there and they don't have to go to Washington.

Dr. MARTINEZ: Mr. Petri, thank you, sir.

We would like to add one other program that we did. We looked at the 402 program, how we worked with the States, and one of the things we tried to do is to meet with the States for the first time and ask them, "How are we doing what we do? What do you like about us? What don't you like about us? Would it be fine if we just walked away?"

We were pleased with the conversation because we started by asking ourselves, "What can we do better?" We found that our communications between our field offices and national headquarters was somewhat difficult and slow. We found that our programs were not as flexible as we'd like. It was hard to take a program, develop it nationally, and apply it locally, with different environments. And we also found that we tended to do a lot of micro-management because of the process involved.

So we went and met with the States at their national meeting in Sacramento and asked them, "What are the big issues?" It turns out the three big issues were: we tended to micro-manage, we tended to have poor communications, and we had non-flexible programs.

We changed our processes and actually worked with the inspector general and our counsel to see if we could change our processes altogether. We looked at all three of those issues and improved communications through our web site and through a bulletin board, as well as regular meetings.

Number two, we looked at our whole product development and now get customer input at the very beginning and are clear that our programs have to be flexible when they come out.

And then the third thing was to look at the process of 402 management. Our first year we did a pilot project. Sixteen States signed up for the pilot performance partnership. For 1997, we have 40 States, the District of Columbia, and three territories that have signed up for it. We have found that that has improved both our ability to work with and to be more responsive to the States.

So I think we're on the right track there.

Mr. PETRI. It's encouraging to hear. We're all aware of the sometimes painful but probably necessary and important in the long run restructuring that's going on in huge private sector organizations, and with E-mail and fax and instantaneous communication, they can eliminate many levels of management or in processes. It turns out, I guess, it's like Soviet industries. They were subtracting rather than adding value to raw materials, and they were ahead of the game if they just got them out of the way in some cases, and this may be sad to say but true in some aspects of our Federal establishment in this new environment.

This is probably an ongoing and accelerating process, actually.

Mr. Mica, did you have some questions?

Mr. MICA. Yes, I do, Mr. Chairman. Thank you.

First, I want to thank the Secretary and Mr. Slater and Ms. Molitorie for their leadership, also working with the Congress. I get into a bunch of battles in the Congress with some of the other agencies, but I really commend you all on your cooperation, and sometimes under difficult circumstances, differences of opinion, but you all have performed admirably and in a time of difficult transition.

A couple of questions, again looking through the Secretary's testimony—and I think you cover sort of the spectrum of ISTEA challenge. Let's talk about money first.

One of the problems that we've got is, again, limited resources. It seems the Administration, through some of the information that I have been given, is talking about having fewer dollars of the gas tax and other monies that come in, I think in the out years like 1998, some of the projections I've seen, going into transportation.

And then we talked—I think there was some talk about how other countries, I guess in your testimony, are putting more money into infrastructure, and we are still putting a part of our gasoline tax money into deficit reduction, or whatever the term is.

So I see a little bit of a conflict between what you're saying here and what the Administration is proposing.

If I had my way, of course, I would put every penny into infrastructure building, but, again, you—the information I've got in the out years that the Administration's proposing, fewer dollars coming in from those funds towards the infrastructure.

Is that the case or am I reading this wrong?

Mr. PEÑA. Congressman, as with so many other cases, there is a complicated answer to a complicated question. Let me try to begin at the beginning.

Three years ago the President committed to increase our Nation's investment in our infrastructure. We have done that in the amount of \$2 billion. So, for example, in the 1997 budget we have submitted to the Congress, overall investment program is about \$2 billion over what it was prior to 1993.



Essentially, how we are able to do that is to spend more out of the trust fund, and we have done that somewhat over the last 3 years.

The problem, as you know, is that, historically, spending out of the trust funds has been limited in order to help deal with the deficit calculation. That has vexed Administrations and Congresses for almost three decades now.

The question is how we proceed in the future. One obvious way of dealing with that is to allow for more spending to occur out of the trust funds, thereby reducing the balances in those trust funds.

The budget that we have submitted, over a 7-year period does see some reductions over a period of time, but, frankly, so did the budget resolution passed by the Congress. Both programs see in the out years a reduction in spending for infrastructure.

The reality, however, Congressman, as you know, is that these decisions are made on a year-to-year basis. So, just as in 1997, we are slightly increasing our investment compared to 1996. We're not sure yet precisely what the Congress would do in the 1998 fiscal year, for example. So that's that part of that question.

The second part of your question has to do with the \$0.043 gas tax increase. As I stated earlier, the President did recommend that increase in 1993 for deficit reduction, and it was not the first time that the gas tax had been used for that purpose. And, in fact, now the previous gas tax that had been used for deficit reduction is going back into the trust fund, starting this year, so that will help a little in terms of the trust fund.

In response to a question earlier, I stated that the Administration's position is that we would be open to having a discussion about the \$0.043 gas tax in the context of reaching our mutual goal of deficit reduction over a 7-year period, and in the context that any repeal, if it were to occur, would be for the benefit of consumers.

So that is our dilemma, and I know we all understand it. There is not an easy answer here, and so that's why we have, in addition to the investments, pursued the innovative financing strategy and the technology strategy to both leverage our limited dollars and to make our current infrastructure even more efficient by not having to spend the billions of dollars that might otherwise be looked at for very expensive infrastructure.

Mr. MICA. Again, Mr. Secretary, just looking at the—it's called "analytical perspectives of budgets proposed," we see 1997, \$22 billion, and then 1998 we drop off to about \$17 billion. In 1999 we hit \$50.5 billion, and then \$20.14 billion.

Again, if we are to compete with other countries in infrastructure—and it's just not your responsibility. There is also chiding the Congress—we're going to have to make some serious commitments, and it goes across the board. That's just highway. If you look at mass transit and if you look at total for ground transport you see these decreases when we would be increasing the funds that are available.

So that, to me, is a concern.

Now—

Mr. PETRI. We're going to restrict and then come back to you, but we have a new Member who hasn't had a chance to ask questions yet.

Mr. MICA. Okay. I wanted to get into infrastructure banking, but I will come back. Thank you.

Mr. PETRI. Yes. We've each tried to restrict ourselves.

I'm pleased to recognize the not quite formal yet, but soon-to-be new member of our subcommittee, Representative Millender-McDonald from California.

Me'am, have you any questions?

Ms. MILLENDER-McDONALD. Thank you, Mr. Chairman. Good morning to all of you. It is indeed a pleasure to now say officially that I have joined the Surface Transportation Infrastructure Subcommittee. I am, indeed, privileged to be here representing the State of California.

As we look at the infrastructure of California, knowing that it's important for our economic well-being, and then also infrastructure that will be important to the well-being of this entire country, I am pleased to sit here and listen to you and to listen to the reauthorization of ISTEA.

We are somewhat concerned about the gas tax and its increases and how this perhaps might impede some of the progress or the implementation of your plans. We hope that this will not bear too much against our completing the plan that the Administration has set forth in trying to drive this restructuring of the infrastructure, because we recognize that the Alameda Corridor is an important component to California and to the Nation in providing the jobs that have been lost in the military contracts cut, but also with this type of project it will bring back the jobs to California, and not only to California but throughout the Nation.

So we are pleased to know that we have a project in California that will not only drive the economy in our State, but across this Nation.

We certainly do want to work with you to provide the type of leadership that the Administration has already begun and hope that this will not—the gas tax increases will not impede your program.

Thank you so much, Mr. Chairman.

Mr. PETRI. Mr. Filner, have you another round of questions?

Mr. FILNER. Thank you, Mr. Chairman.

I know that Mr. Kim had asked about border infrastructure, so I won't repeat those, but, as you know, we've talked about this and you have many times been with us with many of your folks.

We do have a national trade policy, and the implementation of that policy requires far more investment in the infrastructure, so we continue to urge that upon you.

I'd just like to take a broader perspective on that if I can, Mr. Peña, because I know of your broader interest, and I know all of—you have a group of people who are not only very technically proficient, but have, I know from talking to them, much broad policy interest.

I look at the border infrastructure—not just roads or railways or bridges, or whatever, but you know the difficulty for a great part of the population along the border because of the concern with ille-

gal immigration, and you've witnessed some of the demagoguery and the hostility that comes out of that situation.

It seems then, because I represent the border area in California, I've taken as a prime kind of responsibility to bring down that level of rhetoric and demagoguery and hostility, and the one way that we can do it as a Nation, I think, is to have cooperation between U.S. and Mexico on specific projects that actually produce a rise in the quality of living for people on both sides—more jobs, better transportation, better ability to work.

If we, together, U.S. and Mexico, actually produce results for our two peoples, I think that would be a very important effort to stem a lot of the hostility and tensions that exist. People have to see real results from our cooperation.

We've talked—I know I've talked to you and Ms. Molitoris about certain railway projects or road projects that can produce this.

I see it as a foreign policy objective of our two countries, not just to use your abilities and your technical expertise and the legislation that you have to help our infrastructure, but to put it in that broader perspective. I think it's real important for our two nations to do that.

My population, as you know, in my District is plurality, Hispanic of Mexican descent. They face real problems physically because of the tensions. My job is to help reduce those, and I think you have a role to play in that if you look at it in that way, and so I hope you would look at the border as in this broader context, and I look forward to working with you on that.

I don't know if you have any comments or not.

Mr. PEÑA. Congressman, very briefly let me say that I agree with your insight into how these investments can go beyond just bricks and mortar. As a product of the border, myself, I obviously have personal experience in understanding some of the challenges that people face along the border.

Let me say that we have developed, I think, a very constructive relationship with my counterpart in Mexico, where we are now doing joint planning along the border, where in past years that was not done. The result of that was the construction of a bridge I will not name on the one side of the border, but it didn't connect on the other side of the border. We're not going to do that any more.

We're jointly planning on technology, in Otemesa, for example, which you visited when I was down there last, in Nogales, and we'd like to do one on other parts along the border.

Working together on these projects, which I think will inure to the benefit of the peoples who live along the border, is a very important byproduct of those investments, so I share your insight.

Mr. FILNER. Thank you. Just one specific question, if I may, Mr. Chairman, for Dr. Martinez.

As you know, I have had some correspondence with you about the petition of the Automobile Safety Foundation, which has an opinion about the auto steering lock and its safety and whether it can actually reduce auto theft or if it produces more safety problems, and you, I think, are looking at that but have not responded, I think, officially to their petition. Can you just give us some quick answers to that?

Dr. MARTINEZ. Well, the basic petition asks that the Federal motor vehicle standard 114, which says that when you take the key out of the ignition it locks the steering wheel—he's asking that it be amended so that you can take the key out while driving.

What we've done is try to look for information that lets us understand how big a problem that is. At this point I can't say I know what all the data is on that, whether or not people routinely take the key out or try to take the key out while driving, whether that leads to consequences and crashes, and so that's really been one of the issues we've asked our people inside to look at and see if they can find data to support or identify how big a problem that is with regards to safety.

Mr. FILNER. I would just urge, if they are right and it is a true situation, a safety problem, that we respond. We have to look at it pretty quickly.

Dr. MARTINEZ. Well, our regulatory review really asked us to go back and look at all the standards, and with that we've rescinded some, we've modernized others, and this is one of the ones we're looking at.

Mr. FILNER. Thank you, sir.

Mr. PETRI. Mr. Mica.

Mr. MICA. I thank the chairman.

One of the things I also want to compliment you on, I guess we authored—I helped co-author back in October—it may have been as late as October—the infrastructure banking proposal, and just a mechanism to try to make the little bit that we have go a little further.

I want to compliment the chairman and everyone else that signed into law, and compliment you again on the demonstration projects. Have all of them been named now? Ten?

Mr. PEÑA. No, Congressman. We've named eight.

Mr. MICA. Eight. Okay.

Mr. PEÑA. We hope to name the other two very shortly.

Mr. MICA. Good.

Mr. PEÑA. And let me say—

Mr. MICA. What was the interest in that? And where are we? Could you give me a quick update?

Mr. PEÑA. Quite high. We had 15 States that responded essentially in a few months to the original proposal.

Mr. MICA. Fifty or 15?

Mr. PEÑA. Fifteen. I'm sorry. But please understand this was done over a period of, 3 months, so the States had to very quickly put their proposals together, submit them to us. And, of course, those States that had perhaps more experience in dealing with this kind of creative financing had a leg up.

We have proposed in the next budget year actual dollars to provide some seed money to not only help with those but others, and to add to those banks in other States.

Mr. MICA. Would you like additional authority for additional demonstration projects?

Mr. PEÑA. Absolutely, Congressman. I'd like to have these banks in essentially every State in the country.

Mr. MICA. Sometimes people say Government doesn't work, but that's a perfect example, and I want to compliment you. Of course,

you picked one in my State, and we're going to have a project that will move forward. It solved a quarter-of-a-billion-dollar dilemma on an interstate connecting a completely privately-funded bypass system. We have no bypass around central Florida. But these things take a little bit of money, a little bit of everyone's participation and common sense.

A couple of things, too. I wasn't here, but another thing that we need to look at is fast-tracking some of these projects in ISTEA. I heard you talked about increasing project delivery, or something like that, but we need to work together on finding some mechanisms.

Sometimes these processes take so damn long. I'm a former developer, and you go out in the private sector and you build the thing. In the Federal Government you study it and you study it. I used to say we're going to pave I-4 with studies. But fast-tracking some of these intermodal projects and things is one thing that I didn't see a lot of attention to, but we need a summit on fast-tracking.

The other thing, too, is you mentioned some public/private partnerships. I think that that's another area, too. I think that out there, there are a lot of private firms that will get into transportation, particularly mass transit or building intermodal centers or things, so I think this is another area that I'd like to pursue with you, and I think the committee should pursue and as we look at ISTEA changes, because we can also leverage the private sector with those public bucks and move these projects together.

That's going to be a second area.

Then just one little personal thing before my lights start turning different colors here. Besides, I'm color blind so I don't recognize that anyway.

[Laughter.]

Mr. MICA. Mr. Secretary, I didn't see anything about MagLev, and I know we have authorization, but I'm also interested in seeing this country get into the 21st century of transit, and MagLev is a way to go. The Germans have it. They've put \$5.5 billion into their project. They abandoned the U.S. The Japanese have this technology. At some point that's going to kick in.

There are several small projects. One happens to be in Florida. There are several, I think, in Florida now. But I really think—and not just with a parochial interest—that we need to be trying to get our folks' business and industry competing in that, because at some point it's going to be a transportation mode of the future.

I saw no mention. Is there any interest?

Mr. PEÑA. Yes, there is, Congressman. Let me just quickly respond to your three points and invite one of the administrators to add to that.

First, in terms of fast-track, we agree. We have been able to do that in a number of ways, in particular in the creative financing projects that we approved in the last 2 years, and in changing our regulations, and revisiting the notion of a State match, for example. We discussed earlier how we have been able to eliminate a lot of paperwork, doing electronic clearance, and trying to find ways to synchronize environmental impact statements and other pre-project requirements so that we can shorten the time, as opposed to doing

them sequentially, and do them concurrently, saving the time involved there. So we agree with you there.

Second, the public/private area is one we are just beginning to explore, in my view. I think there are countries—and this may be a shock to some members of the subcommittee—in Latin America and in Asia that are far ahead of us. They have been doing this in some cases for 10 years. Some of their projects have failed; others have been very successful. We are learning from their experience.

So, for example, the Greenway Tollway, and the Orange County Tollway, are just the beginnings, I think, of the kind of private sector financing, construction, and operation of transportation infrastructure that we very much support. We think that the infrastructure banks and the deals we've done in the last 2 years have brought in a tremendous amount of dollars.

I asked my budget people the other day, "Of the \$4 billion we did over the last 2 years, how much of that was private?" The answer was about \$1 billion. So we've been able to attract about \$1 billion of private sector investment in the context of \$4 billion simply by being more creative, saying to the State, "If you bring in a private fiber optic cable company to lay fiber optic cable along your highway, we will count the value of those strands as the value of the State match." So the State would not have to come up with any dollars, and the private fiber optic company said, "Terrific. That is an open door, a welcome mat for me to be a partner in this deal."

We can do lots of those all over the country.

Lastly, as respects MagLev, I recently had a meeting with the MagLev organization, the private sector partners who were a part of that. I, too, am very concerned about our country falling behind our competitors around the world, particularly in light of the fact that magnetic levitation technology was invented by Americans. We were not able to deploy that technology and we lost it to our friends in Japan and Germany.

So we continue to work with that association. We, through the Federal Railroad Administration, are looking at ways to at least continue some of the methodology and the research and hopefully final deployment. But you're right, Congressman—we don't have the multi billion dollars at the Federal level as Germany is investing in its MagLev system, so we're going to have to be more creative in how we continue to keep that one alive.

Mr. PETRI. Are there other questions?

Mr. MICA. May I ask another?

Mr. PETRI. Sure, Mr. Mica.

Mr. MICA. One of the other questions that I had dealt with possibly—and some of this gets controversial. I know we got into—I shouldn't even mention rest stops and things along the way. But, looking at some additional source of revenue, for example, in the interstate system, different proposals have come up in some of these intermodal facilities about now bringing communications into some of these corridors and possible sources of revenue participation.

For example, radio frequencies—if you had a seamless interstate communication radio broadcast frequency, a long and narrow

band, in some of these areas as a source of revenue and participation, safety, communications, information.

Can you tell me if there's any interest in something of that nature?

Mr. PEÑA. Congressman, there is. Let me generally say that we have tried to reshape our budget to invest more in the intelligent transportation infrastructure side of our investment. We are working with the private sector to come up with a national architecture, if I can use that expression, so that we will have at least some inter-connectedness among communities in the country. So whether you're in San Antonio or in Atlanta or in Los Angeles, and you are driving a car of the future, with this technology you'll be able to operate in all of those cities and you won't have to deal with different types of technology.

We're supporting the synchronization of that architecture.

More than that, in terms of the specificity of your suggestions, we have looked at that. Let me invite Mr. Linton to talk about that, and perhaps Mr. Slater to talk about how he's doing that on the highway side.

Mr. LINTON. Thank you very much.

Let me just say, Congressman, that we are working, under the direction of the Secretary, to encourage more private sector involvement in infrastructure investment.

In the area of transit, there has been a tremendous interest in looking at fiber optic cable, enabling communication firms to use the right-of-ways of the transit systems for laying fiber optic cabling, enabling them and thereby creating an opportunity for revenue sources for these transit properties.

We're also looking at some innovative and creative ways for joint development that will allow the transit systems to begin to realize some additional revenue streams, utilizing assets that they currently have.

As the Secretary noted, I, too, have gone to Asia and have seen some very exciting projects where they have been able to take advantage of their right-of-ways access and do joint development. These projects help reduce the national government's investment and encourage private investment, but at the same time create revenue streams that support additional infrastructure investment.

I think we are beginning to look at that and will be looking forward to working with the Congress in the short term, but also as we look towards reauthorization of ISTEA, we want to promote an environment to do more of that.

Mr. SLATER. Congressman, I'd also like to add that your comments actually allow us to underscore the significance of the passage of two pieces of legislation and how they inter-relate. I'm speaking in terms of the NHS bill. The NHS, as you know, includes the interstates, but it goes beyond the interstates to include those important routes that serve to tie us together and allow us to build on the strengths of all of the other modes of transportation. It really starts to give us what the Secretary has argued that we should have and what really ISTEA speaks to, an intermodal national transportation system.

But you couple that with the passage of the telecommunications bill and all of the new flexibility that we will gain there to really

marry technology with the concrete, asphalt, and steel of transportation, you really have two forces that will combine—transportation and communications—and will really allow us, as the Secretary has noted earlier, to enhance the capacity of the system that we have now without necessarily building additional lane miles. Where that is appropriate, we'll be able to do that.

I also think that that was underscored when the President used the pen that was given to Vice President Gore's father at the signing of the interstate bill in 1956 by President Eisenhower to sign the telecommunications bill, underscoring the tie between communications and transportation.

So I think it really bodes well for the future that we can enhance our transportation system through the union of technology and communications.

Mr. MICA. Mr. Chairman, I have an additional question, if I may.

One of the other things I think that we have to consider with ISTEA—and I got involved in ISTEA in the early 1980s when I worked on the Senate side and we dumped literally billions of dollars into south Florida in a somewhat uncoordinated fashion. Probably some of those projects helped prompt ISTEA and cause a call for intermodalism. Now we pay the price of trying to connect systems that were created without an intermodal concept in their origin.

One of the things that concerns me is when I came here 3 years ago there were about 26 to 29 transit projects—rail, light rail, commuter rail, projects of that sort. Last year I think we had gotten up to 89, and I've got at least one more I want to add to the list. We had hearings the other day. This piece was lined up with folks for more.

There is more and more awareness that we have to have some alternative to one car/one person, more asphalt or concrete, whichever business you're in.

But 89 projects—and I know you've targeted some areas like Miami, the northeast corridor, some of these. Is there any method to this madness of trying to prioritize how we're—and all of these 89 need to be intermodal in some fashion. Is there any approach you're taking or something you could relay or something we need to do to adjust this legislation to make sure that we do this in some reasoned fashion and approach rather than just the raw political pressure which sometimes is applied?

Mr. PEÑA. Yes, there is, Congressman. Let me make a preliminary comment and then have Administrator Linton add to that.

First of all, we think one very positive thing that ISTEA did in the planning requirements was to, in effect, encourage local decisionmakers of all levels to prioritize their projects and to be realistic about the funds they had to build them. Contrast that with some of the plans that I used to see when I was mayor, 20-year visionary plans that were multi-billions of dollars that we knew we'd never have.

So I think there is a new reality and a prioritization that has occurred at the State and local level. We have to continue that.

We have done the same with the national level. We have looked at the nation, as a whole, looking at congestion points, trying to prioritize our investments to get the most bang for the buck from



e national and international perspective in terms of our global competitiveness. And, of course, we use criteria when we evaluate proposals that are made by various communities.

I talked earlier about our focus on the 75 largest communities to reduce time lost through congestion by 15 percent over a 10-year period. We can do that with a relatively modest investment in technology.

In the other transit programs there are criteria used. We do cost/benefit analysis, and Mr. Linton can describe how we look at those projects when they come in.

Mr. LINTON. Thank you very much.

Let me add to what the Secretary mentioned. There have been major mechanisms put in ISTEA that I think have gone a long way in terms of major investment studies that are required. We in FTA, as well as FHWA, engage in major joint planning.

I think the real key to prioritizing projects is encouraging local participation, along with a multi-modal approach to planning that requires an alternative analysis in order to determine locally the best transportation solution to a transportation problem.

I think historically, prior to ISTEA, when we began to look at just stovepipe funding—funding highways, just funding transit, just funding rail—you didn't encourage people to look at the local level and evaluate alternatives. I think ISTEA has moved a long way in that direction.

As we move towards reauthorization, I think that is one of the strengths of ISTEA—trying to focus and continue to push the local planning that's necessary to have prioritization of those projects.

Mr. SLATER. I would also add that that effort has brought about results.

We were just reviewing the figures a little while ago, and we noted that last year, alone, you actually had about \$800 million transferred from what were traditionally highway accounts to transit. That reflects the kind of give-and-take decision-making process that is occurring out there, and it also shows that States and locales are taking advantage of the flexibility opportunity provided in ISTEA.

The total over the last 5 years or so is probably in excess of \$2 billion, resulting from the decision-making process that ISTEA encourages.

Mr. PETRI. Thank you. As I said before, Mr. Secretary, I will be submitting some additional questions.

We'd like to thank you. You've been very generous with your time. We appreciate your whole team being here and participating in this process, and we look forward to working with all of you as we try to improve the Nation's transportation policy for the next 5- or 6-year period.

Thank you very much.

Mr. PENA. Thank you, Mr. Chairman, for the invitation. We appreciate your leadership in this area. Thank you.

Mr. PETRI. The next panel consists of three leaders of State and local government: the Honorable Bill Campbell, mayor of the city of Atlanta, on behalf of the U.S. Conference of Mayors; the Honorable Barbara Gregg, Alderman from Louisville, Kentucky, on behalf of the National League of Cities; and the Honorable Carol Roberts,

Commissioner of Palm Beach County, Florida, on behalf of the National Association of Counties.

I'd like to welcome all three of you to this committee and to the witness table.

I think as soon as you are able to take your places, we'll begin with the Honorable Bill Campbell, the mayor of the city of Atlanta.

I'd indicate to all of you that, as you probably know, your full statements will be included as a part of the record, and if you are able to ebridge tham or whatever, we all would eppreciate it. But, in any event, we look forward to your testimony.

**TESTIMONY OF HON. BILL CAMPBELL, MAYOR, CITY OF ATLANTA, ON BEHALF OF THE U.S. CONFERENCE OF MAYORS; BARBARA GREGG, ALDERMAN, LOUISVILLE, KY, ON BEHALF OF THE NATIONAL LEAGUE OF CITIES; AND CAROL ROBERTS, COMMISSIONER, PALM BEACH COUNTY, FLORIDA, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES**

Mayor CAMPBELL. Thank you very much, Mr. Cheirman. I'll try to be as brief as possible.

I'm mayor of Atlanta and the chairman of the U.S. Conference of Meyors' Transportation and Communications Committee, and I'm here today representing more than 1,050 mayors from across this country.

I want to thank you for this opportunity to provide our views about the Federal interest and, of course, the mayors' interest in the renewal of ISTEА, which we think is of vital importance.

Mr. PETRI. You have a few things going on in Atlanta these days, too.

Mayor CAMPBELL. Just a few things that we're preparing for. We certainly hope that you all will be able to come and join us, Mr. Chairman and members of the committee, in not only the Olympic gemes but also, of course, the Para-Olympic games.

In large part, our success in being able to hold the Olympics and Para-Olympics comes as e result of the successes from ISTEА in the past.

Ms. MILLENDER-MCDONALD. Is that an officiel invitation by you to us?

Mayor CAMPBELL. Yes, it is. In fact, I left the tickets in the other coat.

Ms. MILLENDER-MCDONALD. Thank you so much for that, also.

Meyor CAMPBELL. I will get them back to you as soon as possible.

We very much eppreciate this opportunity. As you can imagine, it's a critical issue. Cities and counties from all around this country raise and expend more public monies in transportation by way of our airports and highway, ports, and public transportation than all the State governments' transportation spending combined, and even that of the Federal Government, so we have a profound interest in what happens with ISTEА.

As a result, the mayors approach this debate with the view that it's a broadly-based and more inclusively-formulated strategy than any other, and that's why we're here to speak on behalf of it.

We believe that ISTEА really strikes the appropriate balance between State and local needs and concerns with Federal and national objectives.

Mr. Chairman and members of the committee, ISTEA really is about partnerships, and that's how mayors talk about the Federal interest in transportation.

In terms of the national economy, as an example, the linkage between public investment in transportation systems and economic growth is undeniable, and one only needs to look at the Olympic games as an indicator of that, as well as our airport, which is the largest economic generator in the entire south. Our airport is the second-busiest airport in the world. We recently opened up the largest international concourse in the world, and we're very proud of that. Over 300,000 international visitors will come during the Olympic and Para-Olympic games, alone. That's the equivalent of transporting all of Las Vegas to Atlanta, just to give you some idea about the magnitude.

As a result of that, the mayors believe that the transportation facilities and the systems should serve our citizens, our businesses, our communities, and our local and regional economies.

The fundamental point is that the Federal interest is profound in ISTEA and in our transportation systems, and we see it having a profound effect on our economy and the regional economy, and, by inference, of course, what happens to the Federal level, as well.

If the transportation investment effectively serves our communities and regions, then it will naturally enhance and strengthen national economic interests and other objectives.

Mr. Chairman and members, I want to compliment all of you for your leadership in convincing your House colleagues about the need for increased investment in the transportation infrastructure during the recent debate on the trust fund legislation.

In terms of the local economies, we are just starting to explore the relationship between regional and metropolitan economies and the national economy. We know that a significant share of the Nation's recent growth in jobs and wages and personal incomes, as well as the Federal and State income receipts, is generated by the Nation's metropolitan regions.

There is a Federal interest in making sure that the Federal Transportation policies don't shortchange, overlook, or divert resources from the important transportation needs of these areas.

We applaud the decision in ISTEA to invest in urbanized areas of 200,000 or more through the surface transportation program. This allocation of investment dollars directly strengthens local efforts with their State partners to design solutions that respond to the increasingly-complex and variable transportation needs of our metropolitan areas.

There are still too many metropolitan areas and, of course, rural counties that have not received their fair share of ISTEA resources. Often, there are extreme examples of donor/donee imbalance within States where metropolitan areas and the cities within them receive little return on the actual user fees that their citizens and businesses generate.

There is a profound Federal interest in assuring that the important metropolitan economies perform stronger and that they are strengthened by the investment in the metropolitan transportation systems.

Recent projections show that congestion will continue to escalate in many areas. This means more lost productivity for the economy in the next few years. This is an issue that requires more attention in next year's legislation.

We are hopeful that Atlanta's region's package of innovative traffic management measures, or the intelligent transportation system initiative which we have just inaugurated—\$130 million system which will allow state-of-the-art transportation management during the Olympic and Para-Olympic games. It's the first system that has utilized this new system in the entire country, with state-of-the-art video cameras that will allow us to tell our travelers exactly where they should get off to avoid any traffic congestion ahead of them.

Inter-governmental partnerships—in terms of the inter-governmental partnerships, there is a considerable Federal interest in preserving stability and sustaining performance of the Nation's existing transportation systems. All of us recognize that the Nation's economic gains have been propelled largely by generations of transportation investment—systems and facilities developed through an array of inter-governmental partnerships.

In 1991, we retooled and strengthened this partnership through ISTEA. In building on this same ethic of inter-governmental partnerships, we can avoid these destructive debates between highways and transit, transit versus inter-city passenger rail, gas taxes versus general revenues, or State donors versus State donees.

Let me just tell you briefly about our Olympic experience.

In terms of the 1996 Olympics, it is the ultimate test of our transportation partnership in the Atlanta region as we prepare to host the centennial Olympic games and the Para-Olympic games, which will bring over three million people in 17 days to the city of Atlanta.

Just so you get an idea about the size, these games will be larger than the Barcelona and Los Angeles games combined, with a much smaller geographical region.

The significance is that our transportation system is what has allowed us to be accurate in our projections.

As my light has come on, I will yield my time to my colleagues, but simply say that we believe that the Federal interest in our transportation system is profound. It is profound because it helps us to grow our economy. As our regional economy grows, we're able to contribute more to the Federal economy, and thus we think ISTEA and the important component of our partnerships is so vitally important.

Thank you very much.

Mr. PETRI. Thank you very much, Mr. Meyer.

Mr. PETRI. The Honorable Barbara Gregg, representing the National League of Cities.

Ms. GREGG. Thank you, Mr. Chairman and members of the subcommittee.

The National League of Cities is pleased to have this opportunity to share our views on the Federal role in transportation and its relationship with local governments.

I am Barbara Gregg, Alderman from the city of Louisville, Kentucky, and this year's chairperson of the National League of Cities Transportation and Communications Policy Committee.

The National League of Cities represents 135 mayors and council members from cities across the country. I'm pleased to join my local government colleagues testifying here today.

We all know the importance of transportation and infrastructure investment. The economic health and development of this country is dependant upon interstate highway systems, strong local roads, and access to transit.

Without investment in our transportation systems and infrastructure, our economic future is threatened, resulting in congested roads, aging transit systems, and deteriorating bridges.

The Intermodal Surface Transportation Efficiency Act has allowed continuing investment in our infrastructure. ISTEA has also contributed to the success of our Nation's highway and public transportation systems due to Federal Government's role and its essential link with State and local governments.

The Federal Government has three key roles in transportation policy: number one is funding, two is infrastructure that pulls together the Nation to enhance our economy, and three is the setting and insuring of Federal transportation priorities.

It has been estimated that over the next 5 years there should be an investment of \$357 billion to improve the highway system and \$8.4 billion to maintain the transit system.

The Federal Government provides 30 percent of transportation infrastructure funding. Although 30 percent may not seem large, imagine the impact of cutting a person's salary by 30 percent. Therefore, without the Federal Government's funding of many transportation projects would just not occur, which, in turn, would contribute to the decline of our Nation's infrastructure and economic health.

Additionally, the role of the Federal Government is broader than solely providing funding. By having a role in transportation policy, the Federal Government insures that there are national transportation standards that promote continuity.

Without a Federal role in transportation, this country would have individual State highway systems that do not connect at State borders rather than an interstate system connected from State to State.

The Federal Government insures that the Nation's transportation system connects our country for the benefit of our economy and the public safety of our citizens.

The Federal Government has the unique position to be able to identify broad policy goals and objectives for this country. The Federal Government can determine the direction of national policy, including infrastructure, environmental, and transit objectives.

Included in the bigger picture is the role of local governments as decision-making authorities for local transportation needs.

Without a Federal policy, local governments would confront 50 separate transportation policy objectives without any assurance that local governments would have any decision-making role.

Local government officials are more familiar with and committed to local needs, and therefore they should be responsible for decision-making on local priorities and projects.

Funding directed to local or regional bodies brings the transportation community together to develop and agree upon local and regional priorities. As under ISTEA, metropolitan areas have direct access to Federal funds, which allows for local accountability and selecting and programming projects. Without local government decision-making authority, many local transportation needs would be easily overlooked, not due to any maliciousness, but merely due to the lack of knowledge at the Federal level and State levels of specific local community needs.

For example, in Louisville ISTEA money is being used for inner-city roadway development—a certain street called 9th Street, where trucks now have increased access to areas that were underserved in the past. The increased access for trucks allows the growing number of businesses to continue to locate in the inner city, and equally important areas that are in need of economic development.

I also see the red light, so I will yield the last couple of seconds of my time to my other colleague.

Thank you.

Mr. PETRI. Thank you very much.

Mr. PETRI. I think our colleague, Mr. Mica, would like to present his colleague from Florida.

Mr. MICA. Thank you, Mr. Chairman.

I would like to do that and introduce to the panel Carol Roberts, who is a Commissioner from Palm Beach County, Florida. She's a distinguished Vice Chair of the Transportation and Telecommunications Steering Committee of NACo—National Association of Counties. I'm so pleased to see her. She's a leader locally, in her community, within the State, and nationally on transportation issues.

Although I don't represent Palm Beach County, I still have a soft spot in my heart for Palm Beach County, Mr. Chairman, that provided me with my first employment and also provided me with my lovely wife of 25 years, who I met there.

Welcome. We're so pleased to have you.

Thank you, Mr. Chairman.

Ms. ROBERTS. Thank you, Congressman Mica. And thank you, Mr. Chairman and members of the subcommittee.

Congressman Mica and I are going to also be doing a joint project, which he kind of alluded to when he talked about adding to the 90th, where we're going to be doing a demonstration, I guess, in about two weekends for Tri-Rail. I do serve—I will be the incoming chairman. I am the incoming chairman of our commuter rail authority.

But I am here today, as Congressman Mica has told you, in the role representing NACo, to talk to you on the Federal role in transportation.

The members of NACo believe that the national interest has been well-served by the Federal Government's participation in the funding of the Nation's highways, bridges, and transit systems.

Counties across the country support the view that the Federal role must continue at least at the current level, preferably with additional funds.

The Federal highway and transit programs have generated a tremendous amount of economic development in counties across the Nation. As we approach the 21st century and a more international economy, it would be very short-sighted, we believe, to reduce the Federal commitment to surface transportation.

Counties have a major stake in surface transportation. They own and operate 1.7 million miles of highways, or 43 percent of the total road mileage in the United States. We own 219,000 bridges, 45 percent of the total bridges in the Nation. Finally, we operate 25 percent of the transit system.

County officials know that without the assistance of the Federal Government we would not have the effective transportation system in this Nation that we have today.

I'm keenly aware of this fact as a local official in a county with major transportation problems. Palm Beach County owns and maintains 1,357 miles of highways and 250 bridges. We also operate our own bus system, known as PalmTran. My county certainly receives surface transportation and bridge funds, as well as section 9 capital and operating funds.

With a population of 940,000, most people think of Palm Beach County as an urban county; however, we are the largest agricultural county in the State of Florida, and we rely on a system of rural roads and bridges to get our farm products to the market.

There has been and continues to be a Federal role in insuring that the 2,000 rural and agricultural counties of the United States have a good system of transportation.

It is in the Federal interest to see that the Federal Highway program is there to supplement local funding to support the construction and rehabilitation of the facilities. If we are to see a reversal of the migration out of rural areas, we must make the investment in transportation infrastructure that will sustain a growth in rural economies. This is an issue of national importance.

The vast majority of Americans want to be able to travel quickly and easily within their communities, and, at the same time, want a clean environment.

At the county level, we're doing what we can to insure that goal, but there still is a Federal role and responsibility.

In Palm Beach County, the County Commission adopted a \$0.06 local option gas tax, which is split 50/50 between transit and highway. I'll just add, we did this in 1994 and I ran for reelection in 1994, and I still voted for it.

My constituents want and wanted clean air and better mobility. For this reason, in Palm Beach County we will triple the size of our bus fleet from 52 to 151 vehicles, we will add 33 new routes, and we will continue to use a portion of these funds to contribute Palm Beach County's share to Tri-Rail, our south Florida commuter rail.

However, counties need Federal assistance still. If Palm Beach County, with its local source of revenue and strong economic base, requires a continuing need for Federal support, members of this

subcommittee can imagine the straits which other counties with less resources find themselves in.

Mr. Chairman, we believe that the Federal Government needs to continue playing an important role in national transportation policy. When the ISTEA was enacted, it represented a significant change in how Federal highway and transit programs were structured. ISTEA increased funding substantially. Members of Congress recognized how essential and timely it was to fund transportation infrastructure.

As important as funding is, ISTEA also brought local government officials into project selection and funding decisions in many urban and rural areas. This has made a real difference to us.

We believe that if that role is changed, that we would find it difficult to continue to support that national program.

There has been a great deal of discussion about formulas and donor/donee States. I come from Florida, which is a major donor State. Speaking as Palm Beach County Commissioner, I would love to see the formula changed and my area get more funding. No doubt, that will be a battle another day.

But what I don't want to see is the turn-back of Federal gas tax authority to the States.

I believe this could be tragic. I believe that the 50 State legislatures and governors don't have the ability to raise gas taxes enough to replace any Federal highway and transit funds which would be eliminated through a turn-back proposal.

The other problem is the diversion issue. Some States already spend too much of their own gas tax revenue for non-transportation purposes, and I suspect all types of interests would be lining up to get a piece of that major gas tax in many States.

Finally, I want to congratulate this subcommittee, which led the fight on putting the trust back into the trust fund. NACo was pleased to be able to support H.R. 842. The message was: spend down the \$30 billion balance in the trust fund because Americans care about an honest and viable national transportation system which invests in the national priorities of mobility, congestion relief, and rural access.

Thank you very much, and I'd be glad to answer any questions or submit answers in writing.

Mr. PETRI. Thank you all for your testimony.

Ms. Millender-McDonald.

Ms. MILLENDER-MCDONALD. Yes. Thank you, Mr. Chairman.

I am, indeed, pleased to hear from all of you with reference to your local involvement with the Federal transportation program.

Coming from local government, having served as the vice mayor in one of the cities that I represent, I am concerned about a couple of things.

One, Ms. Gregg, with your statement indicating that 30 percent of the transportation infrastructure funding comes from the Federal Government, and that, indeed, you look forward to that continuous support—there are other persons that have come before this committee, as I'm told, requesting that there be an elimination of the Federal taxes to—those particular taxes to local governments, and that perhaps you should rely more on the State and local taxes, gas taxes, to provide for your infrastructure building.



I would like for you to expound on the impact of changing the funding formula.

And then, secondarily, Ms. Roberts indicated that we would—I'm saying all of this so that the two of you can answer—that you rely a lot on the Federal Government's fuel taxes for your program, and if that would be eliminated you would have to defer to the State and local taxes—gas taxes—and that a lot of the State taxes now are being used for non-transportation projects.

Again, this question would be raised to you: what would you do if the taxes, the Federal fuel taxes, are eliminated? And how well have you worked with ISTEA in trying to provide the leadership for States for their input in more gas taxes for the purposes of national infrastructure and road-building?

Ms. GREGG. I'll go ahead and begin. Many cities are not in a position to be able to have their own revenue relate to gas tax or sales tax or whatever. It is done by the States, and we don't always see that return into the local communities from the State level. That's why we're saying we really depend considerably on the Federal Government's involvement and Federal Government funding of the tax dollars back to the local communities.

Ms. MILLENDER-MCDONALD. If that is eliminated, what would you do to enhance your participation and cooperation with the States and in sending down the appropriate funds through gas taxes for your infrastructure building?

Ms. GREGG. I really think it would primarily have to come the other way. Our State Department of Transportation had always been the one to make the decisions on where the funds were going to be spent anyway.

ISTEA brought the local communities into that decision-making role, and, to be very honest with you, we have had trouble with our Departments of Transportation, and not just Kentucky, but I had testified a couple of years ago before some of the regional hearings on ISTEA and it seemed to be a predominant concern then. I know with members on my committee of the NLC's Transportation Policy Committee, it is a major concern and we represent cities and States all over the country.

We wouldn't necessarily be getting the funding from the State level. We'll certainly do our part, but—and as far as the priorities of what the local projects are going to be, I can't guarantee from the State level that they're going to recognize what we think are the needs in our communities.

Ms. ROBERTS. Ms. McDonald, through ISTEA MPOs have allowed greater participation in the decision-making powers. In our State, we were able to work more closely with our State Department of Transportation, but Florida, like many States, is looking at its own budget deficits. We're not allowed to have deficits in Florida. We have to have a balanced budget, so Florida attempted a number of years ago to allow local option gas taxes.

As I mentioned to you just now, in Palm Beach County seven elected officials, in an election year in which three of us were running, passed a local option sales tax, a gas tax, and we took that gas tax and we invested 50 percent of it in our roads with our cities. We have 38 cities in Palm Beach County, and we invested that as the State determines that we must do, with our cities, and

the other 50 percent, with the agreement of our cities, we invested in an expansion of our mass transit system.

We still had to look for our section 9 and section 3 grants in order to use it for capital.

We would not have any operating money if we did not have that additional \$0.06 gas tax, and I say it took courage, because I was one of those people running for election, and I can tell you, as you well know, that people do not want to have any new taxes.

We passed this with a super majority of our Commission.

ISTEA has allowed us counties, through our MPOs—and the MPOs work differently in each of the States and each of the regions. We have our own MPO in Palm Beach County, and we have—I think there are eight cities that also sit on that MPO, so the cities and the county work together with our members of our port. Our airport is owned by our county, our port is a separate taxing district. ISTEA has allowed us the ability and the flexibility to participate and make State decisions.

We don't look toward Florida adding any more gas tax because I just came from our State Legislature and I'm getting on a plane to go back there today, and they're not passing any new taxes. They can't spend what they don't have. So without the Federal dollars our transportation systems are going to not only increase, they will not only—they will fall into disrepair.

Not too many people have the ability to go ahead and pass those taxes.

If you looked into Dade County—Congressman Mica is pretty much aware of Dade County's situation—their mass transit system is operating—well, right on the edge. They just don't have enough money. Dade County is at its mileage cap. Florida has a mileage cap. You can only tax 10 mills. Dade County is at that mileage cap.

We're going to be in a very precarious position, many of the counties, in Florida as well as in the United States, without that Federal help.

I hope that answers your question.

Mr. KIM (ASSUMING CHAIR). Thank you.

Do any other Members wish to be recognized?

Mr. MICA. Mr. Chairman.

Mr. KIM. The gentleman from Florida.

Mr. MICA. Thank you.

I have two questions for all three panelists. The first one I think Commissioner Roberts mentioned is a battle for a later time, but I just want to talk about it for a second and get your viewpoint, and that's the formula which we're going to have to address. It does impact—I think all of you are southern States or donor States, and it's a real problem.

In Florida for every \$1 we send up here we get back \$0.77. By contrast, we're in Washington, D.C., and they get \$3.58 back for every \$1 that they send. This is probably the most unbalanced of the differences in payback.

So how would you recommend that we get to some equity or parity in this as we undertake that? It may be a battle for next year, but how would you see us getting there? That's my first question.

The second question for all of you is: is there anything we can do to speed up the process? Maybe you heard my question to the

Secretary before about fast-tracking, getting any of these projects moving.

Sometimes it seems like the Federal constraints—they make you go through 42 hoops. Are there 10 of those hoops that you might recommend that we might—or some of those hoops in ISTEA or any other legislation that might speed up this whole process?

Those are my two questions. I'll start with maybe Mr. Mayor Campbell.

Mayor CAMPBELL. Well, Congressman, clearly the issue of donor/donee imbalance is an important one. On the other hand, if we adhere to a rigid formula, then I don't know if the regional interest of transportation will be served as well.

As an example, Georgia does not get its appropriate share, either, but, on the other hand, the Atlanta Airport provides a significant regional economic generator for most of the south.

So what we need to look at is an enhancement in ISTEA, how it can deliver from a Federal perspective all of the—in essence, bringing the system together so that, from a transportation perspective, we continue to grow our economy.

But ISTEA has worked very well in the past, and I guess our essential point is that there is a significant Federal interest in transportation.

As you heard from the council member, if you were to cut 30 percent from a Federal funding for transportation systems, much of what we know would simply collapse. Our public transit systems would probably have to increase their fares, perhaps three times. Much of the roads and the bridges would fall into disrepair because there is no source of revenue in order to encompass that.

You cannot, as heard by your own county Commissioner, you cannot seek to find any additional source of taxes because there is an impatience with taxes by our constituents, both on the Federal and on the local levels.

I would say that what has worked very well should be continued. We all have a significant interest in a local decision-making role in transportation issues.

I could not tell you from one to ten, as you've indicated, what should be changed, because I think it has worked very well in the past. Clearly some fine-tuning would be in order, but I could not say that there is anything that is so out of kilter that it should be changed structurally at this juncture.

Mr. MICA. You're very diplomatic. Thank you.

Ms. GREGG. I would have to agree with the mayor. ISTEA has done a lot to bring the local communities into the picture of making those decisions. I wouldn't change any of that. That has not been the case in the past.

I think when he talks about ISTEA working well, it's working well. What some problems may be in terms of why the local communities don't get money quicker than they do, I'm really not in that position to say. I heard what Secretary Peña was saying. They are streamlining some of their regulations and some of the whole process. I know that will help. I know we've had some projects on the board that we've had to go through a lot of approval and back and forth, and it takes time.

If that is streamlined, as he indicated, I'm sure that will help tremendously, but the main thing is just to continue with Federal Government involvement and local governments' involvement in transportation. I can't stress that enough.

Ms. ROBERTS. Mr. Chairman and Mr. Mica, one of the suggestions perhaps that might speed up some of the spending of the dollars is, when there are projects that are in a ready stage and have gone all the way through their planning, they might be perhaps put at the top of that heap, because you can certainly spend the money when something's in a ready position. That doesn't happen all the time.

As far as your other question, if I were sitting here only as a Palm Beach County Commissioner representing the State of Florida, I'd be a little more comfortable answering it, but I'm sitting here representing NACo, where some of our counties are from donor States and some are from donee States, so I am going to be diplomatic and maybe come back and represent Florida and not try and answer that question.

Mr. MICA. Thank you, Mr. Chairman.

Mr. KIM. Are there any other questions?

Ms. MILLENDER-MCDONALD. I would like to just get back to Mr. Campbell, Mr. Chairman, for just one more question please.

Mr. KIM. Surely.

Ms. MILLENDER-MCDONALD. That's the sub-allocation of the transportation funds to the locals, especially metropolitan areas with 200,000 or more. It's my understanding that local governments have had some problems with receiving your allocation for this particular program.

Mr. Campbell, what has been your experience with your State with reference to receiving the appropriate funding for that, given Georgia and Atlanta, specifically, and in the case of Los Angeles? And do you think that that is overly prescriptive with reference to urbanized areas in cooperating with the States for developing a State-wide transportation plan that is fiscally constrained?

Mayor CAMPBELL. In our own experience, we have not had a problem, perhaps because we have worked so well with our State government in the past. The Atlanta Regional Commission, which is a 13-county area, works in conjunction with ISTEA to allocate the funds based on the formulas.

There is some sense that perhaps it could be fine-tuned, but we have never had any difficulty. In fact, I think if you look at the funding that we received under this particular program, Atlanta and the metropolitan region have benefitted greatly. We have been very aggressive in our pursuit of the ISTEA monies. Of course, with our regional transportation system being second to none—at least that's what we believe—it has worked very well for us.

But I could not tell you that other cities have not had some difficulties. We are aware of that. But one of the dilemmas that we face is that the sense is that if we try to come and ask for the fine-tuning while overlooking the larger interest of making certain that the Federal interest continues and the Federal funding continues, then we may lose the baby with the bath water.

So our sense is that we would love to report on the individual difficulties, and I will get that for you from our Conference of Mayors to speak to those cities that have had problems.

Mayor CAMPBELL. Our experience has not been one of any difficulty, and so we perhaps are the exception rather than the rule.

Ms. MILLENDER-MCDONALD. Well, Ms. Gregg, listening to what he has just said, and if, indeed, there is fine-tuning to be done here, what might that fine-tuning be, and why is it problematic for those cities to articulate that to their State representatives?

Ms. GREGG. I don't think it's necessarily problematic to articulate it. I think it boils down to—we have a situation—and I'll just speak about Kentucky. We have a situation where Louisville is, by far, the largest city in the State, but we are basically a very rural State, and so we've got areas where the Department of Transportation prefers to spend the money in the rural areas to improve the roads and bridges, which we understand are important to get school children from some of the—as they call them—the hollows of the State into areas where they go to school.

So it's a real diverse problem. We've got very, very poor areas, and then we've got—with roads that go to practically nowhere, but we have school children that need to get to their schools.

So, as they tell us, they prefer to spend their money in those areas than to send it to the city who is economically in better shape to take care of themselves.

Ms. MILLENDER-MCDONALD. You are suggesting that this sub-allocation funding that is brought down by ISTEA to the States for them to then distribute that as appropriately done to the cities can be circumvented by someone from the State department to say it should go someplace else as opposed to the metropolitan area that it was—

Ms. GREGG. No. Certain funding should come because we are a city of over 200,000.

Ms. MILLENDER-MCDONALD. Right. Absolutely.

Ms. GREGG. Yes.

Ms. MILLENDER-MCDONALD. So that's not the funding you're talking about?

Ms. GREGG. It will come to us.

Ms. MILLENDER-MCDONALD. Right.

Ms. GREGG. But they will then reduce us in other methods. For instance, we asked this year for some monies. We wanted to see some priorities put into our transit systems. Now, there aren't many transit systems in the Commonwealth of Kentucky. There's Louisville, there's Lexington, there's northern Kentucky. They cut—they just made the decision, and they decided no, that's not where they were going to put the priority, so they gave an additional cut in funding this year to transit over and above cuts that were already in place at the Federal level.

So it's things like that. It very definitely hurts what we want to do.

And then they will try and make decisions for us on what our projects and priorities should be.

Ms. MILLENDER-MCDONALD. They?

Ms. GREGG. They may say—the State—well, we'll give this amount of money, but we'd rather it go to this or that rather than

A, B, and C, rather than D, E, and F. So we have that kind of a situation.

But, as I said, I don't think it's necessarily unique, because, from the conversations we've had with a lot of the members on the Policy Committee on NLC, they've all complained of the same type of situations.

Ms. ROBERTS. Congressman McDonald, let me just add that Palm Beach County gets its—as it is one of the 75 large urban areas that Secretary Peña was talking about, we do get our allocation. But in metropolitan areas under 200,000—and, again, representing counties all over the United States—many of those are not getting the appropriate allocation. Rural areas are suffering.

The way we could improve maybe ISTEA is to insure that there is a representation from those areas so that their needs are both articulated and understood, and I think that's what we're really trying to say.

Mayor CAMPBELL. Also, Congresswoman, just so that you get an idea of how successful we have been in Atlanta—and, of course, with the advent of the Olympics over the last 6 years, that certainly has focused a great deal of attention and support from our State, and Atlanta being the State capital, both of those reasons have certainly enhanced it.

But, so you get an idea, the first 5 years of ISTEA under this STP program, \$112 million was available. The metropolitan Atlanta region got \$105 million of that, so it was one of the highest return rates in the country. That's why our experience may be atypical and we might not be able to provide as much insight for those communities that have suffered, as others.

Mr. PETRI [resuming Chair]. Thank you. Are there further questions?

[No response.]

Mr. PETRI. Thank you very much for coming and testifying, both on behalf of your communities and the organizations that you belong to. We look forward to working with you and your associations as this process moves forward, and as we hopefully reauthorize the Federal transportation program in the next Congress.

Thank you.

Ms. GREGG. Thank you.

Mayor CAMPBELL. Thank you.

Ms. ROBERTS. Thank you, Mr. Chairman.

Mr. PETRI. The third panel consists of: Mr. William G. Burnett, the Executive Director and Chief Administrative Officer of the Texas Department of Transportation; and Mr. John P. Bartosiewicz of the Fort Worth Transportation Authority.

I believe Representative Johnson would like to introduce them to the panel.

Ms. JOHNSON. Thank you, Mr. Chairman.

As I just listened to the last panel, there is not a single point that was made that could not be said about Texas, no matter whether it was in Florida or Georgia—all of the southern States. We occupy quite a bit of the geography in this country and we have all of its problems. We have an equal share of rich and poor areas, and we are a donor State.

We are delighted, however, to be a part of this country and to attempt to balance our funding to service all of our areas. In view of that, we have from Texas today, though representing other organizations, as well, Mr. William Burnett, who is executive director and chief executive officer of the Texas Department of Transportation and the president of the American Association of State Highway and Transportation Officials; and Mr. John Bartosiewicz from Fort Worth Transportation Authority, and he is here on behalf of the American Public Transit Association.

Over the years, from a State office, both House and Senate, I have been a squeaky wheel to this department, and I shall continue to be. It's all for the sake of equalization and equality, and they represent people who have attempted to work in that direction.

I would like to present them now. Thank you.

Mr. PETRI. Thank you very much.

Gentlemen, as you know, your full statements will be included in the record, and we look forward to your summary of your presentation.

Mr. Burnett, would you like to speak first?

**TESTIMONY OF WILLIAM G. BURNETT, EXECUTIVE DIRECTOR, TEXAS DEPARTMENT OF TRANSPORTATION, AND PRESIDENT, AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS; AND JOHN P. BARTOSIEWICZ, FORT WORTH TRANSPORTATION AUTHORITY, ON BEHALF OF THE AMERICAN PUBLIC TRANSIT ASSOCIATION**

Mr. BURNETT. Thank you, Chairman, and thank you, Congresswoman, for the kind introduction.

I am Bill Burnett, executive director of the Texas Department of Transportation, and currently serve as president of the American Association of State Highway and Transportation Officials.

I'd like to thank the chairman for calling this hearing and allowing AASHTO to present our position on what we think the Federal role in transportation should be.

AASHTO believes that timely reauthorization is vital, and our member departments—all 52 member departments and our AASHTO staff located here in Washington are eager to work with this committee on the reauthorization of the Intermodal Surface Transportation Efficiency Act.

Since 1994, AASHTO has been developing a consensus policy with our 52 member departments on reauthorization of ISTEA. We have produced seven documents, of which one is the AASHTO Federalism Report. This report outlines what we believe should be the distribution of responsibilities among the Federal, State, local, and regional levels of governments.

Today I'd like to limit my comments to how reauthorization can improve the Federal/State transportation partnership.

ISTEA is a good basis for the future, and AASHTO supports ISTEA as the framework for reauthorization. ISTEA gave more authority to the States and local governments for determining the best ways to use available transportation funds. The next surface transportation reauthorization should continue this process by focusing Federal oversight and policy on the achievement of national,

economic, social, and environmental goals, and, at the same time, reauthorization should provide much greater flexibility in fulfilling these goals.

An example of needed streamlining—for example, States have had mixed success with several of the programs in ISTEA. In the areas of transportation-enhancement activities program, a State in the northeast—its officials in that State had been frustrated in their efforts to implement a small, potentially low-cost project because Federal restrictions, requirements, and extensive project oversight have extended the project development time greatly and increased the cost of the project.

Similarly, a southern State with a surface transportation program STP project initially received extreme positive reaction from community and project sponsors for selected funding of a project; however, many of the sponsors have begun to experience frustration in trying to implement their projects with the maze of regulations that exist.

Simplifying Federal regulations will help move these and other local projects along and improve the project development and implementation processes for everyone involved.

The Federal program should be consistent with national goals. AASHTO sees the Federal Government as a key player in shaping the Nation's transportation system. We recommend that future Federal transportation programs focus on national priorities.

Some of these priorities are: international commerce and interstate commerce, metropolitan mobility, rural access and connectivity, safety, national defense, and protection of the environment.

These issues call for strong Federal policy and financial support. Federal transportation guidelines should do three things: address how our Nation's transportation system should work, support integrated systems planning, and define the primary national interest in transportation.

We believe the Federal transportation policy and funding should encourage and enable States and local governments to build and manage systems that support national transportation goals.

Flexible Federal programs help States do their job. To accomplish our national transportation goals, the structure of the Federal transportation program should be as flexible and simple as possible. States should be given more authority to focus Federal transportation funds where they are most needed, according to local and State priorities, but in keeping with the goals stated above for Federal transportation programs. This calls for fewer restrictions on the use of program funds within and among program categories and the elimination of reductions of set-asides and sub-allocations that hamper transportation planning efforts.

Federal investment in transportation serves the Nation. A streamlined, less-regulated Federal transportation program is one of the tools States need to do their job.

We cannot meet our mobility, safety, defense, and economic development needs without continued transportation investments at all levels of government, and the Federal Government plays a major part in insuring continued integrity of our transportation system.



In conclusion, AASHTO member departments value our long-standing partnership with the Federal Government and this Congress to provide a safe and reliable transportation system for our Nation. We should build on this partnership in the next reauthorization by setting clear and achievable national goals for transportation, and AASHTO looks forward to working with this committee as it moves to surface transportation reauthorization through the legislative process.

Thank you, Mr. Chairman.

Mr. PETRI. Thank you.

Mr. PETRI. Sir?

Mr. BARTOSIEWICZ. Thank you, Mr. Chairman, Ms. Johnson, and members of the subcommittee. I'm John Bartosiewicz, the general manager of the Fort Worth Transportation Authority and chairman of the American Public Transit Association's Strategic Planning Subcommittee, which has our organization's responsibility for development of a reauthorization position.

My message today focuses on the benefits of ISTEA and the challenges that we face in reauthorizing that law.

APTA believes that transit has a strong role in meeting the transportation needs of our country into the next century, and that the Federal Government should retain a key role in coordinating our Nation's transportation system.

A key question needs to be asked: did Congress properly address the Federal transportation interests when it drafted ISTEA? The transit industry's answer to that question is a resounding yes. ISTEA committed the Federal Government to an integrated national surface transportation program with transit as an essential element.

ISTEA recognized that the Federal interest in the transportation system is in that system, not in any one mode within the system. Balanced Federal transportation policies contribute to economic productivity, and they improve the quality of life in all of our communities.

ISTEA achieves balance by allowing Federal, State, and local resources to be used to their greatest advantage within a whole range of investments.

From fiscal years 1992 through 1995, more than \$2 billion of flexible funds were used for public transportation because communities identified these investments as the best ways to achieve economic development and community revitalization.

Let's consider some of the benefits that have resulted from ISTEA.

Transit's greatest economic contribution is its ability to move many people efficiently, providing access to jobs and reducing the economic costs imposed by congestion.

The Nation's largest metropolitan areas could not function without a significant investment in their public transportation systems. In the past 30 years, the availability of transit has saved us at least \$220 billion because we did not need to build additional roadways and parking spaces to meet rush hour demands.

In 1992, congestion cost more than \$45 billion in wasted time and fuel in 50 U.S. metropolitan areas. Economic losses to shippers cost additional billions of dollars.

Interstate commerce is no longer simply about the movement of goods, but rather the movement of people in ways that allow goods to move efficiently.

Transit provides other economic benefits, as well. In northern Virginia, Metro Rail is projected to generate 90,000 permanent jobs and provide a net gain of \$1.2 billion in tax revenue over the period 1978 to 2010.

Transit also meets a wide range of social needs and helps to carry out other Federal goals. These include: accessible transportation for people with disabilities, discounted fares for senior citizens, cleaning the air with clean fuel vehicles, and assurance of drug-free work places through implementation of drug and alcohol testing requirements.

Millions of Americans, as well, do not have the option of using personal vehicles for their transportation needs. These include many of the elderly, people with disabilities, low income workers, children, and others.

The Americans with Disabilities Act, for example, guarantees accessible transit to people with disabilities as a civil right. This results in our support, but an additional transit capital and operating requirement of over \$1 billion a year.

Transit is also important to national energy conservation efforts. Single-occupant vehicle driving uses more energy per capita than any other form of transportation, and Federal policy should factor in the potential for oil price hikes, including a response that makes public transportation available.

It is critical that the Federal policy address the entire mix of transportation solutions required to meet the needs of this intermodal era and those concepts expressed in ISTEA. This means flexibility for States and metropolitan areas to use their Federal dollars in the most cost-effective ways, forestalling endless growth and congestion and vehicle miles of travel by carefully integrating land use, transportation growth, and other policies.

We believe it would be a mistake to narrowly define the Federal transportation interest as the interstate highway system, public land highways, and emergency relief. ISTEA was built on an established partnership between Federal, State, and local governments and the public by giving those partners a chance to choose the right projects. Now is not the right time to restrict those options.

In closing, the Federal transit program is an essential part of a balanced Federal surface transportation program because it helps achieve national goals for greater economic productivity, improved mobility for all Americans, cleaner air, energy conservation, and improved quality of life in all communities.

Building in ISTEA's innovations and emphasis on intermodalism, we can improve our transportation system.

We appreciate this opportunity to testify before you, and we look forward to answering your questions, Mr. Chairman.

Mr. PETRI. Gentlemen, thank you both for your testimonies.

Are there any questions? Representative McDonald?

Mr. MILLENDER-MCDONALD. Thank you, Mr. Chairman.

Mr. Burnst, the first question I would raise for you is the question that I raised to the city and county representatives who were

here, and that question more or less speaks to the sub-allocation of surface transportation program funds.

It has been my understanding that a lot of the urbanized areas and the local governments have not received the appropriate funds under the sub-allocation project or funding mode. Can you pretty much articulate reasons why they have not, if you can?

Mr. BURNETT. I can try, ma'am.

There is a lot of—as these funds flow to the States, they look at it 50 different ways. I heard the mayor from Atlanta speak how on their funds, that they had received like \$105 million of the \$112 million.

Ms. MILLENDER-MCDONALD. Yes.

Mr. BURNETT. In our State—and I can speak more readily about Texas. In Texas, as we sub-allocate our surface transportation funds and our congestion mitigation air quality funds—I think those are the two pots of money that people talk about a lot—we use the exact same formulas to distribute those funds that are used to bring the funds to Texas.

In other words, we make sure that our Dallas/Fort Worth area, our Houston area, and our San Antonio area receive, using the same rationale that the Federal Government uses.

In other words, we don't sit there in Austin, Texas, and have a different formula that would favor Dallas/Fort Worth at the cost of El Paso or Amarillo or something. We use the same mechanism.

The other thing we do—and, again, all 50 States will be different. In our State we try to achieve a balance between the urban areas and the rural areas in our State programs and also in our Federal programs, so we look at how our funds are generated in our State and use a formula which is based on vehicle miles traveled and also registration of vehicles to see that that appropriate amount of money that is—we think those are the best indicators for what funds are generated in an area.

By using those indicators, we try to achieve, as we put our programs back together, a balance—in other words, so that various areas of our State receive equal funding to what they put into the total pie.

Ms. MILLENDER-MCDONALD. Well, prior to the enactment of ISTEA, States really were not required to develop a State-wide planning program, and now you're saying that, with the enactment of ISTEA, you have developed a program that is more conducive to your States, not necessarily in conjunction with ISTEA?

Mr. BURNETT. I think what you'll see is, since 1991 when ISTEA was enacted, there has been a tremendous learning curve for the State DOTs, for the metropolitan planning organizations, for transit agencies. And I think that we have now started to reach a point to where we all have gone through the growing curve and we've gone through the pains and we've learned now how to manage our programs and develop our programs.

I think if ISTEA did have any one success in it, it was the success that required us to do planning that was restrained it to the number of dollars we actually had to spend.

Prior to ISTEA, metropolitan planning organizations or even State DOTs developed grand wish lists of projects that I think all of us knew we could never—that we wouldn't see in our lifetime

and our children's lifetimes and sometimes in our grandchildren's lifetime.

I think that with the Intermodal Surface Transportation Efficiency Act that required States and metropolitan planning organizations to develop transportation improvement plans that were restrained to the actual dollars, I think that made us be more truthful to our clients, and that's the citizens of our States and our local areas, and tell them that this is the pot of money we have and this is what we have elected, either at the State level or the metropolitan planning organization level. These are the projects we're going to spend these on, and not have these grand wish lists of projects.

Ms. MILLENDER-MCDONALD. So, given this whole notion that your organization, AASHTO, believes that the transportation planning process is too cumbersome, how do you propose to improve upon that to be more effective?

Mr. BURNETT. We believe that there are many programmatic changes that can be made. I think it would help if we could have some one-stop shopping. If you start flexing funds between transit and highways, there are multiple levels of approval you have to have with FHWA, and then you have to have FTA's approval, and we really need to get down to a local level where just one organization approves that.

It's the same with being on the transit side or the highway side. You go into these programs and you have to have major investment studies. Well, a lot of these studies are also required in NEPA. They're required every place. We're constantly doing the same studies over and over, or variations of the same study, where if we could simplify the process and get it more direct to where we're only dealing with singular agencies—if we're spending transportation dollars and there are environmental concerns, we need to allow the U.S. Department of Transportation to have the buy-off on that and not be so regulated by multiple Federal agencies.

Mr. PETRI. Representative Johnson, have you any questions?

Ms. JOHNSON. No, sir.

Mr. PETRI. I do.

Mr. Bartosiewicz, in your prepared statement you pointed to numerous capital funding needs statistics drawn from the recent U.S. DOT report on the condition and performance of the surface transportation system. The same report, sadly, documents a declining ridership nationwide. Do you have any suggestions as to how this trend could be reversed in the future? And what would be the rationale or the argument for justifying a Federal role in transit, given declining ridership statistics?

Mr. BARTOSIEWICZ. Well, Mr. Chairman, I appreciate the question. Thank you.

I think what we're seeing on the ridership front is a mixed bag. In certain systems—unfortunately, in bus systems, principally, where we've seen a decline in service because of increased fares and reduction of operating assistance and things, we are, in fact, seeing a decline in ridership.

I think that more points to a stronger Federal role than a weaker one.

The other side of the mixed bag is that in certain systems—commuter rail systems, St. Louis, for example, with a thriving light

rail system—we're seeing dramatic increases in ridership. I think this mixed bag of ridership reaction points to exactly what we said in our testimony—there is a need for a strong, consistent Federal role so that systems can deliver on the national goals in providing public transportation, economic vitality of our communities, complying with the Federal Clean Air Act, implementing the civil rights under the Americans with Disabilities Act. Bring all of those national goals to the forefront with a system of financing and authorization that this committee can provide, of bringing us a system that we can count on.

A lot of the ridership decline that we're seeing in cities—principally small cities—is due to the fact that they don't have a consistent level of funding from the Federal Government in order to plan and to implement good services.

I think in the era when that was—if you look back several years ago in an era when there was more consistency at the Federal level, you saw dramatic increases in ridership. Where you see Federal investments in systems like St. Louis, where the Federal investment is leveraged, the kind of goals that we're talking about with transit systems designed to meet those goals, ridership is soaring.

I think there is a cause and effect relationship there, and that if we come together in a balanced system we will see a reversal of that decline in ridership. We're not arguing that it's there. We'll see that reversal and we'll see it improved.

I think it becomes even more important as we move into the future.

One of the things we're seeing today, for example, is the increase in gasoline prices across the country. I think we're going to see that be defined very quickly in increases in ridership in some of the same systems you're talking about.

So I think it's all part of this integrated system that we're talking about and the partnership that we've talked about in our testimony.

Mr. PETRI. Gentlemen, thank you both very much for your presentation, for coming here. We look forward to working with you and your associations as this process moves forward.

With that, this hearing is adjourned.

[Whereupon, at 12:12 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

Bartosiewicz

PREPARED STATEMENTS SUBMITTED BY WITNESSES

**TESTIMONY OF THE  
AMERICAN PUBLIC TRANSIT ASSOCIATION  
BEFORE THE  
SUBCOMMITTEE ON  
SURFACE TRANSPORTATION  
OF THE  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE**

\*\*\*\*\*

May 2, 1996

**SUBMITTED BY**

American Public Transit Association  
1201 New York Avenue, N. W.  
Washington, DC 20005  
(202) 898-4000



APTA represents over 1,000 members, including all major commuter rail operations, motor bus and rapid transit systems, and organizations responsible for planning, designing, constructing, financing and operating transit systems. APTA members include business organizations which supply products and services to the transit industry, academic institutions, and public interest groups.

## INTRODUCTION

The American Public Transit Association (APTA) appreciates this opportunity to testify on the federal role in transportation policy. We welcome the Subcommittee's decision to hold a series of information-gathering hearings to explore this important subject. APTA believes that transit must play a significant role in meeting the transportation needs of the 21st century, and that a strong federal role in transportation is needed to provide an efficient coordinated transportation system for all Americans.

Two questions underlie these hearings. First, did Congress properly define the federal transportation interest in 1990 and 1991? And second, did Congress draft the right legislation in the Intermodal Surface Transportation Efficiency Act (ISTEA) to address that interest? The transit industry's answer to both questions is a resounding yes.

ISTEA responded to a wide range of national issues and problems. Its crucial insights were to:

- find ways to move people and goods, not just vehicles, more efficiently;
- invigorate a partnership among federal, state, and local governments, private businesses, and the public; and
- redefine the transportation planning process to ensure maximum benefit across the widest range of national issues.

In short, ISTEA committed the federal government to help construct an integrated national surface transportation program, of which transit is an essential element. The significance of ISTEA is its recognition that the federal interest is in the transportation system -- not an individual mode of transportation. Therefore, under ISTEA, states, regions, and localities can make choices about constructing transportation systems with various pieces of different modes.

Congress and this Committee in particular, deserve credit for their foresight and boldness. We note that Transportation and Infrastructure Committee Chairman, Bud Shuster chaired the National Transportation Policy Study Commission, which issued its final report in June 1979. Many of the policy recommendations of that report have been adopted by the Congress since then. We believe that ISTEA owes much to that report, and that our testimony here today is consistent with Chairman Shuster's policy study.

In its very first pages, ISTEA addresses transit clearly. Section two is a declaration of policy concerning a National Intermodal Transportation System. APTA strongly supports this comprehensive statement's justification for a federal role in promoting transit:

"The National Intermodal Transportation System shall include significant improvements in public transportation necessary to achieve national goals for improved air quality, energy conservation, international competitiveness, and mobility for elderly persons, persons with disabilities, and economically disadvantaged persons in urban and rural areas of the country."

"Social benefits must be considered with particular attention to the external benefits of

reduced air pollution, reduced traffic congestion and other aspects of the quality of life in the United States."

Our experience in the ISTEA era has only confirmed the accuracy of these insights. As the declaration of policy suggests, our transportation infrastructure makes a vital contribution to economic productivity. It has a powerful impact on the quality of life in our communities, and has a decisive impact on problems that market forces do not easily solve -- problems such as pollution, inadequate mobility for persons with disabilities and others without access to personal vehicles, congestion, and the potential national security risks of dependence on imported energy.

APTA believes that ISTEA put federal policy on the right road with respect to economic, community life, and social benefit issues. Balanced federal transportation policies contribute to economic productivity, and they improve the quality of life in our communities.

Balanced federal transportation policies achieve these results in part because they allow federal, state, and local resources to be used for greatest advantage in a range of investments. Planning, and consideration of all of the investment alternatives, has helped ensure that the federal funds are spent wisely and that federal policy promotes the most efficient use of all of our existing transportation systems and resources.

From fiscal years 1992 through 1995, more than \$2 billion of flexible funds were used for transit because communities have identified these investments as linchpins of their strategies for economic development and community revitalization. The ability to allocate funds for transit, bicycle and pedestrian facilities, and innovative projects that improve the overall transportation system's effectiveness, is one of the most significant successes of ISTEA's balanced policies.

Consider some of the benefits that have resulted from ISTEA and the challenges that the next authorization act must meet.

#### **ECONOMIC BENEFITS OF BALANCED TRANSPORTATION POLICY**

Transit's greatest economic contribution is its ability to move many people efficiently, providing access to jobs and reducing the economic costs imposed by congestion. The nation's largest metropolitan areas could not function if transit did not provide significant proportions of work trips. In the past 30 years, the availability of transit saved us at least \$220 billion because we did not need to build 20,000 lane-miles of freeways and arterial roads and 5 million parking spaces to meet rush-hour demands.

In 1992, congestion cost more than \$45 billion in wasted time and fuel in 50 U.S. metropolitan areas. Economic losses to shippers cost additional billions of dollars. Each year, the economic losses from congestion continue to grow in suburbs and central cities, threatening the flow of goods in interstate commerce and our ability to compete in the global economy. ISTEA recognizes that future traffic



gridlock will lead to economic stagnation unless all levels of government work cooperatively to give people alternatives to single occupant vehicle (SOV) travel. It is most important in metropolitan areas, where commercial bottlenecks most frequently occur. Interstate commerce is no longer simply about the movement of goods, but must facilitate the movement of people in ways that allow goods to move efficiently.

One key area in which this can be seen is in the growth of commuter rail service. It is remarkable that commuter rail ridership has grown for four years in a row, reaching 352 million in 1995. After all, commuter railroads serve the suburbs, where commuters are theoretically most wedded to their cars. But, it's easy enough to understand when you recognize that these suburban drivers must often traverse the most congested roadways and that they flock to the alternative offered by commuter rail service.

Transit provides other economic benefits. In northern Virginia, Metrorail is projected to generate 90,000 permanent jobs and provide a net gain of \$1.2 billion in tax revenues in the 1978-2010 period. Metrorail's economic benefits are so great that a private developer has agreed to pay for a \$20 million station to guarantee access to a new 342-acre office and residential site.

The St. Louis MetroLink system has exceeded ridership projections, business is brisk at stores and restaurants near MetroLink stations, and developers are building projects near the stations. Cleveland's Tower City Center Station links rail and bus service to a shopping mall, offices, hotels, and the downtown sports/entertainment complex. In Portland, Oregon, \$1.2 billion worth of private development has occurred along the MAX light rail line. The three-state New York City area's Regional Plan Association identifies transit improvements as a key to improving mobility and allowing the area to compete in the global economy.

#### **IMPROVING THE QUALITY OF COMMUNITY LIFE THROUGH BALANCED TRANSPORTATION POLICIES**

The nation's central cities suffer from high unemployment rates, growing income disparities, financial crises, and many related problems. More and more American communities are investing in transit in order to promote economic development, increase property values, attract tourists, and revitalize business districts and neighborhoods.

Equitable Real Estate Investment Management, Inc., the leading American real estate management firm, advises that the best places to invest are in "cities that work" — those with established public transit systems and thriving downtowns.

A 1991 study found that full investment in Philadelphia's transit agency would return \$9 to the economy for each \$1 invested. Balanced transportation policies allow the nation's metropolitan areas to maintain existing transit infrastructure such as the historic rail systems in New York City, Chicago, Boston, Philadelphia, and other cities. They enable cities like St. Louis, Sacramento, San Jose, New

Orleans, and Dallas to promote economic development strategies that preserve the value of traditional downtown areas and provide modal choice along high-volume corridors. They reinforce efforts to restore old neighborhoods that attract a significant share of metropolitan area residents.

### **SOCIAL BENEFITS OF BALANCED TRANSPORTATION POLICIES**

While the transportation sector's role in the economy is important, it also contributes to American life in other ways. Transit in particular is expected to meet a wide range of social needs. In fact, Congress has enacted a number of laws that depend on transit to serve the national interest. Accessible transportation for people with disabilities; discounted fares for senior citizens; clean-fuel vehicles; drug and alcohol testing requirements -- these are all examples of federal requirements that have been imposed on transit for laudable ends in the national interest.

Millions of Americans do not have the option of using personal vehicles for their transportation needs. These include many of the elderly, people with disabilities, low-income workers, children, and others. During the 1980s, real income for the poorest fifth of the population declined while the cost of riding transit grew by 32 percent in real terms.

The Americans with Disabilities Act (ADA) guarantees accessible transit to people with disabilities as a civil right, resulting in additional transit capital and operating requirements of \$950 million per year (1993 dollars). Federal policies should not limit transit-dependent individuals' access to transportation or pit the needs of different groups against each other.

Transportation also has a powerful impact on energy issues. The trade deficit is higher because we import petroleum products for transportation, and our national security programs pay careful attention to means of protecting our access to foreign oil. In 1993, transportation used 65% of our oil; it is the only sector of the economy where oil consumption is still rising. SOV driving uses more energy per capita than any other form of transportation. Federal policy should factor in the potential for oil price hikes including a response that makes transit and other, more energy efficient forms of transportation available.

Given the existing past investments in infrastructure, demographic trends (more and more people in metropolitan areas, sprawl, graying of America), and efforts to change the dynamic of the federal-state-local relationship, it is critical that federal policy not rely exclusively on highways, but that it address the entire mix of transportation solutions required to meet needs in the "intermodal era" and those concepts expressed in ISTEA. Most importantly, this means flexibility for states and metropolitan areas to use their federal dollars in the most cost-effective ways, getting the most value out of existing fixed-guideway transit systems, forestalling endless growth in congestion and vehicle miles of travel by carefully integrating land use, transportation, growth, and other policies.

### NATIONAL NEEDS

Even today, well into the Intermodal Era, we still hear talk of limiting federal transportation resources to "national" instead of "local" needs, with national needs defined narrowly as the interstate highway system, public lands highways, and emergency relief.

Make no mistake: It would be impossible to carry out these "national" needs without repealing ISTEA and violating the spirit if not the letter of the Unfunded Mandates Relief Act, the Americans with Disabilities Act, the Clean Air Act, and other significant laws that Congress has passed to address "national needs."

ISTEA built on the established partnership between federal, state, and local governments, and the public, by giving these partners the authority to choose from a range of transportation investments. To restrict this partnership's flexibility, or to rewrite matching fund rules to discourage investments in one mode or another, would violate the spirit of ISTEA and undermine its effectiveness.

Aside from the destruction of ISTEA, there are other serious problems with restricting the "national" interest in any way.

According to the Americans with Disabilities Act (ADA), a comprehensive nationwide system of accessible transit services is a national purpose, to be achieved through the actions of many local transit service providers. This national need has already been seriously compromised by the lack of adequate federal funding for the costs it imposes on transit operators. ADA's promise of accessible transportation will be a hollow one indeed if there are any further limitations on the federal resources that local transit operators use to accomplish this national purpose.

The attainment of clean air standards is another national goal that depends on state and local efforts for its implementation. Higher average vehicle occupancy, greater use of alternative fuels, increased availability of transit, bicycle, and pedestrian alternatives -- all contribute to national clean air goals. Here again, limits on ISTEA's balanced transportation policies would undercut a national goal. Over the past 30 years, transit has prevented the emission of 1.6 million tons of hydrocarbons, 10 million tons of carbon monoxide, and 275,000 tons of nitrogen oxides into our air, and the importation of 20 billion gallons of gasoline.

For surface transportation, the distinction between "national," "regional," and "local" systems or facilities is not particularly meaningful. Small rural transit agencies may provide a low volume of service, but they meet important customer needs and contribute to a national goal of strengthening rural communities. In urbanized areas, local transit service reduces the number of vehicles on crowded highways and arterials, limiting the negative impact of congestion on interstate commerce.

Transit is a crucial part of the answer to urban congestion, which is a constantly growing threat to the cost-effective movement of goods in interstate commerce. Just as national clean air goals depend on regional implementation plans, national goals for competitive commerce depend on regional transportation plans that can eliminate the bottlenecks and impediments to trade.

In transportation, as in many other issue areas, it is easy to lose sight of the government's responsibility to mediate among contradictory choices. Most people would like unrestricted access to cheap, highly personalized transportation. They feel the same way about health care and government services. In each case, access and cost are in conflict. You can't have both. Federal, state, and local governments have a responsibility to strike a balance among contradictory desires. They must also consider the needs of people with limited means or other disadvantages.

Some argue that the federal government should cut spending to "give people more choices." In the case of transportation, however, such policies can easily have the opposite effect by limiting transportation choices and reducing the quality of life for many Americans. If Congress truly wants to provide more Americans with more choices, the proper response is to expand ISTEA's flexibility, not to restrict or eliminate it.

#### CAPITAL FUNDING NEEDS

The U.S. Department of Transportation recently released its capital needs study, *A Report to Congress, 1995 Status of the Nation's Surface Transportation System: Conditions and Performance*. The report finds that U.S. transit systems need an average of \$12.9 billion in capital funding per year over the next two decades to improve the conditions and performance and a minimum of \$7.9 billion per year just to maintain conditions and performance at 1993 levels. However, transit agencies received only \$5.7 billion in capital funding from all sources in 1993, less than the amount needed to maintain conditions. Over a ten-year-period (1995-2004), capital needs include:

- \$35 billion for new vehicles, including 67,800 buses and 51,400 vans;
- \$23 billion for new bus facilities including parking lots for bus passengers;
- \$22 billion to modernize and rehabilitate existing fixed guideway rail and bus routes, stations, and maintenance facilities;
- \$43 billion for additional fixed guideway services that respond to new customer demands; and
- \$4 billion to rehabilitate more than 14,900 buses, rail cars, and other vehicles to extend their useful lives.

To maintain a viable transit program, we urge the Subcommittee to support the highest possible funding for formula and discretionary capital investments. Failure to invest adequately in the transit infrastructure will only increase maintenance costs in the long-run.

### CONCLUSION

The federal transit program is an essential part of a balanced federal surface transportation program because it helps achieve national goals for greater economic productivity, improved mobility for all Americans, cleaner air, energy conservation, and improved quality of life in all communities.

Transit provides essential service to lower-income people, people with disabilities, the elderly, and other residents of rural and metropolitan areas. Federal laws seek to meet their transportation needs by requiring local transit agencies to provide minimum levels of service and/or fare subsidies.

Transit gives people more transportation choices, strengthens neighborhoods, improves access to jobs, and generates \$300 to \$350 million in business revenues for each \$100 million invested in capital and operating needs. It helps to revitalize cities, restore a sense of community, attract investments and visitors.

Federal transportation policies must strike a balance among economic, social, and environmental objectives. Building on ISTEA's innovations and emphasis on intermodalism, we can improve our transportation system. We can solve economic and environmental problems and provide access to a choice of transportation modes for all Americans, including big city residents, suburban commuters, the elderly, people with disabilities, and the economically and socially disadvantaged. We can improve the quality of all citizens' lives, protect the environment, and prevent a future of congestion, economic stagnation, environmental degradation, and limited mobility for all people including those with no access to personal vehicles.

Transit investments have a major role in achieving each of these objectives. Indeed, one of transit's strengths is its contribution to many goals at once. The same transit investment can increase access, provide an alternative to congestion for the benefit of commerce, act as an economic development magnet, reduce emissions, and conserve energy.

Balanced federal transportation policies can support economic growth, benefit the environment, and improve access for those who are least well served by the present transportation system. Thank you for the opportunity to present the views of the American Public Transit Association. The actions of Congress on these issues, led by this Committee will have a tremendous impact on our future. Please support a balanced transportation system to insure a bright future for all Americans.



American Association of  
State Highway and  
Transportation Officials

Wm. G. Burnett, P.E., President  
Executive Director  
Texas Department  
of Transportation

Francis B. Francis  
Executive Director

STATEMENT BEFORE THE  
HOUSE SUBCOMMITTEE ON SURFACE TRANSPORTATION

Relating to  
THE FEDERAL ROLE FOR TRANSPORTATION — NATIONAL INTERESTS

By  
William G. Burnett  
Executive Director  
Texas Department of Transportation

May 2, 1996

Founded in 1914, AASHTO represents the departments concerned with transportation in the fifty States, the District of Columbia and Puerto Rico. Its mission is a transportation system for the nation that balances mobility, economic prosperity, safety and the environment. AASHTO is the only national public sector association that represents all transportation modes - air, highways, public transportation, rail and water - and it works to foster the development, operation and maintenance of an integrated national transportation system. The active members of AASHTO are the duly constituted heads and other chief directing officials of the member transportation and highway agencies.

Executive Office: 444 N. Capitol St., N.W., Suite 249, Washington D.C. 20001  
Telephone (202) 624-5800 Telefax (202) 624-5806 Telex 490009580 HTD



Mr. Chairman, my name is William G. Burnett, and I am the President of the American Association of State Highway and Transportation Officials (AASHTO), and Executive Director of the Texas Department of Transportation. On behalf of AASHTO, we are pleased to accept your invitation to testify on issues related to governmental roles in the nation's surface transportation program as part of the reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA).

We believe that timely reauthorization of the nation's surface transportation program is vital because transportation serves as the backbone for our national and international economies. Transportation serves all of our citizens daily in travelling to their jobs, day care, services and other activities; in providing goods to wholesalers and retail outlets that serve customers; in travelling to recreational activities; and in a variety of other activities in which we all participate.

In November, 1994 AASHTO organized its Reauthorization Steering Committee to look at a range of issues related to ISTEA and the reauthorization of the nation's surface transportation program. The Steering Committee divided its work into the following major topic areas:

1. Support passage of the National Highway System;
2. Examine Federal/State/Local Relationships for transportation;
3. Examine and identify funding levels for transportation;
4. Identify and examine unfunded mandates and regulations;
5. Update the 1988 AASHTO report "The Bottom Line - A Summary of Surface Transportation Investment Requirements - 1988-2020";
6. Identify and examine planning issues that should be addressed;
7. Revise and analyze environmental issues impacting transportation;
8. Examine international and national economic issues and their relationship to transportation;
9. Research and Technology issues involving the future of transportation;
10. Review the ISTEA and develop any proposed changes; and
11. Develop an AASHTO Outreach Program for Reauthorization.

A significant first step in these issue areas was taken by the Congress when it passed the National Highway System Designation Act of 1995, and on behalf of AASHTO we would like to express our appreciation to Chairman Shuster and you, Mr. Chairman and Representative Rahall along with the members of the Committee for your leadership in the passage of this major piece of legislation. In addition to the important action to designate the National Highway System, that legislation also dealt with several items of importance to AASHTO members, including making the ISTEA management systems an optional item at the discretion of the States, repeal of the crumb rubber mandate, repeal of the National speed limit, and clarifying that air quality conformity requirements apply only to nonattainment areas. Again, we applaud your

efforts in getting this legislation enacted, and look forward to working with you and your Committee in the reauthorization process.

With regard to federal, state and local relationships for transportation, these issues were taken up under AASHTO's task 2 identified above. These issues and recommendations are included in the AASHTO "Federalism Report", copies of which have been furnished to the Committee. This report is one of a series of reports adopted as AASHTO policy by our Board of Directors, as required by AASHTO's procedure, our reauthorization policy statements and resolutions are all supported by at least two-thirds of our 52 member departments.

The following are AASHTO's major findings regarding Federalism issues for the Reauthorization:

- It is appropriate that there is a strong Federal interest in the performance of the nation's transportation system.
- Federal legislation should reaffirm each state's authority and their leadership role in statewide transportation programs.
- There has been a blurring of roles and responsibilities for transportation program delivery. These roles and responsibilities should be clearly defined in the future Federal transportation program.
- An increased level of funding for transportation is needed (as enumerated in other AASHTO documents, such as *The Bottom Line II* report and the Financial Issues report). This increased funding can be provided within the existing federal transportation user fees including the redirection of the 4.3 cents per gallon currently used for general fund purposes to the Highway Trust Fund.
- Federal guidelines and regulations should provide as much flexibility as possible while avoiding prescriptive rules and regulations. There should be consistency of rules and regulations among agencies of the U.S. DOT and other Federal agencies having programs impacting transportation.
- The number of categorical programs should be reduced.
- Federal legislation should be less prescriptive, reducing set asides, specific requirements and sanctions.
- Congress should avoid earmarking funds for specific projects including demonstration projects.
- A state-by-state field presence needs to be maintained by the U.S. DOT and these field offices should provide a single point of contact for all transportation modes.
- AASHTO should continue asserting a prominent role in developing recommendations regarding a future Federal transportation program.



structure.

In the discussion that follows, additional detail regarding the AASHTO positions is provided.

Recommended governmental relationships for transportation programs

AASHTO believes that the different levels of government have varying interests in transportation programs and therefore have assumed different roles and responsibilities for their implementation. In the following discussion, those areas of interest are stated and the appropriate roles and responsibilities are recommended for different levels of government.

The primary Federal interests affected by transportation programs are:

- \* Interstate commerce and international trade
- \* General welfare of citizens - including safety, mobility, access, connectivity and the environment
- \* Research and advanced technology
- \* National defense
- \* Emergency response
- \* Federal lands and Indian reservations

Other levels of government have interests in many of the same areas. States, for example, are particularly interested in interstate commerce, international trade (as it affects both that individual state and the nation), the general welfare of its citizens, and research. Locals (including MPOs, cities and counties) and Native American tribal governments generally have more interest in local commerce, safety and mobility.

Based on those areas of interest, we believe the different levels of government should assume appropriate roles and responsibilities. All levels of government have certain basic responsibilities regarding transportation programs. Some responsibilities are shared by all levels of government with others being the responsibility of only one or more levels. Due to its governmental position, the Federal government has more areas of responsibility regarding transportation programs than other levels of government. Those Federal responsibilities include:

- \* Policy and Administration
- \* Funding
- \* Planning
- \* Oversight
- \* Leadership
- \* Technical assistance

The relative level of responsibility the Federal government has for each of those roles depends on the priority established for a particular program and the amount of support provided by the various levels of government.

All levels of government have responsibility for funding, planning and oversight of transportation programs. All levels of government have a role in

providing for the general welfare of their citizens including promoting safety, ensuring mobility and protecting the environment consistent with applicable laws and policies.

We believe that the role each level of government plays and the relative amount of their responsibility depends on the areas of interest and the jurisdiction or ownership of the system or facility. However, there needs to be sensitivity to the interaction of programs and their impact on other levels of government and on the welfare and quality of life of an area. Also, because the Federal government is the primary level of government with an interest in national defense and advanced technologies, it therefore must maintain the highest level of responsibility for those programs, as AASHTO views them.

The following is a more detailed discussion of the areas of interest and the appropriate roles and responsibilities of the Federal, state, MPO, local (including cities, counties and other political subdivisions) and Native American tribal governments for transportation programs.

#### The Federal Role

1. The Federal government has a primary interest in supporting transportation systems to enhance interstate commerce and economic competitiveness in international trade.

This means:

- a. The Federal government should give priority to funding and oversight of those transportation systems which significantly impact interstate commerce through the movements of passengers and freight.
  - b. The Federal government should provide funding for systems of transportation which provide connectivity and access to international markets.
  - c. The Federal government should provide leadership and funding where appropriate which will result in a more efficient transportation network including aviation, waterways, public transportation and privately-owned systems such as rail and pipelines.
  - d. The Federal government must recognize the significant role of the private sector in the delivery of transportation and respect their property rights and the confidentiality of proprietary business information.
  - e. The Federal government should plan cooperatively with other countries regarding transportation facilities which provide vital connections to the United States.
  - f. The Federal government should take appropriate action to minimize delays at U.S. borders and other customs and immigration locations due to institutional barriers.
2. The Federal government should assist the other levels of government in contributing to the general welfare of U.S. citizens by promoting safety, ensuring a basic level of mobility and by protecting the environment.

This means:

- a. The Federal government should provide funding support for the Federal-aid road system, as well as deficient bridges on and off the Federal-aid system.
- b. The Federal government should provide funding for safety programs which reduce accidents.
- c. The Federal government should assist in funding that provides access, connectivity, congestion relief, and mobility to citizens throughout the United States.
- d. The Federal government should assist in funding mass transportation systems to help alleviate congestion and reduce air pollution.
- e. The Federal government should provide funding for safety inspection programs including motor carrier, railroad, aviation, maritime and pipeline safety programs.
- f. The Federal government should have direct oversight regarding safety standards for vehicle manufacturers.
- g. The Federal government should assist state and local officials to develop and deploy technology which enhances mobility and safety and protects the environment.
- h. Prescriptive solutions to problems which states can address in a variety of ways should be avoided. Instead, states should be given the latitude to achieve the required standards using methods which are appropriate for them.

3. The Federal government has responsibility for contributing to the security and national defense of the United States.

This means:

- a. The Federal government should have oversight regarding geometric design standards of the Strategic Defense Highway Network, including the Interstate and vital connections to the National Highway System.
- b. The Federal government should assure the existence of adequate intermodal connections and a strategic rail network to efficiently deploy military forces and equipment in times of national emergency.
- c. The Federal government should provide funds and forces to secure U.S. coasts and waterways.
- d. The Federal government should assure passenger security at major airports.

4. The Federal government has the primary role of providing funding and leadership for planning, research and advanced technology.

This means:

- a. The Federal government should provide leadership by providing planning guidelines in the context of national transportation objectives.
- b. The Federal government should not overly prescribe planning requirements to states. This includes management systems, long-range plans, 23 factors to consider in planning, and the specific

- of public involvement.
- c. The Federal government should provide leadership by coordinating research development programs at the national level.
  - d. The Federal government should provide funding to support transportation planning, data collection, and research conducted by states.
  - e. The Federal government should promote the development and implementation of advanced technologies.
  - f. The Federal government should play a major role in the dissemination of research and technology to the states.
5. The Federal government has responsibility for saving lives and property in times of national emergencies.

This means:

- a. The Federal government should provide funding for emergency repairs of vital transportation links.
  - b. The Federal government should provide technical assistance to support state and local efforts during times of emergency.
  - c. The Federal government should provide funding for disaster mitigation programs and technology.
6. The Federal government has responsibility for providing access to and mobility within Federal lands and Indian reservations.
- This means:
- a. The Federal government, in coordination with the states, should provide funding for the construction and repair of roads within national parks, forests and Indian reservations.
  - b. The Federal government should be primarily responsible, in cooperation with states, for planning, design, programming, and construction of roads under their jurisdiction in national parks and other federally-owned property.
  - c. State DOTs, in coordination with the Federal government and tribal governments, should take the lead role on state routes through tribal lands, national forests or national parks.
7. Federal transportation policy should focus on attaining transportation goals in a manner consistent with national economic, social, environmental, and security policy.

The State Role

1. The State, through its administrative and legislative processes, is responsible for setting transportation policy within the state.

This means:

- a. Among the primary roles of the state is a leadership role in statewide, multi-modal planning. Further, the state has a leadership role in providing a process for coordinating metropolitan and statewide planning.
- b. Each state should establish its relationship with local entities.

including MPOs, in a way which is appropriate for the state given its constitution and legal framework.

- c. The state should determine how and in what amounts state and/or federal funds are suballocated to locals, including MPOs.
2. It is the state's role to provide and administer funding and to plan, design, construct, operate, and maintain the facilities which are under state jurisdiction and for which states are held legally liable.

This means:

- a. States must have full authority to protect the integrity of their system based upon their ownership and their ultimate responsibility for that system to the citizens of the state and the traveling public.
  - b. The state has the primary responsibility to select, plan, design and construct facilities under state jurisdiction.
  - c. States will continue to (1) invest in research and development, (2) provide leadership in setting research and development priorities, and (3) use research and development results to promote innovation in developing and protecting the transportation system.
3. The state should act on behalf of the Federal government in administering the Federal transportation programs for other entities within the state.

This means:

- a. The state transportation agency should be the primary agency to administer Federal transportation programs.
- b. The state can delegate authority to all substate entities for project selection, design, letting and administration consistent with its laws and policies.

#### The Local Role (City and County Governments and Other Political Subdivisions)

1. Local governments are owners and operators of local transportation systems. They are responsible for establishing policy, funding, managing, maintaining, and operating facilities under their jurisdiction for which they are held legally liable.

This means:

- a. Local governments must have the authority to make decisions for facilities under their jurisdiction. This includes, planning, project selection, design, and construction.
2. Local governments have a role in advising the state and affected MPO when state and MPO activities will affect local government constituencies, or will effect facilities under the jurisdiction of the local government.

This means:

- a. The state has a responsibility for providing a process which is

open to local governments and which provides adequate opportunity for their involvement, whether in the urban (MPO) or rural areas of the state.

- b. Local government has a responsibility for participating in the process.
3. Local governments have responsibility to advise the state when local activities will affect facilities under the jurisdiction of the state transportation agency.

#### The Metropolitan Planning Organization's Role

1. It is the MPO's role to provide a forum for cooperative state/local decision-making within the metro area.

This means:

- a. The MPO is responsible for developing a long-range transportation plan for the metro area in cooperation with state and local governments.
- b. The MPO should provide a forum to produce a program of projects based upon its analysis, planning activities, and view of the transportation needs for the region. The MPO's role in project selection should be worked out through a cooperative process between the state and the affected MPO member jurisdictions.
- c. The MPO is a place for bringing metro issues and metro players together.
- d. The MPO is where state and local government responsibilities are blended into a cohesive statement of policy and direction for the metro area.
- e. The MPO has responsibility for regional transportation planning which is coordinated with regional land use.

2. The MPO role is to provide a source of technical expertise in transportation matters within the metro area.

This means:

- a. The MPO develops and provides its member jurisdictions expertise that the member jurisdictions do not have.
- b. The MPO acts as a liaison between the state and the MPO member jurisdictions on planning matters and issues.
- c. The MPO is a primary source of metropolitan area information and forecasts.

3. MPOs are locally tailored.

This means:

- a. State and locals must be allowed to set up MPOs that work for them.
- b. MPOs should be expected to have a level of expertise and a level of activity and involvement that is appropriate for the interests and size of their metropolitan area.
- c. The MPO should coordinate planning activities that produce plans

and programs that are implemented by the state and affected local governments.

Native American Tribal Governments' Role

The Native American Tribal Governments, in cooperation with the Bureau of Indian Affairs (BIA) are responsible for setting public policy on their facilities within their jurisdiction.

This means:

- a. The Native American Tribal Governments and the BIA should have the authority to make decisions for transportation facilities under their jurisdiction. This would include planning, project selection, design, coordination, and construction.
- b. The Native American Tribal Governments have a responsibility for providing direct input to the BIA and the state and local units of government that have jurisdiction over roads adjacent to or within their lands.
- c. The Native American Tribal Governments and the BIA have the responsibility to coordinate their plans and projects with affected local governments, NPOs, states and Federal agencies.

Let me summarize with our recommended broad principles around which we believe that the new act should be organized:

1) NATIONAL TRANSPORTATION PRIORITIES SHOULD BE THE FOCUS

• Issues of national significance

- ◊ International/interstate/intercity commerce
- ◊ Metropolitan mobility/access
- ◊ Rural mobility/access/connectivity
- ◊ Modal interlinks
- ◊ Safety
- ◊ National defense
- ◊ Emergency relief
- ◊ Research
- ◊ Transportation planning
- ◊ Federal lands access
- ◊ Environment

• Systems of national significance

- ◊ National Highway System
- ◊ Other Federal-aid roads
- ◊ Aviation
- ◊ Rail
- ◊ Public transportation facilities and services
- ◊ Waterways
- ◊ Pipelines

These priorities should be accomplished in a manner consistent with

national economic, social, environmental and security policy.

- 2) **PROGRAM STRUCTURE SHOULD BE FLEXIBLE AND SIMPLE**
  - ◆ Reduce regulatory burden - more Federal guidance, fewer regulations
  - ◆ If performance standards are used, a "best practices" approach should be taken which is not burdensome
  - ◆ Support funding flexibility/transferability provisions
  - ◆ Reduce programmatic sub-categories and avoid additional new ones
- 3) **STATE AUTHORITY SHOULD BE MAINTAINED**
  - ◆ Continue federally-funded, state-administered program - a partnership
  - ◆ Reduce federal oversight
  - ◆ Reduce prescriptive requirements
  - ◆ Eliminate unfunded mandates and sanctions
  - ◆ Eliminate demonstration projects
- 4) **PREDICTABLE AND ADEQUATE FUNDING SHOULD BE PROVIDED**
  - ◆ Realize funding transportation is an investment in the nation's future
  - ◆ Provide sufficient funding levels to meet national transportation goals
  - ◆ Restore and preserve the user fee concept
  - ◆ Explore alternative and innovative revenue sources to meet the growth needed in funding levels
  - ◆ End federal gas tax diversion for non-transportation related purposes

With regard to U.S. Department of Transportation offices, we believe that a state-by-state presence should be maintained and these field offices should provide a single point of contact for all transportation modes. It is important that state offices be retained; they are the key to a successful federal/state/local partnership.

U.S. DOT state offices should have more power to act on their own, independent of Headquarters. They should have multimodal authority. To



provide timely and valuable assistance to the states, these state offices must be well-staffed.

In summary, AASHTO has completed work on the major component documents for its reauthorization efforts, which include the following documents. Again, all of the documents are AASHTO policy, having been approved by at least two-thirds of our 52 member departments.

1. Transportation for a Competitive America
2. The Bottom Line, Transportation Investment Needs 1998-2002
3. Federalism and Reauthorization
4. Issues in Transportation Planning and Recommendations
5. Environment Issues and Transportation
6. Innovation for Transportation
7. Alternative Financing Proposals

We have already provided your staff with copies of documents 3 through 7. Documents 1 and 2 are now being edited and printed, and will be available in a few weeks. At that time we will provide you with copies. In the interim, attached is a media release announcing their adoption by AASHTO's Board of Directors on April 22, 1996.

We look forward to working with the Committee to discuss these issues and stand ready to provide information which would be of assistance to the Committee as it moves forward in the legislative process. Executive Director Francis B. Francois and the AASHTO Staff are available to respond to any further requests from the Committee.

Mr. Chairman, this concludes our remarks. Thank you for the invitation to present our views, and we will be pleased to respond to questions now, or in writing later.

For Immediate Release  
Monday, April 22, 1996

Contact: Sunny Mays Schust  
(202) 624-5800

#### **Funding, Flexibility Key to Meeting Future Transportation Needs**

To keep its competitive edge in the world economy, the nation must fund its transportation needs and increase states' flexibility to use those funds, according to the American Association of State Highway And Transportation Officials.

"Transportation is not about cement and gravel," said AASHTO President Bill Burnett, Executive Director of the Texas Department of Transportation. "It's about people getting to work and school, getting the goods they need everyday, and getting good jobs in an economy built on a safe and efficient transportation network. We have to plan and invest in our system now to make those things happen."

Meeting in San Antonio today, AASHTO completed its recommendations on how to ensure a sound transportation system in the decades ahead. The recommendations on the future of the federal highway and transit programs will be published shortly in two reports Transportation for a Competitive America and The Bottom Line: Transportation Investment Needs 1998-2002.

"We are facing some critical transportation decisions," said AASHTO President Bill Burnett, "decisions that will affect the quality of our lives, our jobs, and our children's future. If we short-change our transportation system now, we will pay dearly not too far in the future."

Produced through an 18-month study by the nation's leading transportation experts, the AASHTO reports demonstrate the strong link between the economy and its transportation system -- which accounts for almost one-quarter of the U.S. economy. "Growth in our gross domestic product has run neck-to-neck with growth in vehicle miles of travel since the 1930's," Burnett noted, "clear evidence that a strong and growing economy requires a transportation system to sustain it."

Using the estimates of the U.S. Department of Transportation, the report finds that over five years beginning in FY 1998, \$357 billion would be required to improve the highway system to an optimum level, while \$264 billion is required simply to maintain current conditions. Yet over that period, current funding levels from federal, state and local governments would provide only between \$210 billion to \$270 billion.

The nation's transit systems will require an annual investment of \$8.4 billion to maintain existing conditions and service levels and to complete service expansion already underway. Improvements to the system to meet expected increases in passenger demand would require over \$15 billion annually.

To meet the funding gap, and to more efficiently use transportation resources state transportation officials have made four key recommendations:

- Transportation programs be funded at the full amount which can be supported by the Highway Trust Fund, and that the 4.3 cent per gallon fuel tax now going to the general fund be used for transportation purposes and placed in the Highway Trust Fund.
- State and local governments should be given more flexibility in determining how, when and where transportation resources are spent, to maximize the benefit to mobility, safety, and the environment.
- Many of the key concepts of the Intermodal Surface Transportation Efficiency Act, such as state and local cooperation, intermodal planning and public participation should be retained.
- Burdensome and unnecessary provisions imposed by ISTEA and earlier laws should be eliminated or reduced.

"A key to meeting our transportation needs is to allow states the flexibility in efficiently use federal funding. That means the elimination of federal mandates, streamlining of regulations and redtape, and innovative financing opportunities," Burnett said. "We first need the funds, but we also need the tools to get this job done," he added.

AASHTO has developed specific recommendations on a wide range of transportation issues, including federalism, planning, research, environmental regulation and investment needs. Summaries of those recommendations are attached. Copies of the specific reports are available from AASHTO headquarters upon request by calling (202) 624-5800 or fax (202) 624-5806.

AASHTO is a nonprofit, nonpartisan association that represents the member highway and transportation departments in the 50 states, the District of Columbia and Puerto Rico. Its primary goal is to foster the development, operation and maintenance of an integrated national transportation system, and its interests cover the five transportation modes.

**Summary of AASHTO Recommendations on the  
Reauthorization of the Federal-aid Highway and Transit Programs**

**Financing**

- Fund highway and transit programs at the highest levels the fuel taxes can sustain, and redirect the 4.3 cent federal excise tax on motor fuel now going to the general fund to the Highway Trust Fund for transportation purposes.
- Give states greater flexibility in managing and disbursing federal funds.
- Implement on a voluntary basis innovative financing techniques to leverage available resources.

**Planning**

- Redirect federal regulations away from sanctions and mandates.
- Simplify and reduce the number of federal regulations and clearances needed for transportation program delivery.
- Eliminate funding for demonstration projects and reduce set-asides and sub-allocations.
- Streamline federal regulations and reduce overlap.

**Environment**

- Streamline federal regulations and reduce overlap.
- Consolidate the responsibility and authority for reviewing transportation plans with agencies.
- Include cost-benefit analysis and economic considerations in criteria by which federal environmental standards are set.
- Before enacting new environmental laws, Congress should work with transportation professionals in state agencies.

**Research**

- Federal leadership and funding are needed to develop technical solutions to transportation challenges.
- The federal government should encourage states and other stakeholders to adopt innovative technologies.
- Transportation research should address needs at the national and local level.
- Federal funding for developing and demonstrating Intelligent Transportation Systems should be continued.

**Federal, State, Local Roles**

- The roles and responsibilities of various government agencies should be clearly defined.
- Federal legislation and regulations should be more flexible and less prescriptive.
- States should continue to have the authority for, and be the leaders in, planning and implementing statewide transportation programs.
- States should also continue to be major partners with Metropolitan Planning Organizations in planning urban transportation programs.

**Statement of Mayor Bill Campbell**  
**on**  
**ISTEA and the Federal Interest in Transportation**  
**on behalf of**  
**The U.S. Conference of Mayors**  
**before the**  
**House Transportation and Infrastructure**  
**Subcommittee on Surface Transportation**  
**Thursday, May 2, 1996**

Mr. Chairman and members of the Subcommittee, I am Bill Campbell, Mayor of Atlanta and Chair of The United States Conference of Mayors' Transportation and Communications Committee.

I appear today on behalf of the nearly 1,050 mayors representing cities with a population of 30,000 or more.

I thank you for this opportunity to provide the views of the nation's mayors on renewal of the Intermodal Surface Transportation Efficiency Act (ISTEA).

Mr. Chairman, I have been asked to address the "federal interest" in transportation investment to support this committee's work on renewal of ISTEA. I am pleased to present our views on the federal interest in this area.

For mayors and other local elected officials who have significant substantive, financial, operational and political responsibilities in the transportation arena, we have a standing in this debate which is unique and unlike many others.

Consider, for example, that local governments, cities and counties, now raise and expend more public funds in transportation -- airports, highways, ports and public transportation -- than all state government transportation spending combined, or even that of the federal government.

As a result, mayors approach this debate on the federal interest with a view that is broadly-based and often more inclusive than others offer. Mayors find it hard to recommend, as some now advocate, that the federal interest can be expressed simply as a collection of interstates and selected arterials.

Most mayors and many other local officials also approach the debate over the federal interest in transportation with the belief that ISTEA is a comprehensive and dynamic expression of this interest.

We believe that ISTEA strikes a balance between state and local needs and concerns, with federal and national objectives. It invests in highways and bridges, both maintenance and new facilities. It invests in public transportation, by sustaining existing investments and partnering with new capital for system starts and expansions. It invests in targeted needs by providing funds to areas struggling to meet federal mandates, particularly for those areas working to come into compliance or maintain compliance with the Clean Air Act. It invests in local decision-making and flexibility. And, at its core, ISTEA is about partnership, and that is how mayors talk about the federal interest.

Having noted these points -- local governments as dominant investors in and managers of an array of transportation systems, and our bias that ISTEA is the proper expression of the federal interest in the transportation area -- let me offer additional views on the federal interest and local impact of transportation.

In terms of the national economy, the linkage between public investment in transportation systems and economic growth is undeniable. We know that transportation investment stimulates economic growth, making it possible for the federal government to finance its responsibilities and achieve other defined federal interests.

Data on transportation investment is very consistent, showing the substantial benefits to the national economy from transportation infrastructure and systems. Improved performance of the national economy is perhaps the most important, but surely not the only, expression of the federal interest in transportation.

As leaders of communities, mayors believe transportation facilities and systems should serve our citizens, our businesses, our communities and our local and regional economies. If transportation investment effectively serves our communities and regions, we believe it will enhance and strengthen national economic interests and other objectives.

Mr. Chairman, I would like to complement you, Chairman Shuster and members of this committee for your leadership in convincing your House colleagues about the need for increased investment in transportation infrastructure during the recent debate on the trust fund legislation. The mechanics of how you achieved increased federal transportation investment is not as important as actually increasing federal expenditure levels. I am pleased that as a matter of federal policy, there appears to be an emerging

consensus on the need for increased transportation investment and its importance to the economy.

In terms of local economies, we are just starting to examine the relationship between regional and/or metropolitan economies and the national economy. We all generally accept the indisputable federal interest in promoting successful growth. Yet, federal policy-makers have been slower in accepting the role of local and regional decision-makers, particularly transportation policy-makers, in shaping the national economy.

We now know that a significant share of the nation's recent growth in jobs, wages and personal income as well as federal and state income receipts is generated in the nation's metropolitan regions. There is a federal interest in making sure that federal transportation policies don't shortchange, overlook or divert resources from the important transportation needs of these areas.

It is in all of our interests to make sure that those areas which are growing and supporting overall national economic growth are further bolstered through necessary transportation investment. There is a clear federal interest in ensuring that we are investing in these areas, not simply siphoning off the resources that these areas generate.

We applaud the decision in ISTEA to invest in urbanized areas of 200,000 or more through the Surface Transportation Program (STP). This allocation of investment dollars directly to local decision-makers strengthens local efforts, with their state and federal partners, to design solutions that respond to the increasingly complex and variable transportation needs of our metropolitan areas.

While the State of Georgia has supported the Atlanta region's efforts to secure and use these resources, recent information from the U.S. Department of Transportation on the STP urban set-aside program confirms what many mayors and other local officials have asserted about the program. Over the past several years, a number of areas have not been receiving the federal funding that ISTEA specifically provided.

There are still too many metropolitan areas, and similarly many rural counties, that have not yet received a fair share of ISTEA resources. With each transportation bill, we hear many state transportation officials and even members of Congress battle over the formulas and the donor/donee issue. At the same time, often in many of the same states, there are extreme examples of donor/donee imbalances within areas that you never hear about where metropolitan areas, and the cities within them, receive little return on the actual user fees their citizens and businesses generate.



Mr. Chairman, there is a federal interest in ensuring that important metropolitan economies perform and are strengthened by investment in their metropolitan transportation systems.

During the last Congress, officials of the U.S. Department of Transportation provided this committee with estimates of infrastructure needs and other indicators of investment needs across the nation. The record is replete with information about the gap or deficit between investment and transportation needs. More recent data, subsequent to ISTEA's passage, show that where we have targeted resources, such as for bridge and Interstate maintenance as examples, the gap between investment and needs is closing in relative terms.

At the same time we are making progress in some areas, we are also losing ground in others. U.S. DOT estimates place the economic loss attributable to congestion in the top 50 metropolitan areas at \$40 billion annually. In effect, we are already throwing away the total output of four small states in today's congestion.

More recent projections show that congestion will continue to escalate in many areas. This means more lost productivity for the economy in the out years. This is an issue that requires more attention in next year's legislation.

We are hopeful that the Atlanta region's package of innovative traffic management measures, or the intelligent transportation system initiative, will provide direction to our own region and others all across the country on how we might tackle congestion more cost effectively in the future.

For the national economy, the use of technology offers us a method of generating more productivity and increasing the rate of return from existing assets. These will be net gains for our regions, our states and the national economy. The deployment of new technology will help us extract efficiencies from our existing transportation investments, forestalling and, possibly avoiding, new and ever more costly investments.

Given the political climate and taxpayer resistance to tax increases, communities, regions, states and the federal government, collectively, must work together to find ways to get more return on our existing transportation investments. We have public capital in the ground, in highway and transit systems, that is irreplaceable. All of us recognize that it is getting harder to maintain these existing facilities, let alone build new ones.

In the Washington, DC metropolitan region, transportation policy-makers are working on a plan to replace the Woodrow Wilson Bridge on the Capitol Beltway, a replacement facility that is expected to cost somewhere between \$1.4 to \$2.5 billion. Future users of this facility may pay to use a bridge at a location where one now exists and can be used without paying fees. It

should remind all of us about the difficult challenges before our partnership in simply coming to grips with maintenance and preservation of our existing capital stock.

Mr. Chairman, to close these points on local economies, mayors believe there are significant policy issues related to the performance of the nation's metropolitan economies and the underlying metropolitan transportation systems that support these areas. We urge you to undertake further review of these issues as you prepare to move forward with new legislation.

In terms of the intergovernmental partnership, there is considerable federal interest in preserving stability and sustaining the performance of the nation's existing transportation systems. These systems are among the only constants in an ever changing global economy.

All of us recognize that the nation's economic gains have been propelled largely by generations of transportation investment, systems and facilities developed through an array of intergovernmental partnerships. In 1991, we retooled and strengthened the federal/state/local partnership through enactment of ISTEA. Subsequently, we have built upon long-standing partnerships, refined others and, in some instances, forged new ones.

With the work and time invested in crafting ISTEA in 1991 and in subsequent years in the practice of partnerships under ISTEA, mayors and others are convinced that it is the most thoughtful and complete expression of the federal interest in this area.

The first challenge for this partnership is to shore up the foundation of this economy -- our transportation infrastructure. This can only be accomplished through a partnership effort among levels of government and increasingly through public/private partnerships. Our task is to invest public resources wisely, not simply shed budget liabilities.

Building upon the ethic of intergovernmental partnership, we can avoid potentially destructive debates: highway vs. transit; transit vs. intercity passenger rail; gas taxes vs. general revenues; or state donors vs. state donees.

Among our concerns is how we sustain and increase levels of investment in transportation systems and facilities. Take highway financing as one example. Currently, local government taxpayers provide roughly 30 percent of the investment dollars to build and maintain highway and transit networks. This local share is generated through general taxes on local taxpayers, such as property and sales taxes. Local spending is comparable to federal spending on highways.

Of the more than \$25 billion invested each year by local governments in these highway and street networks, only seven percent is user fees. The first call upon these local general taxes, as you know, is for basic local services, principally police, fire protection and schools.

Presently, the federal government collects roughly 40 percent of all highway user fees, with the states collecting nearly 60 percent. Unlike federal and state gas taxes, local officials must go to the general taxpayer, not users, for our highway funds. And, you should understand that as demands on local governments escalate, local officials will find it increasingly difficult to maintain general tax support.

The immediate challenge before this committee and for others in Congress is to set-aside claims that there is one more narrowly defined interest or one system or network of roads that expresses the federal interest, effectively reversing the partnership under ISTEA. It doesn't distill down to one system or network. Mayors reject the view that this embodies the federal interest.

Partnership is the one concept that does capture the federal interest in transportation. ISTEA continues to be the best expression of this partnership. We need to build upon it during renewal of this law next year.

In terms of the 1996 Olympics, this is the ultimate test of our transportation partnership in the Atlanta region. As my region prepares to host the 1996 Olympics and Paralympics, I have thought often about the significance of the Atlanta region's efforts to win the bid and, or what some say, play host to seventeen consecutive Super Bowls. Before we won the bid, the Atlanta region was already equivalent in terms of personal income to four small states.

With the Olympics behind us, we believe the net result will move the region's economy to another level. One region, as the direct result of one event, could grow our employment base by nearly as much as one small state. Mr. Chairman, I think all of us would agree that this achievement is important to the national economy.

Consider the wide array of challenges that we will confront this Summer. Our airport, Hartsfield, alone will transport an estimated 300,000 International visitors for the Olympics, which is like flying all of the people in Las Vegas to the Atlanta region. Another 300,000 will arrive from other domestic airports.

Our public transportation system, MARTA, will carry an additional 500,000 passengers per day, increasing total daily ridership to 700,000 - 800,000. Our vast highway system and Amtrak's intercity passenger rail service will deliver thousands more into the region. Overall, we expect more than three million visitors to join us for the games.

With the Olympics fast approaching, I have had crash courses in transportation management and performance. One thing I have learned is there is no one thing, no one priority system or network or no one category of investment that is the answer.

In our region, we are relying on all of our incumbent transportation capacities, stressing each of them to the maximum. I think of transportation system integration and performance, I don't think in terms of ownership patterns or narrowly constructed notions of federal interest. When you expect to move more than three million people in, around and out of your region, you can't contemplate a system that isolates or segments one partner's interests and systems from another.

From the perspective of the customers of these systems -- the visitor, commuter, taxpayer, resident, user and businessperson -- I can assure you that they are not thinking about the artificial assignments of roles among governments. They simply want and expect a transportation network that is integrated and functions well, that is redundant, that is seamless, that responds to personal choice and one that returns value for the public investment.

What we have been forced to achieve in the Atlanta region to prepare for the Olympics is much like what the mayors and other local elected officials work every day to achieve for their citizens, communities and regions.

I would like to take a moment and convey my personal thanks to the Chairman, full Committee Chairman Shuster and members on this committee for your help in forging a partnership that I hope will prove to be the most successful Olympics to date.

The support of the Congress and the Administration, particularly the U.S. Department of Transportation, has been so important to this effort. For example, the more than 1,400 buses funded by the Federal Transit Administration and loaned by local transit agencies from all across the nation will help us realize our goal of a "pedestrian" Olympics, an extraordinary achievement for an American city.

As a result of your efforts, we have received resources to upgrade our sewer systems and construct other critical infrastructures. We were able to make investments in intelligent transportation technology where state-of-the-art systems will be put to the test several weeks from now.

Mr. Chairman, thank you for your support and that of this committee for helping us to make this a successful and productive endeavor for our region and the nation.

**There are other federal interests to be served by an active and strong federal presence in transportation.**

Let me briefly discuss some examples. Recent budget agreements ensure substantial savings over the next seven years from domestic spending reforms and cuts. Billions of dollars in spending reductions are slated for welfare, Medicaid, selected entitlement programs and other areas of domestic spending. Many citizens will be seeking increased use of local transportation services, systems and networks, to adjust to these changes.

Federal and state policy-makers are just beginning to talk about the implications of these changes and the increased need for transportation capacities that are broad-based and diverse. At the local level, we understand that access to public transportation is one of the key elements to a successful transition from welfare to work.

We know that more citizens will need access to public transportation systems to get to training, day care and family assistance, to secure health services and to reach jobs at employment centers.

Similarly, local officials expect that Medicaid changes will place more demand on ADA complementary paratransit systems and fixed route services as clients seek access to revised health services. The elderly and persons with disabilities, who lose access to existing transportation services and others denied SSDI support will increase demands on specialized transportation and mainline services.

The federal government with state governments can't save billions in direct spending for these activities, then change hats when talking about transportation policy and pretend there is no connection. There are profound implications from these system shifts, with transportation capacities being called upon to deliver more to people as they strive to satisfy their most pressing and basic mobility needs.

**Personal mobility and access** is one of the areas particularly that needs to be strengthened during ISTEA renewal. The scale of change in domestic spending priorities was not contemplated when ISTEA was enacted.

This Summer we will also be hosting the 1996 Paralympics where more than 3,500 athletes with disabilities will be competing over a 14-day period immediately following the Olympic games. These athletes will be joined by more than 1,500 officials and coaches and more than 12,000 volunteers, many of whom are persons with disabilities. We expect more than 1.5 million people to attend these events.

We are proud of what we have achieved in making the Atlanta region among the most accessible in the nation. It points to a future where it is possible as a nation to bring these citizens fully into the mainstream of American life. The concept of partnership that we have developed to build transportation facilities must now be retooled to partner and better serve the needs of these citizens.

In the environmental arena, we are particularly pleased that ISTEA through the Congestion Mitigation and Air Quality (CMAQ) program helped communities absorb particular burdens under the Clean Air Act. It is an area that many local officials touted during our campaign to end unfunded federal mandates, recognizing this committee for its leadership in ensuring that the federal government fund directives it imposes on local governments and local areas. I should point out that some mayors and local officials have been frustrated in their efforts to secure access to CMAQ funds as provided under ISTEA.

In other areas, we are just starting to comprehend the connection between transportation facilities, particularly highways, and our efforts to improve water quality pursuant to the Clean Water Act and state and local initiatives. These facilities introduce contaminants to our combined and separate storm sewers that are impacting our water quality efforts. I know that this committee has been working to address this issue in other legislation. In looking at how we go forward in ISTEA, it is an issue that needs more attention.

Mayors have been particularly active in the debate on brownfields redevelopment, an area of reform that holds promise for communities and regions as they work to reuse abandoned and underutilized properties. Many of these properties already have transportation and other infrastructures in place. As such, redevelopment of these sites allows all of us to use incumbent facilities more efficiently, offering some alternative to continued sprawl in our urban areas. Again, I want to express our thanks to this committee for the work and leadership you have provided to efforts in the brownfields area.

Let me close with a brief note on the recent telecommunications legislation. Several weeks ago Congress passed landmark legislation, reforming the Communications Act of 1934. Many members asserted that the new telecommunications infrastructures to be deployed are key to our economy's future and our position in the global marketplace.

Despite considerable effort, city and county officials were unsuccessful in getting individual members to understand the implications of this legislation relative to its impact on the nation's transportation infrastructure. Over the next several years, numerous companies will be using the local street network more aggressively than ever before as existing companies retrofit

their systems with state-of-the-art fiberoptic and coaxial networks, and new competitors enter local markets.

This will be the largest, new infrastructure investment of our lifetime, as companies cut and trench streets in every part of every city and county in the nation. Under this Act, city and county officials can't bar or prevent companies from using local street networks.

Moreover, many companies are also very aggressive in seeking to minimize payments they make to city, county and state owners of these facilities. If successful, these efforts will simply shift the costs of their use and occupancy of the streets to the transportation sector, highway users and other utility occupants of these streets.

Here we have an expressed federal directive to open these facilities to private use. In many markets, this use will be an aggressive entry, inflicting damage and reducing the useful life of our transportation infrastructure.

This area, Mr. Chairman, is one that I would urge this committee to invest some time and effort in understanding how our existing transportation infrastructure will be used and potentially devalued through this extensive build-out of these new telecommunications facilities. I believe hearings on this subject would be particularly helpful, if only to ensure that members of this committee are fully familiarized with this issue.

Again, at the local level, we must figure out how to maintain an increasingly costly transportation infrastructure while other federal purposes and directives push us in other directions.

On the positive side, these new telecommunications facilities do offer the potential avenue for deployment of new technologies that may offset these adverse effects through improved performance of our transportation systems.

Mr. Chairman, this concludes my remarks today on behalf of The U.S. Conference of Mayors. Mr. Chairman, you have the commitment of the nation's mayors to work with you as you fashion legislation to renew ISTEA.

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



National League of Cities  
 1301 Pennsylvania Avenue N.W.  
 Washington, D.C. 20004  
 (202) 626-3000  
 Fax: (202) 626-3043

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**TESTIMONY OF**  
**BARBARA GREGG**  
**ALDERMAN**  
**LOUISVILLE, KENTUCKY**  
**ON BEHALF OF**  
**THE NATIONAL LEAGUE OF CITIES**  
**BEFORE THE**  
**HOUSE SUBCOMMITTEE ON**  
**SURFACE TRANSPORTATION**  
**ON**  
**ISTEA REAUTHORIZATION**  
**MAY 2, 1996**

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 Mayor, West Grove • South P. Stinson, Mayor, Tuscaloosa, Alabama • John Stinson, City Council President, Los Angeles, California • Member, Eugene, Council Member, Winona, MN  
 Colorado • Bob Provenzano, Executive Director, Association of Washington Cities • Paul Stinson, Mayor, Fort Wayne, Indiana • Bruce C. West, Council Member, Charleston, West  
 Virginia • Linda Lawrence, Alderman, Member, Wisconsin • Christopher E. Stullman, Executive Director, League of Kansas Municipalities • Beverly Stullman, Wife of Alderman President,  
 Colorado, Kentucky • David W. Swick, Mayor, Beaumont, Texas • Kathy M. Swartz, Mayor, San Marcos, Texas • Stinson, Mayor, Winthrop, Illinois • Stinson C. Director,  
 Kansas, Beaumont, Overland Park, Kansas • David L. Parry, Sr., Mayor, Pro Tem, Mayor, Texas • Stinson A. Quinn, Executive Director, Indiana Association of Cities and Towns • John  
 Santomaso, Mayor, Lake George, Oregon • Larry L. Stinson, Councilman, Radcliffe, Florida • Stinson, Mayor, Pro Tem, West Hill, West Covina • John Ferguson, Mayor,  
 Council Member, Berkeley, Missouri • Joseph F. Stinson, Mayor, Lady Park, West • Joseph A. Stinson, Executive Director, Tennessee Maryland League • Walter B. Stone, Chairman,  
 Philadelphia, Pennsylvania • Sharon C. Thornfield, Director, Stinson Grand Junction, Colorado • Stinson E. Thornhill, Mayor, San Antonio, Texas • John R. Thoma, Executive Director,  
 West Delta Municipal League • Sharon Stinson, Council Member, Jackson, Mississippi • Thomas L. Ward, Mayor, Rochester, Michigan • Joseph C. Wright, Sr., Executive Director,  
 Colorado League of Local Governments • Charles C. Wozny, Councilor, Stinson, Massachusetts • Bob Zimmerman, Executive Director, Winnetka Municipal League



**STATEMENT OF THE HONORABLE BARBARA GREGG, ALDERMAN,  
LOUISVILLE, KENTUCKY  
on behalf of  
THE NATIONAL LEAGUE OF CITIES  
before the  
HOUSE SUBCOMMITTEE ON SURFACE TRANSPORTATION  
Thursday, May 2, 1996**

Mr. Chairmen and Members of the Subcommittee, the National League of Cities is pleased to have this opportunity to share our views on the federal role in transportation and its relationship with local governments. I am Barbara Gregg, Alderman from Louisville, Kentucky and Chairperson of NLC's Transportation and Communications Policy Committee. The National League of Cities represents 135,000 mayors and council members from cities across the country. I am pleased to join my local government colleagues testifying here today.

All of us know the importance of transportation and infrastructure investment. The economic health and development of this country is dependent upon interstate highway systems, strong local roads, and access to transit. Without investment in our transportation systems and infrastructure our economic future is threatened, resulting in congested roads, aging transit systems, and deteriorating bridges. The Intermodal Surface Transportation Efficiency Act (ISTEA) has slowed continuing investment in our infrastructure. ISTEA has also contributed to the success of our nation's highway and public transportation systems due to the combination of the federal government's role and its essential link with state and local governments.

The federal government has three key roles in transportation policy: one--funding; two, infrastructure that pulls together the nation to enhance our economy; and, three--setting and ensuring federal transportation priorities. It has been estimated that over the next five years, there needs to be an investment of \$357 billion to improve the highway system and \$8.4 billion to maintain the transit system. The federal government provides 30 percent of transportation infrastructure funding. Although 30 percent may not seem large, imagine the impact of cutting a person's salary by 30 percent. Therefore, without the federal government, funding of many transportation projects would not occur, which in turn would contribute to the decline of our nation's infrastructure and economic health.

Additionally, the role of the federal government is broader than solely providing funding. By having a role in transportation policy, the federal government insures that there are national transportation standards that promote continuity. Without a federal role in transportation, this country could have individual state highway systems that do not connect at state borders rather than an interstate system. The federal government ensures that the nation's transportation system connects our country for the benefit of our economy.

The federal government has the unique position to be able to identify broad policy goals and objectives for this country. The federal government can determine the direction of national policy including infrastructure, environmental, and transit objectives. Included in the bigger picture is the role of local governments as decisionmaking authorities for local transportation needs. Without a federal policy, local governments would confront 50 separate transportation policy objectives without the assurance of local government involvement.

Local government officials are most familiar with and committed to local needs; and, therefore, they should be responsible for decisionmaking on local projects. Funding directed to local or regional bodies brings the transportation community together to develop and agree upon local and regional priorities. As under ISTEA, metropolitan areas have direct access to federal funds, which allows for local accountability in selecting and programming projects. Without local government decisionmaking authority, many local transportation needs would be easily overlooked—not due to maliciousness, but merely due to lack of knowledge about specific community needs at the federal and state levels.

For example in Louisville, ISTEA money is being used for innercity roadway development. By extending and improving 9th street, trucks now have increased access to areas that were underserved in the past. The increased access for trucks allows the growing number of businesses to continue to relocate not only to the city, but also to areas in need of economic development. In turn, the economic development provides increased jobs for innercity residents. Federal and state governments could not easily know the benefits from improving 9th street. By providing funding and decisionmaking authority through ISTEA, the local community's needs can be met while the productivity of the national economy is served. This economic opportunity for city residents, based on improving local infrastructure, is an example of the combination and continuity of the federal and local governments' role.

Mr. Chairman and Members of the Subcommittee, I greatly appreciate your leadership on these issues and look forward to working with you during the reauthorization of ISTEA in the upcoming year. We hope that you continue to support the role of local governments in transportation. Once again, I appreciate the opportunity to testify and would be happy to answer any questions. Thank you very much.

**STATEMENT OF THE HONORABLE FEDERICO PEÑA  
SECRETARY OF TRANSPORTATION  
BEFORE THE  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON SURFACE TRANSPORTATION  
MAY 2, 1996**

**REAUTHORIZATION OF ISTEA**

Mr. Chairman, I welcome this opportunity to testify on one of the Department of Transportation's highest priorities -- reauthorization of the Intermodal Surface Transportation Efficiency Act of 1991, or ISTEA as we all call it. Consistent with the spirit of that landmark legislation, the Department of Transportation has in recent years become more and more intermodal in all its operations. Joining me today are four of the Department's Modal Administrators with responsibilities for surface transportation: Rodney Slater, Federal Highway Administrator; Gordon Linton, Federal Transit Administrator; Ricardo Martinez, National Highway Traffic Safety Administrator; and Jolene Molitoris, Federal Railroad Administrator.

Your Committee played a key leadership role in developing ISTEA -- truly visionary legislation -- legislation that has led to dramatic improvements in the way our Nation plans and builds our great transportation systems. As we move toward reauthorization of ISTEA, we want to build on these achievements. President Clinton has stated that America's competitiveness in the world economy rests on the foundation of its infrastructure. Under the President's leadership, federal transportation infrastructure investment over the past three years has been

over ten percent higher than it was in FY 1993. Our FY 1997 budget continues this strong record: we propose \$24.9 billion in new investment -- \$1.8 billion higher than the FY 1993 level we inherited.

We have structured our reauthorization efforts to maximize the opportunity to learn what aspects of ISTEA are working, and what can be improved. This will be a three-stage process.

The first step is outreach and information gathering. I recognize that today's hearing is part of a series of hearings that your Committee has scheduled. These hearings will contribute a great deal to our understanding of ISTEA and all its elements. At DOT we are also seeking the views of the transportation community by sponsoring a series of regional fora this spring and summer. The first of those fora will be held May 13 in Philadelphia, and the second, on May 21, in Chicago. The rest of the schedule will be finalized shortly. We plan to hold a forum in each of our regions. I would like to invite Members of Congress to join us in these listening sessions.

The second step -- development of specific proposals for reauthorization -- will take place in the Fall, after our outreach process has been completed. Finally, in the last stage we anticipate that the Department's ISTEA reauthorization proposal will be submitted to Congress next winter, along with the President's proposed FY 1998 budget. We look forward to working with the Congress as reauthorization legislation is considered.

This is just the beginning of what I hope will be a fruitful dialogue on reauthorization. It is still early in this debate. Therefore, I do not

have specific legislative recommendations for you this morning. Instead, I would like to respond to those who question the need for a Federal role in transportation and would turn back all or virtually all of that role to the states.

#### **IMPORTANCE OF TRANSPORTATION AND ISTEА**

As we begin this dialogue, it is worth reminding ourselves that the stakes -- for all of us -- are very high indeed. This Committee is well aware of the vital role that transportation plays in assuring America's economic prosperity and quality of life. From the colonial post roads and canals that expanded our frontiers, to the railroads and Interstate Highways that linked a growing country, to the transit systems that made possible the development of our great cities -- America's economic progress has always been closely linked to advances in transportation. And some of the most dramatic advances occurred through strong Federal programs and leadership.

And along the way, transportation became more than just a means to prosperity -- it became a big economic player in its own right. Today, the transportation sector accounts for business activity valued at more than \$700 billion annually -- about one-ninth of our entire economy -- including everything from auto manufacturing to air travel to freight shipping. One in ten Americans is employed in the industries which provide these goods and services, and all of us depend upon them.

As our national economy becomes more fully integrated and as America increasingly becomes part of a larger global economy, transportation will only become more important to our standard of living.

Logistical innovations such as intermodalism and flexible "just-in-time" delivery systems have been essential to maintaining our productivity advantage worldwide against other countries that compete on the basis of lower wages. This process continues to accelerate and translates into lower costs for businesses and for consumers, who pay less at the checkout counter. In 1990, 18 percent of production was just-in-time; by 1995, it was 28 percent. In this and in other ways transportation continues to contribute to our growing productivity. Logistics costs, including transportation, as a share of Gross Domestic Product, declined from 17 per cent in 1983 to 11 percent in 1992.

But we must make a national commitment to state-of-the-art transportation if we are going to keep up this tremendous progress. ISTEA demonstrated such a commitment. The Act authorized dramatic increases in national infrastructure investment -- to expand capacity and improve performance in highways and transit, and to promote new and emerging technologies, such as Intelligent Transportation Systems.

And not only did we invest more, we worked with states and local governments to invest better. Americans got more for those transportation dollars because ISTEA provided a strategic investment framework. It did so through stronger planning requirements and through programs, such as the National Highway System, that focused resources on national priorities. ISTEA significantly expanded flexibility in the use of surface transportation grant funds and also provided for completion of the Interstate construction program. And ISTEA's authors also had the vision to create programs -- such as the Surface Transportation Program -- which



provided unprecedented flexibility to state and local officials to use transportation to assure that transportation investment would have positive impacts on Americans' quality of life. That's a pretty good record for any legislation.

### CHALLENGES

While we can be justly proud of the national progress made under ISTEA, there are still significant challenges ahead -- ones that will require fresh thinking and creative solutions -- and continue to require federal investment and guidance. If we are to maintain our quality of life and remain competitive in the global marketplace, we must aggressively meet the following four national challenges: (1) safety, (2) continued growth of traffic and travel and its attendant congestion, (3) environmental concerns, and (4) demographic changes.

The United States is facing major changes in personal and business travel, new patterns of freight shipments, regional population shifts, fast-growing elderly and teen populations, and an explosion of information technology. Across the Nation, there are growing demands for speed and efficiency, especially from businesses, but also from individuals struggling to preserve time for family and community alongside demanding work lives. We face the dual problems of congestion and pollution, but we are finding they often can be tackled simultaneously. We must meet the demand for increased mobility for all our citizens -- rich and poor, elderly and young, disabled and able-bodied, in urban and rural areas -- to ensure their full participation in community life. Let me focus for a moment on these four challenges.

**I. Safety:**

We have made great progress in the face of increasing travel. Even so, transportation injuries and deaths still impose a substantial drain on the U.S. economy, along with emotional devastation for surviving friends and family members. Motor vehicle crashes are the leading killer of America's youth. After many years of steady decline, total highway deaths increased in each of the past three years -- from 39,250 in 1992 to an estimated 41,700 in 1995. These increases came prior to the repeal of the speed limit and motorcycle helmet provisions in the NHS Act. These deaths are only part of the picture; crashes result in costly injuries, productivity losses, lost travel time and increased congestion, placing a huge burden on our economy -- an estimated \$140 billion annually. The cost of medical treatment alone is estimated to be more than \$14 billion a year. The American taxpayer pays more than one-quarter of that amount to cover the Medicaid and Medicare costs associated with these injuries. The American taxpayer also has to make up for the lost tax revenue resulting from injuries and fatalities, estimated at nearly \$8 billion a year.

Even with no change in the fatality rate, projected increases in miles traveled will mean that the number of Americans killed in crashes will increase; a conservative estimate projects up to 51,000 deaths a year by 2005. Reversing this trend will be a challenge in spite of improvements in vehicle and highway design and positive behavioral changes (such as decreased drunk driving). Plainly, more effective countermeasures, greater community involvement, and leadership at the Federal, state and local

level are all called for. National research and development also will continue to play a critical role in meeting our safety goals.

Last Fall, I announced my *Action Plan to Reduce Highway Injuries and Related Costs*. We are assisting states in setting and evaluating their performance goals and providing a wide range of technical and financial assistance to assure that states have the tools, such as adequate data, to identify their problems and pursue the best strategies to resolve them. The *Action Plan* is directed toward saving lives and taxpayer dollars.

## **2. Travel Growth:**

Traffic congestion in the nation's 50 largest cities costs travelers more than \$40 billion annually. Without a strategy that uses multi-modal solutions to this problem, delays are likely to increase over the next two decades as travel nationwide increases by a projected 60 percent. These delays translate directly into growing costs to business and ultimately are passed along to consumers.

Inadequate transportation makes it difficult for rural Americans, including Native Americans, to travel to work, to school, and to health care, and could reverse the economic improvements that better transportation has brought to previously-isolated areas. Clearly, these diverse needs demand a national vision to ensure and facilitate effective regional and local solutions.

## **3. Environment:**

Transportation, like all human activity, also affects the natural environment. Efforts to mitigate those impacts and improve air and water quality and protect open space, wetlands, and wildlife habitat have been

remarkably successful and must be continued. As a result of Federal environmental requirements, far less pollution is emitted from cars and trucks today than twenty-five years ago. These dramatic improvements in air quality would never have occurred without a strong Federal role.

Nearly one-quarter of the areas that did not meet ozone standards in 1990, and a few areas not meeting carbon monoxide standards, are on schedule to meet air quality goals. The Environmental Protection Agency has reclassified these areas as "attainment." Nevertheless, many large cities are continuing to have problems meeting air quality standards. Transportation officials will need to continue efforts under ISTEA and the Clean Air Act to reduce air pollutant emissions from transportation. The continued rise in vehicle miles travelled warrants careful monitoring, as sometime early in the next Century increased travel could offset the air quality progress made by cleaner cars. The threat posed by global climate change, which is partly caused by motor vehicle and other transportation emissions, also must continue to be addressed through efforts to discourage travel in single occupant vehicles.

#### **4. Demographic Changes:**

Transportation affects, and is affected by, the increasing dispersion of land use patterns and cultural and demographic changes. Although the shift to the Sun Belt has slowed, other trends will continue to have an impact. For example, immigration is expected to continue, as is internal migration from urban areas to smaller towns and the new "edge cities." Among the effects of this shift from central cities to the surrounding areas are more, and longer, vehicle trips as people travel to work or shop.

Mobility for older Americans as well as those with disabilities is a critical and growing need that must be addressed. The elderly are the fastest growing component of the U.S. population, with more than one-quarter now over the age of 60. Americans over age 85 now number six million; that will increase 400 percent by 2050. The majority of these individuals are accustomed to independent mobility in self-operated vehicles. The aging of the population will require important modifications to the transportation system to make it safer for those with less keen eyesight, hearing and responses. It must be made easier to use through better signing, facility modifications and other improvements. Increasing attention will have to be given to mobility alternatives for this population, as their mobility may be a significant social, economic, and health concern. Appropriate and acceptable approaches to achieving these objectives will have to be developed and advanced through legislation or other actions. DOT is in the midst of an in-house study of these issues, to be concluded this summer.

There are no easy or one-time solutions to these problems. However, I am certain that addressing these challenges in the next reauthorization will require a strong Federal role, in partnership with all levels of government and the private sector.

#### **THE NATIONAL INTEREST IN TRANSPORTATION**

If this Nation is to retain its high standard of living and competitive edge internationally, we must have effective Federal involvement in maintaining and improving our excellent transportation. Other nations do not have the transportation infrastructure that we take for granted in the

United States. It is transportation that has set us apart from the rest of the world. The *Wall Street Journal* recently tracked the slow travel of Wrigley's chewing gum on a 1,000 mile trip from a factory in China's Pearl River delta to a consumer in Shanghai -- a trip that took several months and involved freighters, trucks, tricycle carts and bicycles. Most manufacturers in Asia could not even imagine "just-in-time" production: an Indian exporter's cost advantage over western competitors is eroded by around 30 percent, simply because of costs and delays of transportation. Gridlock is common in parts of Asia -- for goods and for people. Greater Jakarta, for example is home to 16 million people, and it has no subway. The annual cost of gridlock in Bangkok is estimated at \$3.2 billion.

To catch up with the United States, many nations around the world are making huge commitments to transportation infrastructure. I was in Asia in November and learned that those fast-growing economies -- many of them our competitors in the global marketplace -- are planning to invest \$1.2 trillion in infrastructure over the next 10 years, with over \$500 billion in transportation alone. Vietnam plans to invest \$20 billion in the transportation sector. Thailand is planning to invest \$125 billion in public works over the next decade, \$52 billion in transportation. The Malaysians plan to spend \$48 billion on infrastructure -- about half on transportation. The Philippines are expected to spend \$14 billion on transportation. These countries are pursuing national transportation investment strategies to overcome the fragmented, inefficient transportation they now have.

Transportation capital investment by the government of Japan, as a proportion of Gross Domestic Product, is about four times that of the

United States. And our European allies invest at a rate substantially above ours. Japan and other Asian governments will spend upwards of one trillion dollars on infrastructure by the Century's end. European governments are spending even more on a continent-wide system of high-speed rail and motorways. Our global competitiveness hinges on the efficiency of our transportation system -- in part because of the very size of our Nation: in Japan, the average journey from manufacturer to the export shipping point is fifty miles; in the U.S., it is about 450 miles. We are examining transportation improvements, particularly in North-South corridors and along the border of Mexico and Canada that will facilitate enhanced trade resulting from NAFTA. Another significant factor in freight movement has been the shift to East-West-Pacific-oriented flows, affecting not only the size and direction of rail traffic, but causing ports in Los Angeles and Long Beach to increase their market share. On a broader scale, it is critical that we assure that our connections across the country -- to ports, airports and major transportation facilities -- effectively link us to our global partners.

How well is the United States doing? Are we going to be able to retain our competitive edge? The Department's recent report on the state of America's infrastructure concludes that we have a \$17 billion annual shortfall in what we should be investing just to keep our system in good working order. That report is a wake-up call. We can begin to close the gap by doing two things. First, we can invest in intelligent transportation technologies that will make our current infrastructure more efficient -- and at lower cost. Indeed, we believe that as much as 2/3rds of the capacity

that we will need in our Nation's most congested corridors can be provided by intelligent transportation systems at less than one-fourth the cost of normal construction. Second, we can marshal more resources for transportation investments, through innovative financing and encouraging the private sector to participate, as is the case in Asia. Indonesian officials, for example, want over 40 percent of their infrastructure projects to be privately financed.

The challenges before us are national in scope, and they require national solutions. Traffic congestion and bottlenecks in major trade centers like Los Angeles and Chicago not only impose delays on local commuters and regional freight, they also interfere with the speedy cargo movements essential to maintain our global competitiveness. Efficient mass transit systems are essential for our regional economies to compete with world business centers in Europe and Asia, and to assure that all our citizens have access to national priorities such as health care, education and job training. And the Members of this Committee are well aware of the significance that we, as a Nation, have placed on improving the environment and upgrading safety. These challenges cannot be solved on a piece-meal basis, but rather require coordinated national strategies, in partnership with state and local governments, businesses and other transportation customers.

#### **POLICY PRINCIPLES**

As we begin the legislative process, I want to reemphasize that the Administration's long-term vision of the Nation's transportation system is that spelled out in our DOT Strategic Plan. It envisions a seamless



intermodal transportation system that effectively ties America together and links it to the world -- a system that will provide safe, efficient and environmentally friendly movement of people and the products they use. And it is worth underscoring that we need a transportation system equipped to meet our national security needs -- to respond to disasters, and to move people and goods, for both military and civilian purposes, in times of national emergency.

### **Building Blocks**

ISTEA marked a turning point in putting this vision into practice, and its successor should be based upon that same vision. The question is: how do we get there, in an era of budget constraint? We believe ISTEA has provided a solid framework for us to build upon. There will be discussion and debate about some of the programmatic elements -- lively debate, I'm sure. But the successor to ISTEA must retain the core elements -- the building blocks, as we call them -- that have made ISTEA such a success in just a few short years.

### ***Promote intermodalism***

As ISTEA's Declaration of Policy specifically acknowledged, we cannot treat our transportation infrastructure as a collection of individual modes competing with each other. We need to see our transportation facilities as a national system, with each mode complementing the others, and working together as a whole for the benefit of all users. ISTEA brought us closer to that goal, in several ways. First, it gave state and local governments the responsibility for planning all aspects of their state and regional transportation systems, and gave them more funding

flexibility to pursue the goal of a more efficient, integrated transportation system. Second, ISTEA created mechanisms for funding projects connecting the different components of our transportation system.

Through the CMAQ program -- the flexible, environmentally-oriented category in ISTEA -- we have funded an innovative truck-rail transfer facility in Stark County, Ohio and projects in Portland, Oregon and Seattle, Washington designed to unsnarl traffic and improve rail and truck access to the commercial waterfront. The Port of Oakland has joined with several railroads -- Southern Pacific, Union Pacific, and Burlington Northern Santa Fe -- to put in place a \$165 million project which consolidates rail activity into a single jointly-operated terminal that serves all lines. These projects -- which help reduce vehicular congestion, improve safety and air quality, and provide better access into the port area so we can accommodate the increased volume of trade -- show that there does not have to be a tradeoff between jobs and the environment.

Recently, the Department announced its intention to fund the BART extension to San Francisco International Airport, our Nation's fourth busiest airport. This project will enhance transit access throughout the Bay Area and provide direct access to the airport. In the St. Louis area, the MetroLink transit system, which recently opened, includes a station providing direct access to the airport. And in suburban Minneapolis, park and ride facilities with shopping and other services are turning transportation connections into tools for economic development and quality of life improvement.

The NHS was designed with a special focus on linkages to other modes. As required, the Department will submit to the Congress next month our proposal for modifying the NHS by designating intermodal connectors to major ports, airports, international border crossings, public transportation and transit facilities, interstate bus terminals, and rail and other intermodal transportation facilities. And let me recognize this Committee's important role in enacting NHS designation legislation last year; NHS will be an important framework for the future.

Although ISTEA did much to encourage intermodalism and to fund innovative connecting facilities, projects that involve multiple modes of transportation and public and private sector players or cut across state and regional boundaries are difficult to finance. Such projects are often too big or complex to compete for funds from existing programs.

In Miami, Florida, efforts are underway to plan a transit facility, known as the Miami Intermodal Center, to link Miami International Airport to the Port of Miami, a major cruise ship center. This is a good example of how all levels of government -- city, county, state and Federal -- together with officials from different modes of transportation -- the airport, port, transit and highways -- can work together to accomplish mutual goals.

An example of a very large nationally-significant project is the Alameda Corridor in Los Angeles. The Administration's FY 97 budget request for DOT includes our request to fund a \$400 million loan for project construction that will help complete the \$1.9 billion public/private funding package. The corridor will consolidate 90 miles of rail operations

into a single 20-mile, high-capacity facility to dramatically upgrade rail access to the ports of Los Angeles and Long Beach, which handle one-fourth of all U.S. waterborne international trade, primarily with the burgeoning economies of the Pacific Rim nations. The project will benefit the entire country because it will enable these ports -- the largest container ports in the United States -- to accommodate increased international trade cheaply and efficiently. It will deliver other major benefits by eliminating 90 percent of traffic delays affecting cars and trucks at at-grade railroad crossings that have created congestion and safety concerns for local communities.

These examples underscore how important it is that reauthorization continue the progress toward intermodalism -- so that modal categories of the 19th and early 20th century do not dictate the transportation system of the future. We must look at ways to promote and finance projects of national significance -- projects that have benefits that extend beyond state and local jurisdictions and include multiple modes and multiple players. Post-ISTEA legislation should ensure that ISTEA's "I" -- *intermodal* -- remains a focus of Federal policy.

***Improve planning and public participation***

Sound transportation systems cannot be created without the involvement of those affected. ISTEA brought new players to the table. The goal was to make the process of setting transportation priorities more informed and more inclusive. And state and local governments are responding. Wisconsin, for example, has been aggressive in creating opportunities for the public to participate in transportation planning --

instituting listening sessions, issue-specific fora and regular newsletters. Special outreach efforts were undertaken to reach minorities and the elderly, disabled and low income groups. In all, more than 10,000 persons have been involved in the public outreach process in Wisconsin. Similar effort have been made throughout the country -- in Atlanta, Georgia and Boise, Idaho, to name a couple of other leading examples. Also, we should mention that Federal land management agencies and tribal governments are now being involved in statewide and metropolitan transportation planning.

And a more inclusive process does yield real results -- in the form of better, more feasible and more publicly acceptable plans. The plans being developed by states and Metropolitan Planning Organizations (MPOs) through the ISTEA processes are more viable. The fiscal constraint requirements ISTEA applied to these Transportation Plans means they reflect the reality that planning requires hard choices based on available funding.

The comprehensive planning and public participation requirements established by ISTEA help to assure that a full range of social, economic, and community impacts are taken into consideration as investment decisions are being made. They connect transportation decisions with other community concerns -- land use, environment, and quality of life -- to make communities more liveable. A good example is in Chester, Pennsylvania, where the Southeastern Pennsylvania Transportation Authority worked closely with the community to plan, design and construct community services within a rehabilitated Chester Transportation

Center. In addition to community service components, the center will improve pedestrian and bus access and enhance safety.

There should be no question of turning back. ISTEA's successor must continue to guarantee that investment decisions are the product of a systematic, inclusive planning process -- an informed political decision. We do need to look, however, at whether there are better ways to achieve our objective of informed and wise decisionmaking.

***Empower state and local officials***

ISTEA consolidated categories into new modally-flexible programs such as the Surface Transportation Program and CMAQ and increased state and local officials' ability to target funds to projects that made sense for their communities. State and local governments have responded enthusiastically to the increased flexibility in Federal programs. In the past three years more than \$2 billion has been flexed between modes -- \$800 million in FY 1995 alone. For example, New York City Transit Authority transferred \$125 million from highway to transit projects to assist in major repairs, including rehabilitation of existing stations, the addition of new safety features and signal work.

By their own actions, state and local governments have demonstrated a commitment to even greater flexibility. Under Governor Whitman, New Jersey has shifted additional state trust fund resources to transit. The State of Missouri is now considering proposals to use state funds to support Metrolink, St. Louis' hugely successful new light rail system, and in Wisconsin, Governor Thompson shifted state funds to support a top priority ineligible for Federal funds -- maintaining passenger

rail services. ISTEAs successor should continue leveling the playing field so that all types of projects -- including perhaps rail and intermodal projects -- can be chosen based on their transportation merit, rather than whether they fall into some fixed category.

*Strengthen partnerships*

In order to meet the transportation challenges of the 21st Century, we will have to draw upon the talents and creativity of all levels of government and the private sector. In the past three years, we have taken major steps in that direction. For example, in Glendale, California, a public-private partnership of the Glendale Transportation Management Associates, Nestle USA Inc., and Commonwealth Land Title took on the challenging question: how can private companies help clean the air? In June 1993, in a program partly supported by CMAQ funds, Nestle and Commonwealth Title began rewarding employees who voluntarily chose alternatives to driving alone. An evaluation of this demonstration program found that, with a modest investment of start-up funds, the average vehicle occupancy increased by approximately one-third, suggesting the possibility of achieving dramatic reductions in the number of vehicles clogging the roads of the Los Angeles basin.

When ISTEAs charged DOT with looking at the costs of non-use of safety belts and motorcycle helmets, we saw an opportunity for the safety community to form a partnership with the health community. The Crash Outcome Data Evaluation System, or CODES, enabled officials in seven states to quantify, for the first time, the costs of motor vehicle crashes to their economy and to the public purse. Crashes place a substantial

burden on Medicaid and Medicare and approaches like CODES help policy makers quantify this burden. Once Maine policymakers saw the state's own costs from non-use of safety belts, Maine last year became the 49th state to enact a safety belt law.

The Safe Communities initiative will encourage the creation of community coalitions, where citizens, medical and health workers, elected officials, business people, police and others work together with a solid plan of action to prevent traffic injuries. States and communities are excited about the great potential they see for this program and the partnerships it will establish.

Through its partnership with the states, the Federal Highway Administration has created a highly effective national commercial vehicle safety program. All of the states are now participating in the Motor Carrier Safety Assistance Program (MCSAP) and have adopted and continue to enforce uniform minimum safety standards for interstate commercial vehicles. As part of this program, state law enforcement officers have conducted almost two million roadside inspections and traffic enforcement stops, as well as 8,000 on-site reviews of trucking companies. Since 1984, the number of fatal commercial vehicle crashes has fallen 10 percent. Moreover, the trucking industry benefits because the program has eliminated duplicate inspections and conflicting safety regulations among the states.

We recognize that new partnerships must be forged with other countries as well. As we compete in a global economy, it is essential that



we work to improve transportation that facilitates the effective movement of our Nation's goods.

ISTEA strengthened the traditional Federal-state partnership and expanded it to include local governments, metropolitan planning organizations, and the private sector. Post-ISTEA legislation should build upon these successful relationships. We also need to bring in all the resources and talent available.

***Encourage performance management***

Performance management is a way of getting at the question raised by the National Performance Review: "How can we get government to work better and cost less?" One key way is to focus on outcome-oriented goals for performance of the entire system -- such as how long it takes to get between two points -- rather than looking at how much money has been obligated. Greater reliance on performance management will allow us to account better for the use of public resources. It will encourage strategies -- such as preventive maintenance and Intelligent Vehicle Systems technologies -- that, in some cases, improve the performance of the existing system more efficiently than new construction alone would.

There are many examples of innovative strategies that seek to deliver better performance through better management of existing infrastructure. In the San Francisco Bay Area, a fleet of 50 specially equipped tow trucks travel on congested freeways during peak periods, to clear accident debris and to minimize the possibility of secondary accidents or back-ups. This service was funded in part by \$3.3 million in CMAQ money. In Denver, a \$700,000 investment of CMAQ money in a

Traffic Signal System Improvement Program has reduced average travel times by 15 to 20 percent, saved nearly 1,800 gallons of fuel per day and cut daily carbon monoxide emissions by more than two tons. These kinds of efficiencies and savings were precisely what the National Performance Review envisioned.

Another example of effective performance management is the sixteen state pilot program that is testing a performance-based approach for the Department's section 402 highway safety grant program. In that program, participating states are invited to set their own performance goals and measures and to develop unique strategies, rather than relying on a Federally-prescribed set of tactics.

Oregon has adopted a performance measurement approach in managing many of its programs and has made a proposal that it be allowed to administer the state's Federal transportation funds in this way, on a pilot basis. We need to look closely at innovative strategies of this kind if we are serious about shifting from process to product. We want to get away from being prescriptive, but we must be mindful that we do not establish something that is even more cumbersome than the present approach. What we are seeking is for each state to set goals and measure its own progress.

***Promote innovative financing***

Competition for scarce public resources continues to intensify. ISTEA offered new opportunities for cutting red tape that delays projects, for stretching the Federal dollar and for accessing private capital for transportation investment. But early on, there was no effort to capitalize

on these opportunities. So in 1994, we at the Department began our Partnership for Transportation Investment program to jump start that process. I issued a challenge to states and localities: if you can come up with new ways to finance projects, we will waive the usual Federal procedural requirements. The response was overwhelming. Barely a year later we have approved more than 70 new projects around the country. At least \$4 billion worth of projects that would have been delayed -- or never built at all -- are getting underway right now -- all without spending any new money.

The techniques are often simple -- allowing Federal money to be used for credit enhancement so projects can borrow in the private capital markets; changing outdated accounting rules so Federal dollars can be drawn down in a way that corresponds with real-world cash flow needs; counting developer contributions and toll revenue toward state and local match. The result is a revolution in Federal transportation finance.

There are outstanding projects all around the country. In Newark, a new viaduct at a major interchange is being built, using phased funding which allows contractors to begin work a year earlier than if the state had to accumulate the entire Federal share up front. In Texas, we formed a partnership with the Texas DOT and the Texas Turnpike Authority to build the State Highway 190 Turnpike near Dallas. This project was made possible by allowing the Texas DOT to use Federal money to make a \$135 million low interest loan to the Turnpike Authority as seed money. This arrangement means that the project will be completed 11 years earlier than it would have been with conventional financing.

In Cincinnati, a serious rail-freight and highway congestion problem, with related air quality implications, is being addressed through an innovative public-private partnership of the Norfolk Southern Railway and state and local governments. Norfolk Southern has advanced funding to construct a third main track and will be partially reimbursed with CMAQ funds. The Washington, D.C. area will get a brand-new Metro station -- at no cost to the public -- because innovative finance made it possible to capture some of the benefits a new private development will receive from having good transit access.

In Santa Clara County, California, a \$250,000 investment of the Federal Transit Administration in a park-and-ride facility near a light rail station will allow Santa Clara to reap significant benefits from lease payments by the private developer of an adjacent housing development.

Last year, advance construction authority by the Federal Transit Administration allowed the Massachusetts Bay Transit Authority to issue bonds to finance reconstruction of the Boston Engine Terminal. As a result, Massachusetts undertook the project seven years earlier than originally planned and saved over \$90 million in construction costs.

The NHS Act authorized a pilot program for State Infrastructure Banks (SIBs) which builds upon this progress. By the end of this year, we will have selected all ten states to participate in the pilot program and expect to have Infrastructure Banks established in each. Of the eight selected to date, six have proposed dual accounts that will offer innovative finance options for both transit and highway projects. We believe that

ISTEA's successor should continue efforts to create new ways of providing the transportation America needs.

*Encourage new technologies*

Cleaner, safer, and more efficient transportation has often come because of new technologies -- some entirely new, such as the automobile, and some that have made previous advances safer or more efficient, such as seat belts. Continued development and use of advanced technology are vital if such progress is to continue. Under ISTEA, there is a renewed emphasis on applying technology that will close the gap between the state-of-the-art and the state-of-the-practice. By emphasizing deployment of technologies, we can translate innovation into improved safety, system capacity, efficiency and travel time. Investment in research and development has been expanded, both through increased funding and through new partnerships with the private sector.

Advances such as Intelligent Transportation Systems and Global Positioning Satellite systems are products of such initiatives. Transit agencies are already using Advanced Public Transportation Systems to track bus locations and collect fares automatically, which gives riders more reliable service and reduces operating costs.

The Federal Highway Administration is working with states to develop advanced technologies that allow safe motor carriers to legally by-pass the weigh and safety inspection devices along the highway. Electronic tags and automated brake inspection devices further reduce delays for the trucking industry while improving the efficiency of the states' programs.

In partnership with the transit industry, the Federal Transit Administration is working on a project that will shave over 10,000 pounds from a typical 30,000 pound bus. This new low-weight bus uses advanced materials and a high-efficiency drive system to save fuel, reduce emissions, ease maintenance, and provide a longer lasting non-corrosive body.

In January, I launched *Operation TimeSaver*, a new initiative designed to cut the daily travel time of Americans living in congested metropolitan areas by 15 percent over the next ten years. Americans who commute just two hours a day would save 80 hours a year, the equivalent of a two-week vacation.

Michigan is part of a multi-state project which allows transponder-equipped and properly-documented trucks to travel any segment of I-75 with minimal stopping at weigh/inspection stations.

We must do in surface transportation what aviation has done. Today we are landing twice as many planes as in the 1960's and 1970's. Why? Because we pushed the envelope. We learned how to squeeze more capacity. And we brought in technologies -- GPS, doppler weather radar and airport surface detection systems. We have some preliminary results from *Operation TimeSaver*. In Lexington, Kentucky, stop-and-go traffic has been reduced by 40 percent as a result of the computerized traffic system. In Seattle, ramp metering has cut accident rates by more than 60 percent, even though there has been an increase in traffic.

Preliminary estimates by the National Highway Traffic Safety Administration suggest that if all vehicles were equipped with crash

avoidance systems, this would reduce crashes by 17 percent and prevent up to 1.1 million crashes, resulting in savings of about \$23 billion annually.

ISTEA reauthorization legislation should continue this commitment to the development and application of appropriate technologies to benefit our transportation system as a whole.

***Encourage better infrastructure investment and management***

Continually improving the performance of infrastructure investment programs is always essential, but especially so in an era of limited public funding. ISTEA's successor should continue to encourage state and local officials to base investment decisions on systematic cost-benefit analysis, and to adopt operational, maintenance, and pricing practices that maximize the efficiency of, and return on, investment.

**CONCLUSION**

ISTEA is visionary legislation, and its central elements -- strategic infrastructure investments, intermodalism, flexibility, intergovernmental partnership, a strong commitment to safety, enhanced planning and strategic investment--should be preserved. These elements should serve as the foundation for the next surface transportation reauthorization. Over the course of the next 17 months, all parts of the transportation community, from both public and private sectors, will examine the merits of ISTEA and debate the details of the new legislation. I look forward to that debate.

Heading into this reauthorization cycle, it is important to ask the right questions. The forces shaping the debate over the general role of

government in our society will affect the debate over the fate of this reauthorization. What should the national interest be in our surface transportation programs? What has worked under ISTEA, and what has not? How can we increase our resources, and how can we benefit more from the fiscal resources we have? Should we expand eligibility for Federal funds, for example to rail and intermodal projects? What can we do to improve our safety record?

Most of these questions require further study and discussion. But I am confident that in one case -- the Federal role -- the answer is clear. We do need strong Federal leadership in surface transportation. As President Clinton recently pointed out, the Interstate Highway System brought Americans closer together, connecting region to region, city to city, and family to family in ways that were undreamed of a half-century ago. That same spirit has been a driving force for government investment in transportation.

Efficient national cargo movement is key to our ability to benefit from expanding trade opportunities. Truckers and other freight operators need national uniformity in both facilities and regulatory standards. We cannot achieve other key national priorities -- linking Americans to jobs, health care and education -- without efficient transportation. And the challenges we face in the areas of safety and the environment do not stop at state borders. The National Minimum Drinking Age Law -- which is credited with saving more than 10,000 lives from 1985 to 1995 -- illustrates the importance of the Federal role.



There are significant challenges ahead with a lot of work to do. In partnership with our colleagues in the states and local communities, and with the private sector, I believe that we at the Federal level have a leadership role in meeting those challenges.

Mr. Chairman, that concludes my prepared statement. My colleagues and I will be happy to answer any questions. I look forward to working with you and other Committee members on reauthorization of these important surface transportation programs. Clearly, we can all agree that investment in our Nation's transportation infrastructure is vital to preserving our competitive advantage throughout the world and maintaining the well being of our citizens.



**STATEMENT BY**  
**THE HONORABLE CAROL ROBERTS**  
**COMMISSIONER, PALM BEACH COUNTY, FLORIDA**  
**AND**  
**VICE CHAIR, TRANSPORTATION AND TELECOMMUNICATION STEERING**  
**COMMITTEE**  
**NATIONAL ASSOCIATION OF COUNTIES**  
**ON**  
**THE FEDERAL ROLE IN TRANSPORTATION**  
**BEFORE**  
**THE SUBCOMMITTEE ON SURFACE TRANSPORTATION**  
**HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**  
**ON BEHALF OF**  
**THE NATIONAL ASSOCIATION OF COUNTIES**  
**MAY 2, 1996**  
**WASHINGTON, DC**

440 First Street, NW  
Washington, DC 20001-3008  
202/383-6228  
Fax 202/383-3830



MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM CAROL ROBERTS, A MEMBER OF THE PALM BEACH COUNTY, FLORIDA BOARD OF COMMISSIONERS. TODAY I AM REPRESENTING THE NATIONAL ASSOCIATION OF COUNTIES (NACo)\* WHERE I SERVE AS VICE CHAIR OF THE TRANSPORTATION AND TELECOMMUNICATIONS STEERING COMMITTEE. ON BEHALF OF NACo, I WANT TO THANK THE SUBCOMMITTEE FOR INVITING ME TO APPEAR BEFORE YOU TODAY ON THE TOPIC OF "THE FEDERAL ROLE IN TRANSPORTATION."

THE MEMBERS OF NACo BELIEVE THAT THE NATIONAL INTEREST HAS BEEN WELL SERVED BY THE FEDERAL GOVERNMENT'S PARTICIPATION IN THE FUNDING OF THE NATION'S HIGHWAYS, BRIDGES AND TRANSIT SYSTEMS. COUNTIES ACROSS THE COUNTRY SUPPORT THE VIEW THAT THE FEDERAL ROLE MUST CONTINUE AT LEAST AT THE CURRENT LEVEL AND PREFERABLY WITH ADDITIONAL FUNDS. THE FEDERAL HIGHWAY AND TRANSIT PROGRAMS HAVE GENERATED A TREMENDOUS AMOUNT OF ECONOMIC DEVELOPMENT IN COUNTIES ACROSS THE NATION. AS WE MOVE INTO THE 21st CENTURY AND A MORE INTERNATIONAL ECONOMY, IT WOULD BE VERY SHORTSIGHTED TO REDUCE THE FEDERAL COMMITMENT TO SURFACE TRANSPORTATION.

COUNTIES HAVE A MAJOR STAKE IN SURFACE TRANSPORTATION. COUNTIES OWN AND MAINTAIN 1.7 MILLION MILES OF HIGHWAYS OR 43 PERCENT OF THE TOTAL ROAD MILEAGE IN THE UNITED STATES. WE OWN 219,000 BRIDGES, 45 PERCENT OF THE TOTAL BRIDGES IN THE NATION. FINALLY, WE

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\*The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government. The goals of the organization are to: improve county government; act as a liaison between the nation's counties and other levels of government; achieve public understanding of the role of counties in the federal system.

OPERATE 25 PERCENT OF THE TRANSIT SYSTEMS. COUNTY OFFICIALS KNOW THAT WITHOUT THE ASSISTANCE OF THE FEDERAL GOVERNMENT WE WOULD NOT HAVE THE EFFECTIVE TRANSPORTATION SYSTEM IN THIS NATION THAT WE HAVE TODAY.

I AM KEENLY AWARE OF THIS FACT AS A LOCAL OFFICIAL IN A COUNTY WITH MAJOR TRANSPORTATION RESPONSIBILITIES. PALM BEACH COUNTY OWNS AND MAINTAINS 1357 MILES OF HIGHWAY AND 250 BRIDGES. WE ALSO OPERATE OUR OWN BUS SYSTEM KNOWN AS PALM TRANS. MY COUNTY RECEIVES SURFACE TRANSPORTATION AND BRIDGE FUNDS AS WELL AS SECTION 9 CAPITAL AND OPERATING FUNDS.

WITH A POPULATION OF 940,000, MOST PEOPLE THINK OF PALM BEACH COUNTY AS A URBAN COUNTY. HOWEVER, WE ARE THE LARGEST AGRICULTURAL COUNTY IN FLORIDA AND RELY ON A SYSTEM OF RURAL ROADS AND BRIDGES TO GET OUR FARM PRODUCTS TO MARKET. THERE HAS BEEN AND CONTINUES TO BE A FEDERAL ROLE IN ENSURING THAT RURAL AND AGRICULTURAL REGIONS HAVE A GOOD SYSTEM OF TRANSPORTATION. THERE IS A NATIONAL INTEREST IN MAKING SURE THAT THE 2000 RURAL COUNTIES IN THE UNITED STATES AND THOSE URBAN COUNTIES WITH RURAL AREAS HAVE GOOD TRANSPORTATION SYSTEMS SO THAT INDUSTRIES SUCH AS AGRICULTURE, TIMBER, MINING, AND RECREATION CAN THRIVE. IT IS ALMOST IMPOSSIBLE TO OPERATE SUCH INDUSTRIES PROFITABLY AND EFFICIENTLY WITHOUT GOOD ROADS AND BRIDGES. THE VEHICLES WHICH THESE INDUSTRIES USE ARE HEAVIER, LONGER, AND WIDER THAN EVER BEFORE. IT IS IN THE

FEDERAL INTEREST TO SEE THAT THE FEDERAL HIGHWAY PROGRAM IS THERE TO SUPPLEMENT LOCAL FUNDING TO SUPPORT THE CONSTRUCTION AND REHABILITATION OF THESE FACILITIES. IF WE ARE TO SEE A REVERSAL OF THE MIGRATION OUT OF RURAL AREAS WE MUST MAKE THE INVESTMENT IN TRANSPORTATION INFRASTRUCTURE THAT WILL SUSTAIN A GROWTH IN RURAL ECONOMIES. THIS ISSUE IS OF NATIONAL IMPORTANCE.

THE VAST MAJORITY OF AMERICANS WANT TO BE ABLE TO TRAVEL QUICKLY AND EASILY WITHIN THEIR COMMUNITIES AND AT THE SAME TIME WANT A CLEAN ENVIRONMENT. A MAJOR WAY TO REACH THIS GOAL IS THROUGH A SYSTEM OF SMOOTH FLOWING, WELL INTEGRATED HIGHWAYS AND EXPANDED PUBLIC TRANSIT. CONGESTED HIGHWAYS SLOW DOWN COMMERCE AND INCREASE POLLUTION. THERE IS A FEDERAL ROLE AND RESPONSIBILITY, PARTICULARLY IN URBAN AND SUBURBAN AREAS, TO SUPPORT COUNTY AND CITY GOVERNMENT EFFORTS TO REDUCE POLLUTION. THIS MEANS FUNDING HIGHWAY AND TRANSIT IMPROVEMENTS AND, YES, THE OPERATION OF TRANSIT SYSTEMS. AT THE COUNTY LEVEL WE ARE DOING WHAT WE CAN, BUT THERE IS STILL A FEDERAL ROLE AND RESPONSIBILITY.

IN PALM BEACH COUNTY THE VOTERS ADOPTED A 6% CENT LOCAL OPTION GAS TAX, WHICH IS SPLIT 50-50 BETWEEN TRANSIT AND HIGHWAY. MY CONSTITUENTS WANT CLEAN AIR AND BETTER MOBILITY. FOR THIS REASON WE WILL TRIPLE TO SIZE OF OUR BUS FLEET, FROM 52 TO 151 VEHICLES. WE WILL ADD NUMEROUS ROUTES. HOWEVER, THE COUNTY STILL NEEDS FEDERAL ASSISTANCE. IF PALM BEACH COUNTY, WITH ITS LOCAL SOURCE OF REVENUE

AND STRONG ECONOMIC BASE REQUIRES A CONTINUING NEED FOR FEDERAL SUPPORT, MEMBERS OF THIS SUBCOMMITTEE CAN IMAGINE THE STRAITS IN WHICH OTHER COUNTIES WITH LESS RESOURCES FIND THEMSELVES.

MR. CHAIRMAN, THE FEDERAL GOVERNMENT NEEDS TO CONTINUE PLAYING AN IMPORTANT ROLE IN NATIONAL TRANSPORTATION POLICY. IN 1991, THE INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT (ISTEA) WAS ENACTED. THIS STATUTE REPRESENTED A SIGNIFICANT CHANGE IN HOW THE FEDERAL HIGHWAY AND TRANSIT PROGRAMS WERE STRUCTURED. RATHER THAN BACKING AWAY FROM A FEDERAL COMMITMENT, ISTEA INCREASED FUNDING SUBSTANTIALLY. MEMBERS OF CONGRESS RECOGNIZED HOW ESSENTIAL AND TIMELY IT IS TO FUND TRANSPORTATION INFRASTRUCTURE.

AS IMPORTANT AS THE FUNDING IS, ISTEA ALSO BROUGHT LOCAL GOVERNMENT OFFICIALS INTO THE PROJECT SELECTION AND FUNDING DECISIONS IN MANY URBANIZED AND RURAL AREAS. THIS HAS MADE A REAL DIFFERENCE TO COUNTY OFFICIALS. AS MEMBERS OF THIS SUBCOMMITTEE KNOW, FEDERAL GASOLINE TAX REVENUES ARE RAISED AT THE LOCAL LEVEL AND COUNTY OFFICIALS ARE DELIGHTED THAT THEY NOW HAVE MORE SAY OVER WHERE THESE FUNDS ARE TO BE SPENT. BRINGING LOCAL DECISIONMAKING TO THE NATIONAL PROGRAM HAS STRENGTHENED IT. BECAUSE OF ISTEA, COUNTY OFFICIALS NOW HAVE MORE OWNERSHIP IN THE FEDERAL PROGRAM. COUNTIES WOULD LIKE TO SEE A BROADER ROLE FOR LOCAL GOVERNMENTS WHEN ISTEA IS REAUTHORIZED. CERTAINLY, ANY

**EFFORT TO REMOVE LOCAL ELECTED OFFICIALS FROM THIS ROLE WOULD UNDERMINE THEIR SUPPORT FOR A NATIONAL PROGRAM.**

**THERE HAS BEEN A GREAT DEAL OF DISCUSSION ABOUT FORMULAS AND DONOR-DONEE STATES. I COME FROM FLORIDA WHICH IS A MAJOR DONOR STATE AND SPEAKING AS A PALM BEACH COUNTY COMMISSIONER WOULD LOVE TO SEE THE FORMULA CHANGED AND MY AREA GET MORE FUNDS. AND NO DOUBT THAT POLITICAL BATTLE WILL BE FOUGHT. BUT WHAT I DON'T WANT TO SEE IS DEVOLUTION OR TURNBACK OF FEDERAL GAS TAX AUTHORITY TO THE STATES. THIS COUNTRY CANNOT AFFORD TO LOSE THE BILLIONS OF DOLLARS ANNUALLY WHICH ARE INVESTED IN OUR TRANSPORTATION INFRASTRUCTURE FROM THE REVENUE RAISED THROUGH THE FEDERAL GASOLINE TAX. EVEN IF THE PROGRAM WAS REDUCED IN SIZE AS SOME HAVE UROED, IT IS LIKELY THAT SUCH A REDUCTION WOULD ELIMINATE THOSE FEDERAL PROGRAMS FOR WHICH COUNTIES ARE ELIGIBLE, SUCH AS THE SURFACE TRANSPORTATION AND BRIDGE PROGRAM. FURTHERMORE, I DO NOT BELIEVE THE 50 STATE LEGISLATURES AND GOVERNORS WILL RAISE STATE GAS TAXES ENOUGH TO REPLACE ANY FEDERAL HIGHWAY AND TRANSIT FUNDS WHICH WOULD BE ELIMINATED THROUGH A TURNBACK PROPOSAL.**

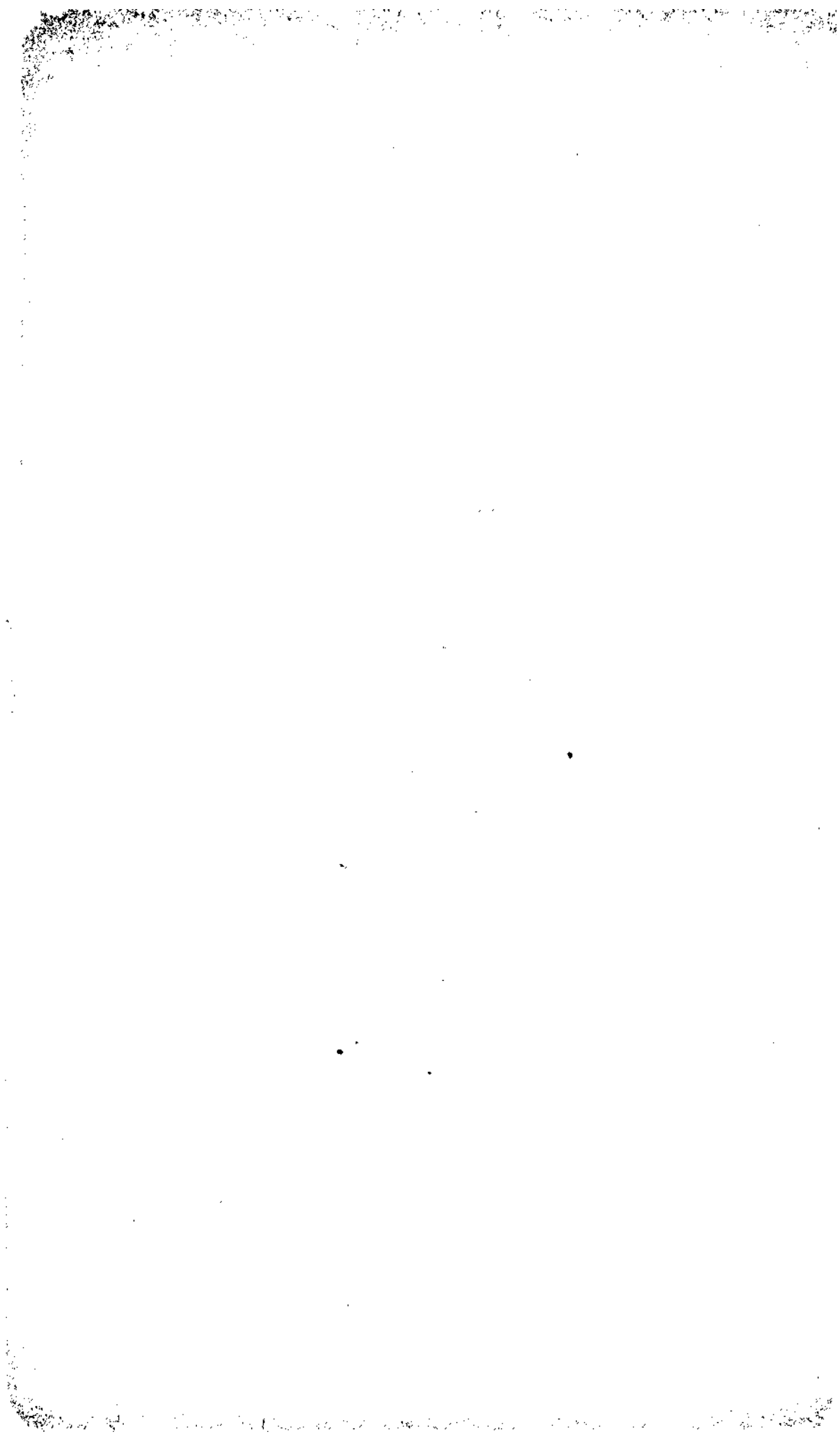
**THE RESULT COULD BE AN OVERALL NET DECREASE IN INVESTMENT. THAT WOULD BE TRAGIC. AS WE MOVE INTO THE NEXT CENTURY, THE UNITED STATES WOULD HAVE A SIGNIFICANTLY DIMINISHED NATIONAL TRANSPORTATION SYSTEM. THE OTHER PROBLEM IS THE DIVERSION ISSUE. SOME STATES ALREADY SPEND TOO MUCH OF THEIR OWN GAS TAX REVENUE**

FOR NONTRANSPORTATION PURPOSES AND I SUSPECT ALL TYPES OF INTERESTS WOULD BE LINING UP TO GET A PIECE OF A MAJOR GAS TAX IN MANY STATES.

FINALLY, I WANT TO CONGRATULATE THIS SUBCOMMITTEE WHICH LED THE FIGHT ON PUTTING THE TRUST BACK INTO THE TRUST FUND. THE PASSAGE SEVERAL WEEKS AGO OF THE "TRUTH IN BUDGETING ACT" BY A SUBSTANTIAL MARGIN WAS A VICTORY AND, I THINK, AN AFFIRMATION OF SUPPORT FOR A CONTINUED FEDERAL ROLE IN TRANSPORTATION. NACo WAS PLEASED TO BE ABLE TO SUPPORT H.R. 842. THE MESSAGE WAS SPEND DOWN THAT \$30 BILLION BALANCE IN THE TRUST FUNDS BECAUSE AMERICANS CARE ABOUT AN HONEST AND VIABLE NATIONAL TRANSPORTATION POLICY WHICH INVESTS IN THE NATIONAL PRIORITIES OF MOBILITY, CONGESTION RELIEF, AND RURAL ACCESS.

MR. CHAIRMAN AND MEMBERS OF THIS SUBCOMMITTEE, THIS CONCLUDES MY STATEMENT. IF THERE ARE ANY QUESTIONS, I WOULD BE PLEASED TO ANSWER THEM AT THIS TIME OR PROVIDE WRITTEN RESPONSES AT A LATER DATE.





## **ISTEA REAUTHORIZATION: THE FEDERAL ROLE FOR TRANSPORTATION AND NA- TIONAL INTERESTS**

**TUESDAY, MAY 7, 1996**

**HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON SURFACE TRANSPORTATION,  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,  
Washington, DC.**

The subcommittee met, pursuant to call, at 1 p.m., in Room 2167, Rayburn House Office Building, Hon. Thomas E. Petri (chairman of the subcommittee) presiding.

**Mr. PETRI.** The subcommittee will come to order.

Today as part of our series of hearings on the reauthorization of ISTEA, we continue to examine the Federal role in transportation. Last week we received testimony from Federal, State, and local officials regarding the Federal interest and how State and local programs are affected by our Federal program.

Today, we will hear from private groups that depend on our Nation's transportation systems to carry out interstate commerce and ensure that products get to market, to commute to jobs and other necessary duties of daily life, and to provide the recreational opportunities that also lead to economic benefits for various industries around the country.

We will also receive testimony regarding Federal reserve and safety programs and the proper role for the Federal Government to play in these initiatives.

Since ISTEA was passed in 1991, approximately \$1 billion has been provided for intelligent transportation systems research. ISTEA authorized nearly \$480 million in grants to States for motor carrier safety programs. Nearly \$1 billion was authorized for 402 safety grants, with over \$100 million earmarked for drunk driving programs. In addition, many other research and safety initiatives also received funding under ISTEA.

I welcome our witnesses and look forward to an interesting hearing this afternoon. And with that, I would like to yield to the ranking Democrat on the subcommittee, Congressman Nick Rahall from West Virginia.

**Mr. RAHALL.** Thank you, Mr. Chairman.

Today, the subcommittee does continue its examination of the national interest in our Federal highway transportation safety programs as part of our consideration for reauthorizing ISTEA.

At our first hearing on this matter earlier this year, I indicated that we should stay the course during the reauthorization process.

It will take more than 6 years to fully realize the benefits to our society and our economy of the type of reforms made by ISTEA. While we certainly should make necessary modifications, I do not advocate a complete rewrite of ISTEA.

In my submitted statement for last week's hearing, I noted that the age-old conflict between donor and donee States has once again reared its ugly head. I believe that the Interstate System and, more importantly, recently designated NHS, is the tie that binds the Nation in maintaining a strong Federal program. The simple fact of the matter is—if we are going to have a viable NHS—then there must be donor and donee States.

Today as we continue to examine the national interest in the highway program, I want to make note of my strong personal desire to see NHS considerations become a factor in the apportionment formula for this particular element of the program. Currently the NHS apportionment formula is the same as the distribution formula for STP, which is itself based on outdated factors.

Whether it be NHS lane miles or NHS vehicle miles or other considerations of this nature, it seems to me that the apportionment of NHS funds to the States should take into account their interest in the national highway system.

Finally, Mr. Chairman, while this is not the topic of today's hearing, I do want to comment on the recent furor over the 4.3 cents per gallon in Federal motor fuel taxes which are not being deposited into the Highway Trust Fund. I do not advocate a repeal of this tax. Rather, I believe it would be penny wise and pound foolish to miss this opportunity to obtain needed transportation dollars in light of the fact that the current highway bill expires next year.

Toward this end I have introduced H.R. 3372 to restore the 4.3 cents per gallon to the Highway Trust Fund. It does have the cosponsorship of our ranking Minority member, Mr. Oberstar, as well as the ranking Minority member of the House Ways and Means Committee, Mr. Gibbons, and I think this is an excellent opportunity for us to restore this 4.3-gallon tax to the Highway Trust Fund, where it belongs and where it should be spent.

Thank you, Mr. Chairman.

Mr. PETRI. Thank you.

Statements from the ranking Democrat on the full committee, our colleague Jim Oberstar, and chairman the full committee, Bud Shuster, will be included in the record.

[The prepared statements of Mr. Shuster and Mr. Poshard follow:]

OPENING STATEMENT  
HONORABLE BUD SHUSTER  
SUBCOMMITTEE ON SURFACE TRANSPORTATION  
ISTEA REAUTHORIZATION HEARING  
THE NATIONAL INTEREST  
IN FEDERAL TRANSPORTATION PROGRAMS  
TUESDAY, MAY 7, 1995  
1:00 P.M. 2167 RHOB

- I WANT TO WELCOME ALL OF THE WITNESSES TO OUR COMMITTEE'S HEARING ON THE REAUTHORIZATION OF ISTEA – WHICH AUTHORIZES OUR NATION'S HIGHWAY, TRANSIT, HIGHWAY SAFETY, RESEARCH AND MOTOR CARRIER SAFETY PROGRAMS.
- THE REAUTHORIZATION OF ISTEA IS PERHAPS THE MOST IMPORTANT WORK THAT THIS COMMITTEE WILL TAKE UP IN THE LATTER PART OF THIS DECADE.
- TODAY'S HEARING WILL FOCUS ON THE MOST IMPORTANT BASIC ISSUE FACING OUR SURFACE TRANSPORTATION PROGRAMS: ESTABLISHING THE NATIONAL INTEREST IN MAINTAINING THE FEDERAL ROLE IN TRANSPORTATION PROGRAMS AUTHORIZED IN ISTEA.
- AT TODAY'S HEARING, WE WILL HEAR FROM A NUMBER OF NATIONAL GROUPS ON THE NATIONAL INTEREST IN THE BASIC FEDERAL SURFACE TRANSPORTATION PROGRAMS.
- IT IS CRITICALLY IMPORTANT THAT WE CAREFULLY FOCUS ON THE IMPORTANCE OF THE FEDERAL ROLE IN TRANSPORTATION AS WE BEGIN THE PROCESS OF REAUTHORIZING ISTEA.

- THIS BASIC EXAMINATION OF THE NATIONAL INTEREST IN THE FEDERAL ROLE IS PARTICULARLY APPROPRIATE IN LIGHT OF THE DISCUSSIONS ABOUT SEVERELY REDUCING THE FEDERAL ROLE IN TRANSPORTATION BY REPEALING MUCH OF THE FUEL TAXES AND RETURNING THE PROGRAMS TO THE STATES.
- I THINK THE NATIONAL INTEREST IN OUR NATION'S HIGHWAY, TRANSIT, RESEARCH, SAFETY, AND MOTOR CARRIER SAFETY PROGRAMS IS MANIFEST.
- THE FEDERAL PROGRAM MAKES CAPITAL INVESTMENTS IN NATIONAL TRANSPORTATION SYSTEMS THAT TIE TOGETHER AND BENEFIT THE ENTIRE COUNTRY, SUCH AS THE INTERSTATE AND NATIONAL HIGHWAY SYSTEMS;
- FEDERAL INVESTMENT IN TRANSIT SYSTEMS REDUCES CONGESTION AND ENABLES THE MOBILITY OF GOODS, SERVICES AND PERSONS IN METROPOLITAN AND SUBURBAN AREAS;
- ECONOMIC GROWTH REQUIRES THAT THERE BE ADEQUATE TRANSPORTATION INVESTMENT IN THESE NATIONAL SYSTEMS;
- INVESTMENT IN HIGHWAY AND TRANSIT RESEARCH IMPROVES INFRASTRUCTURE QUALITY, SAFETY, REDUCES CONGESTION AND IMPROVES THE ENVIRONMENT;
- FEDERAL SAFETY PROGRAMS PROVIDE COORDINATED, NATIONWIDE SAFETY PROGRAMS THAT REDUCE HIGHWAY HAZARDS, AND PROVIDE INCENTIVES TO STATES TO

**REDUCE FATALITIES AND ENCOURAGE SAFER DRIVING;**

- **THE NATIONAL MOTOR CARRIER SAFETY PROGRAM ENSURES THAT SAFETY STANDARDS ARE APPLIED AND ENFORCED UPON THE \$280 BILLION MOTOR CARRIER INDUSTRY AND ENSURE UNIFORM NATIONAL SAFETY AND EQUIPMENT STANDARDS ACROSS THE ENTIRE UNITED STATES.**
- **I BELIEVE THAT THE EVIDENCE IS CLEAR THAT OUR NATION'S TRANSPORTATION INFRASTRUCTURE NEEDS ARE NOT BEING ADEQUATELY MET.**
- **THE MOST RECENT DOT ESTIMATES ARE THAT NEARLY 25% OF THE NATION'S BRIDGES AND 30% OF INTERSTATE PAVEMENT ARE IN POOR OR MEDIOCRE CONDITION.**
- **IN 1994, THE CAPITAL SHORTFALL NEEDED TO MAINTAIN OUR HIGHWAY AND BRIDGE SYSTEM APPROACHED 30 PERCENT.**
- **ONE THIRD OF ALL RAIL MAINTENANCE YARDS, STATIONS AND BRIDGES, AND ALMOST ONE HALF OF ALL TRANSIT BUILDINGS ARE IN FAIR OR POOR CONDITION.**
- **A DETERIORATING TRANSPORTATION SYSTEM MAY HAVE AN ADVERSE IMPACT ON FUTURE ECONOMIC HEALTH.**
- **IN A RECENTLY CONCLUDED STUDY, DOT HAS PRELIMINARILY FOUND THAT SINCE THE CONSTRUCTION OF THE INTERSTATE HIGHWAY SYSTEM, AS MUCH AS 25% OF AMERICA'S PRODUCTIVITY GROWTH MAY BE ATTRIBUTED TO IMPROVEMENTS IN TRANSPORTATION**

**INFRASTRUCTURE.**

- **PRELIMINARY FINDINGS FROM ANOTHER DOT STUDY INDICATE THAT EVERY \$1 BILLION INVESTED IN HIGHWAY CONSTRUCTION AND ENHANCEMENTS YIELDS 42,000 GOOD, HIGH WAGE JOBS.**

May 6, 1996 (5:13pm)  
KAISTEA-2EGS5-70S.WPD

**OPENING STATEMENT**

**Congressman Glenn Poshard  
of Illinois**

**Committee on Transportation and Infrastructure  
Subcommittee on Surface Transportation**

**Hearing on the Reauthorization of ISTEA and the Federal  
Highway, Transit, Safety, Research, and Motor Carrier  
Safety Programs**

**May 7, 1996**

Mr. Chairman, I would like to thank you for convening the Subcommittee this afternoon with the intent of further examining the reauthorization of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). It is important that we hear from a wide range of groups concerning the benefits of this legislation and how these specific aspects of it might be improved.

I would like to emphasize that ISTEA has been beneficial to the rural areas of the United States. Without these monies, critical infrastructure improvements would not be made, and all types of transportation would be adversely affected. I appreciate the time and expertise of our panel, and I look forward to their insights on this matter.



Mr. PETRI. It gives me a great deal of pleasure to welcome our first panel today, Mr. William Fay, who is president and chief executive officer of the Highway Users Federation—welcome—and Mr. Hank Dittmar, Surface Transportation Policy Project executive director.

Mr. Fay.

**TESTIMONY OF WILLIAM D. FAY, PRESIDENT AND CEO, AMERICAN HIGHWAY USERS ALLIANCE; AND HANK DITTMAR, EXECUTIVE DIRECTOR, SURFACE TRANSPORTATION POLICY PROJECT**

Mr. FAY. Good afternoon, Mr. Chairman and members of the subcommittee.

American Highway Users Alliance represents just about everyone who wants safe and uncongested highway to get them to work, to visit families, to vacation, and to deliver their products and buy them once they are in the marketplace.

Highway users willingly pay the bill for safer roads through a nearly perfect user fee, a fee that is supposed to be invested in better roads and bridges. This expectation, as you know, is far from being realized. The Federal Government takes about \$30 billion every year exclusively from highway users, yet it deposits only 21 billion of those dollars into the highway account. And even within the highway account there are additional diversions. Less than half the highway account is distributed toward what we believe are the top national priorities, the NHS and bridges.

As a result of this underinvestment, our Nation's roads and bridges are crumbling at the same time that highway demand is dramatically growing. One transportation mode highway carry the bulk of Americans' travel. Of the 250 billion trips Americans take, 87 percent are in cars, trucks, or other personal vehicles.

Forgive my scepticism when Amtrak, mass transit, and bicyclists want more subsidies paid by highway users in the name of intermodalism. We don't believe intermodalism means one mode should have to pay the cost for all the other modes.

Highway users might be more generous if our Nation's roads and bridges were in wonderful condition. They aren't. All we have to do is take a look at this committee's debate on the off-budget bill, and the tremendous success you achieved on that off-budget bill, to see exactly what is happening to our roads and bridges in this country.

We have problems at all levels. Our urban, interstate, and our urban freeways are in terrible condition. One out of every 10 miles is in need of immediate improvement. Our rural roads are even worse; 86 percent have substandard lane widths. Over one-quarter of our rural major commuter roads have alignment deficiencies. Nearly a fourth of all our interstate bridges and an even higher percentage of bridges on other major highway should be expanded, repaired, or replaced.

So what have we done as a Nation about these safety hazards that highway users believe they are paying to correct? We have really turned that burden over to future generations. That conclusion is soberly confirmed in the FHWA's recent needs report. It concludes that the U.S. is investing \$20 billion a year less than it

needs to invest just to keep our roads and bridges in their status quo and \$40 billion less than we need to invest to improve our roads and bridge.

That is why ISTEA is going to be an absolutely important debate, and while there are substantive economic reasons why highway users want to conduct this nationwide debate on the appropriate Federal role in surface transportation, we feel Congress faces a political difficulty in the issue that Mr. Rahall mentioned, and we believe that the donor-donee State issue does place ISTEA's authorization in some jeopardy.

We think the donor States are making a fairly good argument in suggesting that the money that is taken from them but is not given back to them is not being invested in a Federal program that meets national priorities. In other words, we agree with what the donor States are arguing; we don't necessarily agree with their solution.

We believe the Federal program has lost sight of national objectives, increasingly favoring projects of purely local interest. For instance, it is difficult to identify the National economic or defense interests served by construction of a scenic pedestrian pathway, yet STP funds can be used for those types of projects.

We call on Congress to identify the national interest in surface transportation and to target all highway user funds to meet those interests. The Highway Users Alliance recommends a simplified highway program, targeting 85 percent of highway user fees towards just five programs:

Number one, the national highway system. The NHS is only 4 percent of our roads, yet it represents—it bears 40 percent of our traffic and 75 percent of commercial and truck traffic. FHWA estimates we should be investing \$18 billion in NHS just to keep it in its current condition and \$24 billion a year to improve it. Yet last year we invested only \$6.5 billion.

Issue two is bridges. Both on and off the NHS, bridges are high-cost, critical links in our Nation's highway network. FHWA again estimates we are seriously underinvesting in bridges.

Safety is the third issue. I don't think I will find a lot of disagreement there: Research and development, roads on Federal lands. We believe if we direct 85 percent of the Federal highway funds to those above five programs and establish the remaining 15 percent in an STP account used for other programs, we believe we will have a Federal highway program that is going to balance the needs of this country more directly.

Mr. Chairman, I have submitted written remarks in addition to that, and I look forward to answering your questions.

Mr. PETRI. Thank you very much.

Mr. Dittmar.

Mr. DITTMAR. Thank you, Mr. Chairman and members, for the invitation to appear before you today to discuss the need for Federal investment and oversight in the Nation's surface transportation program.

I am happy to join my colleague, Bill Fay, in arguing that there is a clear and strong Federal interest in investment in surface transportation, and I believe this is one of many areas where our communities can unite.

We do differ in some areas of that Federal interest, but I think the important thing today is the agreement that a strong Federal investment in surface transportation needs to be articulated by this committee, and we are happy that you are beginning the process of doing so.

The Surface Transportation Policy Project is a nonprofit coalition of over 150 organizations whose mission it is to ensure a transportation policy and investments serve people in communities. Our members represent constituencies as diverse as the elderly, historic preservationists, transportation workers, taxpayer and citizen groups, environmentalists, communities of color, and downtown business interests.

We are united in the belief that balanced investment in surface transportation can strengthen the economy, protect the environment, help to conserve energy, and meet important social goals.

As you know, bipartisan majorities of the House and Senate came together in 1991 to produce the landmark Intermodal Surface Transportation Efficiency Act. To sum up our position concisely, we feel that the legislation enacted in 1991 was a major advance in national transportation policy. The ISTEA legislation should serve as the basis for the 1997 surface transportation bill.

The subcommittee has heard from and will continue to hear from interest groups wanting a bigger slice of the pie. You will hear for arguments that Federal funds should be focused on truck routes, that State transportation officials want more autonomy at the State level, transit officials want more funding for transit, and donor States want their fair share.

But if the Federal role is reduced to redistributing money among States, industries, and interest groups without any reference to broad national goals, we fear the program is doomed. The subcommittee should be applauded for its effort to define wherein the public interest lies and the role the Federal Government should play in advancing it. Without this kind of focus, the program will die.

What is the Federal interest? While it is tempting to define the Federal interest in a specific set of facilities, we believe it is more appropriate to place the Federal interest in a set of desired outcomes: What do we want Federal taxpayer investment in transportation to achieve for us as a Nation?

So we have looked back at prior transportation investments and prior transportation legislation and derived, five basic goals for Federal investment in transportation.

The first is to support a healthy economy; the second is to provide access to job services and opportunities for all Americans; the third, to promote a healthy environment; and the fourth, to enhance the public safety; and, fifth, to make a productive investment of public funds.

The Federal program should be judged on its ability to make progress towards these goals. We believe ISTEA has measured up well in this regard, and the proposed challenge to it will have to perform equally well to gain our support.

These five areas, in brief-economic efficiency: First of all, investment in Federal taxes and surface transportation should enhance

the efficiency of the Nation's economy by moving people and goods reliably and cost effectively.

Now that we have built an unparalleled interstate system, our economic challenge is to plug gaps in the system, make intermodal connections, and ensure that the metropolitan economies that drive our competitiveness do not bog down due to deteriorating facilities and congestion.

The economic health of small towns and communities also depends on continued investment in proving the safety and ensuring the rehabilitation of roads and bridges in rural areas. Federal investment programs like those for the maintenance of the interstate system, rail modernization, bus replacement, and bridge rehabilitation have proven their worth by improving the condition of these facilities. This committee should look into making system preservation a highest priority in ISTEA's renewal.

Second, access and choice is a key reason for Federal investment in transportation. As Dr. Thomas Larson, Federal highway administrator in the Bush administration, has pointed out, the first Federal investment in transportation was undertaken on the basis of the general welfare clause of the Constitution, and ensuring that the benefits of our Federal investments are available to all Americans, whether young or old, rich or poor, urban or suburban, has also been a Federal reason for investment in Federal oversight.

Third, of course, is environmental stewardship. Transportation is an environmental issue, and transportation legislation is environmental legislation. Like it or not, the bill produced by this committee next year will be judged against environmental goals.

Fourth, of course, is safety; and fifth is ensuring that our investments perform and that we achieve results from our Federal investments, and this is the reason for the sound planning process and the public involvement process which is contained in ISTEA.

Mr. Chairman, we appreciate your having this bearing. We are initiating a project to look at providing for the more efficient delivery of transportation services and streamlining the process, and we look forward to providing your input on this project in the near future as well.

Thank you.

Mr. PETRI. Thank you both for your oral testimony and for the effort and thought that went into your much more extensive written submissions. They will be of great assistance to us as we try to lay the foundation for the reauthorization of ISTEA in the next Congress.

Mr. RAHALL, do you have any question?

Mr. RAHALL. Thank you, Mr. Chairman.

First I want to commend you, Bill, and the American Highway Users Alliance for recognizing the importance of increased funding for the NHS as well as stressing bridge and safety improvements as part of the five program accounts for which you believe Federal funds should be targeted.

I don't view this as a major rewrite of ISTEA, so I look favorably upon those recommendations. However, there are two other aspects of your recommendations with which we may have differing opinions.

First, I believe the Transportation Enhancement Program should be reauthorized. In my view, this program represents a justifiable expenditure of our Federal aid highway funds because it expands the transportation, the economic, and the social benefits associated with maintaining a viable surface transportation infrastructure.

Many projects undertaken under the program offer alternative means to provide mobility for people, thereby reducing congestion on our highways and improving our air quality.

I must also, second, question your recommendation that we walk away from funding mass transit, although I do know you would allow STP monies to be flexed for transit capital projects. I just wonder if you might elaborate on those two recommendations with which we appear to have disagreement.

Mr. FAY. Mr. Chairman, when we addressed the issue of ISTEA reauthorization, our first objective was to try to define what we felt were real national objectives. And I think this gets really to the donor/donee issue, and that is, does it make sense for Texas highway users to pay for a mass transit system in a city that is outside of that State?

What we felt right now is that the donor States have to have a little better feeling about what they are investing in. In other words, in order to establish and maintain that continued donor/donee State relationship, that it is going to be necessary in meeting national objectives to give them a reason to support that program.

In defining our goals, we really did feel very strongly that the NHS was not getting adequate funding, that the bridges were not getting adequate funding.

With regard to mass transit, our feeling was that if we could increase the Federal share for NHS and for bridges—in other words, increase both the amount of money and the percentage of the total program of NHS and bridges—that we would be freeing up some State funds that could then be dedicated towards what we feel are State or local issues of priority, which would include mass transit and enhancements.

In other words, our objective is to make certain that the money collected by the Federal Government from highway users would be dedicated specifically to national objectives and, hopefully, by investing more of that Federal money into those investments, we would be freeing up enough State funds that they could then be dedicated towards mass transit enhancements.

Mr. RAHALL. Thank you.

I am sure we will be getting into more debate as the process goes on.

Let me turn to you, Hank, if I might. I do appreciate your testimony as well. I would like to bring to your attention the possible misinterpretation of a piece of data that was obtained from the recent Conditions and Performance Report that you referenced in your formal presentation this morning.

In your statement you noted that this report indicated that, quote, system preservation improvements in 1993 accounted for 42.2 percent of capital spending on nonlocal roads, end quote. You then interpreted this that the remaining amount went into new ad-

ditions to the system, which you found fault with because the existing interstate system is in need of improvement.

I would bring to your attention that the use of the term, quote, system and preservation improvements, end quote, does not necessarily translate into system additions by the construction of new highways. Rather, the term includes three R words, such as restoration of existing roads as well as resurfacing and rehabilitation projects.

I do not quibble with you that the existing system needs improvements. However, I did want the record to reflect a misinterpretation of what the conditions and performance reports stated.

With that, I guess I would just ask you a final question. What do you think about the guy sitting next to you? He is a likable guy and all that, but what about his recommendations?

Mr. DITTMAR. I guess we differ—I will go back and check that date. I believe we took the three Rs but not the fourth R. It was restoration, resurfacing, rehabilitation, but not the one which added capacity.

But I will be happy to check that date and will submit corrections to the testimony. I don't want to misspeak, and I thank the Congressman for his diligence.

[The information received follows:]



U.S. Department  
of Transportation  
Federal Highway  
Administration  
Federal Transit  
Administration  
Maritime  
Administration

**1995 Status of the Nation's Surface Transportation System:**

# CONDITION AND PERFORMANCE



**Report to Congress**

**Capital Expenditures by Type of Improvement.** Capital spending on highways can be categorized as follows:

*System Preservation* improvements on existing roads and bridges include minor widening, 3R, bridge replacement, bridge rehabilitation, and reconstruction that does not add additional lanes of capacity. This category also includes improvements to the physical condition of a road or a bridge to improve safety, e.g., the elimination of unsafe highway curves and grades, or narrow width lanes. Spending for these improvements is related to investment required to maintain or improve the pavement structure, and repair or replace bridges.

*Capacity Improvements* add capacity either by adding lane-miles to existing facilities, or by the construction of new roads and bridges. Spending for this category of improvements is related to investments required to add capacity.

*Other Improvements* are not coincidental to the capital improvements described above (and are not included in their costs). "Other improvements" include features or devices to enhance safety, improve traffic operations or reduce vehicle use. Also included is spending for environmentally-related improvements such as noise barriers. Spending for this category of improvements is not directly related to the highway investment requirements in this report.

As shown in Exhibit 3-12, system preservation improvements in 1993 accounted for 42.2 percent of spending on nonlocal roads, capacity improvements accounted for 52.0 percent, and other improvements accounted for 5.8 percent. Spending on local roads cannot be disaggregated by improvement type.

Exhibit 3-12  
Spending by Major Categories on Nonlocal Roads  
Billions of Dollars  
1993

	Estimated Capital Expenditures	Percent
<b>System Preservation</b>		
Road	\$8.7	27.4
Bridge	\$4.7	14.8
Subtotal	\$13.4	42.2
<b>Capacity Improvements</b>		
Capacity Additions to Roads and Bridges	\$10.2	32.4
New Roads and Bridges	\$6.2	19.6
Subtotal	\$16.4	52.0
<b>Other Improvements</b>		
	\$1.0	5.8
<b>Total Capital Spending on Nonlocal Roads</b>		
	\$31.6	100.0

Source: Highway Statistics Table SF12A, 1993;  
Unpublished data from Barten. Direct expenditures by Federal Government not included.



Mr. DITTMAR. We generally believe there is a national interest in investment in transit for a number of reasons. I think it begins with the idea that investment in public transit is necessary for those who cannot drive, whether they are elderly or they are children or they are people who simply can't afford a car. That investment in that system is important, and that I think is the reason for the general welfare clause of the Constitution.

Similarly, transit investment can improve the environment, and I think we have made a strong Federal investment in transit since 1964. To walk away from that investment at this time is basically walking away from a substantial built asset, and we would argue there is a Federal interest in preserving that asset.

With respect to the enhancement program, it is less than 2 percent of the total Federal Transportation Program, and for 2 percent of the program to be devoted to projects which enhance the relationship of transportation systems to communities is a reasonable investment in building some public support for transportation.

As I travel around the country, I have heard from elected officials all over about the benefits of the Enhancement Program and bringing Federal funding to their region. A lot of local communities didn't get any Federal money before the Enhancement Program.

I think it may be in the national interest to make friends, and certainly the Enhancement Program has made friends among the environmental community and among a lot of local elected officials, and if we want to argue for increased investment, a bigger tent is a better way to do it.

Mr. RAHALL. So do you like him?

Mr. DITTMAR. Oh, yes, I like him. We have a good time together. Bill and I usually have this debate with Frank Francois of AASHTO, who is also at the table. We are missing Frank today.

Mr. RAHALL. Thank you both.

Mr. PETRI. Mr. Bateman?

Mr. Borski?

Mr. BORSKI. Thank you, Mr. Chairman. And let me thank you and Mr. Rahall for holding these most important hearings.

Mr. Dittmar, let me start with you, if I may. I am concerned that we have seen little change in how transportation decisions are made in areas such as Philadelphia even after ISTEA was passed. Has your organization looked at how ISTEA implementation is proceeding in Pennsylvania as compared to other States?

Mr. DITTMAR. We are in the process of doing a fairly substantial report which will look at the investment question in all 50 States and the extent to which funds have been invested in metropolitan areas and on issues of maintenance and capacity enhancement and all of those things. That report we expect out sometime this summer, and we would be delighted to share it with the committee when it becomes available.

I think that the changes in a lot of the metropolitan areas have been rather slower than some have liked, and it varies, I think, by geographic areas across the country.

We have found that in a lot of the older eastern States the role of the urban areas and the role of the local elected officials has been less than they would have liked because the States have continued to be the primary voices. So we are looking at that question

in conjunction with States and mayors to try to see if there aren't some improvements in the MPO structure that we can recommend.

Mr. BORSKI. I would like both of you to respond, and I just wondered if you would—in Philadelphia we are faced with a potential crisis on Interstate I-95. It carries 150,000 vehicles a day, with a far higher percentage of trucks than most interstates. It is a key component for our port and our airport, but it is in dire need of repair.

How can we address the issue of rebuilding a major road with national significance such as I-95 in reauthorization?

Mr. FAY. I will go first.

Mr. Chairman, Mr. Borski, I think that I-95 is exactly an example of why we need to recommit ourselves to national objectives. I-95 would meet those objectives. It does bear a tremendous amount of transportation burden, and it is absolutely one of the reasons that when we look at Federal investment in NHS and see that it is only \$6.5 billion and the Federal Highway Administration is telling us it should be 18 to 24 billion, those are exactly the kind of investments we are not making today and we need to make in the future.

So we would strongly support that effort, and we have been working somewhat with both Pennsylvania highway users and the State of Pennsylvania to make sure we get those investments made.

Mr. DITTMAR. We have also been concerned about that. That is why we felt, with respect to the Interstate National Highway System categories, that the focus of that funding ought to be on system preservation activities.

Just as in the transit program, we have section 9 which has helped to rebuild a rail modernization program which has helped to rebuild SEPTA's aging rail system and the bridges on that system. On the highway side we have the Interstate Maintenance Program, and we thought a similar kind of requirement but assurance ought to be folded in so that there are incentives to State and local officials to maintain the existing Federal investment first.

Mr. BORSKI. Mr. Fay, I couldn't let today pass—

Mr. FAY. I am waiting.

Mr. BORSKI. On page 5 in the testimony you say, "the growing problem of urban congaetion." I assume it must meet your test for a national interest. Can you tell me how urban congaetion can be addressed without a significant increase in transit in cities where expanding highway is virtually impossible?

Mr. FAY. First of all, Mr. Borski, it is very important to note that the investments we are seeing from the Federal Transit Fund, in our mind, have gone to a lot of programs that really haven't panned out.

There are certainly some mass transit investments that have had a tremendous impact on congestion. There are a lot of others where billions of dollars have gone into a program that really hasn't had that kind of a benefit. Ridership is staying rather flat throughout the country, and right now I am not absolutely certain that mass transit, especially from the Federal Government, seems to have more of a bent towards light rail or towards almost an obsession with making certain we have some type of fixed-rail system, where-

as the needs of the cities are really focusing more on bus systems and other programs.

We believe that the States would be in a better position, the localities would be in a better position, to make those decisions with the limited funds that are out there. And, frankly, when we say that mass transit does not meet the national objective, we understand fully that it may meet an absolutely critical city objective and it may be an important State objective. We are just saying right now we don't believe that highway user money that is collected by the Federal Government should be going to mass transit at a time that we have the kinds of deteriorating road and bridge conditions around the country.

Mr. BORSKI. Thank you very much. And Mr. Chairman, thank you.

Let me just add this. I think urban congestion is a major problem in our country, and I hope you and Mr. Rahall will look at this as we continue with this process.

Mr. PETRI. Mr. LaHood, any questions?

Ms. Johnson.

Ms. JOHNSON. Yes, thank you, Mr. Chairman.

Just listening to the testimony—I apologize for being just a little bit late—Texas, as you know, is a huge State with lots of surface and lots of highway usage, and we are now dealing with heavy, heavy truckloads, trying to look at perhaps some alternatives.

I wonder if you could comment on maybe some alternative use of rail for some of the long-distance travel, especially the travel as it relates to I-35, which is a major NAFTA highway as this time, and how you foresee some of that coordination and movement of goods?

Mr. FAY. Ms. Johnson, I think when you take a look at some of that traffic that is moving along that NAFTA freeway, you find that there is enough room to fill the trains and the trucks as well. So I don't know whether there is anything Government can do that is going to try to change that mix.

I think that right now we have to do everything we can to make sure that that I-35 corridor is able to meet a lot of those needs, and so we have been strongly supporting the investment in that corridor for economic reasons and for distribution reasons as well.

Ms. JOHNSON. Thank you.

Mr. DITTMAR. I know the corridor well. My wife grew up in Austin, Texas. So we have spent a bit of time in that corridor.

I know at this time one of the critical problems is not in overall capacity of the system but the connectivity and the throughput on the system, and we have generally thought that it might be appropriate to allow transfer of funding to publicly-owned rail facilities in areas where intermodal connections are necessary.

One example might be in Austin, where the freight rail goes right through the center of town. There is a desire to colocate it on the eastern side of town and provide better highway and rail connections so that kind of intermodal plan can benefit both sides of the system.

Really, the focus is not on building more rail but on improving the connectivity between truck and rail and connectivity through metropolitan areas, another reason why metropolitan areas are a

critical focus. Mr. McQuaid from the Intermodal Association is one of our experts on that issue. He will testify later.

Ms. JOHNSON. Yes, just one follow up question quickly.

The guardrail safety seems to play a part, especially in urban areas. We talk about alternative ways for pedestrians to move above or under, but most accidents are caused by motorists and the guardrail. Is there any improved technology or any designation that you would see appropriate for improving that guardrail safety?

Mr. FAY. Ms. Johnson, I think that right now if there is a dearth of research out there, it is on safety of the roadway conditions and guardrails and the slopes off the side of the roads and the length of exit and entry ramps. It is one of the reasons we have set up a 501(c)(3) organization, called the Roadway Safety Foundation, to start developing that research that is out there.

The Federal Highway Administration has done some very good research in those areas, and it is one of the reasons we think the Federal program has to have a large safety component and perhaps have half again the amount of highway user money that goes into those programs to make that kind of research.

There has been a lot of technology on guardrails. The most difficult thing facing us with guardrail technology is whether or not you design the guardrail to stop a car or whether you design it to stop a truck, and that is a very difficult—there is a big difference in the guardrails that you need for each problem.

So there are a lot of questions out there, and we think that is one of the reasons safety has to be a very critical part of ISTEA reorganization and we need to do more in terms of research.

Mr. DITTMAR. I would concur with that.

We are involved in a collaborative project with the Alliance for Transportation Research and General Motors, looking at this whole question of the design of the guardrail for light-duty trucks versus cars.

Your own Texas Transportation Institute has generated a new guardrail design which allows the guardrail to peel away when struck, and there is a lot of research that is out there.

The challenge is not only in doing the research but in deploying the research and ensuring that it is provided to the States in a manner that can get it effectively done. Here the role is more for technical assistance than it is for uniform regulation, I think.

Ms. JOHNSON. Thank you very much.

Thank you, Mr. Chairman.

Mr. PETRI. Thank you.

Mr. Sawyer.

Mr. SAWYER. Thank you, Mr. Chairman.

I want to take a moment to thank you for these hearings and to thank our witnesses for their commentary, and I am particularly encouraged by the focus that you bring not only to questions of metropolitan needs and their critical character in terms of conductivity.

The chairman knows that over the last several years have paid a great deal of attention to the question of population movement and to the shifting patterns of commercial and industrial decisions. There are very few kinds of large-scale capital improvements that

are made that have any more lasting consequences in those terms than the very kinds we are talking about here.

Our ability to anticipate that kind of movement among populations and enterprises is critically important to that, and the terms in which we are talking about those movements today are central to those decisions.

Thank you very much for your testimony.

Mr. PETRI. Mr. LaHood, did you have a question at that point?

Mr. LAHOOD. Do either of you gentlemen have any feelings about the fact that Congress reduces the gas tax by 4 and a half cents and what impact it has?

Mr. FAY. Mr. LaHood, I represent the taxpayers that pay that tax, and I will say very emphatically we opposed the 4.3 cents being raised on the backs of highway users for purposes of presumed deficit reduction.

What it really was, was a tax. It broke faith with the user fee concept that we had for so many years that says that money was going to be collected from the users for the explicit expenditure in investing in safer roads and bridges.

So what we have written to the Majority Leader of the Senate and what we have affirmed today is that we think that the approach that Mr. LaTourette and Mr. Rahall have recommended, which is moving the 4.3 cents into the highway account, would be much more consistent with that user fee concept that we support.

So as highway users, we would strongly support that as our preference and to spend the \$30 billion that would then be taken exclusively from highway users on safer roads and bridges; and second, in the absence of that, if we aren't able to dedicate that 4.3 cents to better roads and bridges, then I think it ought to be repealed. In other words, don't collect it if you are not going to spend it right.

Mr. DITTMAR. We have also looked at this question, and I guess we believe that pricing can be one of the signals to improve efficiency in this system and that in fact most economists would argue that the way to provide a more rational use of energy in this country is through using pricing signals.

We believe that reducing the gas tax is probably unlikely to result in relief to the consumer and would propose that instead we ought to look at measures to improve corporate average fuel economy and to provide alternatives to drivers.

I would note that a 20-cent gas tax increase or 20 percent—20-cent increase in the price of gasoline works out for the average commuter who is commuting about 10 miles a day—works out to about a \$44 increase annually, where a 20-cent increase in transit fares for about the same distance works out to about a \$100 annual increase for the average American worker.

During this time that we have seen this increase in gas taxes, we have also seen a huge increase in transit fares around the country due to the fallout and the reduction in operating assistance at the State and Federal level. So we would urge that those who cannot afford to drive also be considered.

Mr. FAY. I knew we were getting along too well. This is an area where we have done extensive research to find out what the public feels about the gasoline tax. The gas tax is probably the most well

accepted tax that this Nation levies as long as the money is expended for the purpose for which it is collected.

The general public does not support raising the gasoline tax for Amtrak, for mass transit. What they support is a gasoline tax that meets the needs of the highway and bridge needs in this country. They see a direct connection between using—in this almost perfect user fee, between using the roads and expending those taxes collected from them on better and safer roads and bridges.

Mr. LAHOOD. So for the people who make the argument, if you reduce the gas tax by 4 and a half cents, you are not going to impede the highway program, you obviously would agree with that.

In the absence of Mr. Rahall's bill being passed or Mr. Rahall and Mr. LaTourette's bill being passed, if we in fact reduce the tax, you are saying it is not going to bother the highway program or the construction program or anything else, that it was raised to do deficit reduction, it was never raised to help the highway program to begin with; right?

Mr. FAY. That 4.37 cents, since it is going into the General Fund, would not affect the current expenditures, but I have to add that I don't think the current expenditure of \$19 billion a year, when we are taking \$30 billion away from highway users, is fair.

I think that right now, when you take a look at the needs report that the FHWA has put out, we have got to start spending more money on roads and bridges and making them safer, and I think it is a safety question in this country.

While I do advocate greater investments in roads and bridges, and I would love to see the entire \$30 billion that is taken from highway users invested in better roads and bridges, it is correct, Mr. LaHood, if right now that money is not going to roads and bridges and if you repealed that amount, then it wouldn't make any difference on the current expenditures for roads and bridges.

Mr. LAHOOD. Thank you.

Mr. PETRI. I do have one or two questions as well.

Mr. Fay, I wonder if we could explore the donor/donee State problem, which should be a major issue as this legislation moves forward. You stated, to mitigate the immediate financial loss to donor States, STP funds should be distributed among the States on a dollar-for-dollar basis.

Could you expand on why you feel this is a better solution than the current equity provisions or the step 21 approach that a number of people have been working on and are probably going to be unveiling in the next couple of days?

Mr. FAY. Like everyone in the highway community, I hate this question, but I will say, number one, that I believe—

Mr. PETRI. You can't avoid it.

Mr. FAY. I know, and I will also say, we are not going to get involved in any of distribution formulas that you all allot.

We do feel very strongly that since there is a national interest that we have defined in those five areas, that those national interests need to be met and a donor/donee State relationship is going to have to continue if in fact you are basing highway expenditures on those national objectives.

We did try to mitigate the impact, or the donor/donee impact, a little bit by suggesting that the STP account that we would rec-

ommend would stay in the Highway Trust Fund would be allotted in terms of a dollar-for-dollar investment. Our feeling right then was that that at least would have some salvaging process on the donor States.

Mr. PETRI. Mr. Dittmar, I wonder if you could give us some of the benefit of your experience with these programs in expounding a bit on how the program delivery could be improved.

In that connection, one particular thing that has interested a lot of the State highway departments when they have come by to talk: Do you think value is added or subtracted by the regional offices of the Transportation Department?

In other words, might some thought be given to just going from coordinating with the State and municipal transit authorities and Washington in this day of modern communications and e-mail and so on, or should we add maybe more regional offices and have—is there—could you talk about that and other ideas in terms of improving the efficiency of the system so more money goes to help the public?

Mr. DITTMAR. I think one of the great unrealized promises of ISTEA was the promise of States and localities that if they did a good job of their planning and programming and citizen involvement at the front end of the process, that the Federal Government would allow them to move quickly through the back end of the process.

We have invested for 40 years now in building capable engineering departments at the various States, yet we still have an engineering design review process within the Federal Highway Administration; we still have an accounting and finance process within the Federal Highway Administration.

I am told by a lot of local officials and State officials, when one asks what it is they don't like about the enhancement program, it turns out it is the same thing they don't like in the safety program: that it takes forever to get the projects delivered. They have got to go through the same design review of the bike path that they have to go through for a guardrail, for that matter, that they have to go through for a major interstate facility.

So our program delivery reform would try to target just what places that value. We think the added value is in the planning and the budgeting side of it, so they develop good, fiscally constrained, responsible programs, but given some up front certification that States and localities are capable of delivering these projects and then being audited later and you don't have to look at them up front. I think that could save a lot of time in the process.

So we have invited four States and a number of NPOs and local officials to join us in a task force to identify some recommendations that cut across some of the traditional lines, and we have met with your staff and hope to schedule time when we complete these recommendations that we can bring them back to you, because we think that is an important part of making ISTEA work.

With respect to the Federal Highway Administration double layer of divisions and regions, we spent some time trying to think about how to advise the Department of Transportation when they were reinventing themselves last year on this question, and we think the question is really that perhaps those regional resource

could be better devoted to complex metropolitan areas so you would only have one layer. Instead of that layer being strictly at the State level, in some areas where you might have a Chicago office that coordinates with the division offices in the State, that the focus would be on some of those complex problems and solving those complex problems so projects could be delivered faster.

Mr. PETRI. Thank you.

I met with some folks, I think, from North Dakota. They didn't see what a Chicago office really added to North Dakota. It might help Chicago.

Thank you both very much, and we appreciate your time and look forward to working with you both as this process moves forward.

Mr. FAY. Thank you, Mr. Chairman.

Mr. PETRI. Our next panel is a very distinguished and extensive one consisting of Mr. Thomas J. Donohue, the president and chief executive officer of American Trucking Associations; Mr. John McQuaid of the Intermodal Association of North America; Mr. Richard A. Schart, who is the transportation purchasing and consolidation manager of the J.C. Penney Company—he is actually appearing on behalf of the U.S. Chamber of Commerce—Mr. Roger Ballou, vice chairman of Alamo Rent a Car, Inc., on behalf of the Travel and Tourism Government Affairs Council; Mr. Harry W. Blunt, Jr., on behalf of the American Bus Association, who is with Concord Coach Lines, Concord, New Hampshire.

Gentlemen, welcome. And Mr. Donohue, you have done this before. You may as well lead off this time.

**TESTIMONY OF THOMAS J. DONOHUE, PRESIDENT AND CEO, AMERICAN TRUCKING ASSOCIATIONS; JOHN A. McQUAID, PRESIDENT, INTERMODAL ASSOCIATION OF NORTH AMERICA; RICHARD A. SCHAT, MANAGER, TRANSPORTATION PURCHASING, J.C. PENNEY COMPANY, INC., ON BEHALF OF THE U.S. CHAMBER OF COMMERCE; ROGER BALLOU, VICE CHAIRMAN AND CHIEF OPERATING OFFICER, ALAMO RENT A CAR, INC., AND CHAIRMAN, TRAVEL AND TOURISM GOVERNMENT AFFAIRS COUNCIL; AND HARRY W. BLUNT, JR., PRESIDENT, CONCORD COACH LINES, INC., CONCORD, NH, ON BEHALF OF THE AMERICAN BUS ASSOCIATION**

Mr. DONOHUE. Thank you, Mr. Chairman and members of the subcommittee. We are very pleased to be here today representing the American Trucking Association.

I would like to begin by thanking this subcommittee for its leadership role in passing the National Highway Designation Act of 1995. Focusing on 160,000 miles of roads most important to commerce and personal mobility will prove to be a wise investment for many years to come.

I would also like to thank the committee chairman, Bud Shustar, and the subcommittee Chairman Petri, and Ranking Member Oherstar, and Mr. Rahall for spearheading the bipartisan effort in the House to take the Highway Trust Fund off budget. This is an important step towards ensuring adequate investment in our Nation's highway system.



Mr. Chairman, 1996 marks the 40th anniversary of the creation of the Interstate Highway System, and it should be cause for both celebration and reflection on the part of all Americans. The highway network has played a key role in making America an economic superpower. It has provided our citizens freedom of mobility unsurpassed by any Nation.

For the past four decades this system has been the trucking industry's workplace, enabling us to deliver the goods that keep America moving. Three-quarters of American communities depend exclusively on trucks for their freight transportation needs. But today, parts of the interstate highway network are crumbling, threatening the truckers' ability to provide quick, safe, efficient, cost-effective transportation service, but more importantly, it is threatening America's economic future.

By DOT's own estimates, a third of the interstate system is in poor or mediocre condition and a quarter of the bridges on the interstates are classified as deficient. Our roads are deteriorating as the demands we place on them are increasing.

As I have said here before this committee, a study conducted for us by DRI McGraw Hill has shown that by the year 2004 there will be 13 percent more heavy trucks on the road, they will drive 29 percent more miles, and haul a billion more tons of freight; and, ladies and gentlemen, that assumes that the railroads will double the amount of intermodal freight they are now carrying, and that is a big assumption.

Other studies show that during the same period of time our fellow citizens will add 8 million more passenger vehicles to the road.

So, Mr. Chairman, today our Nation's political leaders need to renew the commitment to highways that President Eisenhower in the 84th Congress made in 1956. Fortunately, such a commitment does not entail a wholly new road system requirement. Our challenge is to maintain and upgrade the one we have got.

Very simply, a well maintained network of highways is important because it creates jobs, especially in highway construction and the travel industries. It makes roads safer. Good roads save lives. It enhances personal mobility and allows our citizens to go where they want, when they want. It improves productivity by speeding the flow of goods, and it maintains our international competitiveness by keeping U.S. transportation costs low. Finally, it helps reduce congestion and thus lowers emission problems on the highways; and, oh, yes, it also ensures our national defense.

When it comes to highway reauthorization, Congress can help advance the goal of a world-class national highway transportation system by doing three things: First, fully fund the core highway program, meaning the National Highway System and the programs funding interstate maintenance, bridges, Federal lands, highway safety, and research.

The core program is being funded well below the authorized levels. In fact, when ISTEA expires in 1997, actual funding for the core program during the life of the bill is projected to fall almost \$8 billion below the authorized levels.

Consider the huge backlog of unmet road and bridge needs, and let's do something about it. All States benefit from the seamless interconnected National Highway System. California, for example,

will benefit by helping fund roads and bridges in Nevada because that is the only way to get there. Congress can help assure adequate funding by promptly but wisely spending down the surplus in the fund.

I know the time is running. Let me hit two other issues. I think the Congress must retain a strong focus on safety through the renewal of the Motor Carrier Safety Assistance Program. Two million inspections a year on our roads makes sense. And third, and very important, I think remaining programs that do not serve interstate needs should be folded into a streamlined surface transportation program.

Finally, Mr. Chairman, taking the 4.3 cents of money that is being collected from highway users and not used on the highway and cutting that tax is a good idea. If, after that tax is cut, this committee is successful in getting the Government of the United States to spend all that money they are accumulating in the trust fund on highways and bridges and you need some more, come see us; we will be there.

Thank you very much, Mr. Chairman.

Mr. PETRI. Thank you, Mr. Donohue.

Mr. McQuaid.

Mr. MCQUAID. I first wanted to commend the chairman for his courage in having two Irishmen from the freight transportation industry sitting up here on the panel together. Tom and I have followed each other around a little bit. At one point I worked for him. I guess I could say he taught me everything I know, but that is a little dangerous.

In any event, I am happy to be here today on behalf of the Intermodal Association of North America, which is the leading trade association representing the combined interests of all types of intermodal freight transportation companies and their suppliers.

Our almost 700-member companies include railroads, steamship lines and their stevedore affiliates, intermodal truck operators, and over-the-road highway carriers, and intermodal marketing companies. IANA members transport the bulk of the Nation's intermodal freight shipments, both domestically and internationally, through North America.

At the outset, I want to commend this subcommittee and the Congress for their vision and leadership in enacting, in 1991, the Intermodal Surface Transportation Act—ISTEA—and creating, for the first time in this country, a governmental template for looking at our transportation resources and needs in a systematic way.

The ISTEA set us on a new path in dealing with our transportation system and challenged all of us to take off our blinders and see the Nation's transport needs in a different light.

The ISTEA was a good first step, and we would implore the Congress to assure that we attain the vision of this legislation by re-enforcing its commitment to an intermodal approach to achieving our vital infrastructure objectives. IANA looks forward to working with this subcommittee and this Congress in the months ahead as it proceeds in its reauthorization efforts.

Given the demands on today's transportation network, the need for a continuing Federal presence and fashioning a rational policy is self-evident. In our view, any proposal that would suggest any-

thing less than a strong Federal role in formulating an overarching transportation policy is ill-advised.

In recent years, the Congress has struck a balance between the requirements for strong Federal oversight and the expanding needs for local decision-making in determining how to invest limited transportation resources to achieve maximum return on investment. IANA would strongly encourage a continuation of the new construct fostered by ISTEA.

During the course of these hearings, the subcommittee will be presented with a wealth of data on passenger and freight transportation in the U.S. The bottom line on all of those numbers plays to our national economy. IANA suggests that, next to its people, the Nation's transportation network is its most vital resource, its circulatory system, if you will, that has allowed our economy to grow to unprecedented dimensions while rewarding Americans with an unparalleled quality of life.

However, today our transportation network faces the same challenges as our aging population: Periodic breakdowns caused in part by poor circulatory health, in this case congestion, and inadequate conditioning, in this case investment.

Just as everyone must make a personal commitment to make the right choices to assure his or her longevity, the Nation needs to make similar commitments to ensure the vitality of our transportation resources and enhance the ability of U.S. producers to compete in an ever expanding global marketplace.

The Congress, in effect, is the Nation's transportation cardiologist. Its role should be to provide the necessary prescription and consultation with the States and local planners to assure the continuing health and vitality of our transportation network. In the absence of such a network, our ability to maintain a leadership role in international trade may be irreparably diminished, leading to a loss of jobs and a greater decline in our quality of life.

A look at the future trends in U.S. transportation reinforces the need for a strong national leadership role and increased spending on our transportation system.

Between 1994 and 2004, as Tom alluded, the total domestic freight transportation market will grow from 9.9 billion to 11.6 billion tons, representing a 16.9 percent increase in freight volume.

Meanwhile, U.S. passenger travel, which increased by 87 percent between 1970 and 1994, an annual average growth rate of 3 percent, is expected to be undiminished over the next decade.

It is clear from these growth trends that building and maintaining an adequate transportation infrastructure should be one of the Nation's highest priorities.

However, it is also evident that this priority runs headlong into the limited funds and unlimited choices that Congress has to deal with every day. But IANA would suggest that there is no better salve for healing the Nation's budgetary wounds than economic growth, and efficient transportation is vital to that end.

And I think I would stop this statement here, Mr. Chairman, and the rest of it lie out on the record, and I would be happy to answer any questions you might have at the conclusion of these hearings.

Mr. PETRI. Thank you very much.

Mr. Schart.

Mr. SCHAT. I am Rick Schart, manager of transportation purchasing for J.C. Penney Company, Inc. I appear before you today on behalf of the J.C. Penney Company and at the request of the U.S. Chamber of Commerce, of which J.C. Penney Company is a member.

On behalf of the J.C. Penney Company and the U.S. Chamber, I would like to thank the Surface Transportation Subcommittee for providing me this opportunity to present our views on reauthorization of the Intermodal Surface Transportation Efficiency Act, ISTEA.

The U.S. Chamber asked J.C. Penney to testify on its behalf because the U.S. Chamber membership believes strongly in maintaining a Federal role and wanted to provide the committee with a case study on the importance of the Nation's transportation infrastructure to the general business community's productivity and competitiveness.

In addition, the U.S. Chamber is in the process of formulating a set of formal policy recommendations on behalf of its membership that will be forwarded to the Congress in the near future. It is the U.S. Chamber's feeling that although its policy process is not complete, it is still very important to get across the transportation infrastructure users' point of view as you focus today on the national interests and the appropriate Federal role.

J.C. Penney is a major retailer, with department stores in 50 States, Puerto Rico, Mexico, and Chile. The company's primary business consists of providing merchandise and services to consumers throughout its department stores and catalogues. The company markets predominantly family apparel, jewelry, shoes, accessories, and home furnishings.

The J.C. Penney Company ships 1.1 billion pounds of freight annually by truck, rail, air, and ocean. We operate two wholesale-retail warehouses and six regional catalogue fulfillment centers, which ship to over 1,800 retail stores and catalogue desks as well as directly to our customers' homes.

We rely on over 4,000 supplier partners, shipping from nearly 8,000 ship points from around the world to supply us with finished goods. We import 15,000 40-foot containers of freight annually from around the world, and we ship 1,000 40-foot containers to domestic offshore points.

Retailing is an intensely competitive industry. Having merchandise where it needs to be at the right time is critical to our success and the business community at large. Further, distribution costs add an additional 3.1 percent to the cost of our merchandise.

A solid transportation infrastructure, consisting of congestion-free roads, structurally sound bridges, and adequate connecting links between highways and intermodal facilities is crucial to meeting competitive and cost control goals. Such a solid infrastructure will allow us to keep prices as low as possible for our customers and to do our part to control general price inflation. That infrastructure will take on added importance as the U.S. economy becomes more global in scope.

J.C. Penney recognizes the importance of ISTEA, and we feel it has been beneficial in furthering the Nation's infrastructure. We

support and encourage reauthorization of the act prior to the September 1997 deadline.

J.C. Penney further recommends that in reauthorizing the legislation Congress should consider the following goals:

One, identify transportation needs as a national priority.

A strong transportation infrastructure contributes to the economic health of the country as well as to the well-being of its citizens. The J.C. Penney Company employs about 200,000 associates. These associates rely on a strong transportation infrastructure to commute between home and work, to conduct personal business, and to enjoy their leisure time. Reduction of highway congestion reduces commuting time and allows our associates more personal time. In addition, quality of life would be further improved due to reduced exhaust emissions. Two, provide additional funding for the National Highway System and bridges.

The NHS constitutes only 4 percent of the Nation's road mileage but carries 40 percent of all traffic and 75 percent of all commercial traffic. Bridges, both on and off the NHS, provide a vital link for the transportation network. J.C. Penney uses highway transportation and intermodal connectors to get literally all of its merchandise to their final destinations. Additional funding for the NHS is critical for companies such as J.C. Penney to compete and flourish.

My third point would be—and you can read them in my prepared statement—we would provide funding for research and safety. Fourth, to discontinue allocation of the highway users fees to the General Fund.

And I would just like to close by saying that the business community is very excited about playing an active role in this process. J.C. Penney and the business community at large require a transportation infrastructure that promotes economic development, international competitiveness, and quality of life. To that end, J.C. Penney and the U.S. Chamber pledge you our support and resources.

Thank you again, Mr. Chairman.

Mr. PETRI. Thank you, sir.

Mr. Ballou.

Mr. BALLOU. Mr. Chairman and members of this subcommittee, thank you for this opportunity to present the views of the travel and tourism industry on the Federal highway program, better known as the Intermodal Transportation Efficiency Act of 1991, or ISTEA.

My name is Roger Ballou, and I am vice chairman and chief operating officer of Alamo Rent A Car, Inc. I am here today as chairman of the Travel and Tourism Government Affairs Council. This Council is comprised of 36 national organizations, representing every segment of the travel and tourism industry in the United States, along with senior corporate executives from the industry.

It is especially appropriate that I am speaking here to you today because it is National Tourism Week, when we thank our customers for making us one of America's leading industries.

Mr. Chairman, I would first like to cite a few figures that dramatically show the importance of our industry to the Nation.

In 1995, travel and tourism generated an estimated \$430 billion in expenditures, more than 6 percent of the GNP. Federal, State,

and local governments collected \$58 billion in taxes and user fees from travelers. It remained the Nation's leading service export industry, the third largest retail industry, and directly employed 6.2 million Americans.

In 34 States, it ranks among the top three sources of jobs. It is self-evident that the capacity of the travel and tourism industry to continue to grow and generate high-quality jobs is directly related to the capacity of our Nation's transportation infrastructure to function efficiently and effectively.

Travel and tourism depend on all modes of transportation, but none is more important than a national highway system. It was the launching of the Nation's interstate system more than 40 years ago that provided travelers the opportunity to travel long distances in a safe and efficient manner.

But despite the critical importance of the Nation's system of highways and roads, we have allowed our surface transportation infrastructure to deteriorate dangerously during recent years.

Members of this subcommittee are familiar with the DOT report on conditions and performance of our highway system. Needless to say, there is much to be done simply to maintain present standards on the roads and not to allow any further erosion. We commend members of this committee for leading the fight in Congress to build and maintain the interstate highway system. The Council led the travel industry's support of H.R. 842 as part of the broader coalition known as the Alliance for Truth in Transportation Budgeting.

We applaud all members of the House Transportation and Infrastructure Committee for its leadership that culminated in the passage of H.R. 842. The travel industry will be fighting now for Senate passage of S. 729 so we can provide critically needed funding for our transportation infrastructure.

The travel and tourism industry was gratified when Congress enacted ISTEA in 1991 since it explicitly gave recognition to our industry and provided a number of opportunities for travel and tourism to have its views considered in the formulation of surface transportation policy.

The travel and tourism industry has three brief recommendations to propose as Congress begins to consider reauthorization.

The Travel and tourism industry supports continuation of existing Federal surface transportation programs, including highways, bridges, and public transit.

The Federal Government must continue to play a major role in shaping the Nation's surface transportation infrastructure. Last year's passage of the historic National Highway System shows the vital stake that the Federal Government has in maintaining a truly national system of roadways to facilitate movement of goods, services, and people.

Federal leadership and financial support should continue to be directed towards enhancing the capacity and safety of roads and bridges which are of national and interregional significance.

Also, when travelers visit larger metropolitan areas, they often rely on local transit systems to travel to business meetings and conventions or to see tourist attractions. For that reason, we be-

liava the Government should continue to assist State and local governments with public transit.

Second, the Federal Scenic Byways Program begun under ISTEA should be continued. The Scenic Byways Program provides modest amounts of Federal seed money that allows local communities to use scenic or historic roadways to attract visitors and develop new economic opportunities. These newly developed destinations are often in rural areas where traditional resource-based industries no longer provide sufficient employment.

Driving for pleasure and sight-seeing are at the top of America's favorite leisure time pursuits. Scenic byways offer opportunities for Americans to enjoy this pastime. Besides the positive economic impact scenic byways can have on communities, it also encourages local citizens to protect the national beauty and preserve their local history and culture.

Third, the travel industry supports continuation of the transportation enhancement section of ISTEA with one minor addition: To permit construction and renovation of State highway information centers to be eligible for funding of transportation enhancements.

The transportation enhancement section of ISTEA channels a small portion of the transportation funding of programs to preserve historic buildings, landmarks, and neighborhoods. It allows for landscaping and scenic beautification, and it helps to counter some of the adverse impact highways and roads will inevitably have on communities.

These projects help to preserve and protect scenic and historic sites for visitors and create thousands of new jobs in cities across America. While we are not seeking additional money for transportation enhancements, it seems reasonable to make highway information centers eligible for Federal funding.

In conclusion, the travel and tourism industry supports and endorses ISTEA, or whatever its new name and acronym will be, with little substantive change. The bulk of the Federal money has been, and should continue to be spent on highway and bridge construction, maintenance, and safety programs.

Thank you.

Mr. PETRI. Thank you.

I would like to introduce Representative William Zeliff of New Hampshire to introduce our next panelist.

Mr. ZELIFF. Thank you, Mr. Chairman.

I am very pleased to introduce the next panelist, Mr. Harry Blunt. He is president of Concord Coachlines in Concord, New Hampshire. He is also very much involved, on almost a full-time basis now, with the American Bus Association. I worked with Harry in various capacities on the New Hampshire Travel Council. He is a great ambassador for travel and tourism on both a national and State level.

Welcome, Harry. It is great to have you here today, and I look forward to your testimony.

Mr. BLUNT. Mr. Chairman, thank you for letting me be here today. I am here on behalf of the American Bus association.

Intercity bus service is the primary system of low-cost, inner-city transportation in this country. In rural areas, bus service is virtually the only public transportation available to the public. Yet

public policy is set out in the Federal Aid highway and mass transit programs over the years has not reflected the overriding importance of the bus industry in passenger transportation and in fact has discouraged low-cost bus transportation in favor of the high-cost alternatives. This must change. Congress must give the intercity bus industry a more central role in providing central intercity public transportation.

Several salient statistics underscore the obvious importance of bus travel in the national transportation network when compared to transportation by Amtrak or commercial airlines, the two competitors of intercity public transportation of passengers. Intercity service serves more points than either Amtrak or the airlines.

I ask at this time, if I may, I have some updated numbers which are part of the attachment to my written statement, and I ask permission to submit a corrected copy of table 1 as additional testimony.

Mr. PETRI. Without objection, that will be done, and it will be included in the record.

Mr. BLUNT. Thank you.

Table 1 shows on a State-by-State basis the number of communities served by the intercity bus industry as compared with Amtrak and commercial airlines. In every State, the bus industry serves more cities and towns than the other competing modes. In my home State like New Hampshire, for instance, Amtrak serves one point, the airline serves three points, while the bus industry serves 33 communities with scheduled service. In your home State of Wisconsin, Mr. Chairman, Amtrak serves nine points, the airline serves 12 points, and the bus industry serves 94 communities with daily service.

Collectively, Amtrak serves 619 communities, including 108 which are by contracted bus services for Amtrak, and the intercity bus service serves 4,274 across the United States.

Notwithstanding the essential nature of the bus industry compared to other modes and the fact that busses carry the old, the young, the poor, and those in rural America, Federal transportation programs have ignored the bus industry while heavily subsidizing our competitors. The bus industry receives no direct operating subsidy and very little Federal support.

Robert R. Nathan Associates has conducted an extensive study of total Federal subsidies, net of user fees, received by each passenger transportation mode since 1960. The results are striking. As shown in figure 2, from 1960 to 1993, measured in constant 1993 dollars, mass transit has received a net subsidy of \$91.2 billion. Aviation has received a net subsidy of \$104.5 billion, and Amtrak has received a net subsidy of \$24.6 billion.

The intercity bus industry, in marked contrast from 1960 through 1993, received a net subsidy of only \$600 million. On the graph over there, you can see we hardly even show up.

While Amtrak and the commercial airlines, combined, receive more than \$79 billion in net subsidies from the Federal Government, the bus industry received less than 1 percent of that amount. Yet the bus industry is expected to compete on an equal footing with air and rail transportation.



The disparity in Federal subsidy by mode is even more outrageous when viewed by passenger trip. Figure 3 shows on the charts I have handed in that commercial airline passengers have received a net subsidy of 6.38—\$6.38 per trip. Mass transit passengers have received a net subsidy of 33 cents per trip. Amtrak passengers receive a net subsidy of \$54.88 per trip. The intercity bus passenger receives a net subsidy of 5 cents per trip. Bus passengers get a nickel from the Federal Government while Amtrak passengers get \$54. This is public policy in its worst form.

The intercity bus industry's greatest need and most promising area for public policy successes is in the continued development of funding for intermodal transportation centers. ISTEA contains several provisions that allow States to fund intermodal transportation centers. The problem is not the hue, the problem is the bus terminal.

There have been several success stories as a result of these provisions. South Station in Boston is one of them. States like Wisconsin need to have more intermodal facilities. Washington, D.C., is a classic example of where what I refer to as Union Station Center is a beautiful facility designed to house trains and the city transit system, yet the bus terminal is delegated to five blocks away in a poor part of town. That should be part of that transportation center.

I will conclude my remarks by saying that ABA looks forward to working with this committee as this legislation is crafted in the future. As the process continues, we will do everything we can to support this committee's effort to promote a strong national transportation system.

Thank you.

Mr. PETRI. Thank you. Thank you all.

Mr. RAHALL, do have any questions?

Mr. RAHALL. Thank you, Mr. Chairman.

I would like to begin with you, Tom. It is good to see you once again before our subcommittee. I would like to ask you a question about something that is actually, I think, more on the American people's mind than the effort to repeal the 4.3 cent gasoline tax, which totally amazes me, the political snowball that is built up behind that effort.

The fact of the matter is, the year after Congress agreed to impose that tax, the price of gasoline was lower than before the tax was. But anyway, we all know the politics of that.

Something really that, like I said, is on the American people's minds more I hear every day back home. I hear it on Main Street, U.S.A. I hear it before civic groups. I even hear it in my hardware shop back home. That is the issue of truck sizes and weights.

I would like to ask you if, to your knowledge, there is anything in NAFTA—and I know this doesn't relate to today's hearing, but I just want to get this on the record. Is there anything to your knowledge in NAFTA which would override U.S. law as it relates to truck size and weight?

I ask you that question because I know we have many interested members of this subcommittee, especially the ranking Minority member, Mr. Oberstar, concerned about this issue, and we have your good friend, Ms. Claybrook, I believe in the audience. So I

would just like to ask you if, to your knowledge, there is anything in NAFTA that overrides the law.

Mr. DONOHUE. Mr. Rahall, there is nothing in the NAFTA agreement, which is an agreement between three countries, that overrides Federal law or Federal regulation. In fact, we may well end up being in violation or out of the spirit of NAFTA in something that we do to stay in compliance with the Federal law so that, if the parties got together and said let's have these sizes or weights of trucks, they could not come into the United States and run those without an action by the appropriate Federal and State officials that would make that legal.

So they can have all of the ideas they want and all the discussions and all of the suggestions on matters such as you have raised, but if they are in contradiction of existing U.S. law, they won't work until that law is either changed or they won't work at all. There is nothing that can be done in NAFTA that can overturn a piece of Federal legislation.

Mr. RAHALL. I appreciate that. I think that is reassuring.

Let me ask you a second question. Is it the intent of ATA to mount a wholesale assault on the LCV freeze and the Federal truck weight limit as part of the reauthorization of ISTEA?

Mr. DONOHUE. I will answer that question directly, but let me do it incrementally.

In 1991 the Federal Government took a look at the road system in the economy of the United States and took a picture of it, and they froze it, and they said nothing can change in terms of size or weights on these roads or those roads in this State or that State; the States no longer have that flexibility; it is frozen.

In that period of time, in the 5, and soon 6, years since that snapshot was taken, a lot of things have changed. This Congress has sent significant amounts of money to the States to build important roads. Because of that a number of factories have been built. There has been a lot of changes, and in fact this committee in recent legislation has identified at least three of those circumstances where it made an exception to the freeze so that common sense movement of vehicles, trucks, could take place.

It is not our intention to come ahead with a wholesale effort to get bigger trucks, to run trucks in lots of other places.

Mr. RAHALL. Wholesale what?

Mr. DONOHUE. Wholesale effort. The trucks we have are big enough.

I had an opportunity to talk to Congressman Oberstar this morning. What we are talking about here is applying a common sense effort. Let me give you an example.

In Denver, Colorado, they can run triples—by the way, the safest trucks in America. They can run them through the populated area right downtown. Now you gave them a lot of money and they built a very modern highway around the city. But the governor and the legislators cannot allow those trucks to go on that road and get out of the city.

So what we need to do is take a look at a common sense method to take care of those problems.

But I can assure you that in the list of things that we are interested in under ISTEA, we are not planning an effort to go out and

make a major change of any type in the size, in the weight, of trucks.

Let me say that on the weight issue, the only reason that has been discussed at all is that the NAFTA agreement says that sometime in the future that Canada, Mexico, and the United States should rationalize its weights. But any weight we would rationalize, would have to be approved by this Congress. This is not at the top of my hit parade.

Mr. RAHALL. That is equally reassuring. Thank you.

Mr. Ballou, let me ask you a question if I might. And coming from West Virginia, we certainly are recognizing very quickly the major contribution that tourism makes to our industry, and I commend you for the recommendations that have been made in your testimony.

In particular, you noted the importance of the Transportation Enhancement Program, with which I obviously agree. However, for the record, could you elaborate on what you see as the Federal or national interest in continuing this program?

Mr. BALLOU. We see the Federal and national interest being very similar to the scenic byway Federal and national interest in the sense that it provides jobs in the local communities, it provides preservation activities in the local communities, it develops economic development activities in the local communities by maintaining either the scenic byways or historic buildings, et cetera.

And as we said, we would like to see the information centers on the highways included in that. We think that is a benefit to travelers. Those programs spur travel, bring dollars into the local communities, treating travel as a development industry, in effect.

So the visitor industry is spurred by those, and we think that visitor industry is a dramatically growing percentage of the U.S. economy. So that is—the national interest is that it will spur jobs and taxes, et cetera.

Mr. PETRI. Mr. LaHood, do you have any questions?

Mr. LAHOOD. Mr. Donohue, do you think that if Congress repeals the 4.3 cent a gallon on gasoline, that that will reduce the cost of gasoline for the people who drive trucks?

Mr. DONOHUE. Gasoline and diesel fuel; yes, sir, I do.

Mr. LAHOOD. By how much?

Mr. DONOHUE. I certainly hope by 4.3 cents a gallon. And for us, in an industry that is struggling with a profit margin of 1 and 2 percent, that would be \$1.7 billion in cold cash, and that would make a huge difference to us.

And I understand all of the arguments where people are suggesting that what the oil companies will do is, you will see that 4.3 cents disappear. I think it is important to recognize that the taxes, as it used to be were shown separately on the pump. Now they have a seal, but the taxes are a fixed cost. It doesn't matter what happens to the oil price because of supply and refineries and the weather and all of that; taxes are a fixed cost.

And I would hope that if Congress goes ahead and takes away that 4.3 cent tax—a tax, by the way, that is paid most heavily by those in the lower-income brackets that have to drive 60 miles to work and so on—I would hope if Congress did that, they keep a very careful eye to make sure that the oil companies stuck to the

price of the product and didn't play around with the tax price. We sure will.

Mr. LAHOOD. Do any of the others of you have an opinion on that, whether the fact that Congress would reduce the gasoline tax by 4.3 cents and it would reduce the cost of gasoline per tank?

Mr. BALLOU. Just a quick comment, and, from a travel industry perspective, we certainly think that we would rather see the 4.3 cent tax stay but dedicated to the Transportation Trust Fund. If it isn't going to be done that way, we would like to see it repealed.

I think the cost of gasoline has a lot more to do with supply and demand factors and pricing pressure and competitive environment than it does the 4.3 cent tax. In the short term it ought to go down because there is a lot of exposure on it, but in the medium term I think it will have very little to do with gasoline prices.

Mr. BLUNT. The intercity bus industry has been struggling to even meet Tom Donohue's numbers of a 98 or 97 percent operating ratio. The reduction of this fuel tax would go a long way to enhance that.

I think our industry would love to get back to the point where the United States Government starts collecting more income tax from it rather than user feeing it to death.

Mr. LAHOOD. Mr. Ballou, are you suggesting that we have an oil shortage?

Mr. BALLOU. No, I am not suggesting that we have an oil shortage. What I am suggesting is, if you look at supply chain economics, that what has happened is that the demand pattern has risen slightly out of sync with the supply for a short-term period and we are seeing a change in prices.

It will probably go the other way at a point in time also where demand may not grow as fast as anticipated and the supply change is twofold and the prices fall. But clearly the gasoline tax of 4.3 cents has little to do with what is going on in the pricing right now.

Mr. DONOHUE. We could have a seminar that would last for days on how oil is priced. Sometimes I think God comes and talks to the oil executives in the middle of the night. But they have a lot of changing factors.

The one thing that is an absolute constant is the tax that is paid. In terms of diesel, we are talking about 24.3 cents on the Federal level, then add in the State level.

In terms of gasoline, we are talking about 18.3 cents on the Federal level, then add in the State level. And if you stop and think, in many of the communities that the ladies and gentlemen here represent, folks drive a long way to get to their jobs, they drive a long way to shop, they move around in their automobiles, and at 4.3 cents for those least able to pay would be a nice relief, and for those industries that live and die on fuel—it is 20 percent of the cost in our business—it would make a significant difference.

And I would like to remind you that there are 300,000 trucking companies in the United States and most of them have six or fewer trucks. These are small businesses that would get great relief from this, and, as I said to Mr. Rahall, if we spend the money in the Highway Trust Fund, if we take that \$20 billion we are sitting on and go and spend it on roads and bridges and we run out of money and want to build more roads and bridges, call us.

Mr. LAHOOD. Thank you, Mr. Chairman.

Mr. PETRI. Mr. Boreki.

Mr. BORSKI. Thank you Mr. Chairman.

Mr. Donobue, when Mr. Fay was asked about the 4.3 cents, I believe he said his first choice would be to send it through the trust fund. In your statement you paint a pretty dire picture of the conditions of the roads and bridges of this Nation. Wouldn't it be a better idea to keep that 4.3 cents and transfer it to the trust fund rather than repeal it?

Mr. DONOHUE. In a perfect world, in a business case at a local university, that would make great sense. But I want to remind the Congressman—and he has serious problems in his neighborhood in terms of spending some money; I have some relatives up there—that we are sitting on \$20 billion that sits over there in that trust fund, so that the deficit doesn't look as bad as it is, and this committee and the authorizing committee knows about these needs. They go out and identify what ought to be done. They set out a certain amount of money, and yet that amount of money is not appropriated and moved forward.

I would say, sir, if we took that 4.3 cents and moved it over there, it would be in the same place where it is now: There collected and not used on roads. The day that \$20 billion is gone and we have to build some more roads in your neighborhood and ours, we are prepared, because that is our life blood.

But you know what we are doing now, we are paying money that is staying in the trust fund, plus we are paying 4.3 cents that is just going into the General Fund, and that adds up to be a lot of billions of dollars that may be being used for the Nation's good.

I won't argue that, but it sure isn't being used for roads and bridges and safety and all the things we need, and we think the best way to get to that deal is repeal the tax, force people to spend what is being accumulated, and call on us when we are ready to build some more roads.

Mr. BORSKI. I want to ask another question. I don't know if you have taken a look at this or not, but I have always thought it might be an interesting idea and to use this 4.3 cents as an example.

Suppose we could take that to the Highway Trust Fund but instead of using it directly, leverage that money, that \$4.8 billion to perhaps \$48 billion. Has ATA given any thought to trying to use this money?

One thing it would do, I think it guarantee us that we could spend all that and use it today when, again, in my view, we have enormous needs out there.

Mr. DONOHUE. You raise, sir, a very interesting question which was addressed in our recent national highway bill legislation and so on. That is the infrastructure banks. The whole idea there is, we need something now. Can we leverage that by doing some appropriate financing? And there are lots of different ways to do that, that would be paid back either through future highway taxes or, in some places, from sales taxes or other municipal funds, and so on.

I think that was an intelligent thing to do. I think it says that we have demonstrated in this country that you can buy houses on

a mortgage and you can build factories on a mortgage and you can even build infrastructure on a mortgage, and I think that makes a lot of sense, and if in fact at some point in time we were to take some of the Highway Trust Fund money—and just for the record, I would remind you, there is \$20 billion sitting there—you can do a lot of leverage with that and use some of that to move forward in an intelligent way. I think that is positive.

I think we have to be very careful not at the same time to let some communities that think they can run out and put tolls on existing roads that have already been paid for with Federal funds and so on. It is a matter that we are going to grow into.

I think the committee and this Congress was very astute in adding this language to the last legislation. I think we have to work together on it. You will have our support because it provides incremental dollars to build infrastructure that may not be there in the future.

But please let's all keep the pressure up, as you did in taking it off budget, and let's spend that which we have, because spending that amount of money would really put a big dent in our problem.

Mr. BORSKI. I would ask you to take a look, that this 4.3 cents has gone and it would be repealed. It might be fun to just look and see if we can bring it back and use one of these infrastructure banks rather than the way we have in the past.

Mr. DONOHUE. I would be very happy to talk to you about that. We have a lot of ideas how to do that, and perhaps we can arrange to talk about that.

Mr. BORSKI. I would like to ask just one question, Mr. Chairman, and that is on urban congestion.

In your report you point out a 1990 study saying that of course \$43.2 billion in urban congestion—I assume a fair amount of that is to your members.

Mr. DONOHUE. You know, when a truck is sitting still, it is doing two things we don't want it to do: It is losing money, and it is polluting the air. When a truck is moving, it is making—hopefully making money and delivering some value to the economy.

I think you know there is a major study that has been done by the European Common Market, and they—they don't like trucks. That is one of the reasons their economies are all in the can, because they can't move their goods. They have a really serious problem, and they are moving their manufacturing out of Europe as quickly as they can.

But now they are looking at an effort—because they sort of taxed them and they want to keep the pressure on, they are looking at an external cost study. That is, what do all these other things cost the society? We think that is interesting, but we want to do an external benefits study at the same time.

What are these benefits—and if you look at cost and benefits, all of a sudden I think we can look for ways to do creative financing, get rid of congestion. We have to be reasonable, to stand up and say we need to fix some of these problems. I think you are on the right track, and I think we ought to keep moving in that direction.

Mr. BORSKI. Thank you, Mr. Chairman.

Mr. PETRI. Mr. Zeliff.

Mr. ZELIFF. Thank you, Mr. Chairman.

My question is to Mr. Blunt.

You cited some compelling statistics in your testimony regarding Federal subsidies of various transportation modes, and you specifically mentioned how little support the Federal Government gives the bus industry.

Could you tell me what support you feel is needed, should it be capital expansion, or direct operating expenses, or should it be something else that we need to make sure we have flexible programs to untap? Could you also describe, once that investment is made, how do you see that contributing to the total intermodal concept?

Mr. BLUNT. I thank you, Congressman.

I think at the outset I should say my industry is not looking for operating subsidy, we are looking to be recognized, and I will give you a small example of the problem we have.

When the NHS map was first conceived over at FHWA, the bus industry wasn't even on the map. We had to go in and fight to get bus terminals put into the intermodal system on that map. Constantly we run into that kind of problem.

Under ISTEA legislation, things like intermodal facilities, what has ended up happening is that the NPO seizes on the idea that it would be important to have a good train station, transit center, whatever, just like the example I made of Union Station here in Washington. Then somebody says we need to have the bus in there too. So somebody runs out on the parking lot in the pouring rain and paints intercity bus parking spaces, so the train passenger climbs in a beautifully warm and covered facility and we stand out in the pouring rain.

All we are asking for is in the intermodal structure. Our problem is terminals. It is the same problem every passenger transportation system has. If we could be made more a part of that system and put in the connecting web, we would provide a much better service and be much more attractive to many more Americans.

South Station is a classic example of that. You could have left your house this morning in Jackson, New Hampshire; walked down the road; gotten on my bus; ridden to Logan International Airport through South Station; had a chance to take Amtrak to Washington or go on to the airport; come to Washington; and connect in your office today in time for this hearing that afternoon.

That is the way seamless transportation is supposed to work. But that doesn't happen very much because most of the time the bus station has been delegated by local planning over in the worst part of town. That is our number one problem.

Mr. ZELIFF. As a follow-up question, using New Hampshire as an example, give me a feel for the numbers of bus riders and describe what you see as inhibiting factors to growth in bus ridership, whether it be conditions of roads or what-have-you.

Mr. BLUNT. New Hampshire has a population of about a million people. My company carries just under 400,000 people a year in and out of the City of Boston. We carry another 200,000 people out of Maine in and out of Boston, all connecting through to the new South Station facility and Logan International Airport.

We have had the good fortune of having a State DOT that has been innovative in terms of "park and ride" lots on interchanges.

We have begun to get some intermodal facilities working such as in Concord, New Hampshire, which is under construction now.

We are seeing tremendous growth in our traffic. In the State of Maine, for example, our traffic between Portland, Maine, and Boston is growing a whopping 65 percent against last year's statistics. We are in the process of building a new "park and ride" facility in Portland, Maine.

So I think when innovation has been put in place, "park and ride" facilities strategically located near Interstate Interchanges, our industry can work well. In other States where that is not the case, we are destined to the wrong side of town and inadequate facilities. Our industry can provide the capital for its rolling stock, but it is choking trying to get its bus terminals strategically located.

Mr. ZELIFF. Thank you, Mr. Chairman.

Mr. PETRI. Ms. Johnson, do you have any questions?

Mr. Horn?

Mr. HORN. Thank very much, Mr. Chairman.

Mr. Donohue, you stated those Federal diesel and gasoline taxes at 18.3 cents for the gasoline, 24.3 for the diesel. Does that variance bother you at all? And if so, what would you suggest just on how those taxes have been levied?

Mr. DONOHUE. I think I can live with the variance, sir, for this reason: While we are only 4 or 5 percent of the vehicles, we run probably 13 or 14 percent of the miles. We have to be good citizens on this matter. These trucks weigh more than do cars. But we are paying 30-some-odd—39 percent of the taxes.

Actually, we spent \$22 billion if you include the States, and some of the States are beginning to think that we are the Bank of London.

I think the variant when you look at the weight is something that we can live with. What we are concerned about is that the money we pay go into fixing the roads and bridges so that we are not in a position some years from now where people say, "You know, the trucks are wearing out the roads and bridges and we ought to charge them some more."

In fact, there lots of roads that we are not allowed on that are wearing out faster than the ones the trucks are on. If it is good citizenship and good logic for us to pay a little bit more, we would like to not see the gap grow any more.

Mr. HORN. Let me move to the next question. I appreciate your answer there. I want to get to NAFTA.

Also we read in the paper and we receive letters from citizens and American truckers who say, "Hey, Mexican trucks are unsafe, and they are getting across the border, and they are in competition with us, and they don't have the proper standard or proper license or whatever."

What data has the American Trucking Association collected that shows whether the Mexican truckers are getting away with murder in the United States or the American truckers are getting away with murder in Mexico?

We obviously have a difference of opinion there, where some of our trucks have been stopped in Mexico, some of Mexico's trucks have been stopped here.



I would like your assessment as to the degree to which Federal and State infrastructure along the border is being built so they can properly conduct inspections, check for licenses, and so forth and so on. I would like your read on that.

Mr. DONOHUE. I will try to be very brief. I think we ought to separate the question of safety from the competitiveness issue for just a moment, and I will come back to that.

Mexican trucks have been coming into the United States every day for about 30 years—at least 30—and they operate in commercial zones along all the border States with Mexico, and they are regularly—they have been regularly inspected by the customs people, food and drug people, the agriculture folks, and the local police for performances and safety inspections.

Now with the NAFTA, we are going to have a much higher level of inspection. If you go down along in California, for example, the State DOT and the California Patrol have built a whole series of new inspection stations. And I went down. In fact, we did the TV show down there.

We watched these trucks come across one after the other. If they didn't have a recent CVSA sticker, every single one of them was pulled off and inspected by professionals of the California Patrol.

The bottom line is very simple: You cannot run a Mexican truck in the United States without living by U.S. safety standards.

Now, do some people get across at small border crossings, and can you find a truck that is not in the right kind of repair? You sure can. A TV station went down there and said, "We have got one." It was a rickety old, beat-up truck, and they got all the guys. The only trouble was, it was a truck from Texas and it was registered in El Paso.

So the point is, we have to understand that for the most part Mexican trucks are going to have to live by our standards or stay out, and they are going to be inspected more than U.S. trucks are inspected, and they are going to be inspected on a regular basis.

When we go to Mexico—and by the way, we are not too hot about going to Mexico. We want to go into Mexico where the maquiladora plants are, and for the most part we want to do business arrangements with Mexican carriers, because you don't want to get way down into Mexico with your truck and have it break down, and there are other problems there. This is going to take time. There are some impediments to us running down there, but over time this will work itself out.

The other issue is to say who is raising the majority of the concern, and it is obviously people concerned with competitiveness issues, people concerned about safety issues, legitimate concerns, and I think over time this will work itself out. The drivers have valid licenses, trucks are being maintained better and inspected very strictly, and I would hope that we could look at this on a long-term basis and let's get on with forming a North American economy that can compete in the world.

When you look over the border at Mexico, you have to see four things: You have to see a huge consumer market; you have to see a willing work force at the average age of 22; and you have to see a tremendous set of natural resources, including petroleum, that could free us from the constrictions of the Middle East; and you

have to see access and market access to the rest of Latin and South America. And with all the problems that will come from it, with all the economic and social and political problems, we can't let that market go to somebody else.

Mr. HORN. It is a very eloquent statement. I agree with you.

Mr. SCHART. Mr. Horn, could I add one comment?

My company has been doing business in Mexico now for about a year. We have moved dozens of truckloads, American carriers down in Mexico. We have not had one problem getting our loads delivered. We have had some clearance problems at the border, paperwork problems, but nothing as far as the transportation structure goes itself.

Mr. HORN. Thank you. And thank you, Mr. Chairman.

Mr. PETRI. Mr. Sawyer, do you have any questions? I just have a few.

I would like to ask Mr. Donahue just one question. And thank you for your appearance and your testimony, and we look forward to working with you and the organizations all of you gentlemen represent as we move forward over the next year or two on this important project that we are all engaged in.

What would you say would be the most important issue to the trucking industry during the upcoming reauthorization, if you could identify that?

Mr. DONOHUE. If I might say, there are two. First of all, we have to recognize the economic growth that is going to take place in this country, and we have to rally around spending the money we collect and build not new but upgrade, build, and fix the bridges and the roads in this country to accommodate the freight we have to move and our citizens' mobility in this country, and we need to demand that that money we put in there is spent, and we will be working throughout the process to ensure that is done.

Mr. Chairman, the second thing that needs to be addressed in this reauthorization is, we need a common sense look at the hours-of-service regulations that truckers are driving under. They were put together 57 years ago, before television, before modern highways, before modern trucks, before computers, before satellite tracking, and we don't need to necessarily extend the hours people are going to drive, we need to put the kind of flexibility in it that a snowstorm in Wisconsin demands.

We need to make it so people can sleep when they are tired and work when they are not and adhere to a series of national safety standards. We hope that work is being done by FHWA and ATA, and we are going to run a big international conference on fatigue, and hours of service can be given careful, common sense consideration. Everything else pales after those two issues, as far as we are concerned.

Thank you very much.

Mr. PETRI. So to carry the ball we started moving over the goal so far as off-budget and ensure that there are adequate resources, infrastructure, in this area. And second, we are eager to work with you. There are a lot—we know that there are often two sets of books in the industry, because standards are impractical in a lot of specific conditions. Expecting a guy to stop an hour from home and wait for a period of time is not going to happen in the real

world. There are big problems with a lot of local carrier type services where the people are spending most of their time really stocking shelves or, in my State, pumping milk and not really over the road; plus all of the other things you have identified. And technology seems to be changing, and the ability to monitor movements seem to be changing.

So there may be some opportunities where we can actually maintain all of the—do the real safety concerns and fatigue concerns and get rid of some of the "one size fits all" regulations. I am hoping we can do that, and we are eager to work with you on that, but we cannot do it in a way that sacrifices safety for the traveling public and the people in the industry themselves.

Mr. DONOHUE. I think the safety numbers in the trucking industry have gotten so much better. The programs we have adopted such as commercial drivers' licenses and getting rid of radar detectors and now spending \$6 billion on antilock brakes has helped, the results speak for themselves. We won't do anything that is unsafe; we want to make it safer. In many ways the hours of service make driving unsafe.

Mr. PETRI. Thank you.

Mr. RAHALL. Mr. Chairman, that long litany that you mentioned, that was before Tom Donahue; right?

Mr. DONOHUE. Thank you, sir.

Mr. PETRI. This question could be addressed by several of the panelists if you care to, but in particular I guess it would be to Mr. Schart.

What is the importance in this day and age, with the interstate completed, of the Federal—continuing the Federal role in transportation, surface transportation in particular, in the United States?

There will be some proposals coming forward in the next year or two to either significantly pare back or even in some cases to eliminate the Federal program and let the States work it out.

Could any of you expand on either side of that issue, whether you think it is important to maintain the Federal program and try to improve it or if we should cut it back or even eliminate it now we have a national system. States normally, believe it or not, do talk to each other, so the roads do connect; they don't build them so they don't.

There is the public out there we are trying to serve that will depend on a certain amount of coordination, regardless of whether the Federal Government provides it, in the real world. There may be some legitimate reasons for us doing what we are doing.

I would just like to hear you, as representing consumers, discuss—without my real interest in us folks here in Washington and perpetuating ourselves directly or indirectly. So tell us the cold, hard truth as far as you are concerned on whether we should have a Federal system or not and what purpose it now serves.

Mr. SCHART. I think we believe as a company and with the Chamber that a national involvement in the program is still important, as I think I outlined in my statement, for a number of reasons.

First of all, the infrastructure is in place, but as has been outlined several times, the disrepair that parts of it are falling into; I-95 in Philadelphia, for example. These are major interstate cor-

ridors, and we feel that these situations are addressed better at the national level.

Second, there are many tie-ins—infrastructure. Ms. Johnson before talked about more railroads. One thing that we see in Texas is a new intermodal facility built in the North Dallas area. That facility has constituted a great leap forward by the rail industry in the offering of intermodal services, but we need to tie in from the interstate system to the highway system to make those facilities more efficient.

And, again, we just feel that it is in the consumer's best interest, the safety programs, the development of the highways or maintenance of the highways, that we feel it is more effectively handled at the national level.

I could just close by adding that the congestion situation has a dramatic impact on the productivity of American businesses. Just think about the fact that every morning we schedule eight different trucks into our stores, and if they are all stuck out on the highway, we have a whole staff of people sitting there, and we are paying Mr. Donohue. He may think his companies are taking the hit. We are paying them every time they come in to us and sit down and say, "Look at what my costs are. I need to increase my rates." Of course we pass that through to the American consumer as much as possible.

Mr. MCQUAID. I think the challenge to the Congress is to keep their eye on the ball. The ball, to me, is facing the challenge to invest in infrastructure that sustains and supports economic growth, the economy, the engine that drives this country, and we have to understand that in terms of what we are doing in our part of the business. J.C. Penney and other companies are only competitive to the extent to which they can get their goods efficiently between the origin and destination, and increasingly that involves a lot of intermodal moves.

I think the challenges we face—and, as I said, we are doing more with that every day, but economic growth is the name of the game, and Congress has to make hard decisions about making sure that we don't, through the lack of a Federal overview or Federal overarching perspective on a, quote, transportation system, make U.S. producers no longer competitive in the global environment that we are dealing in, and that is the bottom line, I think.

Mr. BALLOU. From the travel and tourism industry perspective and probably health care, clearly we see it exactly the same as this gentleman, from the sense that the issue for us is maintaining the competitiveness of transportation systems in this country versus other countries. It impacts our industry very, very directly. If our airline systems, our highway systems, aren't competitive with the systems in other markets, they will be more attractive to tourists going to those markets.

Tremendous amounts of the growth in this country are coming from the fundamental quality of the infrastructure that is existing here in areas like the highway system.

The problem is, if it is pushed down to the State level, while they can talk, they can have different priorities on a regular basis which are going to make it extremely difficult to compromise across political systems, and I think the brilliance of the Federal system here

is, there has been a national set of priorities that needs to be pursued, and that is why at least we believe very, very strongly in the continuation of a Federal role.

Mr. DONOHUE. Mr. Chairman, for every one point in world economic growth, trade toward movement of goods will increase two to two and a half times. That is true within our own country. As growth in the individual States happens, trade between those States multiplies at a rate faster than the growth itself because of the raw materials assembly and so on.

I said to Senator Gramm the other day, who is talking about sending more money back to the States—and, by the way, we pay \$22 billion, as I said, and 12, 14, of that goes to the States—I said it is very hard to get to Florida without driving through South Carolina.

And, as Mr. Horn knows, it is very difficult on the southern route to get through California without driving through Nevada. And Nevada doesn't have an infrastructure in terms of a trucking industry and an indigenous automobile industry to support the construction they need of roads, which are essential to California. They are essential to the whole trade business from east to west, and we need a Federal focus on this matter while giving the States back the types of things that are in their purview.

But we are not going to be able to compete with the Asian cartels and the European cartels unless we have a North American focus not only on trade but on the movement of goods, which is the backbone of trade, and I encourage the committee, under your leadership, to keep a very strong Federal focus while at the same time recognizing you can do a lot of things in California you don't have to direct.

Mr. HORN. Well, let's protect our pot and forget about you. The fact is, the last few comments have said we are all in this together.

The Alameda Corridor, which happens to be in my district and relates not only to Southern California but it is a national infrastructure facility that involves trucks, rail, ships, and I hope some day air. But that is so essential. And buses; yes, we also already have that. I am very conscious of the fine Long Beach Transit Company.

But the fact is, that is a national infrastructure, and we have got to think that way in this committee, and I think we do. We have thought that way in the previous Congress on a bipartisan basis, and I just hope we can keep recognizing that you all have a fine role and we all make up the whole that makes us competitive.

Mr. PETRI. With that, gentlemen, thank you very much for your testimony. It is a natural lead-in to what we are going to be talking about with the next panel, which consists of Dr. James Constantino, who is the president of Intelligent Transportation Society of America; Barbara Harsha, executive director of the National Association of Governors Highway Safety Representatives; and Ms. Joan Claybrook, president, Public Citizen, representing Advocates for Highway and Auto Safety, accompanied by Mr. Michael Dineen, who is the vice president of Federal relations, Kemper National Insurance Company; and Mr. Bob Brooks, president of the Commercial Vehicle Safety Alliance.

Dr. Constantino, would you like to proceed?

**TESTIMONY OF DR. JAMES CONSTANTINO, PRESIDENT AND CEO, INTELLIGENT TRANSPORTATION SOCIETY OF AMERICA; BARBARA HARSHA, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF GOVERNORS HIGHWAY SAFETY REPRESENTATIVES; JOAN CLAYBROOK, PRESIDENT, PUBLIC CITIZEN, REPRESENTING ADVOCATES FOR HIGHWAY AND AUTO SAFETY, ACCOMPANIED BY MICHAEL F. DINEEN, VICE PRESIDENT, FEDERAL RELATIONS, KEMPER NATIONAL INSURANCE COMPANY; AND BOB BROOKS, PRESIDENT, COMMERCIAL VEHICLE SAFETY ALLIANCE**

Dr. CONSTANTINO. Thank you, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to speak to you on behalf of the Intelligent Transportation Society of America, called ITS America, about the critical roles intelligent infrastructures play in saving lives and improving efficiency in all areas.

Although there has been enormous progress over the past two decades in reducing accident rates per miles of travel, transportation-related deaths continue to account for half of all accidental deaths in this country, and motor vehicle deaths account for 93 percent of those deaths, the number one killer of America's youth.

But in communities across the Nation, intelligent transportation systems are beginning to save the lives of thousands of Americans by allowing, for example, emergency vehicles to control traffic lights to reach accident sites faster, enabling traffic engineers to reroute traffic around accidents, and providing emergency services personnel with individual monitoring of the accidents so the appropriate response team can be dispatched.

Clearly, the Federal Government has a vital role in safety. It must work with industry to ensure that safety-enhancing technologies interact effectively and reliably with the public infrastructure so that accurate, timely information can be quickly relayed to public safety providers.

In addition to saving lives, intelligent transportation systems also save time, lots of it. At a time when Federal and State budgets are being cut, ever growing numbers of vehicles are squeezing on to an aging highway infrastructure.

Americans lost more than \$2 billion to traffic gridlock last year, a loss which translates into high costs of doing business in this country, more pollution, and generally lower quality of life. But intelligent transportation systems around the Nation are helping by moving people and goods faster and more efficiently.

This technology, which allows for more efficient use of existing infrastructure, costs as little as 5 percent of what comparable highway construction would cost. DOT estimates that every mile of new freeway construction, on average, costs approximately \$39 million, the cost of building 5 or 10 miles of new freeway, which will only serve those citizens along that corridor.

ITS can be deployed in an entire region, serving all citizens. ITS also creates jobs. We estimate that over the next 15 years more than \$167 billion will be spent on ITS technology in the United States. Car manufacturers, telecommunications companies, engineering and construction firms have already invested billions of their own dollars in advanced technology. They are creating the

high-tech, high-wage jobs that are the foundation of this Nation's economic future.

Of the \$167 billion to be spent on ITS, it is estimated that only 20 percent will be spent by the public sector. But there is a critical role for the Federal Government in stimulating markets and technologies which dramatically enhance transportation, lower cost, and increase productivity.

The I-95 corridor is improving the movement of people and goods along the East Coast and the Advantage I-75 Program, enabling trucks to reduce travel times and thereby reduce the cost of goods, are just two shining examples of how a very small but meaningful commitment by the Federal Government has produced multiple economic benefits.

The Federal Government should also consider some type of voluntary incentive program for ITS deployment to raise the visibility of intelligent transportation systems as a viable part of an overall transportation program. This would increase the opportunity for ITS to bring benefits and jobs to the rest of the Nation.

In addition, the Federal Government should consider reforms to allow greater private sector participation in the deployment of ITS. Public-private partnerships, procurement improvements, and expanding the uses of ISTEA Federal aid funds will enable greater private sector involvement and leverage limited Federal resources.

Also, the Federal Government has an important interest in coordinating but not mandating the development of standards so these technologies can communicate with each other.

Mr. Chairman, the Nation's transportation system, while still in need of substantial improvements, is presently realizing important benefits from ITS technologies in many programs around the country. These cost-effective systems are improving the Nation's economy, creating jobs, and saving lives today.

While the private sector is aggressively moving forward, Federal participation is critical to realizing the full promise of intelligent transportation systems. Thank you for the opportunity to testify before you today.

Mr. PETRI. Thank you.

Ms. Harsba.

Ms. HARSHA. Thank you very much.

My name is Barbara Harsha. I am speaking on behalf of the National Association Governors Highway Safety Representatives. Our association represents State highway safety agencies, and the members are appointed by their governors to implement the Federal Highway Safety Grant Programs. The association is primarily concerned about driver behavior and human factor issues.

Our testimony today will focus on the role of the Federal Government in highway safety and what this role should be. In our view, there is clearly an important role for the Federal Government in highway safety, for one motor vehicle crash is a major and costly public health problem.

According to the National Highway Traffic Safety Administration, those crashes cost \$137.5 billion in annual costs, including \$14.2 billion in direct medical costs, \$6.1 billion in reduced income tax revenue, and \$1.6 billion in public assistance payments. Motor vehicle crashes are the leading cause of workplace injury and cost

employers over \$40 billion a year in lost productivity, insurance payments, and other related costs.

Second, motor vehicle crashes are the leading cause of death in this country. They are the leading killer of young people between the ages of 6 and 28. More than 40,000 people were killed and 3 million injured in 1995 alone.

Third, unless Federal action is taken immediately, then these costs can be expected to increase. If the fatality rate increased from the 1992 level and the population also increased from the 1992 level, the motor-vehicle-related costs would be expected to increase by \$13 billion by the year 2000.

Fourth, a little highway safety money can result in considerable savings in both lives and dollars. NHTSA, the National Highway Traffic Safety Administration, has found that highway safety programs benefits exceed their costs by a ratio of 9 to 1. When pain and suffering is factored in, that ratio increases to an astounding 33 to 1 a ratio, which we feel few Federal programs can boast of.

Fifth, highway safety funding plays a small but critical role in highway safety at the State and local level. Funds help initiate new programs and leverage other non-Federal funding sources. Without Federal funding, it is very likely that fewer prevention programs would be implemented.

Perhaps most importantly, motor vehicle crashes and their associated costs can be prevented. NHTSA believes that it is in the Federal interest, particularly at a time when the country is concerned about reducing national health care costs, to prevent those crashes, to play a role in highway safety, and to continue support for Federal highway safety programs.

What is the appropriate role for the Federal Government in highway safety? In our view, that role should be one of partner. Federal highway safety programs should be a Federally assisted, State administered program just like the rest of the Federal aid program.

Specifically, the Federal Government should provide leadership by setting national goals, addressing emerging issues, developing national educational campaigns, and providing guidance on issues that are no longer mandatory.

The Federal Government can also assist States in moving toward more cost-effective, performance-based programming. By re-engineering Federal grant program administration so it is more results oriented, States will be allowed to set their own goals and develop creative strategies that are appropriate for their States and evaluate their progress in meeting goals.

The Federal Government can provide training, develop training standards, develop and demonstrate new programs and technology, facilitate technology and information sharing, research, and evaluate highway safety issues and programs.

Perhaps also most importantly, the Federal Government can provide adequate funding so that States and communities can implement comprehensive and effective highway safety programs. Federal funding for the highway safety grant programs have remained relatively constant and at levels well below the authorized amount.

At the same time, demands on those grant programs have increased substantially where the buying power of those programs have declined. More funds will be needed in the future if the more



difficult, high-risk highway safety targets are to be reached. With more funds, States can implement more community programs, undertake more impaired driving programs, increase enforcement efforts, and implement urgently needed document protection programs, among other things.

States can also use the additional funds to increase their traffic records, an area which we feel should be a priority and is a priority for States. If they do that, they will be able to improve their problem identification process, target their safety resources more effectively, measure their programs more accurately, and report back to you on what progress has been made and what needs to be further made.

We propose that highway safety funding should be based on exposure. That is the heart of the VMT, more funding, and one way to do this would be earmark a percentage off the top of the Highway Trust Fund for that purpose. It strongly supports safety programs which give them the flexibility to address their priority needs and determine the mix of safety programs that are appropriate for them.

We oppose unfunded mandates that require States to adopt one particular, often narrowly defined approach to highway safety. Similarly, we oppose sanctions which sanction States if they fail to act in a specified manner within a specified time period.

While we think that redirection makes more sense from a policy perspective, we have found redirection to be very difficult from an implementation standpoint. Our experience was that redirection caused antagonisms between the highway safety offices and the State DOT and did not encourage the coordination which was intended by the legislation. Both approaches have created considerable resentment at the State level, and we oppose the both.

We strongly support sanctions as a way to induce positive State behavior. Despite our position on sanctions, we do not want to have any repeal of programs which are in place and seem to be working well; in particular, the national minimum drinking age and the 153 penalty provisions for States that do not have mandatory safety belt laws. We think both of those have worked very well and it would be a serious step backwards if those were repealed.

Mr. Chairman, that concludes my remarks. Thank you very much for the opportunity to testify, and I would be glad to answer questions.

Mr. PETRI. Thank you.

Ms. Claybrook.

Ms. CLAYBROOK. Thank you very much, Mr. Chairman.

I am president of Public Citizen, testifying on behalf of Advocates for Highway and Auto Safety, where I am on the board and I am program cochair.

With me today is Michael Dineen, who is vice president of Kemper National Insurance Companies. His company is one of the founding members of Advocates, and Kemper and Mike Dineen have a long-standing commitment to highway safety, and I am very pleased that he is here today.

The subject of today's hearing, "Is there a need for a Federal role in highway safety?" is of great interest to me because I had the honor of the serving in the Federal Government's highway safety

programs as administrator of the National Highway Traffic Safety Administration. In brief, the answer to this question is a resounding yes.

I will address the need for a strong and sustained role in highway safety by examining three issues: The public health care costs of motor vehicle deaths and injuries, one; two, the economic costs to business of motor vehicle crashes; and you may wish to ask Michael some questions about that, where he has great expertise; and third, the national imperative of reducing crashes to improve the quality and the sanctity of life for all Americans.

We need only look at the damage done to highway safety programs in the name of States' rights last year in the NHS bill to illustrate dramatically the necessary and lifesaving economic imperative of maintaining leadership when attacking a national public health crisis that produces more than 41,000 deaths a year and 5 million injuries.

Since NHS was signed into law last November, 23 States have raised their speed limits and more than 12 are considering legislation to do so. Nine States now have speed limits at 75 miles an hour, and many have speed limits of 65 to 70, and one State, Montana, has no daytime speed limit at all. Preliminary results are beginning to come in, and it is bad news as we expected.

In the first 11 weeks of higher speed limits, California has already experienced a 17 percent increase in fatalities on the State's most traveled roads. Fatal car crashes had been declining in California since 1987 prior to that.

The recent news out of California demonstrates a troubling trend that safety advocates in the USDOT had anticipated. When speeds go up, the likelihood and severity of crashes increases, and more deaths and injuries are the result. And speeds are definitely going up.

Last Friday the Insurance Institute for Highway Safety released a study of speed limits on urban freeways in two States. Motorists in Texas and California, which raised their speed limits to 70 and 65, respectively, are abolishing—are driving faster and breaking new speed limits. The IIHS found that drivers on urban roads are traveling faster than these roads are designed to handle safely and the percentage exceeding 70 miles an hour has substantially increased.

Relinquishing the Federal role in highway safety, like the repeal of the national speed limit and motorcycle helmet law, could also have broader ramifications beyond the tragic loss of life and limb on the highway. The Environmental Protection Agency, for example, has already alerted States and communities that increasing speed limits would jeopardize the efforts to attain the national ambient air quality standards requirements and may drive up the cost for attainment for industry.

Faster speeds also resulted in increased gasoline consumption and are being cited as the reason for higher gasoline prices and longer lines in California. According to NHTSA, passenger cars and light trucks use approximately 50 percent more fuel going 75 than 55, and while congressional proponents wrap themselves in the banner of States' rights, it is the Federal Government, after all, that is interceding and coming to the rescue of the States experi-

ancing steadily higher gas prices by a Federal solution such as the release the Federal Strategic Petroleum Reserves and the elimination of the portion of the Federal gas tax.

This recent example of diminishing the Federal role in highway safety shows that States' rights and State responsibilities have not been adequately linked and consequently come at a substantial cost to the Federal Government, to taxpayers, and to families on our Federal highways.

In the upcoming reauthorization debate about donor and donee States, identifying the givers and takers among the States should not be measured solely in terms of the contributions to the Highway Trust Fund but should include State burdens on other Federal programs as well.

On the health care cost issue, motor vehicle crashes remain a major public health problem for the Nation as a whole. Motor vehicle crashes cost society \$44 per second, or \$137 billion a year in 1990 dollars. The cost to society is staggering.

Many costs of motor vehicle crashes are ultimately paid by Federal public assistance programs such as Medicare and Medicaid and AFDC. This enormous cost burden is a national problem and one the Federal Government cannot ignore. For the third year in a row, the number of motor vehicle deaths and injuries has increased, and without significant efforts to reverse this trend, deaths and injuries will continue.

Although highway deaths and injuries are far too numerous, it could be much worse without the success achieved by our existing Federal programs, including Federal standards such as air bags, the age 21 drinking law, and Federally funded traffic safety programs for safety belt use and child occupant restraint use.

In 1991 NHTSA released a study, Moving America More Safely, which found that Federal highway safety programs since 1966 have produced benefits that far exceed their costs. Since 1966, 250,000 lives have been saved by Federal safety laws and the economic benefits of \$71 billion in 1994 dollars, which is at least seven times the total cost of the program, including the grant obligations.

I am reminded of what President Reagan said in 1984 when he signed the national legal minimum drinking age bill. He said, "This problem is far bigger than the individual States. It's a grave national problem, and it touches all of our lives. With the problem so clear cut and the proven solution at hand, we have no misgiving about this judicial use of Federal power."

On the economic issue of the cost of business, I would say that one of the major challenges facing businesses today in an effort to be both competitive and profitable is holding down the health care costs for employees. Federal highway safety programs and policies can help employers reduce those costs without reducing the benefits that they offer their employees.

Motor vehicle crashes were the leading cause of death and injury in 1992. NHTSA found that motor vehicle crashes and injuries on the job cost employers \$53 billion.

Every employer in every State realizes that the cost savings from improvements in traffic and motor vehicle safety because of the uniform Federal traffic laws across the country and the motor vehicle standards apply to every car sold, whatever manufactured inter-

nationally or domestically. No matter where you live or drive or operate your business, you should be to afford the equal protection and the economic benefits that derive from improved safety on our highways.

Federal safety decisions also have economic benefits for business beyond health care costs. For example, numerous studies have shown that larger trucks are more dangerous and that increasing size and weight will result in more unstable trucks, longer stopping distance, more jackknife crashes, and more deaths and injuries to American families.

Big trucks are responsible for excessive damage on the highways. An 85,000-pound, 5-axle semi-trailer-truck will do as much damage as 9,600 automobiles. Without the Federal leadership role in freezing the sizes and weights of trucks, the safety of Americans will be jeopardized. Accelerated deterioration on our Nation's highways and bridges will continue, and we have already discussed those costs. Highway repair costs will soar, and financial investments will never keep up with the backlog.

Then finally, the rising trend in highway fatalities and injuries threatens the quality and sanctity of our life. Last week the Washington region mourned the death of three people, including the mother of three children and a father, that were needlessly killed on the George Washington Parkway traveling to work on a beautiful spring day.

Aggressive driving is the new challenge in maintaining civility and safety on our highways and neighborhood streets. While there is no single solution to curb aggressive driving, it is essential not to create a driving environment that promotes this type of threatening and violent behavior.

Raising speed limits to unsafe levels sends a deadly and mixed message that high speeds are acceptable. Putting young, inexperienced drivers behind the wheel of so-called muscle cars and even family cars that once again have speedometers showing the car capable of 140 miles an hour is a deadly combination.

State laws that only permit secondary enforcement of primary safety belt laws diminish the importance of buckling up. No other highway safety law is subject to secondary enforcement, and new car advertising showing the exhilaration of racing down a two-lane highway glamorizes the dangers of speed, a factor in one-third of all crashes leading to death.

The public is very smart about the financial and emotional tolls of highway crashes. Public opinion polls consistently validate the public's concern about the frequency of crashes, the cost to taxpayers, cost to business, and the need for more action to reduce death and injuries.

Safety laws, when adopted in every State, have resulted in significant advances in reducing deaths and injuries on our highway. Instead of relinquishing the role in highway safety, Congress should reinvigorate its partnership with the States to advance and unfinished traffic safety agenda that was energized in the Intermodal Transportation Act of 1991 but was set back in the NHS bill.

Since January 1991 when this committee first began hearings and debate about ISTEA, more than 200,000 Americans and more than 20 million Americans have died and 20 million Americans

have been seriously injured in highway crashes. This grim statistic of death, injury, personal loss, and destruction of the family compels us to continue a strong and sustained Federal role in highway safety.

Thank you.

Mr. PETRI. Mr. Brooks.

Mr. BROOKS. I am Bob Brooks. I currently serve as president of the Commercial Vehicle Safety Alliance, CVSA. I am employed by the West Virginia Public Service Commission as manager of the Motor Carrier Section. Written copies of my testimony have already been distributed to you.

The Motor Carrier Safety Assistance Program, known as MCSAP, has worked well and should be reauthorized. In 1983 when MCSAP was first established, only 12 States had a commercial vehicle safety program that met the eligible criteria that must match for the 80/20 match funds. Today, every State at least has a basic commercial vehicle safety program and 32 States have gone well beyond that to establish a comprehensive commercial vehicle safety program.

For example, California contributes 90 percent of its funds, Virginia 80, Michigan 75, Oregon 60, and my own State of West Virginia contributes 84 percent of its own funds. Many other States exceed the 20 percent in their contribution.

Mr. Chairman, here we have a Federal program that, while it maintains a basic and necessary level of truck safety in each State, has already served as an incentive for many States to expand and do even more. We think it is truly a shining example of good government the way it ought to be.

I think this next paragraph is the most important thing that I have had to say from CVSA's benefit for a long time, and it is statistics compiled by FHWA and NHTSA that show a steady decline in fatal truck crashes from 1985 until 1994, which is the CVSA's lifetime.

The rate of vehicle crashes per 100 million vehicle miles of travel dropped from 3.85 to 2.55 in this period, a decline of 33.8 percent. With respect to the overall truck crash rate, statistics are available for the period of 1988 through 1994 and show a decline of 12.7 percent. I feel that CVSA and MCSAP were the key factors in lowering these important statistics.

I would like to briefly outline what the key ingredients of MCSAP are that have made it a successful and a viable program.

First off, States are eligible for Federal matching funds, so there is a basic commercial vehicle safety program in all jurisdictions. We need this Federal support for underpinning to ensure that all States at least carry out the basic elements of commercial vehicle enforcement programs. Of course, many States do much more, as I have already pointed out.

Second, these funds can only be used for truck and bus enforcement programs within guidelines established cooperatively by CVSA and Federal Highways. This ensures uniformity and guarantees against States' use of these funds for other purposes.

So there is a clear need for a basic Federal program. But equally important to the success of the program is the Federal partnership with the State enforcement agencies at the working level, not just

the top management but those with firsthand experience in roadside enforcement. This has been brought about through the establishment of the organization which I represent here today, CVSA.

In addition, CVSA's organizational structure has brought industry to the table and made them an integral part of the process. This basic cooperation—FHWA, CVSA, and industry—has been the key to uniformity, reciprocity, and commercial vehicle safety enforcement among all jurisdictions. It is indeed a very successful public-private partnership.

This partnership has resulted in a number of accomplishments which have helped to reduce the accident rates. They are: The North American Standard Roadside Inspection Procedure for Vehicles, Drivers, and Hazardous Material; over 2 million conducted annually; the North American Uniform Out Of Service Criteria; out of service and other defect repair verification procedures; complaint control procedures; uniform maximum fund schedules; inspector training; safety information and data systems.

Imagine trying to conduct over 2 million annual truck inspections without uniform procedures and criteria and with few, if any, enforcement agencies cooperating with their neighbors. Imagine the burden on the truck/bus industry in terms of multiple redundant and consistent inspection enforcements if a State did not recognize a CVSA decal which signifies a successful inspection.

CVSA makes the public-private partnership work through its organizational structure and operating procedures. We have an executive committee and 11 other working committees. It is an organization in which its members truly perform the work, Federal, State, and industry members all working together. All workshops and conferences are important because that is where everyone comes together to solve problems and come to a common agreement.

As I mentioned in my prepared statement, we are concerned about possible new Federal highway restrictions on State participation in CVSA as well as efforts by Federal Highways to exercise more direct control over the program and possibly Federalize this program. Such efforts will reduce the effectiveness of MCSAP.  
DCMN PARKER

So in closing, Mr. Chairman, that for some recent developments in Federal highways the report card from MCSAP is a good one. As you progress to the details of preparing specific legislation, we will be happy to provide you with some additional ideas for further improvement in the MCSAP Program. They will include more performance-based approaches, less earmarks and less program directives on the part of the Office of Motor Carriers, more flexibility for the State and greater emphasis on accident investigations. Thank you very much.

Mr. PETRI. Thank you, Mr. Brooks.

Mr. RAHALL, do you have any questions?

Mr. RAHALL. Thank you, Mr. Chairman. Thank you very much, panel, for being with us today.

Joan, I would like to start with you. You mentioned in your formal statement to the repeal of the national speed limit in terms of what was done in the name of States rights. I don't have a question on this, I just want to comment along with you.

I view it today as I view it then more of a question of human rights than a question of State rights. I think we actually sacrificed human rights on the altar of State's rights, as you no doubt know, I stated on the Floor of the House and during the debate on that bill.

I think we as legislators do have a fundamental responsibility to our constituents to provide them with reasonable safeguards when traveling on our highways that are interstate in nature. So, in my opinion, it has nothing to do with State's rights. It has everything to do with Congress abrogating its authority over matters of an interstate nature, which is rightly vested by our constitution and by our Federal Government.

The figures that you brought out in your testimony are figures actually of which I had not been aware and I think are quite startling and show that our highways are continuing to be killing fields, and to a certain extent we have to bear that on our consciences in Congress for having passed that legislation having been signed into law to raise those limits. I appreciate your comments on that. I want to turn to another issue—

Ms. CLAYBROOK. I want to express my great appreciation to you on behalf of the safety community for your efforts to try to preserve the speed limit. I think that particularly for young people who are killed in disproportionate numbers on our highways, the temptation to speed is always there. It was there when I was a kid and I am sure it is always going to be there for young people.

They think they are invulnerable and with advertising a speed, higher speedometer numbers way, way, way beyond even the bad speed limits that are now being enacted into law and without a national speed limit so that everyone knows exactly what that speed limit is, I think that it is a trevesty for families all over America who suffer grievous harm. It is not just the deaths, it is the injury as well that are lifetime events for families that are incomprehensible in terms of harm that it does to the family structure, to employability, and to the future of young people, so I thank you very much.

Mr. RAHALL. Thank you. Let me ask you on another issue now and I believe you were in the room when I questioned Mr. Donohue.

Ms. CLAYBROOK. Yee, I was.

Mr. RAHALL. —on sizes and weights. What is your response to his responses to my question?

Ms. CLAYBROOK. I completely agree with what he said. I am just glad to have it on the record because I have never heard it on the record before. I thank you for asking the question, but I, too, agree that the law cannot be changed just by an agreement between the NAFTA countries, but that this Congress or the next Congress, whichever it is, has to listen to and understand the recommendation that might come forward and to decide whether or not to change those laws.

And I think that the issue that is of most concern to me is that if the consumer and safety advocates are not a part of this discussion, and we really have not been, with the Department of Transportation, and as the trucking industry has with these different countries, that they could come forward with a recommendation to

Congress, then there would be an enormous amount of pressure on Congress to increase the size and weights of trucks.

And when Mr. Donahus says he is not going to push it on this ISTEPA bill, that is a very shrewd move on his part. He is probably waiting until the recommendations come forward from NAFTA negotiations. That is when he will take a position on that. I am pleased it is not coming up right away. I don't think that means it isn't ever going to come up.

Mr. RAHALL. I was almost ready to compliment you and Mr. Donahus for the first time in history of seeing eye to eye on an issue. I detected not full compliments of him.

Ms. CLAYBROOK. I would say on the issue of hours of service, you know that in the Bush administration they did propose raising the hours of service above what they are today. That was supported by the American Trucking Association. So I hope that this committee will hold significant hearings on the issue of hours of service if it intends to undertake any changes in that law. Mr. Donahue is right that the law was enacted in 1937.

I would point out that it is one of the few occupations in America that does not comply with the Fair Labor Standards Act of a 40-hour workweek. And it is now closer to a 70-hour workweek, 8 days, 70 hours. What the proposal was was over a 100 hours in an 8-day period. We are extremely concerned about hours of service.

The National Transportation Safety Board that has looked at this says fatigue is a factor in 40 percent of all fatal truck crashes. When truck crashes occur, 98 percent of the people who are harmed are car occupants. Not truck drivers. Neither one should be harmed obviously. I just want to point out that the public pays an enormous price for fatigue of truck drivers, and I believe that the Teamsters agree with us on this issue as well because they are the ones who are subject to these rules.

Mr. RAHALL. Thank you.

Mr. Brooks, let me turn to you. First of all, I compliment you as head of the motor carriers section of the West Virginia Public Service Commission on the excellent work that you do and your testimony here today as well. You mentioned in your testimony that MCSAP funds are allocated to the States based on a formula established administratively. Do you think that this formula is fair and accurate?

Mr. BROOKS. I think it is reasonably fair, yes. I would like to see that basic amount stay there and any raise in that be tied to a performance based type program, and if they do a good job with it, share it with the other States and fund some of these programs.

Mr. RAHALL. I do not envision there being any controversy in reauthorizing this program during ISTEPA, but if there were, what would you see as a repercussion if this program were not reauthorized?

Mr. BROOKS. I would see the statistics that I quoted from my testimony going back in the other direction slowly. For people who have been out there in traffic for a long time, which I have, I saw when the deregulation of the trucking industry came about whether it be a good thing or a bad thing. I saw the equipment going downhill very quickly because when they started cutting rates, they had to list something good and safety was there.



And we think that MCSAP and CVSA together turn that in the other direction by performing a lot more vehicle inspections and dedicating those inspections to different vehicles, to giving a decal to the ones that pass so we don't inspect the same ones over and over again.

Mr. RAHALL. Let me ask you one last question about the makeup of the Commercial Vehicle Safety Alliance. Can you give us a little detail of your membership and what numbers, for example?

Mr. BROOKS. All of the States are members. It varies from State to State. Some have State police agencies, some have DOTs, some public utility commissions and even other agencies involved. But basically it is people who enforce commercial motor vehicle regulations in the United States and we also have members of all the Canadian provinces. And I might add that we have just finished training in the last year 260 Mexicans in their Federal Government to do truck inspections. And they have asked us to—and that was a partnership between CVSA and the MCSAP program to train those inspectors and they have asked us to do more of that type of training.

I would have one further comment on the hours of service. Mr. Donohue gave one side of that and I agree with that side. But on the other hand, there is a different side of the coin there and I think that side is even though equipment is better, rides easier, handles better, air conditioning, there is also ten times as much traffic. Which is more stressful, the traffic or the easy ride? I don't know, but there is another side to the coin.

Mr. PETRI. Thank you. We'll be interested in exploring that and a number of other issues as we go forward. I have just a few questions if I could have your indulgence.

Dr. Constantino, in your written testimony you referred to an 89 percent reduction of left turn accidents in Michigan due to intelligence and transportation systems.

Could you explain how that works a little bit or what caused that, what the secret is or whether it is cost effective and so on?

Dr. CONSTANTINO. Mr. Chairman, there is in Michigan and Oakland County, Michigan, outside of Detroit an intelligent transportation system deployed there. That system has been in operation for about 2 years now, although they started building it about 4 years ago, and that has to do with making left turns and the driver gets information and signals work such that they are not—they are able to make left turns without running into any difficulties.

The last time I saw it was 2 years ago. There were very few statistics that have been gathered on that, but they keep continual statistics on the intelligent system and what it is doing both in terms of safety, congestion, efficiency and so forth. I am not able to give you a more detailed answer.

Mr. PETRI. If it turns out on reflection or after this hearing if you could supply us with some more background on that we would be interested in that.

Dr. CONSTANTINO. Yes, I will do that.

Mr. PETRI. I think I had a question for Mr. Harshe. You mentioned the need for Federal incentives for State and safety grant processes. Could you explain or rather could you expand a bit on how you believe incentives should be used in the safety grant process?

Ms. HARSHA. Let me give you an example which I think is in our written statement, and that is 402 Incentive Grant Program, which is structured to give States additional money, is set up on a discretionary competitive basis. States receive additional money beyond their base 402 grant if they satisfy certain eligibility criteria. And the program has been highly successful.

There are, I think, in fiscal 1995, 27 States were approved for grants, and it is, in fact, so successful that there is not really enough money in the grant program. One of the things we would like to see in ISTEA is that program be authorized at a higher level.

We think there also ought to be incentive grants for performance-based incentive grants for traffic records. There could be incentive for occupant protection and other areas like that to get the States to do a little more than they are doing now. We think that approach has worked well.

I want to follow up on a comment that Joan made because I agree with a lot of what she said about the speed limit. I think it is unfortunate that the speed limit was repealed. In this time this may be an opportunity for us to make lemonade out of lemons.

The repeal of the speed limit has heightened the public's awareness of the whole issue of excessive speed, and I think that this is the time to capitalize on that and reeducate the public about the risks associated with excessive speed. Perhaps an agency like NHTSA or the Federal Highway Administration should do a national campaign on that.

We would like to see them focus a lot more resources on that issue and stop treating speed as the stepsister of highway safety. There is considerably more research that needs to be done. There are many unanswered questions and we think the Federal Government could develop and promote speed enforcement technologies and get those disseminated.

I think the repeal of the speed limit is most unfortunate, but I think there are a number of things that the Federal Government could do and I would hope this committee would consider some of those things when it discusses authorization.

Mr. PETRI. Thank you. That was the next thing I was going to mention or question. I was going to ask a question or two of Ms. Claybrook because a lot of us who are on this other side, I guess, and supported giving some more discretion to the people you represent, the States, we trusted your employers thought they had better judgment in some cases—at least in some respects than we.

We have been busy praying every Sunday and sometime every day that predictions that were made at that time there would be a 20,000-a-year increase in highway fatalities due to this realization would not be true and that this was a mistake that somehow wouldn't come about. So we have been following the statistics pretty closely then and it is really much too soon to tell. But I think Ms. Claybrook would be very pleased to know that the California Highway Patrol did report that fatalities due to unsafe speeds in this period, December 17 to February 29 was up 4 percent from the previous year, as you pointed out, but that if you look at the most recent statistics and go from December 17, not to February 29, but

to March 31st of this year, fatalities due to unsafe speed were down by 15 percent.

So if increasing speed limit in California makes a difference, so far it has been helping and our prayers are being answered, but in any event, I would myself think it is probably too soon either way for us to be leaping to conclusions either to be celebrating that it doesn't have the dire consequences or to be lamenting because it did. But I would agree with you that we do need to have better information and try to get as best we can with people coming at it with different predispositions and different biases. We can get at least a factual base that we can agree on that will help us.

One big area I wanted you to address is that we have disconnected highway statistics. Some folks look at fatalities and say they are going up. Others, as you point out, as Mr. Brooks pointed out, there are a lot more vehicles on the road these days. Naturally, if your exposure is increased you unfortunately may expect that there will be some greater—if the number of vehicles goes up and the number of miles driven goes up, there may be more rather than fewer highway accidents. And a more valid way of looking at this is to look at the number of fatalities per mile traveled, which as we know, because of technology and a variety of reasons has been going down steadily since World War II and regardless of speed limits. I wondered if you think that is a good yardstick or if there is a better yardstick that we can all—

Ms. CLAYBROOK. I would like to make one comment on the prediction on 55, eliminating the national speed limit and one was that I believe the National Highway Traffic Administration said that increase in 6,000 deaths a year, I don't believe it was 20,000 deaths a year.

Mr. PETRI. On the Senate Floor someone whispered 20,000. It seemed a little high.

Ms. CLAYBROOK. We didn't predict that, but I do agree that highway statistics are very, very, very important for analysis and we should certainly use them in every way that we can. I would say that funding, Mr. Chairman, for the statistics gathering programs at the National Highway Traffic Safety Administration are approximately 25 percent today of what they were when I left the government in 1980. The amount in dollars is not a whole lot different, but they have never been increased. So with inflation they have dropped dramatically.

As a result, it is very difficult to look at the factors behind any changes in the overall statistics. A key program at the National Highway Traffic Safety Administration is the NASS Program. It is a data-gathering program on injuries. The other one is FAR, the Fatal Accident Reporting system. FAR is much simpler because there are records that go with every fatality, but the detail is fairly skimpy. Whereas in the NASS program, there is quite a lot of detail because there are accident investigation teams. Rather than having 75 teams, the agency now has 24 or 25. So it is very hard to do analysis of any new trend whether it is from speed limit changes or any other kind of changes one way or another.

So I would urge that this Committee may want to consider enlarging that authorization, perhaps even putting some of the trust fund money behind it because the appropriation has not been in-

creased over these many years. We are also going to be asking the Appropriations Committees to take a look at this, of course.

In terms of how you measure the highway changes, I think you should look at it from the point of view of the population for 100,000 population. You should look at the point of view of vehicle miles traveled and you should look at it in absolute numbers. I agree that all three are very important.

Of course. The rate makes it more relevant to population growth and increase in the number of vehicles and so on. And we certainly use that and that number has come down dramatically over the years, and I believe that the speed limit imposition in the 1970 was a major factor in helping that number to come down. It has not come down, though, in the last several years. And so it has really stopped coming down and reducing and so that is a matter of some concern to us.

The other factor in terms of truck crashes is that the rates are very often difficult to figure out. The number of miles traveled by trucks is not an easy one to figure out and we learned that in trying to do an evaluation of antilock brakes. So that is the reason I think particularly in truck statistics you need to look at all the statistics, not just the rate, which is the best estimate of the rate for trucks.

Mr. PETRI. Our statistics are a little different than that. They show it is continuing to decline, going from fatal crash rate of 1.9 per—I am not quite sure what number of miles, but I am sure it is constant, per hundred thousand miles.

Ms. CLAYBROOK. One hundred million miles of travel.

Mr. PETRI. In 1989 to staying at 1.9 then going to 1.7 in 1991 and 1.6 in 1992 and 1993 and in 1994, 1.5. Naturally, as it gets smaller, the number might go down a little less fast, but in percentage terms the decline is—as it gets to zero it gets harder and harder.

Ms. CLAYBROOK. I know it gets harder as it goes down. I realize that.

Mr. PETRI. I have one last question of Mr. Brooks.

I had one last question of Mr. Brooks. If you would spend a minute with us talking about what new technologies are available to improve the accuracy and timeliness of vehicle and driver inspections in the United States, new technologies for vehicle and driver inspections. Is this an area that—

Mr. BROOKS. We have several items going. We have one item in West Virginia we are working on, a brake machine which you run the truck over and it measures the capacity of that brake, and it will tell you things that you can't pick out by looking at it visually because of the brake lining being on the inside of the brake drums and so forth.

He has a transportation intelligence committee at CVSA relating to automatic brakes and several other ideas.

While I have a minute, I would like to correct a grave error when Congressman Rahall asked me the makeup of the CVSA. An important part of it is working very well with industry. We have the American Trucking Association, the American Bus Association, to cover both sides of that issue today, and we also have a number

of major trucking companies and small trucking companies that comprise our alliance.

Mr. PETRI. I would like to thank all of you for coming to testify for organizations you represent, and want you to know that, just as the previous panels, we may or may not look at everything exactly the same and we may disagree, but regardless of that, your contribution or your disagreement is very important to our country as we work forward to try to come up with the best possible mix of policies and funding formulas and transportation programs to try to serve all of our citizens as best we can. So we appreciate your taking the time and being with us and making your contribution to this process today.

Thank you.

This bearing is adjourned.

[Whereupon, at 4:00 p.m., the subcommittee was adjourned.]

PREPARED STATEMENTS SUBMITTED BY WITNESSES



## **Testimony**

before the

**Committee on Transportation and Infrastructure  
Subcommittee on Surface Transportation**

**United States House of Representatives**

by

**Roger Ballou, Vice Chairman and Chief Operating Officer  
Alamo Rent A Car, Inc.**

**Chairman, Travel and Tourism Government Affairs Council**

**May 7, 1996**

Mr. Chairman, Members of the Subcommittee, thank you for this opportunity to present the views of the travel and tourism industry on the reauthorization of the Federal highway program, better known as the Intermodal Surface Transportation Efficiency Act of 1991, or ISTEA.

My name is Roger Ballou and I am Vice Chairman and Chief Operating Officer of Alamo Rent A Car, Inc. I am here today as Chairman of the Travel and Tourism Government Affairs Council. The Council is comprised of thirty-six national organizations, representing every segment of the travel and tourism industry in the United States, along with senior corporate executives from the industry. Included among the Council's membership are representatives of all modes of transportation, accommodations, food services, travel agents, tour operators, recreation facilities, attractions, meetings and conventions, and state and local travel and tourism officials. A list of the Council's membership is attached. The Council is an affiliate of the Travel Industry Association of America, whose 2300 members consist of companies, organizations and agencies from the entire travel industry throughout the nation.

#### **Importance of Travel and Tourism**

Mr. Chairman, nothing is more critical to the continued viability and growth of our industry than a safe, efficient and effective transportation infrastructure. In my testimony, I want to convey some sense of the scope and importance of travel and tourism and why the reauthorization of ISTEA is so critical.

In the United States, travel and tourism generated an estimated \$430 billion in expenditures in 1995 - more than six percent of the GNP. Federal, state and local governments collected \$58 billion in taxes and user fees from travelers last year. It was once again the nation's leading export industry, earning \$77 billion in expenditures from some 46 million international visitors while the 48 million Americans traveling abroad spent only \$55 billion -- creating a \$22 billion balance of trade surplus in 1994. In gross receipts, travel and tourism is the nation's third largest retail industry, behind only automobile dealers and food stores. Travel and tourism's 6.2 million direct jobs rank it second only to health care services. Another 5.3 million jobs are supported by indirect and induced sales.

States and local communities throughout the country derive significant benefits from the positive economic impact of travel and tourism, as evidenced by the fact that in thirty-four states, travel and tourism ranks among the top three sources of jobs. Growth in travel and tourism jobs over the last ten years has been more than double that of the rest of the economy, and is forecast to grow in excess of 30 percent over the next twelve years. The travel and tourism industry has also been a major source of jobs for minorities, women and youth, in response to the requirements of an increasingly diversified economy and labor force.

Contrary to popular perceptions, the travel industry offers high levels of compensation for many positions throughout its different segments. Overall, it provides more than 650,000 executive jobs. Corporate executives within the hospitality segments of travel and tourism (lodging and restaurants) earn significant salaries, with annual salaries for hotel general managers ranging from \$37,000 to \$83,000. The transportation sectors of the travel industry, including intercity and rural bus transportation and airlines, rank among the highest paying sectors in the U.S. economy.

### **Travel and Tourism and the Highways and Byways**

It is self-evident that the capacity of the travel and tourism industry to continue to grow and generate high quality jobs is directly related to the capacity of our nation's transportation infrastructure to function efficiently and effectively. Travel and tourism depends on all modes of transportation, but none are more important than our national highway system.

Travel and tourism strongly supports coordinated intermodal transportation networks because so many trips are likely to involve flying and driving, and perhaps rail and water travel. But safe and modern highways will remain the backbone of our overall transportation system. The inseparable link between America's highways and byways and the traveler is demonstrated by the fact that 80% of all travel occurred by auto or recreation vehicle in 1995. This is a significant increase over the 73% share auto travel had in 1985.

The volume of auto travel in the U.S. has increased dramatically as well. There were 933.5 million person-trips taken in 1995, compared with 592.8 million in 1985. This amounts to a 57% increase in just one decade.

Not only are Americans hitting the road on vacation in record numbers, but international visitors to the United States are also spreading out across this great land in rental cars, recreational vehicles, and on motor coaches as part of group tours. Surveys show that most of these international visitors are repeat guests in the U.S., and while they have enjoyed touring the larger "gateway" cities during previous trips, they are anxious to see rural America and all the vast open spaces in our nation's heartland. This means many more international guests will be out driving the interstates and secondary roads and will place even greater demands on the surface transportation system.

It was the launching of the nation's interstate system of roads some forty years ago that provided travelers the opportunity to travel long distances in a safe and efficient manner. And while the movement of goods and services across the road system is important, so too is the movement of people driving their own cars to see families during holidays or taking vacations, or the businessperson taking to the road in a rental car to close a deal or attend a meeting. Americans and international visitors traveling on the road by car, bus and RV is big business.

### **Nation's Roads and Bridges in Trouble**

Despite the critical importance of this nation's system of highways and other roads, we have allowed our surface transportation infrastructure to deteriorate dangerously during recent years. Here are some facts and figures from the Department of Transportation's report to Congress entitled, *"1995 Status of the Nation's Surface Transportation System: Conditions and Performance"*:

- Even with some recent improvement, 24% of Interstate bridges and 28% of bridges on other arterials and collectors are structurally or functionally deficient.
- Pavement conditions in 1993 showed that 26% of highway miles were in poor or mediocre condition, and more than half was rated on better than fair.



- Total government spending (Federal, state and local) on roads and bridges is approximately \$16 billion short of what is needed just to maintain 1994 conditions.

We understand that this Subcommittee is fully aware of these needs and has long led the fight in Congress to build and maintain our national highway system. We commend all of you for your hard-fought efforts. The Council led the travel and tourism industry's support of H.R. 842, as part of the broader coalition known as the Alliance For Truth in Transportation Budgeting. We applaud members of this Subcommittee, and indeed all members of the House Transportation and Infrastructure Committee, for the strong, bipartisan leadership that culminated in passage of H.R. 842 just a few weeks ago. The travel and tourism industry will be fighting now in the Senate for passage of S. 729, with the hope that we can restore the "trust" to the trust funds, and provide critically needed funding for America's transportation infrastructure.

The 1700 delegates at last October's White House Conference on Travel and Tourism recognized the critical role played by a properly-funded and maintained national highway system, and made infrastructure development a top priority for the industry. These industry leaders were acknowledging the obvious . . . that transporting people, be it for business or pleasure, is at the heart of what we do, and poorly maintained highways and bridges threaten the travel industry and the thousands of communities whose economic livelihood depends on business and leisure travelers.

#### **Recommendations from the Travel and Tourism Industry**

For travel and tourism to continue growing and creating hundreds of thousands of new jobs in communities across the country, the nation's transportation infrastructure must be properly maintained and indeed improved. In fact, besides serving as corridors to carry travelers from one destination to another, America's roads can often be travel destinations in and of themselves. Many of America's famous roads offer majestic views of natural beauty, or pass through areas with rich historical or cultural importance.

The travel and tourism industry was gratified when Congress enacted ISTEA in 1991. That historic first post-interstate highway bill was a landmark for travel and tourism as it explicitly gave unprecedented recognition to this industry and provided a number of opportunities for travel and tourism to have its views considered in the formulation of surface transportation policy at all levels of government. Programs such as scenic byways and transportation enhancements, and the requirement that state and metropolitan transportation plans consider the needs of "recreational travel and tourism," demonstrate the inseparable linkage between the travel industry and the nation's surface transportation system.

The following are our recommendations as Congress begins to consider reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA).

- (1) The travel and tourism industry supports continuation of the existing Federal surface transportation program, including highways, bridges and public transit.

The Federal government must continue to play a major role in the shaping of this nation's surface transportation infrastructure. Last year's passage of the historic National Highway System (NHS) represents well the vital stake the Federal government has in maintaining a truly national system of roadways to facilitate the movement of goods, services and people traveling for business or pleasure. Federal leadership and financial support should continue to be directed towards enhancing the capacity and safety of roads and bridges which are of national or interregional significance.

Also, when travelers reach their final destination in larger metropolitan areas, they often rely on local transit systems to visit various sights and attractions. For that reason, we believe the Federal government should continue to assist state and local governments with public transit. Our nation's capital city serves as an excellent example of how intermodal local transit can assist in transporting tourists and business travelers in a safe and efficient manner.

(2) The Federal Scenic Byways program begun under ISTEA in 1991 should be continued.

The Scenic Byways Program provides modest amounts of Federal seed money - - \$60 million over 4 years - - that allows local communities to use scenic or historic roadways to attract visitors and develop new economic opportunities. These newly-developed destinations are often in rural areas where mining, agriculture or timber harvesting no longer provide sufficient employment.

Driving for pleasure and sightseeing are at the top of America's favor leisure-time pursuits, and scenic byways offer outstanding opportunities for Americans to enjoy this favorite pastime. Besides the positive economic impact Scenic Byways can have on communities, becoming a visitor destination via the Byway also encourages local citizens to preserve the natural beauty of their areas, and assists in the preservation and interpretation of local history and culture.

Thirty-two states, the District of Columbia and Puerto Rico have active scenic byways programs in place and eight additional states plan to launch scenic byways programs in the near future. Through the Scenic Byways program, the Federal government partners with state and local government agencies, as well as private sector companies involved in tourism and recreation. It also serves as a bridge connecting those in transportation, tourism and recreation with the environmental community, and encourages prudent planning through the use of corridor management plans, which are designed by local, grassroots organizations.

One problem with the Scenic Byways program that Congress must address is the "minimum allocation" formula, which has the unintended effect of creating a disincentive for so-called "donor states" to apply for scenic byways grants. We believe legislative language could be drafted that would resolve this matter and encourage more states to apply for Scenic Byways grants.

This fall the Department of Transportation will be announcing those byways that will be designated as "National Scenic Byways" or "All American Roads." Again, this is an exciting, inexpensive way for the Federal government to assist in rural economic development and scenic, historic and cultural preservation.

- (3) **The travel industry supports continuation of the Transportation Enhancements section of ISTEA with one minor addition . . . to permit construction and renovation of state highway information centers to be eligible for funding as transportation enhancements.**

The Transportation Enhancements section of ISTEA channels a small portion of transportation funding for programs that preserve historic buildings, landmarks and neighborhoods, allows for landscaping and scenic beautification, and helps to counteract some of the adverse impact highways and roads will inevitably have on communities. Preserving neighborhoods and landmarks serves an important economic purpose as well since these efforts help to create and preserve scenic and historic sites for visitors and serve as a catalyst for the creation of thousands of new jobs in towns and cities all across America.

Concerning our proposed change, this is not a request for additional money for transportation enhancements, and the ultimate decision as to which projects would receive funding would still rest with the states. It seems reasonable, however, to provide support to information centers, which play a significant role in informing and directing travelers about those scenic and historic sites, scenic byways, historic preservation and other projects otherwise funded by ISTEA.

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In conclusion, the travel and tourism industry supports and endorses ISTEA, or whatever its new name and acronym will be, with little substantive change. The bulk of the Federal money has been and should continue to be spent on highway and bridge construction, maintenance and safety programs. We believe the Federal government must continue to play a strong lead role if this nation is to maintain a national highway system that is uniform in design with the highest safety standards, and enables millions of travelers to reach their destinations safely and efficiently.

**TRAVEL AND TOURISM GOVERNMENT AFFAIRS COUNCIL  
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**MEMBERS**

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 Jonathan M. Tisch, Loews Hotels

STATEMENT OF

HARRY N. BLUNT, JR.  
PRESIDENT OF CONCORD COACH LINES, INC.,  
CONCORD, NEW HAMPSHIRE

ON BEHALF OF THE  
AMERICAN BUS ASSOCIATION

ON THE  
REAUTHORIZATION OF THE INTERMODAL SURFACE TRANSPORTATION  
EFFICIENCY ACT OF 1991 (ISTEA)

BEFORE THE  
SURFACE TRANSPORTATION SUBCOMMITTEE  
OF THE  
TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
U.S. HOUSE OF REPRESENTATIVES

2167 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, D.C.

MAY 7, 1996

American Bus Association  
1100 New York Avenue, N.W.  
Washington, D.C. 20005  
(202) 842-1645

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OF THE

TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
U.S. HOUSE OF REPRESENTATIVES

MAY 7, 1996

Mr. Chairman and Members of the Subcommittee:

My name is Harry Blunt. I am the President of Concord Coach Lines, Inc., of Concord, New Hampshire. I also serve as the Vice Chairman of the Board of Directors for the American Bus Association (ABA), and I am here today to present ABA's views on reauthorization of the federal aid highway, mass transit, and highway safety programs that are currently funded through the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA).

ABA is the national trade association of the intercity bus industry. We have about 3,000 members, some 700 of whom are bus operators. They offer a variety of bus services:

- \* regular route intercity service between fixed points on set schedules;
- \* charter service, where a group of passengers (such as a church or organization) purchases all of the seats on a bus for exclusive use on a particular trip;
- \* tour service, which usually includes stops for sightseeing and recreational purposes;
- \* commuter bus services, generally from the suburbs into

urban areas; and

- \* special operations, which is scheduled service to enhance public transportation systems (such as bus service from a city to an airport), or may be connected with a special event or attraction at the destination.

The rest of ABA's members include representatives of the travel and tourism industry, and the manufacturers and suppliers of products and services used by the bus industry.

Intercity bus service is the primary system of low cost intercity public passenger transportation in this country. In rural areas, bus service is virtually the only transportation network available to the public. Yet public policy as set out in the federal-aid highway and mass transit programs over the years has not reflected the overriding importance of the bus industry in passenger transportation, and in fact, has discouraged low cost bus transportation in favor of higher cost alternatives. This must change; Congress must give the intercity bus industry a more central role in providing essential intercity public transportation.

Before I focus particularly on the more specific intercity bus industry thoughts and needs, Mr. Chairman, I would like to comment on several issues of the federal aid highway program.

Recently, the FHWA reported that the US needs to invest \$20 billion more each year just to maintain current road and bridge conditions. Since the connectivity and conditions of the designated National Highway System roads are so vital to the provision of intercity bus service, we strongly support efforts to

increase federal highway funding. At the same time, we strongly oppose efforts to turn the federal highway system back to the states. We believe that the states and the federal government now have a partnership which is the only way to insure a federal highway system that offers the connectivity essential to the free flow of people and freight throughout the country.

Several salient statistics underscore the obvious importance of bus travel in the national transportation network when compared to transportation by Amtrak or commercial airlines, its two modal competitors for intercity public transportation of passengers.

Intercity buses serve many more points than either Amtrak or airlines. Table 1 shows, on a state by state basis, the number of communities served by the intercity bus industry as compared with Amtrak and commercial airlines. In every state, the bus industry serves many more cities and towns than the competing modes. In my home state of New Hampshire, for instance, Amtrak serves one point and the airlines serve three points, while the bus industry serves 33 communities with scheduled service. In your home state of Wisconsin, Mr. Chairman, Amtrak serves nine points, the airlines serve 12 points, and the bus industry serves 94 communities with daily service.

Cumulatively, Amtrak serves 488 communities, the airlines serve 758 communities, and the intercity bus industry serves 4,274



communities on a daily basis with scheduled regular route service<sup>1</sup> (This bus figure does not include "flag stops," at which a passenger may flag down a bus to stop for embarking passengers even though no stop is scheduled at that point.)

Intercity bus service is much more frequent than Amtrak or airline service. Generally, buses not only serve more points than their competitors, but where the modes do compete the bus service is much more frequent than either Amtrak or airline service. For example, on the Milwaukee to Chicago route, Amtrak offers six daily departures, and the airlines combined offer 23 daily flights. The bus industry, in marked contrast, offers 65 daily departures. This discrepancy is not unique to the Milwaukee-Chicago market. Other city pairs provide similar frequency comparisons by mode. Buses almost always have the most frequent service.

Intercity bus service is the most affordable transportation. Bus service is also generally less expensive than Amtrak or the airlines. Even with discount fares, Amtrak and the airlines cannot compete on price with intercity bus services, which remains the most economical method of transportation. For example, on the Milwaukee to Chicago route, United Airlines quotes a regular one-way fare of \$219.00, and American Airlines has a one-way fare of \$156.55.

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<sup>1</sup> Sources: Amtrak Schedule, Official Airlines Guide for North America, and Russell's Guide.

Amtrak's regular one-way fare is \$25.00, while Greyhound's regular one-way fare is \$12.00.

Low cost service is why buses are the mode of choice for the elderly, students, members of the military, and those at the lower end of the income spectrum. Greyhound Lines, Inc. has discovered through surveys that some 44% of its passengers have annual incomes of less than \$15,000.

In other words, buses are the only mode that take you where you want to go, when you want to go, and at a price you can afford.

Notwithstanding the essential nature of the bus industry compared to other modes, and the fact that buses carry the old, the young, the poor, and those in rural America, federal transportation programs have ignored the bus industry while heavily subsidizing our competitors. The bus industry receives no direct operating subsidies, and very little federal support of any kind.

Robert R. Nathan Associates Inc. has conducted an exhaustive study of the total federal subsidies, net of user fees, received by each passenger transportation mode from 1960 through 1993.<sup>2</sup> This study aggregated outlays from federal funds and trust funds for each major passenger transportation system -- air, highway, intercity rail, and mass transit, according to the cost

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<sup>2</sup> The Impact of Higher Motor Fuel Taxes on the Intercity Bus Industry, Robert R. Nathan Associates, Arlington, Va. (July 1995). This was an update of an earlier work, Federal Subsidies for Passenger Transportation, 1960-1988: Winners, Losers, and Implications for the Future, Robert R. Nathan Associates, Inc., Arlington, Va. (1989).

responsibility of each mode. In addition, the study attributed receipts into the Airport and Airways Trust Fund and the Highway Trust Fund paid by airlines and the bus industry, respectively, and into the general fund by all modes. Subsidies were then measured by subtracting the allocated receipts from the allocated federal outlays for each mode.

The results are striking. As shown in Figure 1, from 1960 to 1993, measured in constant 1993 dollars, mass transit has received a net subsidy of \$91.2 billion, aviation has received a net subsidy of \$104.5 billion,<sup>3</sup> and Amtrak has received a net subsidy of \$24.6 billion. The intercity bus industry, in marked contrast, from 1960 through 1993 received a net subsidy of only \$600 million. While Amtrak and the commercial airlines combined received more than \$79 billion in net subsidies from the federal government, the bus industry received less than one percent of that amount. Yet the bus industry is expected to compete on an equal footing with air and rail transportation.

The disparity in federal subsidies by mode is even more outrageous when viewed per passenger trip. Figure 2 shows that commercial airline passengers have received a net subsidy of \$6.38 per trip, mass transit passengers have received a net subsidy of \$0.33 per trip, Amtrak passengers received a net subsidy of \$54.88 per trip, and intercity bus passengers received a net subsidy of

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<sup>3</sup> Of this total, \$52.3 billion of the net subsidy went to commercial air carriers and \$52.2 billion of the subsidy went to general aviation.

five cents per trip. Bus passengers get a nickel from the federal government while Amtrak passengers get \$54.88 from the federal government for every trip they take.

This is public policy at its worst. The federal government should not pick and choose winners in the passenger transportation industry any more than it should determine winners and losers in any other markets. Yet by heavily subsidizing Amtrak and commercial airline passengers, but not bus passengers, federal policy has created an atmosphere so financially skewed that bus operators find it extremely difficult to compete effectively with other modes.

Reauthorization of ISTEA presents an opportunity to level the playing field for passenger transportation. ISTEA as enacted in 1991 began this process. The intercity bus industry made considerable gains as a result of that legislation, but they represent only a start.

#### Intercity Transportation Centers

The intercity bus industry's greatest need, and the most promising area for public policy success, is the continued development and funding of intercity transportation centers. ISTEA contains several provisions that allow states to fund intercity transportation centers. Section 133 of title 23, United States Code, permits states to obligate funds apportioned under the Surface Transportation Program for capital costs for "publicly

owned intracity or intercity bus terminals or facilities." Additionally, section 134 of title 23 directs metropolitan planning organizations to develop plans and programs to provide for facilities that will function as an "intermodal transportation system" for the state.

There have been some success stories as a result of these provisions. South Station in Boston shows the promise of becoming a highly efficient intermodal transportation facility. The station serves Amtrak as well as my bus company, Concord Trailways, along with several other bus companies including Grayhound Lines, Peter Pan Trailways, Bonanza Bus Lines, and Plymouth & Brockton Street Railway Company. The bus portion of the terminal opened on November 1, 1995, and the bus carriers now provide connecting service to the Amtrak schedules, and vice versa. In addition, there is a subway stop on the MBTA line at the station, and the station is also a terminal for intracity transit buses.

When the Central Artery project in Boston is completed, there will also be a direct shuttle bus service from South Station to Logan Airport, using a new tunnel under Boston Harbor.

At present, the South Station is a tremendous improvement over the prior connections. Previously, bus carriers had to park vehicles and discharge passengers across the street from the train station. When the South Station is completed, bus passengers will be carried on a people mover to the train portion of the station, for easier connections without going out into the elements.

South Station is also a success because of the federal-state partnership that funded and developed the project. In addition, the fact that the station is operated by the Massachusetts Bay Transportation Authority eliminates the competitive concerns about terminal access and rent that plague carrier-owned and operated stations where competitors rent space and services from other carriers. Multi-purpose stations, with access for all modes, in a favorable location close to highway, rail and air connections, are the best possible method of achieving the goal to facilitate seamless intermodal passenger transportation as set out in ISTEA.

These facilities are win-win-win scenarios. The public sector wins because the carriers pay rent to fund the capital investment necessary to build the structures. The private sector wins because the carriers do not need to generate the substantial amounts of construction capital. And the passengers win because they benefit from improved service and streamlined connections.

The only problem with South Station is that there are not more examples of this facility built as a result of ISTEA funding and directives. ABA believes that Congress should do more in this reauthorizing legislation to encourage, or even mandate, that a portion of state funds allocated under the Surface Transportation Program and other programs be used to construct, maintain and operate intercity passenger facilities. The metropolitan planning organizations need some incentives or directives to include

intercity facilities in their plans, and Congress should plainly provide that federal funds are to be used for such projects.

Moreover, federal funds should be available for privately owned and operated terminals as long as the operator grants access to all carriers, whether or not competitors, without discrimination, as allowed by space constraints.

#### Metropolitan Planning Organizations

ABA supports the directive in ISTEA for metropolitan planning organizations (MPOs) to establish long and short range plans and programs for using federal, state and local funds to further the transportation policy objectives of ISTEA. ABA believes that state and local governments should coordinate their transportation infrastructure programs, using federal funds, pursuant to guidelines established by the federal government.

But the current MPO planning process in most areas is too cumbersome, bureaucratic and time consuming to allow the typical bus company to participate in any meaningful way. Bus carriers are usually small, family owned and operated businesses. We do not have armies of engineers and economists at our disposal, and we cannot afford to spend countless hours in meetings and planning sessions to discuss traffic congestion and highway designs. We need a faster and more streamlined approach to planning, one that provides for and encourages public and private sector participation, and generates results in years, not decades.

**Section 18(i) Intercity Bus Transportation Funding**

Section 18(i) of the Federal Transit Act, which was added in ISTEA, directs states to spend 15 percent of their rural transit funds each year for "development and support of intercity bus transportation." A state need not spend these funds on bus transportation, however, if the Governor certifies to the Secretary of Transportation for a fiscal year that "the intercity bus service needs of the State are being adequately met."

ABA does not believe that there are any states in which there are no unmet intercity bus service needs. Nevertheless, in the first few years under ISTEA many states routinely certified that there were no unmet intercity bus service needs, and therefore avoided using the section 18(i) funds for intercity bus purposes. ABA member companies have begun an educational process in many states to discuss their rural transportation ideas, and the results are encouraging.

In Texas, for example, the Governor certified for several years that there were no unmet intercity bus service needs, even though Texas has one of the largest populations of rural, less affluent bus passengers in the country. About a year ago, Kerrville Bus Company in Kerrville, Texas began meeting with the Texas Department of Transportation to explore ways to use the section 18(i) funds as Congress intended. As a result of those meetings, three new bus terminals are either operating or under construction in rural areas.



The Brazos Valley Transit Authority used a section 18(i) grant to purchase a property and building in Lufkin, Texas and converted it into a combination transit and intercity bus terminal. Similarly, the City of Del Rio, Texas used state funds under section 18(i) to construct an intermodal terminal which includes Amtrak. The City of Fredericksburg, Texas is also using section 18(i) funds to build a combination terminal, and Kerrville Bus Company is contributing capital towards the construction costs. Of course, Kerrville will also pay rent to use these facilities, and the bus passengers in rural Texas have three new terminals for intercity services.

ABA strongly supports continuation of the section 18(i) estate aside progress in the reauthorization legislation. Without a specific set aside, intercity bus carriers in many states will not be able to defeat competing interests for these funds, and the needs of rural passenger transportation will not be met.

#### Commercial Motor Vehicle Definition for Passenger Vehicles

In the ICC Termination Act of 1995, Congress amended the definition of a commercial motor vehicle for passenger transportation, codified at 49 U.S.C. § 31132, to include all vehicles designed or used to transport passengers for compensation, but excluding vehicles providing taxicab service and having a capacity of not more than 6 passengers, and not operated on a regular route or between specified places.

The Federal Highway Administration has done nothing to date to implement this provision, however, although it became effective on January 1, 1996. At the very least, FHWA should require these for-hire bus companies to register as carriers and have the minimum amounts of liability insurance as set forth in 49 C.F.R. Part 387. ABA's inquiries to FHWA about implementation of this section have not proved fruitful.

Back in 1992, immediately after enactment of ISTEA, FHWA responded to ABA's request for a notice to its field offices on enforcement of a new 45-foot bus length limit. FHWA had the desired notice to the field offices within three weeks after enactment. Now, however, FHWA is unable to respond to ABA's enforcement concerns some four months after the ICC Termination Act went into effect. FHWA needs to develop a program for imposing the insurance requirements, and all of the Federal Motor Carrier Safety Regulations, on all for-hire bus carriers as soon as possible to protect the public and to carry out the directives of Congress.

Mr. Chairman, this concludes ABA's overview of the role of the intercity bus industry in the nation's transportation system. We appreciate the opportunity to participate at this stage of your deliberations. As the process continues, we will work with you, other members and staff of the committee and try to be of as much assistance as possible.

**NUMBER OF COMMUNITIES SERVED,  
BY MODE, BY STATE,  
1996**

Table 1

State	Intercty Bus	Amtrak	Commercial Airlines
Alabama	110	13	9
Alaska	n/a	0	236
Arizona	77	8	15
Arkansas	82	6	9
California	277	38	32
Colorado	80	12	15
Connecticut	25	6	5
Delaware	16	2	0
Florida	131	31	22
Georgia	111	13	10
Hawaii	n/a	0	12
Idaho	47	9	6
Illinois	65	32	19
Indiana	64	9	9
Iowa	44	6	10
Kansas	88	7	11
Kentucky	32	2	4
Louisiana	107	10	7
Maine	34	0	8
Maryland	27	4	4
Massachusetts	77	9	7
Michigan	137	16	20
Minnesota	141	6	15
Mississippi	99	14	9
Missouri	77	11	9
Montana	90	16	14
Nebraska	38	5	11
Nevada	42	7	6
New Hampshire	33	1	3
New Jersey	90	4	4

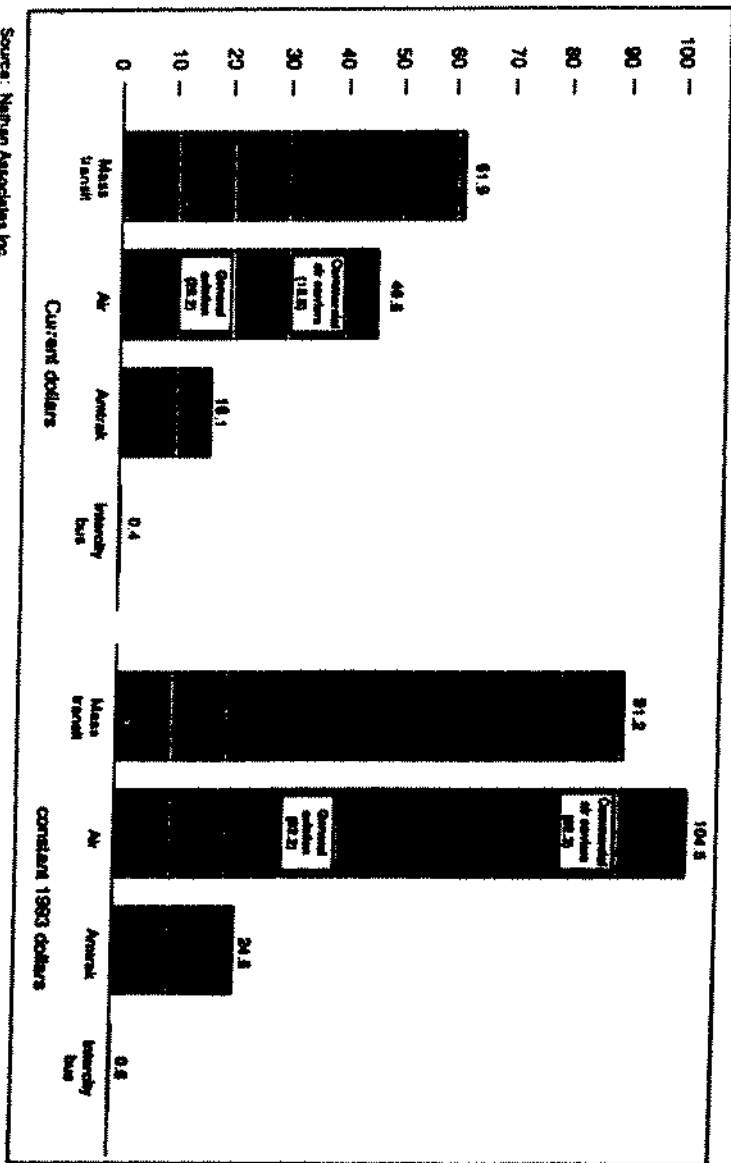
**NUMBER OF COMMUNITIES SERVED,  
BY MODE, BY STATE,  
1996**

State	Intercity Bus	Amtrak	Commercial Airlines
New Mexico	76	8	12
New York	361	27	24
North Carolina	121	17	13
North Dakota	47	7	8
Ohio	58	10	8
Oklahoma	71	0	5
Oregon	116	12	7
Pennsylvania	234	9	17
Rhode Island	5	1	3
South Carolina	53	11	6
South Dakota	41	0	9
Tennessee	60	3	6
Texas	440	21	28
Utah	30	6	7
Vermont	50	9	2
Virginia	73	16	7
Washington	57	19	23
West Virginia	16	0	8
Wisconsin	94	8	12
Wyoming	30	7	10
<b>TOTAL</b>	<b>4,274</b>	<b>488</b>	<b>758*</b>

Sources: Russell's Guide, 1996  
Amtrak Summer Schedule, 1996  
Official Airline Guide, North American ed., May 1, 1996

\* This total includes the two airports serving the District of Columbia.

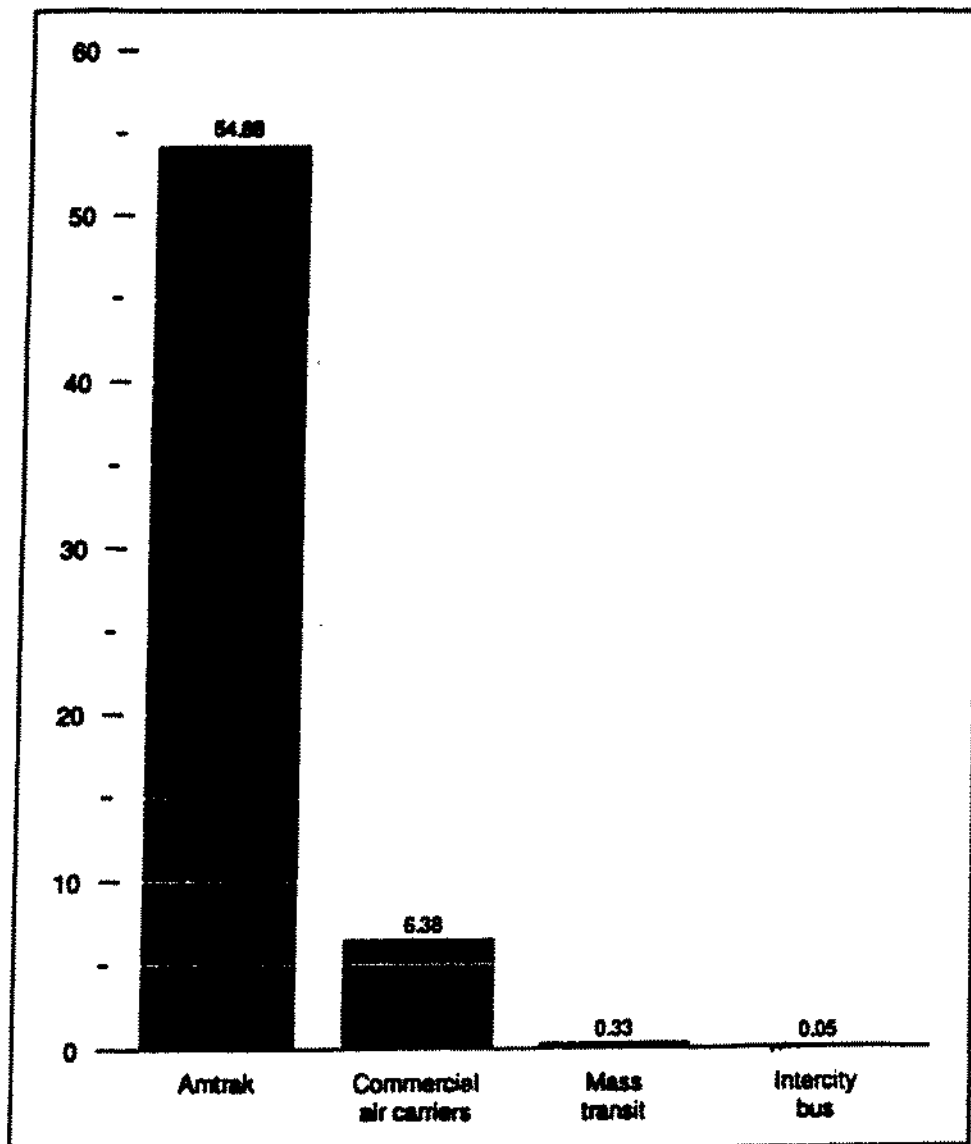
**Figure 2. Total Federal Subsidies, Net of User Fees, to Passenger Transportation Systems and Modes, 1960-1993**  
(Billions of dollars)



Source: Nathan Associates Inc.

Figure 1

**Figure 3. Total Federal Subsidies Per Passenger Trip,  
Net of User Fees, to Passenger Transportation  
Systems and Modes, 1960-1993  
(1993 Dollars)**



Source: Nathan Associates Inc.

## **COMMERCIAL VEHICLE SAFETY ALLIANCE**



An Association of State, Provincial and Federal Officials  
Responsible for the Administration and Enforcement of Motor  
Carrier Safety Laws in the United States, Canada and Mexico.

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5430 GROSVENOR LANE • SUITE 130 • BETHESDA, MD 20814 • TEL.: (301) 564-1623 • FAX: (301) 564-0688

### **Testimony on Motor Carrier Safety Assistance Program (MCSAP) Reauthorization**

**Before the House Surface Transportation Subcommittee**

**Bob Brooks, President  
Commercial Vehicle Safety Alliance**

**May 7, 1996**

**STATEMENT OF THE  
COMMERCIAL VEHICLE SAFETY ALLIANCE**

**House Surface Transportation Subcommittee**

**Bob Brooks, President  
May 7, 1996**

Mr. Chairman, and Members of the Subcommittee, my name is Bob Brooks. I currently serve as President of the Commercial Vehicle Safety Alliance (CVSA). I am employed by the West Virginia Public Service Commission as Manager of the Motor Carrier Section.

CVSA is an association of state, provincial, and federal officials responsible for the administration and enforcement of motor carrier safety laws in the United States, Canada and Mexico. Our membership includes all 50 states, the District of Columbia, all of the 12 Canadian provinces and territories, the country of Mexico, the U. S. Territories of Guam and Samoa, and the U.S. Possession of the Northern Marianas. Our member jurisdictions are represented by various Departments of Transportation, Public Utility and Service commissions, State Police, Highway Patrols and Ministries of Transport. CVSA cooperates with the Office of Motor Carriers in the Federal Highway Administration, the Research and Special Programs Administration of the Department of Transportation, and the Department of Energy. In addition, we have over 250 associate members who are committed to helping the Alliance achieve its goals. These associate members



**CVSA Statement, Page 2**

include truck and bus companies, industry associations, insurance companies, manufacturers, research organizations, commercial vehicle drivers, and individuals dedicated to highway safety. The Alliance is a not-for-profit organization, established to promote uniformity and reciprocity in motor carrier safety inspection and enforcement.

Mr. Chairman, the Motor Carrier Safety Assistance Program (MCSAP) is one that has worked well over the years. It should be reauthorized since it has improved commercial vehicle highway safety. We have learned much since the program was first created and we have some ideas for improvement in the program which in large part have to do with how the FHWA manages the program. We are also concerned about possible new FHWA restrictions on state participation in CVSA. This appears to be a greater centralization of power within a federal agency and in our opinion would be a step in the wrong direction. But as I understand it, we will be invited back to discuss details about changes in the program with you at another hearing. Today, I want to talk about the success of the program as it has developed to date. In doing that, I want to emphasize the critical role that CVSA has played in the successful implementation of MCSAP. The overall history of traffic safety has been that progress comes in small increments as opposed to a big leap. We think the history of CVSA and MCSAP is an exception to this history.

As you know, MCSAP was created by Congress in 1983 as part of the Surface Transportation Assistance Act of 1982 to improve motor carrier safety and reduce

**CVSA Statement, Page 3**

motor carrier accidents on the nation's roads and highways. The specific objective of MCSAP as identified in that legislation was "to reduce the number and severity of accidents and hazardous materials incidents involving commercial motor vehicles by substantially increasing the level and effectiveness of enforcement activity and the likelihood that safety defects, driver deficiencies and unsafe carrier practices will be detected and corrected."

FHWA through the Office of Motor Carriers provides matching annual grants to States to enforce the Federal Motor Safety and Hazardous Materials Regulations or compatible State regulations pertaining to CMV safety pertaining to Commercial Motor Vehicle Safety. In fiscal year 1996, the program was funded at \$77.2 million.

States and eligible territories have used these grants for conducting driver and vehicle roadside inspections and performing motor carrier compliance reviews to determine levels of compliance with safety and hazardous materials regulations. With MCSAP, the States through CVSA have developed a comprehensive, coordinated national program of uniform compliance and enforcement of motor carrier safety regulations in order to reduce the number and severity of commercial motor carrier accidents and hazardous materials incidents. I emphasize the CVSA role, because prior to our existence, the states were merely told by the Federal representatives what to do, and the states had little if anything to say in the matter.

**CVSA Statement, Page 4**

Most MCSAP funds are allocated using an administrative formula established by regulation Basic and Supplemental (Traffic Enforcement and H/M Training) grants. A State must qualify for the basic grant in order to be eligible for supplemental funds. The formula factors are: (1) road mileage (all highways); (2) vehicle miles traveled (all vehicles); (3) number of commercial vehicles over 10,000 pounds; (4) special fuel consumption; and (5) population. These factors are updated annually.

Basic grant funds are used to perform driver/vehicle roadside inspections, Compliance Reviews, size and weight enforcement, controlled substance detection, and CDL enforcement of licensing requirements.

The primary groups involved in carrying out the program are FHWA (OMC), state agencies responsible for administering the program, the motor carrier industry, and CVSA as the organization which brings all of the state agencies together along with industry to implement the program as well as to work on many projects above and beyond MCSAP involving uniformity and reciprocity of commercial vehicle safety enforcement.

The basic cooperation among all of these parties has been instrumental in the success of MCSAP, particularly among the state jurisdictions which have organized together under the CVSA banner. Additional successes can be attributed to the cooperative attitude between CVSA and the bus and truck industry.

**CVSA Statement, Page 5**

It is important to recognize that CVSA, especially through its conferences and workshops, serves as a major focal point for bringing together key state, provincial and federal enforcement officials with representatives of the truck and bus industry in a one-of-a-kind problem solving interchange. The Alliance is the only organization that performs this role. Were it not for our efforts to organize such meetings, the states and provinces (while Canada does not have a MCSAP program as such, in practice they carry out most of the program elements in a manner similar to the U.S., so participation in CVSA is important to them) would be left on their own to try and implement the MCSAP program, thus jeopardizing uniformity, reciprocity, and compatibility of inspection and enforcement efforts, and making it more expensive for them to do so in a far less effective manner. This would also leave the states primarily at the mercy of only federal direction rather than as active participants in a constructive federal/state partnership.

CVSA through its partnerships has significantly contributed to the success of MCSAP and a reduction of motor carrier accidents through the following key accomplishments:

- the North American Standard Roadside Inspection Procedure
- the North American Uniform Out-of-Service Criteria
- Out-of-Service and other defect repair verification procedures
- Complaint control procedures
- Uniform Maximum Fine Schedule
- Inspector training, certification and recertification practices and procedures

**CVSA Statement, Page 6****--Safety information and data systems.**

These have been adopted on a uniform and reciprocal basis by all states/provinces including the District of Columbia, the U.S. Territories of Guam and Samoa as well as the U.S. Possession of the Northern Marianas and the country of Mexico.

Imagine trying to conduct over 2 million annual truck inspections which our members now conduct without uniform procedures and criteria and with few if any enforcement agencies cooperating with their neighbors. Imagine the burden on the truck/bus industry in terms of multiple, redundant and inconsistent inspections/enforcement if a state or province did not recognize the CVSA decal which signifies a successfully completed inspection.

In 1983, when MCSAP was first established, only twelve states had a truck safety program that met the eligible criteria for the 80/20 matching funds. Today every state has at least a basic truck safety program and 32 states have gone well beyond that to establish a comprehensive commercial vehicle safety program. For example, California contributes 90% of its own funds, Virginia 80%, Michigan 75%, and Oregon 60%. Many other states exceed the 20% in their contribution.

Mr. Chairman, here we have a federal program that while it maintains a basic and necessary level of truck safety in all states, has also served as an incentive for many states to expand and do even more. While federal funding for MCSAP has increased over the years, state funding has increased even more. We think this is

**CVSA Statement, Page 7**

truly a shining example of good government the way it ought to be. CVSA has played a key role in this truck safety program enhancement by the states.

Statistics compiled by FHWA and NHTSA show a steady decline in fatal truck crashes from 1985 to 1994. The rate of fatal crashes per 100 million vehicle miles of travel dropped from 3.85 to 2.55 in this period, a decline of 33.8%. With respect to the overall truck crash rate, statistics are available from the period of 1988 to 1994 and show a decline of 12.7% (from 2.71 to 2.60).

Individual state examples also highlight the success of the program very clearly. Nebraska, for example, started its truck safety inspection program in 1987. In that year, the Nebraska State Patrol conducted 1490 truck inspections and the OOS rate was as high as 55%. In 1995, the state conducted 22,476 inspections and the OOS rate dropped to 31%. More importantly, Nebraska's truck accident rate was reduced by 51% from 1989 to 1995. Fatalities were cut by 60% and injuries by 56%.

In conclusion, I hope I have made the case that MCSAP is a program that should be reauthorized. Truck traffic will increase in the coming years. The problem of congestion will remain if not grow worse. All of us will have to work even harder to maintain and improve highway safety. The MCSAP program is absolutely necessary in order that we can meet that challenge. CVSA stands ready to do its part.

Thank you for inviting us to testify today.



**ADVOCATES  
FOR HIGHWAY  
AND AUTO SAFETY**

**STATEMENT OF JOAN CLAYBROOK  
PRESIDENT  
PUBLIC CITIZEN  
REPRESENTING  
ADVOCATES FOR HIGHWAY AND AUTO SAFETY  
BEFORE THE HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON SURFACE TRANSPORTATION  
MAY 7, 1996**

Good Afternoon. My name is Joan Claybrook. I am President of Public Citizen and will be testifying today on behalf of Advocates for Highway and Auto Safety (Advocates) where I currently serve on the Board of Directors and am Program Co-chair. Advocates is a coalition of consumer, health, safety, law enforcement and insurance companies, organizations and agents working together to support the adoption of laws and programs to reduce deaths and injuries on our highways. Mr. Michael P. Dineen, Vice President of Kemper National Insurance Companies, is accompanying me today. Kemper National Insurance Companies is one of Advocates' founding board members. Both Kemper, and in particular, Mike Dineen, have a longstanding commitment to highway safety and I am pleased to appear with Mike today before the Committee.

The subject of today's hearing -- "Is there a need for a federal role in highway safety?" -- is of great interest to me because I had the honor of directing the federal government's highway safety programs when I served as Administrator of the National Highway Traffic Safety Administration from 1977 to 1981. In brief, Mr. Chairman and other members of the Subcommittee, the answer to this question is a resounding "YES". I will address the need for a strong and sustained federal role in highway safety by examining three issues: the public health care costs of motor vehicle deaths and injuries, the economic costs to business of motor vehicle crashes, and the national imperative of reducing crashes to improve the quality and sanctity of life for all Americans.

We need only to look at the damage done to highway safety programs in the name of "states rights" in last year's National Highway System Designation Act (NHS) to illustrate dramatically the necessary lifesaving and economic imperative of maintaining federal leadership when attacking a national public health crisis that produces more than 41,000 deaths and 5 million injuries every single year.

Since NHS was signed into law last November, 23 states have raised speed limits and more than 12 states are considering, or have considered, legislation increasing speed limits. States now have speed limits as high as 75 mph, many states have speed limits of 65 and 70 mph and one state, Montana, has no daytime speed limit at all. The preliminary results are beginning to come in. It's bad news, and it comes as no surprise to the highway safety community. In the first eleven weeks of higher speed limits, California already has experienced a 17% increase in fatalities on the state's most traveled roads. Fatal car crashes had been declining in California since 1987.

When states were permitted in 1967 to increase speed limits to 65 mph on rural interstates, fatalities increased by as much as 30% on these highways. The recent news out of California demonstrates a troubling trend that safety advocates and the U.S. Department of Transportation anticipated. Congress can repeal the National Maximum Speed Limit but Congress cannot repeal the law of physics. When speeds go up, the likelihood and severity of crashes increases, and more deaths and serious injuries are the result. And speeds are definitely going up. Last Friday the Insurance Institute for Highway Safety (IIHS) released a study of speed limits on urban freeways in two states. Motorists in Texas and California, which raised their speed limits to 70 and 65, respectively, after the National Maximum Speed Limit was abolished, are driving faster and breaking new speed limits. The IIHS study found that drivers on urban roads are traveling faster than these roads were designed to handle safely, and the percentage of drivers exceeding 70 mph has substantially increased.

For the second time in twenty years Congress has reversed itself and repealed laws that encourage states to adopt all rider motorcycle helmet laws. Helmet use is the single most effective factor in preventing death and head injury. A study by the General Accounting Office (GAO) reviewed 46 studies of motorcycle helmets and helmet laws. GAO reported that the studies comparing helmeted with nonhelmeted crash victims all found that helmeted riders had lower fatality rates, ranging from 28% to 73%. Furthermore, studies of injuries found that helmet use reduced the incidence of severe, serious and critical head injuries by 46% to 85%.

Numerous studies consistently show that motorcycle helmet laws prevent deaths, reduce serious head injury and save public funds. Medical costs for injured unhelmeted motorcyclists are higher than for injured motorcyclists who use helmets, and taxpayers pick up a big part of the bill. 82% of the costs to treat orthopedic injuries sustained by motorcyclists in 1980-83 in Sacramento, California were paid by public funds. In a study of injured motorcyclists in Illinois, health care costs for nonhelmeted patients were 21% higher than those who were wearing helmets; 54.6% of the nonhelmeted patients were uninsured. (Source: Trauma Foundation and Advocates for Highway and Auto Safety, "Motorcycle Helmet Laws, Questions and Answers").

Relinquishing the federal role in highway safety, like the repeal of the National Maximum Speed Limit and motorcycle helmets, can also have broader ramifications beyond the tragic loss of life and limb on our highways. The Environmental Protection Agency has already alerted states and communities that increasing speed limits will jeopardize efforts to attain National Ambient Air Quality Standards (NAAQS) requirements and may drive up the costs of attainment for industry (Source: U.S. EPA memo to Regional Air Directors, et al, November 50, 1995). For example, changing the speed of a car from 55 mph to 65 mph results in a 100% increase in carbon monoxide, a 50% increase in hydrocarbons and a 31% increase in nitrogen oxides (Source: Evaluation of MOBILE Vehicle Emission Model, Federal Highway Administration, FHWA-PD-94-038). Cars and trucks traveling at faster speeds are emitting significantly more pollutants into the air, threatening air quality for everyone, and setting back national goals for clean air for our children.

Faster speeds also result in increased gasoline consumption and are being cited as a reason for higher gasoline prices and longer lines in California. According to the National Highway Traffic Safety Administration (NHTSA) passenger cars and light trucks use approximately 50% more



fuel traveling at 75 mph than they do at 55 mph. While Congressional proponents of raising speed limits wrapped themselves in the banner of "state rights," it is the federal government that is interceding and coming to the rescue of states experiencing steadily higher gas prices with a federal solution such as the release of "federal" strategic petroleum reserves and the elimination of a portion of the "federal gas tax". Other federal actions include increased federal spending on Medicaid, Medicare, and other public assistance programs because some states have increased highway deaths and injuries as a result of higher speed limits and do not have an all-ride motorcycle helmet law.

This recent example of diminishing the federal role in highway safety shows that "states rights" and "state responsibilities" have not been adequately linked and, consequently, come at a substantial cost to the federal government, taxpayers, and families on our federal-aid highways. In the upcoming reauthorization debate about "donor and donee" states, identifying the "givers and takers" among the states should not be measured solely in terms of contributions to the Highway Trust Fund but should include "state burdens" on other federal programs as well. States that increase speed limits not only increase deaths and injuries, but increase air pollution and gasoline consumption as well as the nation's dependency on foreign oil. They have their hands in the pockets of taxpayers across the country. State decisions that increase the tax burdens on the federal government and all taxpayers undercut any credibility for the argument that a National Maximum Speed Limit, or for that matter, any other federal highway safety requirement, is a "states rights" issue.

#### **I. THE HEALTH CARE COST OF MOTOR VEHICLE CRASHES IS A NATIONAL FINANCIAL BURDEN THAT MUST BE REDUCED**

Motor vehicle crashes remain a major public health problem for the nation as a whole. They are the number one cause of death and serious injury for young people ages 5 to 27 years old. Reversing recent trends, motor vehicle deaths and injuries are once again on the rise. Preliminary 1995 data indicate deaths exceeded 41,000 and injuries exceeded 5 million.

Motor vehicle crashes cost society an estimated \$4,400 per second. NHTSA's most recent economic analysis indicates that the annual cost in society from crashes was \$137 billion in 1990. The bill to society is staggering. That is more than the combined costs of the Northridge earthquake, the Midwest floods, Hurricane Andrew, and the Gulf War. Interestingly, all of these events were viewed by elected officials as having a "national interest" necessitating the expenditure of federal dollars in assistance.

Many costs of motor vehicle crashes are ultimately paid by federal public assistance programs such as Medicaid, Medicare and Aid to Families with Dependent Children. Approximately one third of the cost of motor vehicle crashes is paid by tax dollars (Source: NHTSA). This enormous cost burden is a national problem, one that the federal government cannot ignore. The costs are higher today than in 1990 when the \$137 billion cost was determined. Despite the greater number of airbags in the vehicle fleet, for the third straight year in a row, the number of motor vehicle deaths and injuries have increased. Without significant efforts to reverse this trend, deaths and injuries will continue to rise.

Although highway deaths and injuries are far too numerous, it would be much worse without the success achieved by federal motor vehicle standards requiring safety improvements in cars and trucks, federal requirements for states to enact lifesaving laws such as the 21 year old minimum drinking age, the recently enacted zero tolerance blood alcohol concentration (BAC) law for youth, and federally funded traffic safety programs in the states that encourage safety belt and child occupant restraint use while discouraging alcohol-impaired driving.

A 1991 study by NHTSA, "Moving America More Safely" found that federal highway safety programs since 1966 have produced benefits that far exceed their costs. Since 1966, almost 250,000 lives have been saved by Federal safety laws and programs. The use of safety belts, motorcycle helmets, child safety seats and the age 21 drinking laws alone have saved an estimated 90,000 lives between 1975 and 1994. The economic benefits from saving lives were \$71 billion in 1994 dollars, which is at least seven times the total cost of NHTSA's highway safety program, including grant obligations and state matching funds from 1966 through 1994.

Justification for a federal role in reducing deaths and injuries on our nation's highways was best stated by President Ronald Reagan in 1984 at the bill signing ceremony for the National Legal Minimum Drinking Age:

"This problem is bigger than the individual States. It's a grave national problem, and it touches all of our lives. With the problem so clear-cut and the proven solution at hand, we have no misgiving about this judicious use of Federal power."

Last year, recognizing again that the minimum drinking age needed to have a major loophole closed to combat underage drinking and driving, Congress adopted a zero tolerance BAC law as part of the NHS. The provision enacted in NHS sanctions federal highway construction dollars for those states that do not have a .00% or .02% BAC for youth law by October 1, 1998.

At the time, about half of the states had a zero tolerance BAC law for youths. The number one killer of teens and young adults is alcohol-related highway crashes. A study of the first four states to reduce legal blood alcohol limits for young drivers found a 34 percent decline in nighttime fatal crashes among adolescents targeted by lower BAC levels, a one third greater decline than was observed in four nearby comparison states without the law (Source: Hingson et al, Alcohol, Drugs and Driving). Widespread public concern about underage drinking and driving and the personal and economic toll it was taking in terms of killing and disabling our youth once again required national action to ensure states had this important law. As a result of the NHS requirement, Kentucky and Indiana already have acted to pass this important law, as have Florida and Kansas whose bills await gubernatorial signature. Missouri, New York, Alaska and Alabama will hopefully pass bills this year.

## II. FEDERAL HIGHWAY AND AUTO SAFETY LAWS ECONOMICALLY BENEFIT BUSINESS

One of the major challenges facing businesses today, in an effort to be competitive and profitable, is holding down health care costs of employees. Federal highway safety programs

and policies can help employers reduce these costs without reducing the benefits they offer their employees. Protecting employees from motor vehicle crash injuries is a profitable investment of time and resources. Improvements in highway and auto safety influence the bottom line for companies of all sizes -- small, medium or large -- because motor vehicle crashes affect productivity, worker compensation costs, and health care premiums for employees.

Motor vehicle crashes are the leading cause of death and injury on the job in both the private and public sector. In fact, the leading cause of death and injury in the United States Armed Services is not war, but motor vehicle crashes (Source: Department of Defense).

In a 1992 study, NHTSA found that motor vehicle crash injuries on- and off-the-job cost employers \$53 billion. One third of this cost results from off-the-job injuries to workers and their dependents. Furthermore, this study found that to produce profits equal to employer costs of motor vehicle-related injury, employers would need \$530 billion in sales - over three times the annual growth in the U.S. economy (Source: Traffic Safety and Health Care: State and National Estimates of Employer Costs).

Every employer in every state should realize cost savings from improvements in traffic and motor vehicle safety. This is the benefit of having uniform federal traffic safety laws across the country and motor vehicle safety standards that apply to every car sold in the United States, whether manufactured domestically or internationally. The proven success in reducing deaths and injuries of a national maximum speed limit, a minimum 21 year old drinking age, mandatory safety equipment in cars such as airbags and side impact protection (and in trucks, such as anti-lock brakes) should not be limited to specific makes and models of vehicles or particular regions across the country. No matter where you live or drive or operate your business you should be afforded equal protection and the economic benefits that derive from improved safety on our highways.

Federal safety decisions also have economic benefits and savings for businesses beyond the direct savings in health care costs already discussed. For example, numerous studies have conclusively shown that larger trucks are more dangerous and that increasing truck size and weight will result in more unstable trucks, longer stopping distances for trucks, more jackknife crashes, and will result in more deaths and injuries to American families on our highways (Source: March 3, 1994, testimony of Joan Claybrook before House Subcommittee on Surface Transportation). Public opinion polls show consistent and strong opposition to heavier and longer trucks on our highways, and for good reason. Passenger car occupants are more likely to be killed or seriously injured in a crash with a large truck.

Enactment of a federal law, similar to legislation introduced by Rep. James Oberstar in the last session of Congress, to freeze the weight and size of trucks will improve safety on our highways where each year more than 5,000 Americans lose their lives in crashes involving large trucks.

However, there is also an added economic benefit to private businesses and taxpayers. Big trucks are responsible for excessive damage on our highways. One 80,000 pound five-axle semitrailer truck will do as much damage to the pavement as 9600 automobiles (Source: American Association of State Highway and Transportation Officials). Neither the American taxpayer nor small businesses can afford to pay the public health care costs of bigger trucks

causing more death and injury and the capital costs of accelerated highway deterioration caused by large trucks.

A recent DOT report to Congress on the status of the U.S. surface transportation system found that even with all levels of government and private industry spending at record levels, transportation demands outpace the rate of investment. DOT found that one fourth of the highways are either in poor or mediocre condition. Only 19 percent of roads were considered to be in good condition while one fourth of all bridges on the interstate and 28 percent of bridges on major roads are classified as deficient. The report states that the nation is investing approximately \$35 billion annually in roads and bridges. However, to maintain them in their current condition, without reducing the percentage in substandard condition, will require \$50 billion annually or a 43% investment increase. The study found that \$68 billion should be spent annually on roads and bridges, almost double the current investment.

Without a federal leadership role in freezing the size and weights of trucks, the safety of Americans will be jeopardized, accelerated deterioration to our nation's highways and bridges will continue, highway repair costs will soar and financial investments will never catch up with the backlog of road damage. Increasing federal and state highway investments to repair road damage caused by unwarranted increases in truck size and weights will only serve to drain private and public capital from highway projects that could directly benefit economic development. Small businesses and the public cannot afford to subsidize road damage that results from pavement abuse by large trucks and pay the health care costs of increased fatalities and injuries resulting from dangerously large trucks.

### III. THE RISING TREND IN HIGHWAY FATALITIES AND INJURIES THREATENS OUR QUALITY AND SANCTITY OF LIFE

Everyday, each of us faces the reality that we may not return home at night to our family and friends because of the frequency of motor vehicle crashes. Last week, the Washington region mourned the death of three people including the mother of three small children and a father, who were needlessly and innocently killed on the George Washington Parkway traveling to work on a beautiful spring day. Aggressive driving is the new challenge in maintaining civility and safety on our highways and neighborhood streets.

While there is no single, simple solution to stopping aggressive driving, it is essential not to create a driving environment that promotes this type of threatening and violent behavior. Creating a safe driving environment is an important role that Congress and the federal government must assume. Raising speed limits to unsafe levels across the country, or in the case of one state, eliminating speeds for daytime driving altogether sends a deadly and mixed message that high speeds are acceptable and "bad luck" if you happen to live in a state that hasn't raised speeds yet. Putting young inexperienced drivers behind the wheels of so-called "muscle cars" that once again have speedometers showing the car capable of 140 mph or more is a deadly combination. State laws that only permit secondary enforcement instead of primary enforcement of safety belt laws diminish the importance of buckling up. No other highway safety law is subject to secondary enforcement. Advertising the exhilaration of racing down a two-lane winding highway glamorizes the dangers of speed, a factor in one third of all crashes

leading to death.

The public is very smart about the financial and emotional toll of highway crashes. Public opinion polls consistently validate the public's concern about the frequency of crashes, the costs to taxpayers, the costs to business, and the need for more action to reduce deaths and injuries. A public opinion poll commissioned by Advocates last April found strong support for common sense laws for the common good. The nationwide poll was based on interviews with 1000 randomly selected Americans and showed overwhelming support (82.6%) for the Federal Government having a strong role in setting auto safety standards. Respondents understood that traffic safety laws like safety belt and motorcycle helmet laws save lives and money. Consistent and convincing opinions were expressed in opposition to weakening or repealing safety belt and motorcycle helmet laws. The public opinion poll also showed concern about excessive speed, underage drinking and driving and adequate consumer information about the safety of cars. Additionally, there was strong support (76.6%) for tougher laws to enforce the safe operation of trucks and three out of four respondents opposed allowing trucks to be longer or heavier.

A strong federal role is imperative for achieving uniform traffic safety laws in all states. Safety laws, when adopted in every state, have resulted in significant advances in reducing deaths and injuries on our nation's highways. Instead of relinquishing its role in highway safety, Congress should reinvigorate its partnership with the states to advance an unfinished traffic safety agenda that was energized in the Intermodal Surface Transportation Efficiency Act (ISTEA) in 1991, but was set back to the NHS bill.

Since January, 1991, when this House Committee first began hearings and debate about ISTEA, more than 200,000 Americans have died and more than 20 million Americans have been seriously injured in highway crashes. This grim statistic of death, injury, personal loss and destruction of the family compels us to continue a strong and sustained federal role in highway safety.

**States Raising Their Speed Limits Since Repeal of the National Speed Limit**

	<b>Rural Interstates</b>	<b>Urban Interstates</b>	<b>Effective Date</b>
Arizona	75 mph (trucks 65)	55 mph	12/8/95
California	70 mph (trucks 55)	65 mph (trucks 55)	1/1/96
Colorado	75 mph	55 mph	6/24/96
Delaware	65 mph	55 mph	1/17/96
Florida	70 mph	55 mph	4/8/96
Georgia	70 mph	65 mph	7/1/96
Idaho	75 mph	75 mph	5/1/96
Kansas	70 mph	70 mph	3/7/96
Massachusetts	65 mph	55 mph	1/29/96
<i>(The 65 mph limit was raised on a larger number of rural interstate miles than before.)</i>			
Minnesota	SF 2702 allows the state DOT to determine the speed limits up to 65 on all roads. DOT has not yet raised any speed limits as of 4/22/96.		
Mississippi	70 mph	70 mph	2/29/96
Missouri	70 mph	60 mph	3/13/96
Montana	unlimited (trucks 65)	unlimited (trucks 65)	12/8/95
Nebraska	75 mph	75 mph	6/1/96
Nevada	75 mph	65 mph	12/8/95
New Mexico	75 mph	75 mph	3/15/96
Ohio	HB 565 allows the state DOT to evaluate individual roads for 120 days to determine if the speed limits should be raised. The Governor signed the bill on 2/29/96.		
Oklahoma	70 mph	60 mph	12/15/95
Rhode Island	65 mph	55 mph	5/12/96
South Dakota	75 mph	75 mph	4/1/96
Texas	70 mph (trucks 60)	70 mph (trucks 60)	12/8/96
Utah	75 mph	65 mph	12/18/95
Washington	70 mph (trucks 60)	60 mph	3/15/96
Wisconsin	65 mph	65 mph	8/1/96
Wyoming	75 mph	60 mph	12/8/95

States that have considered legislation raising speed limit but did not or have not yet passed any of these measures \*: Alabama, Connecticut, Illinois, Indiana, Iowa, Kentucky, Maine, Michigan, New Jersey, South Carolina, Virginia, West Virginia

States that have not considered raising speed limit: Alaska, Arkansas, Hawaii, Louisiana, Maryland, New Hampshire, New York, North Carolina, North Dakota, Oregon, Pennsylvania, Tennessee, Vermont

\* As many state legislatures are still in session, bills continue to be introduced and this list may not include every state that has considered legislation to raise the speed limit.

(Sources: Advocates for Highway and Auto Safety, Insurance Institute for Highway Safety and Association of International Automobile Manufacturers. Current as of May 2, 1996)



## NEWS RELEASE

### URBAN FREETWAY SPEEDS JUMP IN TWO STATES THAT WERE QUICK TO RAISE SPEED LIMITS

ARLINGTON, VA - May 3, 1994 - Motorists in Texas and California, which raised their posted speeds right after the federal maximum speed limit was abolished, are driving faster and breaking the new speed limits on urban freeways, data from the Insurance Institute for Highway Safety reveal. Using photo radar technology, researchers monitored traffic speeds on urban freeways in two communities - Houston, Texas and Riverside, California - just before the speed limits were raised and three months after they were raised.

Speed limits in Texas were raised from 55 mph to 70 mph. California's limits rose to 65 mph from 55 mph. There were increases in average travel speeds on roads monitored by researchers. There were substantial increases in the percentages of cars going faster than 70 and 75. For example:

Percentage of Cars Exceeding 70 MPH on Urban Freeways Before and After Speed Limit Changes

	Before	After
<b>Texas</b>		
Route 59	14	27
Route 290	14	46
Route 90	12	60
Interstate 10	12	29
<b>California</b>		
Route 91	20	46
Route 60N	23	20
Route 60S	23	20
Interstate 215	24	30

"What's particularly alarming is that drivers on congested urban roads increasingly are traveling faster than these roads were designed to handle safely," Institute Senior Vice President Allan Williams points out.

More than 80 percent of respondents to telephone surveys of residents in the communities where researchers monitored speeds said they're concerned about the speeds of other vehicles on the road. The majority said enforcement of speed limits hasn't changed since speed limits were raised. Almost half said drivers exceeding the speed limit by 10 mph would not be ticketed, but about 65 percent said a driver going 20 mph over the limit would be ticketed.

For further information, call Allan Williams at 703/247-1500 (after hours, 301/263-8317).

WRITTEN STATEMENT OF DR. JAMES COSTANTINO,  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
INTELLIGENT TRANSPORTATION SOCIETY OF AMERICA  
BEFORE THE HOUSE TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON SURFACE TRANSPORTATION  
PUBLIC WITNESS HEARING  
TUESDAY, MAY 7, 1996 AT 1 P.M.  
WASHINGTON, D.C.

Good afternoon, Mr. Chairman and members of the Subcommittee. My name is James Costantino, and I am president of the Intelligent Transportation Society of America. I appreciate the opportunity to speak to you today about the critical role intelligent transportation systems play in saving lives and improving efficiency and the appropriate role for the federal government in these areas.

Intelligent transportation systems apply information and communications technology to the surface transportation system, helping communities save lives, reduce congestion and spur economic growth. ITS America is the unique public-private partnership for the ITS program with over 1000 member organizations from the private sector, public sector, associations, academia, and public interest groups. We are a non-profit scientific and educational society also serving as a utilized Federal Advisory Committee to the U.S. Department of Transportation.

Our mission, requested by Congress, is to foster and coordinate a public-private partnership to make the U.S. surface transportation system and its modal transfer facilities safer and more effective by coordinating and guiding the development, integration, acceptance and deployment of advanced surface transportation technology.

*ITS Saves Lives*

Although we have made enormous progress over the past two decades in reducing accident rates per miles of travel, the problem of deaths and injuries during travel is far from solved. However, transportation-related accidental deaths continue to account for half of all accidental deaths in this country. And motor vehicle deaths account for 93 percent of those deaths. What is perhaps most alarming, as Secretary Peña said last week, is that motor vehicle deaths are the number one killer of America's youth.

In communities across the nation, intelligent transportation systems are playing a critical role in saving the lives of thousands of Americans. Here are just a few examples:

- In Houston, transportation leaders are installing a new system that will allow emergency vehicles to control street lights. If a traffic light is about to turn yellow, the emergency driver can hold it on green until he clears the intersection.
- In Maryland, an extensive traffic management system allows emergency service providers to respond immediately to traffic accidents and incidents. Quick response



allows traffic managers to clear the incident and reopen lanes as quickly as possible, while still protecting the safety of victims, travelers and emergency personnel once the detection system identifies a problem.

- In Oakland County, Michigan, intelligent transportation systems have reduced left-turn accidents at dangerous intersections by 89 percent, total traffic-related injuries by 27 percent and serious injuries have been virtually eliminated.
- And just before the San Antonio TransGuide traffic management facility opened, the value of this integrated ITS facility was demonstrated when an industrial plant fire erupted within view of freeway video monitoring. Monitors saw the blaze and managers dispatched the appropriate rescue personnel, enabling firefighters to contain the fire more effectively and save lives.

The Fatal Accident Reporting System estimates that just by implementing intelligent freeway management systems -- just one of many ITS applications -- as many as 308 lives could be saved every year.

Clearly, the federal government has a vital role in safety. It must work with businesses to ensure that safety-enhancing technologies interact effectively and reliably with the public infrastructure, so that accurate, timely information can be quickly relayed to emergency management, medical and public safety providers.

Federal leadership also is needed to encourage the cooperation of various agencies with public safety responsibilities to work together. Federal incentives have provided critical opportunities for local governments, regions and states to work cooperatively to create a network of integrated emergency services -- saving time and saving lives.

#### *ITS Saves Time and Money*

In addition to saving lives, intelligent transportation systems also save time -- lots of it. At a time when revenues at the federal and state levels are declining and budgets are being cut, ever growing numbers of vehicles are squeezing onto an aging infrastructure.

Over the past decade, the number of vehicles using the Interstate system has risen by more than 30 percent, and demand is expected to grow by another 50 percent in the next generation. We need to find solutions which use utilize roadways more efficiently.

Americans lost more than 2 billion hours to traffic gridlock last year, a loss which translates into higher costs of doing business, longer waits for emergency vehicles at accident sites, time spent sitting in traffic instead of being with family, more pollution and a generally lower quality of life.

But intelligent transportation systems around the nation are helping to address these crippling problems by moving people and goods faster and more efficiently.

In Seattle, the flow of traffic along the city's Interstate highways is up almost 20 percent, thanks in large part to an advanced freeway management system. Most surveyed drivers report cutting their travel time in half.

Communities are saving money and increasing revenue with ITS. In New York City, the Metropolitan Transit Authority estimates that its new electronic fare system will increase annual revenues by \$34 million from merchant fees and revenue floats, \$140 million from unused fare cards and \$49 million from increased ridership. The MTA also expects the new system to cut losses due to fare evaders by \$70 million a year.

This technology, which allows for more efficient use of existing infrastructure costs as little as 5 percent of what comparable highway construction would cost. DOT estimates that it costs approximately \$39 million for every mile of new freeway construction. For the cost of building five to 10 miles of new freeway, which will serve only those citizens along that corridor, ITS can be deployed in an entire region, serving all citizens.

Should we stop building and reconstructing highways? Certainly not. There will always be a need for new roads and improvements to existing ones. But some communities do not have the option of building additional lanes or new roads. But they still have a critical need to move people and goods efficiently. ITS helps to solve the problem while making efficient use of scarce resources.

#### *ITS creates jobs*

ITS creates jobs. We estimate that over the next 15 years, more than \$167 billion will be spent on ITS technology in the United States. Car manufacturers, telecommunications companies, engineering and construction firms have already invested billions of their own dollars in advanced technology. They recognize the tremendous benefit to be gained from ITS and creating jobs in the process -- high-tech, high-wage jobs that are the foundation of the nation's economic future.

Of the \$167 billion to be spent on ITS, it is estimated that only 20 percent of that amount will be spent by the public sector. The private sector will lead in the development and deployment of ITS technologies.

But there is a critical role for the federal government. Improvements in transportation have a profound impact on interstate commerce and the economy. The Federal government has an important interest in stimulating markets and technologies which can, and have, dramatically enhanced transportation, lowered costs and increased productivity. The I-95 Corridor, which is improving the movement of people and goods along the East Coast; and the Advantage I-75 program, enabling trucks to reduce travel times and thereby reduce the costs of goods; are just two shining examples of how a very small but meaningful commitment by the Federal government has produced multiple economic benefits.

Congestion is not just a local problem. It's a national one, too. Just ask any trucker who, after traveling quickly and efficiently on the interstate, finds his productivity brought to a

screeching halt while sitting mired in traffic for hours, unable to reach the ultimate destination. These delays have just as significant an impact on commerce as an uncompleted section of the Interstate, collapsed bridges, or deteriorating arterial.

#### *The Federal Role in ITS*

To encourage cooperation and the realization of the benefits of ITS, the federal government should consider some type of voluntary incentive program for ITS deployment. Such a program should not, indeed, must not be mandatory. States and local governments should have maximum flexibility to determine the appropriate solutions to their individual transportation problems. But an incentive program which raises the visibility of intelligent transportation systems as a viable part of an overall transportation program would increase the opportunity for this technology to be implemented and bring these benefits and jobs to the rest of the nation.

In addition, the federal government should consider reforms to allow greater private sector participation in the deployment of ITS. Public/private partnerships, procurement improvements, and expanding the uses of federal aid funds in ISTEA program categories will enable greater private sector involvement in providing transportation services and leverage limited federal resources.

In order for ITS productivity enhancement to be fully realized, the Federal government has an important interest in coordinating the development of standards so these technologies can communicate with each other. While the Federal government ought not independently establish those standards, it does have a critical role in their development. Transportation Secretary Federico Peña already has awarded a number of grants to standards development organizations to facilitate the development of these important standards.

#### *Conclusion*

Mr. Chairman, the nation's transportation system, while still in need of substantial improvements, is presently realizing important benefits from ITS technologies. These cost-effective systems are improving the nation's economy, creating jobs and saving lives today. While the private sector is aggressively moving forward, Federal participation in the ITS program is critical to realizing the full promise of intelligent transportation systems.

Thank you for the opportunity to testify. Please include my written statement in the official record. I would be pleased to answer any questions.

**Testimony of**

**Hank Dittmar  
Executive Director  
Surface Transportation Policy Project**

**"Defining the Federal Interest in Surface Transportation Investment"**

**before the Subcommittee on Surface Transportation  
Committee on Transportation and Infrastructure  
U.S. House of Representatives**

**May 7, 1996**

Mr. Chairman and Members of the Subcommittee, thank you for the invitation to appear before you today to discuss the need for federal investment in and oversight of the nation's surface transportation system.

I am Hank Dittmar, Executive Director of the Surface Transportation Policy Project, a non-profit coalition of over one hundred fifty organizations whose mission is to ensure that transportation policy and investments serve people and communities. Our members are national and local public interest groups concerned with the environment, energy conservation, the economy and social issues. They represent constituencies as diverse as the elderly, historic preservationists, transportation workers, taxpayer and citizen groups, communities of color and downtown business interests. We are united in the belief that balanced investment in surface transportation can strengthen the economy, protect the environment, help conserve energy and meet important social goals.

As you know, bipartisan majorities of the House and the Senate came together in 1991 to produce the landmark Intermodal Surface Transportation Efficiency Act. To sum up our position concisely, we feel that the legislation enacted in 1991 was a major advance in national transportation policy, and that it should serve as the basis for the 1997 surface transportation bill. ISTEA made major changes to federal transportation policy: unprecedented funding flexibility, a strong local role in decision making, an emphasis on multi-modal planning and attention to environmental

impacts, among others. Just as it took quite a few years for the states to adjust to the new federal system adopted to build the Interstates in the late '50s and early '60s, it will take some time for ISTEA's changes to sink in. What the transportation industry needs now is time to absorb ISTEA's meaning and its new procedures.

We believe that ISTEA did an admirable job of balancing competing interests: on one hand, the obvious benefits of having more decisions made at the state and local level; on the other, the need to articulate and protect a set of basic national interests. The Subcommittee has heard and will continue to hear from interest groups wanting a bigger slice of the pie. The trucking industry wants federal funds focused on truck routes; state transportation officials want state autonomy; donor states want their fair share; and on and on. If the federal role is reduced to redistributing money among states, industries and interest groups without any reference to broad, national goals, we fear that a strong federal transportation program is doomed. The Subcommittee should be applauded for its effort to define where the public interest lies and the role the federal government should play in advancing it. Without this focus, the program will die.

So what is the federal interest? Although it is tempting to define it in terms of specific facilities, this approach at best approximates what we all agree are the ultimate goals -- a set of outcomes. The reason to have a road is not the road itself, but what it does for us. The time has come to acknowledge this explicitly, and base our policies on the outcomes we wish to achieve.

STPP believes that there is a compelling federal interest in transportation, and that it can be described by five basic goals: a healthy economy; access to jobs, services and opportunities for all; a healthy environment; public safety; and productive investment of public funds. The federal transportation program should be judged based on its ability to make progress toward these goals. We believe that ISTEA has measured up well in this regard, and proposed changes to it will have to perform equally well to gain our support.

As I said, we see five main areas of federal (and public) interest in transportation.

#### **1. Economic Efficiency**

First of all, investment of federal taxes in surface transportation should enhance the efficiency of the nation's economy by moving people and goods reliably and cost-

effectively. Now that we have built an unparalleled interstate system, our economic challenge is to plug gaps in the system, make intermodal connections and ensure that the metropolitan economies that drive our competitiveness do not bog down due to deteriorated facilities and congestion. Almost eighty percent of our people now live in center cities and their surrounding counties, and increasingly the health of these large metropolitan regions — both cities and suburbs — defines the economic health of the nation. In 1956 when the interstate system was created, it was widely agreed that the biggest transportation challenge facing the nation was long distance connections. The interstate system was meant to address this challenge, and it did. Today, our biggest challenge is to assure that our metropolitan transportation systems and the economies they support can flourish.

The economic health of small towns and rural communities also depends on continued investment in improving the safety and ensuring the rehabilitation of roads and bridges in rural areas. Indeed, from an economic standpoint, the paramount federal interest may be in the preservation and rehabilitation of the infrastructure we spent so much to build. Taxpayers have invested hundreds of billions in dollars in these facilities, and we need to assure that this investment is protected. This is just common sense. Federal investment programs like those for maintenance of the interstate system, rail modernization, bus replacement and bridge rehabilitation have proven their worth by improving the condition of these facilities. Despite these successes, more emphasis is needed.

According to the U.S. Department of Transportation, there is a gap of almost \$15 billion per year in spending for maintenance and rehabilitation activities, yet, as the 1995 *Conditions and Performance* report states "... system preservation improvements in 1993 accounted for 42.2 percent of [capital] spending on non-local roads." In other words, more than half of the money going into capital expenditures on road projects in 1993 went for new additions to the system — this at a time when less than 70% of the interstate and arterial systems are in at least fair condition. Clearly there is a problem here, and this Committee should look into making system preservation a higher priority.

## **2. Access and Choice**

As Dr. Thomas Larson, Federal Highway Administrator during the Bush Administration, has pointed out, the first federal investment in transportation was undertaken on the basis of the general welfare clause of the Constitution. Clearly the

investment of federal tax dollars in canals, then roads and bridges, then transit systems and now in intelligent transportation technologies has provided Americans with access to jobs, housing and opportunities on an unprecedented scale. This promotion of the general welfare is one of the key reasons for federal investment in surface transportation.

When you ask people what kinds of transportation investments they see as best serving their welfare, you get some interesting results. Public opinion research we have commissioned shows that although over 70 percent of people use the car as their primary means of transportation, half would choose other options if they were available and convenient. Furthermore, people identify investments in widening existing roads or building new ones as relatively low priorities -- below encouraging ridesharing and investing in transit, and far below fixing existing roads and bridges. People want choice, and many feel that right now they don't have it. When given a choice, not all will opt for alternatives, but many will.

Ensuring that the benefits of our investments are available to all Americans, whether young or old, rich or poor, living in urban areas, suburbs or rural areas, able or unable to drive, has also been a reason for federal investment and federal oversight. In addition, the Federal Transit Act, the Civil Rights Act and the Americans with Disabilities Act are all meant to ensure that access, mobility and choice are delivered to all. Basic access and mobility means facilitating travel by car, transit, bicycle and foot, as well as non-travel options allowed by telecommuting and mixed use development.

### **3. Environmental Stewardship and Energy Conservation**

Transportation investments can and should contribute to meeting our environmental, energy and public health goals. Furthermore, the federal government must take a significant share of the responsibility for assuring that the environmental effects of federal transportation investments are being understood and minimized.

This is no more true than with the consequences of high levels of oil consumption by the U.S. transportation system. The work and expense of making the transportation system more energy efficient tend to be borne at the lowest level, that of the consumer, while the consequences of inefficient energy usage -- problems with energy security, the threat of oil spills and increased danger of global climate change, to name just a few -- are national or global in nature. In this situation it is unlikely that

the consumer, or even local or state government, will take the steps necessary to protect the general welfare without the assurance that those steps are also being taken in other communities and other states. The federal government must take a lead role.

Our policies should also contribute to the conservation of natural, scenic and historic resources, a posterity we received from our parents that we are responsible for passing on to our children. In ISTEA, for the first time the federal government acknowledged something we have all known for a long time -- that the interface between transportation facilities, communities and the natural environment can be a troubled one. ISTEA's targeted funding for transportation enhancements was a recognition of both the need to improve these relationships and the enormous enthusiasm that projects to bridge these gaps can generate.

The powerful linkage between transportation and air quality cannot be ignored. Half of the ozone pollution that hovers in the air of many of our cities -- pollution that reduces the lung function of healthy adults, makes children, the elderly and sensitive populations like asthmatics short of breath, and costs the national economy billions of dollars in health care costs every year -- is the result of cars and trucks. ISTEA's provisions to address the air quality impacts of transportation were major advances and must be protected.

Make no mistake: transportation is an environmental issue, and transportation legislation is environmental legislation. Like it or not, the bill produced by this Committee next year will be judged against environmental goals.

#### **4. Enhancing the Safety of the Transportation System**

Public safety must continue to be a key reason for federal involvement in transportation. Although the long term decline in the rate of traffic fatalities per vehicle mile traveled is well documented, because of the robust and continuing increase in driving over the last 30 years, the overall number of traffic fatalities does not show a similar long term decline. Good progress has clearly been made on traffic safety, but this is in large part due to the commitment of the federal government to the issue. In the absence of similar commitment in the future it is uncertain whether the gains of the past will continue.



Federal programs which improve transportation safety do so through research and development, regulation and incentive, and through targeting funds for safety activities. The federal commitment to safety should consider both users and non-users of the transportation system – pedestrians as well as drivers, for example – and should continue to examine topics like the role that road design standards play in encouraging greater speed. Setting goals and objectives for safety is important, but these objectives need to be accompanied by targeted funding.

#### **5. Ensuring That Our Investments Perform**

In spite of the rhetoric to the contrary, it is reasonable for the taxpayer to expect the federal government to monitor the expenditure of federal funds and ensure that they are leading to better performance. Congress has both the right and the responsibility to attach performance standards to the expenditure of funds collected with federal taxing authority.

ISTEA balanced the need for federal oversight with the need to provide state and local partners with increased authority to make sensible decisions at the local level. We need to continue this evolution by focusing federal oversight on improved outcomes and better performance, not on micro-management of process, engineering or accounting. States and localities should be asked to set measurable objectives in areas of federal interest – the economy, system preservation, access to opportunity, energy conservation, the environment and safety – and the federal government should report to the taxpayers on how well these goals are being met. American business has re-engineered itself toward quality goals and a focus on the customer. Federal programs must play a role in encouraging this kind of accountability to emerge in public sector transportation as well.

#### **Investing in the National Interest – Achieving Our Goals**

ISTEA took us in the right direction by incorporating a series of basic methods of meeting overall goals into the federal transportation program. While the Surface Transportation Policy Project is still in the process of developing its detailed policy recommendations for ISTEA's renewal, we believe your Committee should build on ISTEA's link to these key principles. We identify five core methods.

First, it is appropriate for the federal government to target funding to key areas where investment should occur. The Interstate Maintenance program for example, has

demonstrably improved the condition of the interstate system. Similarly, Congestion Mitigation and Air Quality funding provides federal funds to comply with the federal Clean Air Act mandate. It is inconceivable from either the standpoint of honest intergovernmental relations or sensible environmental policy that this program would be singled out for cuts.

Second, the targeting of funds should be balanced by robust flexibility, with a wide variety of uses for federal funds. Such flexibility should be accompanied by broadened eligibility, so that states and localities can respond to both local and national goals in ways appropriate to their particular situation. This flexibility should be tied to a sensible planning process -- one that links the selection of projects to a realistic idea of the amount of money available, an agreed-upon set of goals, and a rational evaluation of the different ways of pursuing the needs identified.

Third, providing and paying for transportation requires a strong partnership between local, state and federal governments, all of which own or have financial responsibility for key parts of the system. All levels of government should have a voice, but no single level should dominate decision-making. The federal government must provide the basic framework for this partnership, at least when it comes to spending federal funds, through its oversight of the process for making long-range plans and selecting projects. The strong local role in the project selection process should be enhanced and continued. And where federal tax funds are involved, the federal government has a responsibility to assure that the taxpaying public continues to have role in the decisionmaking partnership.

Fourth, federal legislation should provide for balance, fairness and equity. ISTEA's renewal will have to balance investment in the national interest with the desire of individual states to maximize transportation funding. As states argue for specific formulas, however, Congress has the duty to assure another kind of balance -- balance among modes, balance between state and local governments and balance among urban, suburban and rural areas. USDDT studies reveal that while state road spending is largely paid by gas taxes, only 7 percent of local road spending comes from user fees. Clearly, any shift to focus more federal funding on state-owned facilities could force greater reliance on sales and property taxes at the local level.

Finally, accountability to taxpayers should be a hallmark of ISTEA's renewal. Taxpayers and system users should have access to timely and accurate information about the condition, performance and management of the transportation system and

should have direct and open access to the decision making process. The best way to assure that transportation investments are responding to people's priorities is to involve them in the decision making process.

#### **Making The Most Of ISTEA's Promise**

The Surface Transportation Policy Project's coalition will be formulating detailed policy recommendations for the reauthorization of ISTEA this spring and summer. In addition, we are working with a diverse list of groups outside our coalition that represent local government officials, transportation professionals at the local and regional level, and providers of public transit services, with the goal of forging a truly broad coalition in support of ISTEA and the principles it embodies. We hope to make an announcement about this work shortly.

We appreciate the opportunity to participate in the Subcommittee's hearings and look forward to presenting our platform to you in a few months. We understand that the Subcommittee will hold hearings on various issues and hope that we can involve members of our coalition with expertise on particular issues as the need arises.

STPP is particularly interested in working with the Committee on the issue of improving the timely delivery of transportation projects once the consensus has been reached to move forward on a project. ISTEA's promise of replacing detailed project oversight with up-front planning analysis has been less than fully successful, and we believe that reformed program delivery can speed up the process without jeopardizing environmental or other safeguards. ISTEA's basic framework can serve as a building block for this reform.

Mr. Chairman, thank you again for your attention and courtesy. I am happy to answer any questions you or other members of the subcommittee may have.

*Before the*

**U.S. HOUSE OF REPRESENTATIVES  
TRANSPORTATION AND INFRASTRUCTURE COMMITTEE**

**on**

**SURFACE TRANSPORTATION**

**May 7, 1996**

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*Statement of the*

**AMERICAN TRUCKING ASSOCIATIONS, INC.**

*On*

**The Importance of the National Highway System  
Within Highway Reauthorization**

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**Thomas J. Donohue  
President and Chief Executive Officer**

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## I. INTRODUCTION

### A. ATA Represents the Trucking Industry

The American Trucking Associations, Inc. (ATA) is the national trade association of the trucking industry. The ATA federation includes over 4,400 carriers, affiliated associations in every state, and 14 specialized national associations. Together, ATA represents every type and class of motor carrier in the country. Combined with ATA's direct membership, we are a federation of over 34,000 member trucking companies and represent an industry that employs over 9 million people, providing 1 out of 10 civilian jobs. All across the country, ATA represents businesses whose survival depends upon a high quality and productive work place - the highway network.

The American Trucking Associations appreciates the opportunity these hearings offer to focus on the importance of the National Highway System (NHS).

### B. ATA Supports and Appreciates this Subcommittee's Fight for Better Roads

ATA would like to compliment the Transportation and Infrastructure Committee for its leadership in passing the National Highway System Designation Act of 1995. And, we thank Committee Chairman Bud Shuster and Subcommittee Chairman Tom Petri for the strong leadership they provided in the struggle to pass legislation in the House to take the Highway Trust Fund off budget.

### C. We Propose these Guidelines for Reauthorization

We urge the following guidelines for reauthorization:

- 1) Annual incoming user-fee revenues to the Highway Trust Funds should be promptly obligated for the purposes of the Trust Fund, not accumulated as balances for other fiscal purposes. These funds should be directed to the Core Highway Program, defined as the current National Highway System; Interstate Maintenance Program; a separate Bridge Program; the Federal Lands Program; the Highway Safety Program; and, research to support these programs.
- 2) The Motor Carrier Safety Assistance Program should continue to receive full funding.
- 3) More control of the rest of the highway program should be returned to the states. These funds would be returned to states in the same proportion that they are raised. In this way, one state would not be paying for the local projects of another state.

#### **D. Trucking Pays Our Fair Share into the Highway Trust Fund**

Trucks pay our fair share to use the highway system. Commercial trucks paid \$9.1 billion in Federal highway-user taxes, or 37% of all revenue paid into the Federal Highway Trust Fund in 1993, but account for just 15% of all motor vehicle miles traveled. Commercial trucks paid \$22.3 billion in combined Federal and state highway-user taxes. Per gallon, the Federal diesel fuel tax is 24.3 cents and the average state diesel fuel tax is 20.53 cents as of January 1, 1996.

Fuel costs account for anywhere from 4% to 20% of a trucking company's operating revenue, depending on the nature of the company's vehicles, customers, and length of haul. The burden the highway-user taxes places on individual truckers would be easier to bear if truckers were able to recapture that expenditure through the increased productivity that results when highway-user tax revenues are spent for their intended purpose: to improve the highway system. But moneys from the Highway Trust Fund have been increasingly siphoned off for non-highway purposes.

The leadership in the House and Senate have announced a plan to temporarily repeal the 4.3 cent highway-user tax; ATA supports this effort. ATA opposed the original enactment of the 4.3 cent fuel tax because it did not go into the Highway Trust Fund. Instead, it was a general deficit reduction tax uniquely imposed on highway users and the transportation industry. We will support efforts to permanently repeal this tax or, at least, have it redirected into the Highway Trust Fund when Congress takes it up later this year.

#### **E. Trucking Makes Vital Contributions to the American Economy**

The trucking industry is the prime mover of American freight. It is 3 times larger than all other transportation modes combined and moves 10 times more freight measured in dollars than the next largest competing mode -- rail. Recent productivity gains have made American industry even more dependent on reliable and efficient freight movement to distribute American-made goods and services to expanding markets. In 1994, shippers moved 5.5 billion tons of freight by truck, spending 78%, or \$362 billion, of their freight dollars on trucking. Trucking revenues equal 5% of Gross Domestic Product.

The United States economy and the Highway Trust Fund both depend on trucking. The vital role of trucking in the economy as well as its strong contribution to the Trust Fund both dictate that Federal investment in the highway program be adequate and be directed to the National Highway System as the surface transportation element of dominant national interest and importance.

#### **F. The Trucking Industry is Committed to Highway Safety**

ATA has fully supported--and we appreciate--efforts of this Subcommittee to authorize funding for the Motor Carrier Safety Assistance Program (MCSAP), which pays for state

inspectors and roadside inspection programs. These programs have been proven to enhance trucking and highway safety; we encourage the Subcommittee to continue the MCSAP program.

The trucking industry is committed to highway safety and has demonstrated that commitment through large investments in safety equipment, driver training, research, public education, and programs to weed out poor drivers and vehicles. The commitment has paid off: from 1984 to 1994, the fatal accident rate for accidents involving medium and heavy trucks dropped 34% despite a 37.5% increase in miles driven by those trucks. Safety related legislative and other battles we have fought and won include:

- o creation of a single, national Commercial Driver's License with stringent standards to test and license commercial drivers;
- o a more than ten-fold increase in the number of inspections of heavy trucks;
- o cost-effective random drug and alcohol testing to ensure that truck drivers are free of substance abuse when they are behind the wheel;
- o elimination of commercial zones in which trucks and drivers were allowed to operate without having to comply with Federal safety regulations; and
- o a ban on radar detectors in trucks.
- o we fought to keep the national 55 mile per hour speed limit.

To make sure that the latest technical improvements are used to improve truck safety, as an industry, we are investing an additional \$6 billion over the next ten years to equip our new trucks with anti-lock braking systems.

We are prepared to do even more. For example, we are redoubling our efforts to understand and prevent safety problems:

- o Although initial research suggests that less than 4% of all highway fatigue-related accidents occur in combination unit trucks, ATA, in partnership with the Federal government and several universities, is investing millions of dollars through our research foundation to investigate fatigue-related questions. One of the research findings was a shortage of highway rest areas, a situation which ATA worked with Congress to address in the recent National Highway System legislation. States are now eligible to receive 100% Federal funding for safety rest areas.
- o ATA is working with the AAA Foundation for Traffic Safety, National Association of Truck Stop Operators, and the National Private Truck Council to distribute crucial safety information and recommended practices to all highway users.



- o We created and recently expanded the America's Road Team, a group of professional truck drivers who help teach motorists how to share the road safely with trucks. We are sponsoring 40 communications programs annually in major cities to convey highway safety education, to the local media, schools, and community groups.

## II. NATIONAL HIGHWAY SYSTEM IS THE ESSENTIAL FEDERAL TRANSPORTATION INVESTMENT

### A. All Americans Have a Massive, Shared Interest in the Economic Benefits of the NHS

The National Highway System is comprised of highway routes selected to promote the free-flowing interstate commerce required to support American industry and improve mobility for the traveling public. All Americans share in the total economic benefits that result from investing in the National Highway System. Highway investment boosts productivity in each industrial sector in the following ways: it sharpens the United States' competitive edge in the global markets; broadens markets for United States' goods and services; and widens the scope of markets for labor and other factors of production. It allows industry to reduce inventories, achieve economies of scale, and operate plant and equipment more economically. A well-planned and maintained NHS allows American industry to produce more goods and services at lower cost thereby increasing employment and eventually improving wages. These nationwide benefits that result in investing in the Core Highway Program are greater than the benefits of investing in regional transportation programs.

In fact, recent research at New York University by economist M. Ishad Nadiri<sup>1</sup> shows government spending on the nation's highways has a higher rate of return than government spending on any other program, and if well targeted, higher than much private capital investment. Targeting highway investment to those routes of clear national significance as it promotes interstate commerce, travel, and national defense and emergency services will have a vital impact on the nation's economic prosperity, our position in the global economy, and the overall quality of life for all Americans.

The FHWA 1995 Conditions and Performance Report estimates a \$2.60 return for every \$1 investment for their recommended total annual investment of \$29.6 billion to improve the NHS<sup>2</sup>. The Congressional Research Service reports that each \$1 billion invested in our nation's highway infrastructure is associated with 24,300 jobs. Of these, 10,640 jobs are created

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<sup>1</sup> M. Ishad Nadiri and Theofanis P. Maniatis, *Highway Capital Infrastructure and Industry Productivity Growth*, forthcoming, 1996.

<sup>2</sup> Federal Highway Administration, *1995 Status of the Nation's Surface Transportation System Conditions and Performance Report*, p. 177.

in highway construction and 13,660 jobs are due to increased output and private sector growth.<sup>3</sup>

A separate Bridge Program, the Interstate Maintenance Program, and the Federal Lands Program supplemented by the appropriate safety and research programs are required to ensure that the Federal government maintains the existing highway infrastructure.

#### B. Federal Investment in the NHS Improves National Productivity

Federal investment in the NHS improves national productivity largely due to more efficient freight movement by the trucking industry. Investment in the NHS must support the volume of freight transported across the nation so that current growth is not unnecessarily constrained. *The U.S. Freight Transportation Forecast...to 2004* prepared by DRI/McGraw-Hill<sup>4</sup> defines the size and structure of the United States freight transportation market and forecasts fundamental changes for each freight mode for the 10-year period ending in 2004. The baseline forecast uses a moderate GDP annual growth rate of 2.6% and finds that the volume of freight moved by the trucking industry will increase 19.1% by 2004, from 5.5 billion tons to 6.5 billion tons, and the value of freight moved will increase 20.6%, from \$362 billion to \$437 billion.<sup>5</sup> Intercity truck tonnage, a subset of total freight volume, increased over 50% over the last decade.<sup>6</sup>

National productivity, measured in growth in the Gross National Product (GNP), has always been reflected in increases in total truck tonnage, just as one of the first indicators of a recession is a reduction in truck tonnage moving across the interstates. Industry's dependence on interstate truck freight movement is reflected in the pattern of increasing length of haul. An average length of haul for national trucking firms was 410 miles in 1992, up 74 percent above the average length of haul of 235 miles in 1950. The less-than-truckload trucking firms have specialized in short hauls serving niche markets. Just-in-time deliveries have allowed industry to reduce inventory carrying costs. The substitution of highway transportation for other factors of production is also reflected in total truck tonnage, which grew by 413% between 1950 and 1994, while GNP grew by 369% during that same period.<sup>7</sup>

The reconfiguration of American industry since the early 1980's to become the pre-eminent economic power in the world coincides with a surge in trucking market share, the only major intercity freight transportation mode to experience growth over the period. Both rail and

<sup>3</sup> Congressional Research Service, *Highway Construction: Its Impact on the Economy*, Library of Congress, #93-21E, January 6, 1993.

<sup>4</sup> Available from ATA. Call Karen McClure, 703-838-1788.

<sup>5</sup> *Ibid.*, pp 9-10.

<sup>6</sup> Ronald Roth, *The Motor Carrier Industry in Transition*, Transportation Technical Services, 1995. The 50% increase in intercity freight tonnage was also given by Damian Kulash, the Eno Foundation, in his statement before the House of Representatives Subcommittee on Surface Transportation, March 28, 1996.

<sup>7</sup> The Eno Foundation, *Transportation in America: Historical Compendium, 1939-1985, 1989 and Transportation in America: 1995, 1995*.

waterway freight transportation remained relatively flat over the last three decades.<sup>8</sup> In other words, the re-emergence of America's industry in the 1990's was facilitated by timely and dependable truck deliveries, which in turn depend on a well constructed and maintained National Highway System.

The nation's successful companies reap the benefits of the investment of their direct and indirect highway user-fees into the nation's highways every day. *The Economic Importance of the National Highway System*<sup>9</sup> describes the operations and needs of five U.S. companies, each a leader in their field, and together have operations in every state in the country. Each company links its present and future success to a national highway system:

- o Campbell Soup Company reduced overall production costs by combining just-in-time truck deliveries with its Select Supplier program to reduce inventories and handling costs.
- o Hewlett Packard emphasized "quality of life" considerations associated with employees' residential environment to attract highly skilled workers. The highway network offered both rural and urban access. HP also benefitted from the highway network, reducing order cycle times for their products, resulting in more frequent truck shipments of smaller sizes.
- o The Limited, Inc. benefited from the reliability and short transport times achieved by long-distance trucking which allowed frequent and reliable re-stocking even in remote locations.
- o The Saturn Corporation has reduced production costs and increased competitiveness by using just-in-time deliveries to support its domestic assembly plants, allowing the company to meet very precise production schedules.
- o Xerox has achieved greater efficiency and cost savings in its outbound distribution operations by creating hubs for its trucking operations using the nation's highway system. Fewer carriers were needed to deliver its products over long distances—undamaged and on time.

Together, these companies employ 361,000 people and had 1994 combined earnings of \$52.6 billion.<sup>10</sup>

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<sup>8</sup> Ronald Roth, *The Motor Carrier Industry in Transition*, Transportation Technical Services, 1995.

<sup>9</sup> Apogee Research, *The Economic Importance of the National Highway System, with Case Study Examples*, Inc., February, 1994. Available from ATA. Call Karen McClure, 703-838-1788.

<sup>10</sup> Dunn & Bradstreet Corp., 1994.

The benefits of the National Highway System are shared by successful industries. Economist M. Isahad Nadiri, of New York University, examined the rate of return of the highway investment on 35 different industries, and found that the economic benefits of investing in highways are distributed across all sectors of the economy.<sup>11</sup> The above examples show that these benefits are realized by industry through reliable and efficient trucking.

### III. NATIONAL HIGHWAY SYSTEM IS NOT RECEIVING ENOUGH FUNDING AT THE FEDERAL AND THE STATE LEVEL

#### A. Current Federal Funding is Not Enough

The importance of properly funding the NHS cannot be overstated. The NHS represents only 4% of the nation's total highway miles but carries 40% of all traffic and 75% of all commercial traffic. Future growth in the economy and in transportation will increase use of the NHS dramatically.

Sadly, current Federal funding levels do not come close to providing the investment required to halt further deterioration of the National Highway System. The NHS is authorized at \$3.6 billion for FY 1997. The FHWA Conditions and Performance Report estimates that a \$29.6 billion annual investment by all levels of government in the NHS is required to improve the system and receive the greatest cost-benefit in terms of reduced congestion, improved safety, and reduced vehicle costs<sup>12</sup>. Even if all the \$3.6 billion NHS funds authorized were made available, this would cover only 12% of the \$29.6 billion costs to improve the NHS.

The following statistics reveal the effects of underinvesting in the NHS:

- o Over 35% of urban Interstates and 30% of rural Interstates are in poor or mediocre condition. (Poor conditions are defined as requiring immediate improvement and mediocre conditions are defined as requiring improvement in the near future.)
- o Over 24% of the bridges on the Interstate system are classified as deficient.

Significant increases in highway travel, combined with inadequate investment in highway capacity and maintenance has increased congestion in most U.S. urban areas. Total trips taken

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<sup>11</sup> M. Isahad Nadiri and Theofanis P. Mammonas, *Highway Capital Infrastructure and Industry Productivity Growth*, forthcoming, 1996.

<sup>12</sup> FHWA, *Conditions and Performance*, p. 178. Note the costs to improve the NHS are less than to improve all nation's highways as it does not include major and minor collectors, minor arterial, or local roads.

by all Americans are growing three times faster than the population.<sup>13</sup> Yet highway capacity has remained relatively constant. In 1990, the total costs for congestion in the 50 urban areas studied was approximately \$43.2 billion.<sup>14</sup> Annual congestion costs can be determined per vehicle. In Washington, DC congestion costs \$1,420 per vehicle, in San Bernardino, CA \$1,320, and in New York City, NY \$1,090.<sup>15</sup> Each year more travelers in more areas are affected by congestion.

ATA believes the Federal government is underinvesting in the nation's key highways. At present, the United States, a world-class economy, is investing less than one half of one percent of the GNP in the public capital facilities, primarily highways. This is down 50% since the 1960-64 period. Failure to invest in public capital facilities will seriously constrain future economic growth, limit productivity, and contribute to a continued trend of limited wage growth for American workers.

### 1. FHWA Understates Highway Travel Forecasts

The magnitude of the highway investment requirements reported in FHWA's *1995 Conditions and Performance Report* is staggering when compared to available Federal funds. However, if the report had not used ad hoc methods to shift travel demand from highway to mass transit, the annual investment requirements to maintain or improve the nation's highway system would be even higher.

Investment requirements reported in FHWA's *1995 Conditions and Performance Report* are based on the assumption that the traveling public in the 33 largest urbanized zones will reduce travel by 30% below State DOT forecasts (1.5% compared to 2.2%)<sup>16</sup> and below the rate of growth in highway travel for the period 1966 to 1993 (1.5% compared to 3.4%)<sup>17</sup>. The report goes on to state that these reductions in highway travel would only occur if "aggressive" transportation demand strategies are implemented and are successful in achieving their goal of getting people out of their cars and onto mass transit. The report also identifies trends that clearly show the American public has changed the way it chooses to travel "in ways that are difficult to serve with transit or other alternatives to driving alone,"<sup>18</sup> a finding that directly contradicts the report's basic assumption that 30% of highway travel can be diverted to mass transit.

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<sup>13</sup> FHWA, *Conditions and Performance*, p. xii.

<sup>14</sup> FHWA, *Conditions and Performance*, p 104.

<sup>15</sup> Texas Transportation Institute, *Roadway Congestion Estimates and Trends-1990*, March 1993.

<sup>16</sup> FHWA, *Conditions and Performance*, Exhibit 5.2, p 164.

<sup>17</sup> FHWA, *Conditions and Performance*, p.163.

<sup>18</sup> FHWA, *Conditions and Performance*, p. xvi.

**B. States Further Reduce the Federal Funding Dollars Available to NHS**

The American Trucking Associations believes the funding flexibility incorporated in ISTEA has led to state decisions that have resulted in the trickling down of funds away from the core highway programs to programs of questionable national significance. ISTEA calls for a productive and well connected highway system linking all modes together to form a seamless transportation network that will "enhance the nation's economic competitiveness in an increasingly global economy." Ironically, funding flexibility may have jeopardized the ISTEA National Highway System objective.

The Core Highway Program (CHP) has been funded at below authorization levels throughout the ISTEA authorization period. The Surface Transportation Program (STP), which includes projects that are not part of the Core Highway Program, has been funded at levels above ISTEA authorization since 1994. (See graph and chart, next two pages.) In 1995, the last year for which actual figures are available, the Core Highway Program (CHP) was funded at \$1.35 billion below authorization levels for the year, and \$5.6 billion below authorization levels since ISTEA became law in 1992. The STP was funded at \$1.1 billion above authorization level in FY 1995, and \$860 million above cumulative ISTEA authorization levels.

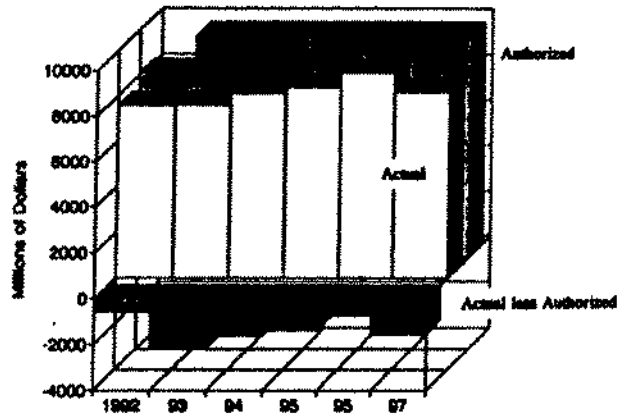
The Federal appropriations process sets obligation limitations for the total funding available to the Federal-aid Highway Program only. The actual distribution of funds between programs is determined by the states. While it is true that some STP money will be spent on the NHS and that minimum allocation funds are being channeled through STP, it is also true that increasing levels of Federal funding are being used for non-highway purposes.

**C. Federal Budget Constraints and State Diversions Limit Investment in the NHS**

Promises to provide adequate funding for the NHS seem to have failed to materialize for two reasons:

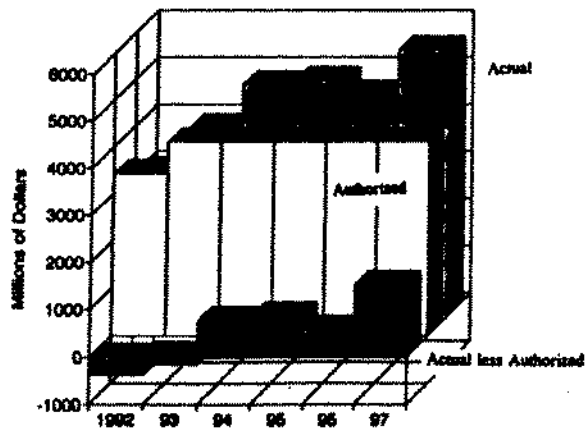
First, budget constraints artificially imposed on the Highway Trust Fund because it is included in the unified budget have prohibited spending the accumulating user fees on the basic highway program for which they are intended. The balance in the Highway Trust Fund is \$21.5 billion this year, and, according to the Administration's budget, projected to increase to \$60 billion in 2002. These results underscore the wisdom of the Subcommittee's actions in passing legislation to take the Highway Trust Fund off budget.

**CORE HIGHWAY PROGRAM (CHP)  
AUTHORIZED V. ACTUAL FUNDING**



*CUMULATIVE CHP FUNDING IS \$7.5 BILLION BELOW AUTHORIZED LEVELS*

**SURFACE TRANSPORTATION PROGRAM (STP)  
AUTHORIZED V. ACTUAL FUNDING**



*CUMULATIVE STP FUNDING IS \$2.7 BILLION ABOVE AUTHORIZED LEVELS*

Federal-aid Highway Program Funding vs ISTEA Authorization  
 Basic Highway Program compared to Surface Transportation Program  
 (millions of dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
NA-18	2,894	3,295	3,238	3,457	3,227	3,600	3,019	3,600	3,019	3,600	3,019	18,234
Bridge	1,802	1,704	1,806	2,108	2,584	2,788	2,312	2,788	2,312	2,788	2,312	12,410
Fed. Match: **	2,480	2,176	2,808	2,800	2,894	2,814	2,438	2,814	2,438	2,814	2,438	14,886
Fed Lands	378	428	448	416	488	447	428	447	428	447	428	2,328
Sum	7,881	7,601	8,129	8,889	9,720	9,724	8,189	9,724	8,189	9,724	8,189	48,848
Annual + (-)												
Authorization Total +(-)	(849)	(2,119)	(1,591)	(1,364)	(1,364)	(712)	(1,889)	(1,889)	(7,899)	(7,899)	(7,899)	(7,899)
Authorization												
STP	3,036	3,947	4,867	4,968	4,884	6,008	4,097	4,097	28,692	28,692	28,692	28,692
Annual + (-)												
Authorization Total +(-)	(922)	(149)	771	800	800	1,811	1,811	1,811	2,728	2,728	2,728	2,728
Authorization												

\* 1994 figures are taken from FHWA Highway Statistics except for federal land program which is an estimate from the President's 1995 Budget.  
 \* 1995 estimate is from the President's 1997 Budget.  
 Since funding has been appropriated when estimates are made, actual funding levels would not deviate significantly or affect the bridge of the table.  
 \*\* Interstate Maintenance.



Second, diversion of highway-user fees from needed road and bridge improvements to deficit reduction and other non-highway programs is increasing. The diversion or exemption of Federal highway-user fees increased 577% between 1985 and 1995, jumping from \$2 billion to about \$13 billion.<sup>19</sup> Some funds are diverted through the flexibility within Federal-aid Highway Program made possible in ISTEA authorizing legislation. States are allowed to shift Federal dollars away from core highway programs—the NHS, Interstate Maintenance, the Bridge Program, and the Federal Lands Program—to programs of questionable national significance that receive funding through STP. ATA is concerned that Federal moneys are subject to rivalries among projects that yield short-term political gain and undermine our fundamental national transportation goals.

ATA believes that ISTEA overreached its goals and created devices to fund programs that would be better managed at the state level. While enhancement programs and bike paths are an important part of regional development, they do not contribute to interstate commerce and travel. Programs that receive funds through ISTEA funding flexibility result in economic benefits that are solely regional in scope. Eliminating programs that do not clearly result in nationwide economic benefits would eliminate a justification for minimum allocation programs.

ATA strongly believes that the reauthorization process should reexamine flexible funding within the Federal-aid Highway Program to make sure that highway-user fees from the are spent on building and maintaining highways of national significance and reestablishing trust in the Highway Trust Fund. ATA is concerned that significant levels of funding are filtering down through the system and spent on projects that are not solidly linked to the national interests as they relate to interstate commerce, national defense, tourism, and travel.

#### IV. PROSPERITY AND NATIONAL INVESTMENT

##### A. The National Highway System is the Link to Prosperity for All Americans

The decisions this Subcommittee makes about Federal investment in the National Highway System will have profound effects on every sector of the economy. Although decisions to invest in the NHS will be made in an environment of intense short-term budgetary pressure, it is important to take into consideration the vast national economic benefits the system will provide. The linkage between investing in the nation's highways and improvement in the truck-freight moving industries, which effects the productivity of all sectors of the economy, has been proven. Agriculture, construction, manufacturing, and the service industries have become even more dependent on safe, reliable, and timely truck deliveries in the past decade as markets are increasingly exposed to intense domestic and international competition. Both the trucking

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<sup>19</sup> *The Road Information Program, 1996 Highway Funding Methods, Conditions and Use, April 1996, Introduction.*

industry and the businesses we serve are operating on razor-thin profit margins and cannot afford inefficiencies due to inadequate investment in the NHS. Nor can the consumers they serve. Failure to adequately invest in the NHS is to limit future economic growth.

#### **B. Adequate Federal Investment Should be Targeted for the NHS**

The Interstate is essentially completed. ATA calls upon the Subcommittee to target Federal investment to the National Highway System during the reauthorization process as it represents the essential routes of interstate commerce and travel, national connectivity, and support for national defense. Responsibility for highways of lesser significance should be returned to the states, where projects can be ranked more efficiently for their contribution to local and regional economies. Targeting Federal highway investment towards building and maintaining the NHS as the foundation for all surface transportation modes ensures that those projects with the greatest nationwide benefits receive adequate funding. To do any less is to shortchange the American public.

The nationwide economic benefits of Federal investment in the NHS will overshadow the concerns of states that receive less funding back than they contribute. The minimum allocation program corrects problems introduced when Federal Highway Trust Fund monies are spent on programs with questionable national economic significance. For instance, why should highway-user fees from Florida be spent on enhancement projects in Idaho, when the benefits of that project are clearly limited to the region? Highway-user fees from Florida spent to eliminate a highway bottleneck in Idaho would encourage interstate travel to Florida and result in improved interstate commerce. Agricultural products would flow more freely from Florida to the Northwest, as would partially assembled goods and other factors of production. The overall improvement in productivity due to enhanced interstate commerce reaches all Americans regardless of state of residency.

#### **V. CONCLUSION**

In conclusion, Mr. Chairman, we need a national highway program focused on national interests more than ever before. Our economy depends on safe, efficient highway transportation. The pressures—and opportunities—of a global economy dictate that we cannot let our integrated system of highways become fragmented because a state lacks the resources itself to keep its roads up to date. We need the Core Highway Program to prevent weak links from breaking the system. We look forward to your continued leadership. Thank you.

AMERICAN HIGHWAY USERS ALLIANCE

**U.S. HOUSE OF REPRESENTATIVES  
TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE  
ON  
SURFACE TRANSPORTATION**

May 7, 1996  
Washington, DC

Statement of the  
American Highway Users Alliance

William D. Fay  
President and CEO

*Better Highways Keep America Moving*

1776 Massachusetts Avenue, NW • Suite 500 • Washington, DC 20036 • Phone 202.857.1200 • Fax 202.857.1220 • GoHighway@AHL.com

Good afternoon, Mr. Chairman and members of the subcommittee. I am Bill Fay, President and CEO of the American Highway Users Alliance. The Highway Users represents a broad cross-section of businesses and individuals who rely on good highways to carry them and their customers, employees, and products to their destination safely and on time. We appreciate this opportunity to testify during the subcommittee's initial series of reauthorization hearings regarding the federal role in transportation.

#### FEDERAL ROLE IN SURFACE TRANSPORTATION

We are pleased that the subcommittee is focusing its opening round of reauthorization hearings on the fundamental question: what is the appropriate federal role in surface transportation? That's the question we asked ourselves last year, when the Highway Users began developing its own recommendations for reauthorization of the highway program.

For nearly forty years, the federal highway program has been focused largely on construction of the Interstate System, now formally called the Dwight D. Eisenhower National System of Interstate and Defense Highways. Now that construction of the Interstate System is virtually completed and the Interstate Construction account no longer exists, it is appropriate for Congress to reexamine the federal highway program to be sure it is structured in a way that best serves national transportation interests.

In addition to those practical considerations, the next Congress will face a serious political concern -- namely, the donor states' demand for a higher return on their investment in the Highway Trust Fund -- which necessitates this fundamental review of the mission of the federal highway program and the resources needed to get the job done. Unless Congress can identify clear national interests that justify a continued federal highway program, donor state officials will have every right to demand the repeal of federal fuel taxes or a full return on the investment their constituents make each year in the Highway Trust Fund.

We believe there are clear national interests at stake in surface transportation. The nation's economy, our national defense, and an important element of our individual freedom -- all depend on a network of safe, efficient highways connecting the country from coast-to-coast and border-to-border. Without such a highway network, many U.S. businesses would be unable to compete in national and international marketplaces, military readiness would be put at grave risk because of the inability to mobilize quickly, and the ability of individual Americans to travel where they want, when they want would be severely hampered.

Put another way, a strong federal role in the development and maintenance of highways is essential to support economic growth, protect our freedom, and sustain our quality of life. Few other federal programs are justified by such a sweeping national impact.

Yet, it seems equally clear that the national economic and defense interests that justify a federal program focused on interstate travel do not necessarily justify a federal program that

supports projects of purely local interest. For instance, it is difficult to identify the national economic or defense interest served by construction of a scenic pedestrian pathway in a small community with little, if any, highway congestion and few, if any, pedestrian commuters. But today, Surface Transportation Program funds -- federal taxes paid by highway users -- can be used for just that purpose.

For that reason, it is important that Congress identify the national interests in surface transportation and target federal funds to meet those interests.

### HIGHWAY USERS PROGRAM RECOMMENDATIONS

As I mentioned, The Highway Users began developing its own recommendations for reauthorization last year. Bearing in mind two overriding national goals of improved interstate mobility and safer travel, we recommend a simplified highway program, targeting federal funds toward five program accounts. They are:

- **The National Highway System (NHS)** -- the NHS constitutes only 4 percent of the nation's road mileage, but it carries 40 percent of all traffic and 75 percent of commercial truck travel. The Federal Highway Administration estimates that the nation would need to invest over \$18 billion annually just to maintain current conditions on NHS highways and \$24 billion annually to improve them. Yet, the current federal highway program provides only \$6.5 billion per year for NHS improvements.
- **Bridges** -- both on and off the NHS, bridges are high-cost, critical links in our nationwide highway network. FHWA says the nation would need to spend \$5.1 billion annually to maintain current bridge conditions; \$8.9 billion to improve them. The current federal highway program provides only \$2.8 billion per year for bridge work.
- **Safety** -- over 40,000 Americans are killed each year in highway accidents, and the total has increased during each of the last three years. The federal government currently invests approximately \$700 million annually in highway safety programs. As Americans continue to travel more miles than ever by highway, we must focus more attention and resources on safety improvements. It's a nationwide challenge requiring a greater financial commitment of the federal government.
- **Research and Development (R&D)** -- the federal government currently invests approximately \$400 million annually in R&D activities to develop new technologies, construction materials, and construction techniques that will ease congestion, make travel safer, and prolong the useable life of roads and bridges. By providing up-front financing, coordinating research activities at sites around the country, and transferring information and technologies among interested parties in the public and private sectors, FHWA programs reduce the cost and enhance the benefits of the nation's highway-related R&D activities.

**Roads on Federal Lands** -- the federal highway program provides approximately \$500 million per year for improvements to roads on federal lands, such as national parks. This program is essential to provide public access to such areas, and it should be continued.

*By targeting at least 85 percent of federal highway funds in the above five program accounts, we believe Congress would significantly improve both safety and interstate mobility.*

**Surface Transportation Program** -- in addition to the five national program accounts, we recommend that Congress continue a streamlined version of the Surface Transportation Program, funded at not more than 15 percent of the total highway program. STP funds should be available for use on currently eligible highway, bridge, and safety projects; highway-related activities required by the Clean Air Act; research and planning activities; and mass transit capital projects. Current federal set-asides in the STP account, such as the funds reserved for "transportation enhancement activities," should be eliminated.

**Mass Transit** -- while mass transit systems provide an important transportation service in some local areas, we do not believe they serve a clear national transportation purpose. Therefore, we recommend that Congress eliminate the mass transit account of the Highway Trust Fund and make all highway user fees available for use in the highway program. Any federal funds reserved exclusively for mass transit projects should be derived from the General Fund.

**Sanctions** -- we recommend that Congress eliminate all highway funding sanctions not directly related to the fiscal and contractual integrity of the federal highway program.

**Management Systems** -- we recommend that Congress renew the requirement that states develop and implement bridge management, pavement management, and safety management systems. We do not recommend enforcing these requirements by threatening the loss or transfer of highway construction funds. Rather, we recommend that the states be allowed and encouraged to use their regular federal highway apportionments to pay the costs associated with this requirement.

Bridge, pavement, and safety management systems are intended to help state officials identify problems and set priorities, ensuring that bridge, pavement, and safety improvements are included in the state's transportation improvement program (TIP). The management systems should be performance oriented, incentive based, and flexible.

**Environmental Regulations** -- we recommend that Congress designate the U.S. Department of Transportation as the lead agency on environmental regulations affecting transportation projects, plans, and programs. U.S. DOT should perform that responsibility in cooperation with other federal agencies having expertise, budgetary resources, and program responsibilities related to a particular project or regulatory matter.

**Distribution Formula** -- while we make no recommendation with respect to the formula for distributing funds under the five national program accounts, some states undoubtedly will contribute more to the Highway Trust Fund than they get back; others less. Such a relationship among the states is necessary to meet identified federal interests, but we believe that fact can be justified by the resulting impact on job creation, economic growth, personal mobility, highway safety, and national security. To mitigate the immediate financial loss to donor states, however, we recommend that STP funds be distributed among the states on a dollar-for-dollar basis, thus eliminating donor/donee differential in this element of the program.

**Amtrak** -- last year, the Senate included a provision in its National Highway System bill making Amtrak eligible to receive federal highway funds. We strongly opposed that provision and appreciated the steadfast opposition to it by members of the Transportation and Infrastructure Committee, particularly Chairman Shuster who repeatedly said that it would be enacted "over my dead body." We are delighted not only that the Chairman is still living and the Amtrak provision was deleted in the NHS conference, but also that he has reiterated his opposition to the identical language which may be considered by the Senate this week as part of an Amtrak authorization bill.

I take this opportunity to reiterate The Highway Users' strong opposition to any proposal that would allow the diversion of highway funds to subsidize Amtrak. We urge members of the Transportation and Infrastructure Committee to resist such proposals whether they arise this year during conference on the Amtrak authorization bill or next year during consideration of the surface transportation reauthorization legislation. Highway user fees should be dedicated to road and bridge improvements.

**Summary** -- our proposal would greatly simplify the structure of the federal highway program and streamline the administrative and accounting procedures. It would:

- cut the number of funding accounts by half;
- eliminate the numerous set-asides within funding accounts under ISTEA;
- concentrate federal oversight and administrative requirements on NHS, bridge, and safety projects;
- target more federal funds to the NHS and bridges, allowing state and local governments to meet other transportation priorities without costly federal strings attached.

#### **MEETING HIGHWAY INVESTMENT REQUIREMENTS**

While we believe it is important to target federal highway funds toward projects that improve interstate mobility and make travel safer, it is equally important that the reauthorization legislation serve to boost the nationwide investment in roads and bridges. The Federal Highway Administration's report, "1995 Status of the Nation's Surface Transportation System: Conditions and Performance," indicates that the U.S. is seriously under-investing in our most basic transportation infrastructure.

The demand placed on our highways has grown at an astounding rate:

- In 1990, Americans made 250 billion trips, traveling 2.3 trillion miles -- in a car or truck, or by bus, train, subway or airplane, or by walking, biking, or riding a motorcycle<sup>1</sup>. That means Americans took 72 percent more trips and traveled 65 percent more miles than they did two decades earlier<sup>2</sup>.
- One transportation mode -- highways -- carried the bulk of that additional travel. Of the 250 billion trips in 1990, 87 percent were in a car or truck or other personal vehicle (91 percent of work trips)<sup>3</sup>. And trips in a personal vehicle accounted for 70 percent of all miles traveled<sup>4</sup>.
- Factors likely to increase the demand for highway capacity while creating what FHWA calls "patterns difficult to serve with transit or other alternatives to driving alone" include employment gains among women and minorities, a growing population of elderly drivers, and the continued migration of jobs and households to the suburbs<sup>5</sup>.

Alarminglly, as demand for highway travel continues to grow, the overall performance of our roads and bridges is declining.

- Congestion, measured in terms of its duration, has worsened in many urban areas because highway capacity has not increased to accommodate additional travel. The daily vehicle miles of travel on each lane of urban Interstate increased nearly 30 percent from 1983 to 1993<sup>6</sup>.
- On urban freeways, one out of every ten miles of pavement is in poor condition (poor condition requires immediate improvement)<sup>7</sup>.

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<sup>1</sup> 1995 Status of the Nation's Surface Transportation System: Conditions and Performance, Federal Highway Administration. p. 5.

<sup>2</sup> Ibid. p. 5.

<sup>3</sup> Ibid. p. 10.

<sup>4</sup> Ibid. p. 5.

<sup>5</sup> Ibid. p. xvi.

<sup>6</sup> Ibid. p. xxvii.

<sup>7</sup> Ibid. p. xxv.



- Rural areas suffer an astoundingly high percentage of roads with travel lanes that are too narrow to meet modern standards for safety: for example, lane widths are substandard on 86 percent of the rural mileage on our principal non-Interstate highways<sup>8</sup>.
- Over one-fourth of all rural roads classified as major collectors have alignment deficiencies which reduce safe travel speeds<sup>9</sup>.
- Over 24 percent of all Interstate bridges and an even higher percentage of bridges on other major highways should be expanded, repaired, or replaced<sup>10</sup>.

Given the growth in highway use and the poor conditions on much of our road system, what are we, as a nation, doing about it? Passing the problem on to the next generation. No other conclusion can be reached from the FHWA report.

- All levels of government invested \$34.8 billion to improve road and bridge conditions and performance in 1993<sup>11</sup>.
- Federal funds constituted 44 percent of the 1993 expenditures for road and bridge improvements<sup>12</sup>.
- The average annual investment necessary to maintain current road and bridge conditions over the next 20 years is \$54.8 billion; \$74 billion to improve conditions<sup>13</sup>.

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<sup>8</sup> Conditions and Performance. p. xxvi.

<sup>9</sup> Ibid. p. xxv.

<sup>10</sup> Ibid. p. xxvi.

<sup>11</sup> Ibid. p. xxi, Exhibit 3.

<sup>12</sup> Ibid. p. xxi.

<sup>13</sup> Ibid. p. xxx.

That means the combined federal, state, and local investment in highway improvements is \$20 billion per year less than the amount needed just to maintain current conditions over the next two decades. It's \$40 billion per year short of the amount we should be investing in order to leave the next generation of Americans a better system of roads than we have today. This is the transportation system that carries over 87 percent of all trips (and 78 percent of the dollar value of all goods shipped in the U.S.)<sup>14</sup>.

As shocking as those investment requirements may seem, they would have been substantially higher if FHWA officials had not elected to forecast a dramatic shift from highway travel to transit in the nation's most populous cities. For the 33 largest urbanized areas, the 1995 Conditions and Performance report assumes that highway travel will increase at a compound annual rate of 1.5 percent over the next 20 years. By comparison, the states had forecast a 2.23 percent compound annual growth rate. But the actual rate in the last decade was approximately 3.4 percent<sup>15</sup>.

Thus, while trends point to greater and greater highway travel, the FHWA report adopts the indefensible assumption that there will be less, and that the 33 largest urbanized areas will experience a corresponding increase in transit travel. Whereas the passenger miles of travel on transit has remained relatively flat (0.0 percent growth rate) throughout the last decade, the 1995 Conditions and Performance report projects that transit travel will grow at a compound annual rate of 2.4 percent over the next 20 years<sup>16</sup>.

The report makes clear the fragile foundation on which its forecasts is based. "Without significant and wide-spread demand-shaping policies, it is not likely that [these] forecasts will be achieved," the report bluntly acknowledges<sup>17</sup>.

The report's forecast that Americans will shift from cars to transit cannot be justified either on the basis of historical experience or by the anticipated implementation of the draconian travel demand policies that would be necessary to achieve them. In fact, they are completely at odds with FHWA's finding (cited above) that the travel requirements of today's working families and retirees are "creating patterns difficult to serve with transit or other alternatives to driving alone."

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<sup>14</sup> "Florida senator proposes sharp reduction in gasoline tax, federal role in highways." *Traffic World*, February 26, 1996, p. 13.

<sup>15</sup> Conditions and Performance, pp. 164-167.

<sup>16</sup> Ibid, pp. 164-166.

<sup>17</sup> Ibid, p. 166.

Unfortunately, the 1995 Conditions and Performance report does not indicate the extent to which these travel demand assumptions lower the estimated annual investment requirement for highways and increase the estimate for transit. It is clear, however, that if transit travel jumps from the current zero percent compound annual growth rate to 2.4 percent, the investment requirements over the next 20 years will increase dramatically. Since all the available evidence suggests that change will not occur, we respectfully recommend, Mr. Chairman, that you ask Department of Transportation officials to clarify what the annual investment requirements would be for highways and transit using the more realistic travel demand forecasts reported by the states.

#### THE CASE FOR INCREASED FEDERAL FUNDING

Even with the under-stated highway investment requirements included in the 1995 Conditions and Performance report, the gap between actual investments and estimated investment needs is enormous. Obviously, federal funds will not be sufficient to fill the gap, but we believe the FHWA report makes a strong case for increased federal funding for highways.

Highway users are already paying enough in federal taxes to support substantially higher funding. According to U.S. Treasury estimates, highway users will pay approximately \$30 billion in federal fuel and other excise taxes, of which only \$21 billion will be deposited in the Highway Account this year. In addition, the cash balance in the Highway Account will grow even larger than the current \$9.4 billion because of interest payments transferred from the General Fund in fulfillment of debt obligations.

It is worth noting, too, that highway users this year will pay almost \$3 billion in taxes deposited into the Mass Transit Account of the Highway Trust Fund. And the 4.3 cents-per-gallon fuel tax increase imposed in 1993 for "deficit reduction" will take approximately \$6 billion more out of the pockets of highway users this year to be deposited in the General Fund for general government purposes, not including highways.

Meanwhile, federal tax subsidies for ethanol-blended fuels have cost the Highway Trust Fund almost \$6 billion since 1983. For that reason, The Highway Users strongly supports H.R. 3345, legislation that will phase out the ethanol tax credit. Several members of this subcommittee, including the chairman, are original cosponsors of the bill, along with the principal sponsor, Representative Tate.

The bottom line is this: highway users will pay approximately \$30 billion in federal highway taxes this year, but only \$21 billion will be deposited in an account that can be used for road and bridge improvements.

As you know, Congress will shortly be considering legislation to repeal the 4.3 cents-per-gallon tax going into the General Fund. I recently wrote to Senate Majority Leader Dole indicating that the Highway Users would prefer to transfer the tax into the Highway Trust Fund.

I have tried to indicate in this testimony why such an action would be justified in light of the need for increased road and bridge investments. Members of the Transportation and Infrastructure Committee recently introduced legislation to accomplish the transfer, and we support it. We strongly believe, however, that highway users should no longer be assessed a tax for general government purposes. If the 4.3 cents cannot be transferred into the Highway Trust Fund, it should be repealed.

#### OFF BUDGET

The growing gap between highway needs and highway investments, combined with the growing unobligated balance in the Highway Trust Fund, makes a strong case for legislation to take the Highway Trust Fund out of the unified federal budget. The Highway Users supports H.R. 842, the "Truth in Budgeting Act," and we congratulate the members of this subcommittee as well as those on the full committee who worked so diligently to produce the 2-1 margin of victory for the off budget bill on the House floor.

As a member of the Alliance for Truth in Transportation Budgeting, the Highway Users is working now to garner support for the Senate companion bill, S. 729. Obviously, the supermajority (60 votes) needed for Senate passage makes the task even more difficult than it was in the House. We believe, however, that the facts are on our side and once they know the facts, most Senators, like their House counterparts, will vote to treat transportation taxpayers fairly and honestly by separating the transportation trust funds from the unified budget.

By assuring that highway taxes are put to their intended use and not held in Washington to mask the size of the federal deficit, off budget status for the Highway Trust Fund should make it easier for this subcommittee to cross both the practical and political hurdles you will face in developing reauthorization legislation next year.

Thank you, Mr. Chairman, for allowing me this opportunity to present our recommendations on reauthorization of the highway program. We at The Highway Users look forward to working with you and the members of the subcommittee throughout the reauthorization process, and I hope you will call on us whenever we can provide assistance.

MARSHA



NATIONAL ASSOCIATION OF GOVERNORS' HIGHWAY SAFETY REPRESENTATIVES

Statement on behalf of the  
National Association of Governors' Highway Safety Representatives  
for the  
Surface Transportation Subcommittee  
House Transportation and Infrastructure Committee

May 7, 1996

I. Introduction

The National Association of Governors' Highway Safety Representatives (NAGHSR) is the national association of state highway safety offices. Its members are appointed by their Governors to develop and implement state highway safety programs and to administer the federal highway safety grant programs for their respective states. The Association is primarily concerned with driver behavior issues (such as impaired driving, occupant protection, pedestrian, bicycle, and motorcycle safety) as well as traffic records, roadway safety, emergency medical services, and safety management systems.

E. Is There a Role for the Federal Government in Highway Safety?

In NAGHSR's view, there is clearly an important role for the federal government in highway safety.

Motor vehicle crashes are a major and costly public health problem for this country. According to research by the National Highway Traffic Safety Administration (NHTSA), motor vehicle injuries and fatalities cost the nation \$137.5 billion annually -- 2% of the gross national product -- in lost productivity, insurance administration, legal and court costs, property damage, and other costs. \$14.2 billion of that amount is in costs of medical treatment for motor vehicle injuries. The public share of those health care costs is \$3.7 billion -- \$2.6 billion at the federal level and \$1.1 billion at the state level. Nearly 30% of first-year medical costs from motor vehicle crashes are paid through programs such as Medicare and Medicaid. Income tax revenues are reduced by \$6.1 billion as a result of motor vehicle injuries. These injuries also cause public assistance expenses to increase by \$1.6 billion annually.

In addition, motor vehicle crashes are the leading cause of workplace fatalities and injuries. Work-related motor vehicle crashes cost employers more than \$40 billion a year.

Motor vehicle crashes are the leading cause of death and injury for persons between the ages of 6-28. They are the leading cause of all unintentional injuries and one of the leading causes of serious head injury, including epilepsy. More than 40,000 people were killed and 3 million people were injured in motor vehicle crashes in 1995 -- one fatality every 13 minutes and one injury every 10 seconds.

Federal action is urgently needed to address this serious public health problem, save lives, and reduce public health care expenditures. The costs of inaction in highway safety is great. According to NHTSA's report, *Saving Lives and Dollars*, if the fatality and injury rate remained at the level it was in 1992, population increases alone would account for 3,300 more fatalities (and corresponding injuries) a year in the year 2,000. Projected fatality and injury-related economic costs would increase by \$7.4 billion. If the fatality and injury rate increased from the 1992 level, total injuries, fatalities and costs would increase. The number of fatalities would increase to 5,280 and the economic costs would increase by \$13 billion (including a \$350 million increase in publicly funded health care and an additional \$1 billion in taxes to cover lost tax revenue and increased public assistance) in 2000.

A modest federal investment in highway safety could yield substantial savings in public health care and related costs. At a time when Congress is exploring ways to reduce health care costs across the nation, federal funding for programs which help prevent costly motor vehicle fatalities and injuries should not be overlooked.

Additionally, studies have shown that federal investments in driver behavior programs are highly cost-effective. NHTSA estimates that the total benefits of traffic and highway safety programs (including speed enforcement, alcohol countermeasures, road improvements, and motorcycle helmets) exceed their costs by a ratio of 9 to 1. When pain and suffering are factored into the equation, that ratio increases to 33 to 1. Few, if any other federal programs can boast of such a return on investment.

A recent NHTSA report, *The Highway Safety Assessment: An Interim Report* (which provided an in-depth evaluation of the impact of federal grant funding in four states) found that "the federal highway safety program is a textbook example of how a small amount of Federal funding can catalyze significant changes in the nation's approach to safety." The study found that a small amount of federal funds (1-3% of total funding) leveraged a substantial amount of non-federal matching funds. The federally-funded programs were so successful and so important to the states, "75% of the safety projects eventually obtained partial or complete funding from non-Federal sources and ...78% were eventually expended to other areas of the state."

The federal grant programs are a small but critical component to any successful state or community highway safety initiative. Without the federal funds, it is likely that states and communities would conduct few highway safety programs on their own. The NHTSA assessment report indicates that "45% (of the highway safety projects in the four states which were evaluated) would never have been started or would have been discontinued in the absence of Section 402 or other grant funds. ... Only 12% of the programs did not depend upon Federal funds to either initiate them or keep them going."

#### III. What is the Appropriate Federal Role in Highway Safety?

NAGHSR strongly believes that there is a legitimate and appropriate role for the federal government in highway safety and that role is one of partner. Over the past forty-years, the federal-aid highway program has been a "federally-assisted, state-administered" program: the federal government provides the funding, leadership, guidelines, and assistance to the states, and the states implement the program. The federal-aid highway program has been developed and implemented through an effective partnership between the federal and state governments. In our view, the federal highway safety program should be implemented in that same manner.

The federal government can provide leadership in highway safety by setting national goals, addressing emerging issues, convening summits on issues, developing national educational campaigns on issues, and other pro-active strategies. The federal government can also provide guidance and assistance on issues that are important even if they are no longer mandatory, e.g. speed limits, Safety Management Systems, and motorcycle helmets.

In our view, DOT already provides leadership on many highway safety issues. The Secretary of Transportation has set ambitious national goals for both impaired driving and occupant protection: 75% nationwide safety belt usage by 1997 and a 30% reduction in impaired driving fatalities annually by 2005. States provided input into the goal-setting process, and they have developed their own programs and strategies to help meet those goals. States have accepted the goals because they have been mutually agreed to and are not mandatory, top-down goals.

The federal government can assist states in moving toward more cost-effective, performance-based programming. By re-engineering federal grant program administration so that it is more results-oriented, states will be allowed to set their own performance goals, develop creative strategies that are appropriate for their states, and evaluate their progress in meeting the desired goals.

The 402 State and Community Highway Safety grant program, jointly administered by NHTSA and the Federal Highway Administration (FHWA) is an outstanding example of this approach. Under a pilot program that was

developed with considerable state input and initiated this current fiscal year, states set their own highway safety performance goals which are approved by the NHTSA regional office. Each state develops a planning document which specifies how it will reach its goals and submits the document to the NHTSA regional office for information purposes only. The states implement their planned programs and then evaluate them to see if they have been successful. If the state has not met its goals in a particular program area, the regional office staff will work with the state to suggest approaches that might be more successful. The regional offices also offer training and technical assistance to help states develop and implement their programs. The sixteen states that are participating in the FY 96 pilot program overwhelmingly support this more flexible approach. Forty states, three territories, and the District of Columbia have already indicated that they intend to participate in the pilot for FY 97. It is anticipated that all the states and territories will be participating in the redesigned 402 program by FY 98.

The federal government can provide needed technical assistance to states on a range of highway safety issues. Both NHTSA and FHWA have provided outstanding technical assistance to the states:

- o NHTSA has developed a program called "Campaign Safe and Sober" whose purpose is to encourage states to reduce impaired driving, increase safety belt use, and encourage compliance with posted speed limits. The quarterly planners and other materials for the Campaign have been developed with state input to allow for state flexibility and adaptation. The legislative technical assistance has been very helpful and successfully assisted Louisiana and Georgia in enacting primary belt laws. The targeted enforcement grants have helped states develop high visibility enforcement efforts that have successfully resulted in increased belt use in those jurisdictions with the grants. States have found that Safe and Sober has increased public education but also has fostered new interagency partnerships for traffic enforcement efforts.
- o NHTSA has developed a user-friendly data program that helps states determine how much motor vehicle crashes costs their state and sub-state jurisdictions. The program can be run on any personal computer and requires no special training. The information that is generated can be used with state policy-makers to help them understand the importance of highway safety prevention programs and laws.
- o NHTSA has also developed state-specific fact sheets on key impaired driving legislative issues. The fact sheets, which are available to a state at its request, provide information on the number of impaired driving fatalities and injuries in the state, the cost to the state, and the savings which would be realized if the appropriate impaired driving legislation were adopted. The fact sheets can be given to state legislatures, along with other materials developed by NHTSA and the state highway safety office.
- o FHWA has developed a national campaign to address the problem of red light running. The Agency has developed public service announcements and marketing videos, a train-the-trainer program, printed materials, and hands-on technical assistance. It has also provided program development grants to 32 jurisdictions to implement their own red light running programs. FHWA also provides assistance in building coalitions, media relations, and augmenting enforcement of red light running laws with technology.
- o NHTSA has provided different types of technical assistance to any state that wants to link crash data with injury and cost data. The Agency has prepared reports on data linkage, disseminated a step-by-step guidance on data access and file preparation, and offered customized on-site technical assistance to states upon request as well as technical assistance by telephone. NHTSA has also organized teams of professionals to assess a state's traffic records system and make recommendations for improving that system. It has provided competitive grants to states to consider the assessment team recommendations and to develop a strategic plan for implementing those recommendations.

The federal government can also provide training and develop training standards for the states. At the states' request, NHTSA developed a Project Management training course which the states could use with their subgrantees to help them improve the management of their 402 grants, to ensure that the 402 funds were being

administered properly, and to prevent administrative problems from occurring in the first place. The course was developed with state input and then turned over to the states so they could use the course at their discretion with their subgrantees. Other courses, such as those developed for the law enforcement community (e.g., standard field sobriety testing and drug recognition testing) have helped educate law enforcement about the importance of highway safety and standardize the delivery of enforcement efforts.

The federal government can develop and demonstrate new programs and technology. NHTSA's new Safe Communities initiative is an excellent example of the kind of program development that the federal government can and should undertake.

Last year, NHTSA began adapting the World Health Organization's concept of Safe Communities to injury prevention programs, with a focus on motor vehicle-related injury prevention. The intent of Safe Communities is to build on the experiences states have in developing community traffic safety programs (CTSPs), to develop programs that are based on community-level data, and to reach out to new partners, particularly public health organizations and private businesses. The Agency developed a concept paper, worked with other federal agencies with an interest in injury prevention, and then began marketing the program to state highway safety agencies, state public health agencies, hospitals, businesses and others. The Safe Communities program was officially initiated via teleconference in March, followed by a national conference in mid-April. Technical assistance materials and a training course are under development. NHTSA successfully fought for federal demonstration funding, and a Request For Proposals was just issued last month. NHTSA will evaluate the demonstration sites and then disseminate the results to all the states in the future.

NHTSA also has played an active role in demonstrating and evaluating new enforcement technology such as photo radar, laser speed guns, ignition interlocks, and breath testing equipment. Emergency medical services and trauma systems have also benefitted from the Agency's technology development efforts.

The federal government can facilitate technology and information sharing among states and communities involved in highway safety. Federal transportation agencies can serve as information clearinghouses, identify best practices, disseminate model programs and legislation, and fund case studies. For example, NHTSA produces a document entitled, Traffic Tech, which is disseminated to 4,000 highway safety professionals across the country. The publication summarizes, in non-technical and understandable terms, the latest developments in driver behavior programs and research. As more and more states come on-line, the federal agencies will be able to deliver needed information over the Internet and through interactive electronic bulletin board systems.

The federal government can research and evaluate the effectiveness of current highway safety programs and activities. NHTSA and FHWA both have extensive research programs which benefit state program development. NHTSA has undertaken research on such diverse issues as why youths take risks to the acceptability of safety belts in rural communities. The Agency's evaluation efforts have been helpful in determining the effectiveness of various legislative and programmatic approaches to highway safety, particularly in the area of impaired driving and occupant protection. For example, NHTSA research validating the effectiveness of California's administrative license revocation (ALR) law provided "ammunition" for other states seeking to pass such laws.

Finally, the federal government can provide adequate funding so that states and communities will be able to implement comprehensive and effective highway safety programs. For the past ten years, the Section 402 highway safety grant -- the backbone of the states' highway safety efforts -- has been funded at a level ranging between \$115 million to \$128 million -- well below the authorized amount. At the same time, demands on the program have increased substantially, while the "buying power" of the federal 402 dollar has steadily declined. The 410 impaired driving incentive grant program has been very successful but severely under funded. The 153 incentive grant program for safety belts and motorcycle helmets has also been a successful but short-lived program whose authority expired after three years. The bicycle safety grant program was authorized but never funded.



Furthermore, the rate of progress that has been made in highway safety over the last two decades cannot be maintained in the future. Highway safety programs that are already in place have been very effective in deterring the general public from driving unsafely. In effect, the easy safety "fixes" have already been made. The remaining population targets -- the hard-to-reach populations, the repeat offenders, impaired drivers between the ages of 21-34 and others -- will be much more difficult to influence. It will take considerable more effort and more resources to positively change the behavior of these groups.

If the states had more safety funding, they could better address some of the Congress' concerns, particularly in the area of impaired driving and occupant protection. States could also use the added funds to improve their traffic records systems and link those systems to other state data bases. States would then be in a better position to monitor and evaluate their performance and to assess the cost-effectiveness of their highway safety programs. States would be able to give Congress a clearer picture of the progress that has been made in highway safety and the problems that still remain.

The need for additional funding is clear. One way to satisfy all of these diverse funding needs is to provide federal highway safety grant programs in a more innovative manner. NAGHSR recommends that highway safety should be tied to exposure rates. That is, the more vehicle miles of travel, the more federal highway safety funding should be made available. This could be accomplished through an earmarked amount off the top of the Highway Trust Fund, in the same manner as the Highway Planning and Research (HPR) funding. This approach would increase funding for safety and provide enough revenues for the base 402 program as well as impaired driving, occupant protection, traffic records and other incentive grant programs. If safety is as much of a priority as Congress indicates that it is, Congress should be willing to consider strategies for increasing safety funding such as the one NAGHSR has proposed.

#### IV. Flexibility, Not Mandates

One of the reasons that the 402 program is so successful is that it allows states to address a range of highway safety problems without mandating uniformity among the states. According to the NHTSA interim assessment report, "the program favors a variety of strategies and management styles among the states" without dictating what the states must do." The 402 program priorities are guidelines, and not standards. They guide the states highway safety planning and programming activities; however, states may program funds in areas that are not national priorities (such as school bus safety) if they can demonstrate that there is a need.

States strongly support federal highway safety programs which give the states the flexibility to address their priority highway safety needs. Federal programs should allow states to determine the mix of highway safety projects which are appropriate for them through a state problem identification and planning process. States strongly oppose unfunded mandates requiring them to adopt one particular, often narrowly defined, approach to a highway safety problem.

#### V. Incentives, Not Sanctions

Too often, in our view, the federal government has forced states to address a particular highway safety issue by threatening them with sanctions if they fail to act in the specified manner and during a specified time period. The sanctions are often not targeted to the problem or issue and are frequently counter-productive. By withholding federal highway construction funds from non-compliant states, the highways become deteriorated, which in turn, leads to unsafe driving conditions.

Redirection of funds has not been any more successful than sanctions in our view. Although the redirection is a more targeted approach and the states do not lose any federal highway construction funding, it is still problematical. In many states, the redirection provisions of ISTEA created schisms between the state highway safety office and the state department of transportation. Last year, before the final passage of the NHS Act, the highway safety offices in several non-compliant states were pressured by their DOTs to release the redirected highway construction funds even before they were legally allowed to do so. The DOTs believed that the highway

safety offices were holding their construction funds hostage. The situation was particularly troubling in those cases where the state highway safety offices are part of the state DOT. At the state level, the redirection created resentment, confusion, and ill will toward highway safety which was directly in conflict with the intent of the legislation.

Sanctions and redirection measure state progress only in terms of their ability to pass a single, often narrowly defined piece of legislation. They ignore the fact that there may be more than one appropriate approach to a highway safety problem and fail to measure a state's overall performance in addressing that problem. These approaches ignore the fact that the legislation may have less than the desired results unless the public is adequately informed of the law's existence and consequences, the law is adequately enforced, and it is adjudicated in a manner consistent with legislative intent. The sanctions/redirection approach overlooks the attempts states may have made to pass the legislation and ignore differences in state problems, needs, and resources. Both approaches assume that the federal government -- and only the federal government -- knows what is best for the states. As a result, these paternalistic, heavy-handed approaches have created an enormous amount of resentment among the states.

NAGHSR members firmly believe that incentives, rather than sanctions, are the right way to positively influence state behavior. Incentives reward states that already have appropriate laws and programs in place and induce other states to enact such laws and programs. Incentives induce states to "stretch," to try a little harder, and to strengthen laws and programs already in place. However, incentives do not penalize states if they do not attain their goals. The 410 impaired driving incentive grant program is an excellent example of an incentive program that works. States use the funds for impaired driving prevention programs and to fund such activities as sobriety checkpoints, saturation patrols, DUI training for law enforcement officials, and DUI education programs. 410 monies are restricted to specific uses, are not allocated to all states, are of limited duration, and are primarily for community-based impaired driving programs. In FY 95, 27 states have been approved for funding. In fact, there have been more states applying for 410 grants than there is available funds. As a result, the eligible states received only 75% of the amount to which they were entitled under the statutory provisions of the program.

Although we oppose sanctions, we do not support overturning any that have been in place many years and appear to be successful. Specifically, the Association would strongly oppose any attempt to repeal the National Minimum Drinking Age law which was enacted in 1984. According to NHTSA, the law has been one of the most effective deterrents against underage drinking and driving and has successfully prevented 14,000 drunk driving fatalities among teenagers and young adults. Repealing the law would allow states to establish state legislation with different age limits, which would cause the re-creation of the blood borders that led to the passage of the 1984 national law in the first place. Repeal of the National Minimum Drinking Age law would be a counter-productive and dangerous step backward. We would strongly oppose such a move.

Mr. Chairman, this concludes our remarks. Thank you for the opportunity to present NAGHSR's views on the role of the federal government in highway safety.

**Statement of**

**John A. McQuaid  
President**

**Intermodal Association of North America**

**before the  
Subcommittee on Surface Transportation  
Committee on Transportation and Infrastructure  
U.S. House of Representatives**

**May 7, 1996**

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today to share the views of the Intermodal Association of North America, or IANA, on the Federal role for transportation and national interests.

I am John McQuaid of the IANA, which is headquartered in Greenbelt, Maryland. IANA is North America's leading industry trade association representing the combined interests of all types of intermodal freight transportation companies and their suppliers.

Its almost 700 member companies and include railroads, steamship lines and their stacktrain affiliates, intermodal truck operators and over-the-road highway carriers, and intermodal marketing companies. IANA members transport the bulk of the nation's intermodal freight shipments both domestically and internationally throughout North America.

At the outset, I want to commend this Subcommittee and the Congress for their vision and leadership in enacting, in 1991, the Intermodal Surface Transportation Act (ISTEA) and creating, for the first time in this country, a governmental template for looking at our transportation resources and needs in a systematic way.

The ISTEA set us on a new path in dealing with our transportation system and challenged all of us to take off our blinders and see the nation's transport needs in a different light.

The ISTEA was a good first step and we would implore the Congress to assure that we attain the vision of this legislation by reinforcing its commitment to an intermodal approach to achieving our vital infrastructure objectives. IANA looks forward to working with this Subcommittee and this Congress in the months ahead as it proceeds in its reauthorization efforts.

The Federal role in transportation dates to the very dawn of the republic and is no less important today than it was in the days of creation of the nation and development of Post Roads -- our first transportation network, as it were. In fact, the U.S. Constitution expressly bestows upon the Congress the power to regulate commerce among the several States -- a significant part of which is the development and maintenance of a national transportation network.

Indeed, it was issues related to our domestic trade that were an important call by the several States for our forefathers to revise the Articles of Confederation to meet the expanding needs of interstate commerce. That call, ultimately, led to the Federal Convention in the spring and summer of 1787 in Philadelphia. Delegates there quickly rejected the idea of revising the Articles of Confederation and agreed to construct a new framework for a national government.

So, in a sense, it was the need to meet the expanding requirements of commerce and transportation that led to the formulation of the new Federal Constitution.

Today, in these times of expanding needs and diminishing resources, IANA members

again are looking to the Congress for bold, visionary leadership in the challenge of providing for the nation's evolving transportation requirements.

Given the demands on today's transportation network, the need for a continuing Federal presence in fashioning a rationale policy is self-evident. In our view, any proposals that would suggest anything less than a strong Federal role in formulating an over arching transportation policy are ill advised.

In recent years, the Congress has struck an effective balance between the requirement for strong Federal oversight and the expanding need of local decisionmaking in determining how to invest limited transportation resources to achieve maximum return on investment. The IANA would strongly encourage a continuation of the new construct fostered by the ISTEA.

During the course of these hearings, the Subcommittee will be presented with a wealth of data on passenger and freight transportation in the U.S. The bottom line on all of those numbers plays in our national economy.

In 1994, the portion of the nation's Gross Domestic Product (GDP) attributed to transportation-related demand was \$712.7 billion, or 10.8 percent of overall GDP. Thus, as reported in the earlier testimony of the U.S. Department of Transportation's Bureau of Transportation Statistics, transportation is a large economic sector, broadly comparable to health (14.2 percent), education (7.2 percent), and food (12.4 percent).<sup>1</sup>

IANA suggests that the nation's transportation network is its most vital resource -- its

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<sup>1</sup> Statement of T.R. Lakshmanan, Ph. D., Bureau of Transportation Statistics. U.S. Department of Transportation, Subcommittee on Surface Transportation, Committee on Transportation and Infrastructure, U.S. House of Representatives, March 28, 1996.

circulatory system, if you will -- that has allowed our economy to grow and prosper to unprecedented dimensions, while rewarding Americans with an unparalleled quality of life.

However, today, our transportation network faces the same challenges as our aging population -- periodic breakdowns caused, in part, by poor circulatory health (congestion) and inadequate conditioning (investments).

Just as every American must make a personal commitment to make the right choices to assure his or her longevity, the nation needs to make similar commitments to assure the vitality of our transportation resources and enhance the ability of U.S. producers to compete in an ever-expanding global marketplace.

The Congress, in effect, is the nation's transportation cardiologist -- its role should be to provide the necessary prescription, in consultation with the states (general practitioners), to assure the continuing health and vitality of our transportation network. In the absence of such a network, our ability to maintain a leadership role in international trade may be irreparably diminished leading to the loss of jobs and a general decline in our quality of life.

A look at the future trends in U.S. freight transportation reenforces the need for strong national leadership and increased spending on our transportation network.

Between 1994 and 2004, the total domestic freight transportation market will grow from 9.9 billion to 11.6 billion tons, representing a 16.9 percent increase in freight volume.<sup>2</sup> Meanwhile, U.S. passenger travel, which increased by 87 percent between 1970 and 1994 an average annual growth rate of 3 percent -- is expected to be undiminished over the next

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<sup>2</sup> U.S. Freight Forecast... to 2004, American Trucking Associations Foundation, February 1996.

decade.<sup>3</sup>

It is clear from these growth trends that building and maintaining an adequate transportation infrastructure should be one of the nation's highest priorities.

However, it also is evident that this priority runs head long into the limited funds and unlimited choices that the Congress has to deal with every day. But IANA would suggest that there is no better salve for healing the nation's budgetary wounds than economic growth -- and efficient transportation is vital to that end.

ISTEA fostered a new concept in formulating transportation policy and investment decisions. It evolved from the success of private sector freight intermodalism which had its origins decades ago, but reached its stride in the 1980s, fostered by economic deregulation and technology developments such as doublestack rail service. The essence of freight intermodalism is that it leverages the efficiency of each mode of transportation in meeting the customer's ever-increasing demand for reliable and cost effective door-to-door service.

In fashioning ISTEA, its advocates sought to apply these same principles in addressing the nation's future transportation requirement. In effect, leveraging the nation's limited financial resources in a similar fashion. ISTEA provided greater flexibility for State and local governments in determining transportation solutions, whether transit or highway, as well as tools of enhanced planning and management systems to guide them in making the best choices.

It also introduced, from the freight transportation industry's perspective, a new player into the policy/funding arena - the metropolitan planning organization. And, to the surprise

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<sup>3</sup> T.R. Lakshamanan, March 28, 1996.

of most of us involved for the last twenty-five years in advancing freight intermodalism, we found that intermodal meant moving people, too. Prior to ISTEA, we had never heard the term intermodal applied in a people context.

The freight industry's experience since enactment of ISTEA in advancing its requirements through the MPO process also gives rise to the need for a continuing Federal role in transportation planning and investment. While an increasing number of MPOs around the country have embraced their freight planning responsibilities, in a recent survey fully 62 percent of MPOs said they have no routine mechanism for receiving input from the freight community - shippers and transportation providers.<sup>4</sup>

Moreover three out of four MPOs have not developed criteria to guide freight project selection. In fact, 90 percent of the nation's largest MPO's reported that they lacked sufficient data to conduct adequate freight planning.<sup>5</sup>

While the survey results indicate that much remains to be done in advancing the cause of freight transportation at the MPOs, IANA believes that our progress in this regard since enactment of ISTEA has been acceptable. After all, the 1991 Act represented a sea change in transportation planning and given where we started, having 38 percent of MPOs routinely considering the needs of the freight community is satisfactory incremental progress. But, more needs to be done.

While most of infrastructure decision making is being accomplished locally, there is an ongoing need to view our freight transportation infrastructure in a systematic way --

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<sup>4</sup> Survey of Metropolitan Planning Organizations, Freight Stakeholders National Network, March, 1996.

<sup>5</sup> Ibid.



assuring the most efficient nationwide freight network.

To assure that the MPOs are cognizant of the transportation network consequences of their local planning efforts, IANA believes there is a need for a continuing Federal oversight of such activities. A properly structured Department of Transportation would be the logical agency to handle this important responsibility.

In this age of increasing global competition, the transportation component of the delivered cost of U.S. goods often can make or break a market for U.S. producers. We need to insure that in our local planning activities, barriers to greater freight transportation efficiency are not inadvertently erected.

If facilitating commerce among the several States has been a key responsibility of the Federal government since our country's inception, its responsibility in that vein today certainly is not diminished as we face the growing challenge of international competitiveness.

ISTEA set the framework for an effective Federal/State/Local partnership for transportation planning and investment. IANA strongly recommends that the Congress in reauthorization build on the positive experience of ISTEA -- including a significant Federal presence in assuring that the diverse planning and investment priorities advance our national transportation network needs.

Thank you.

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STATEMENT  
on the  
REAUTHORIZATION OF THE INTERMODAL SURFACE TRANSPORTATION  
EFFICIENCY ACT  
before the  
SUBCOMMITTEE ON SURFACE TRANSPORTATION  
of the  
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
for  
J.C. PENNEY COMPANY, INC. AND THE U.S. CHAMBER OF COMMERCE  
by  
RICHARD A. SCHAT  
May 7, 1996

I am Rick Schart, Manager of Transportation Purchasing for J.C. Penney Company, Inc. I appear before you today on behalf of the J.C. Penney Company and at the request of the U.S. Chamber of Commerce, of which J.C. Penney Company is a member. On behalf of the J.C. Penney Company and the U.S. Chamber, I would like to thank the Surface Transportation Subcommittee for providing me the opportunity to present our views on reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA).

The U.S. Chamber asked J.C. Penney to testify on its behalf because the U.S. Chamber membership believes strongly in maintaining a federal role and wanted to provide the committee with a "case study" on the importance of the nation's transportation infrastructure to the general business community's productivity and competitiveness.

In addition, the U.S. Chamber is in the process of formulating a set of formal policy recommendations on behalf of its membership that will be forwarded to the Congress in the near future. It is the U.S. Chamber's feeling that, although its policy process is not complete, it is still very important to get across the transportation infrastructure users' point of view as you focus today on the national interests and the appropriate federal role.

J.C. Penney is a major retailer, with department stores in all 50 states, Puerto Rico, Mexico, and Chile. The Company's primary business consists of providing merchandise and services to consumers through its department stores and catalogs. The Company markets predominantly family apparel, jewelry, shoes, accessories, and home furnishings.

The J.C. Penney Company ships 1.1 billion pounds of freight annually by truck, rail, air, and ocean. We operate two wholesale retail warehouses and six Regional Catalog Fulfillment Centers, which ship to over 1800 retail stores and catalog desks, as well as directly to our customers' homes. We rely on over 4,000 supplier partners shipping from nearly 8,000 ship points from around the world to supply us with finished goods. We import 15,000 forty-foot containers of freight annually from around the world, and we ship 1,000 forty-foot containers to domestic offshore points.

Retailing is an intensely competitive industry. Having merchandise where it needs to be at the right time is critical to our success and the business community at-large. Further, distribution costs add an additional 3.1 percent to the cost of our merchandise. A solid transportation infrastructure, consisting of congestion free roads, structurally sound bridges, and adequate connecting links between highways and intermodal facilities, is crucial to meeting competitive and cost control goals. Such a solid infrastructure will allow us to keep prices as low as possible for our customers, and to do our part to control general price inflation. That infrastructure will take on added importance as the U.S. economy becomes more global in scope.

J.C. Penney recognizes the importance of ISTEA, and we feel it has been beneficial in furthering the nation's infrastructure. We support and encourage reauthorization of the Act prior to the September 1997 deadline. J.C. Penney further recommends that in reauthorizing the legislation, Congress should consider the following goals:

1. **Identify transportation needs as a national priority.** A strong transportation infrastructure contributes to the economic health of the country, as well as to the well-being of its citizens. The J.C. Penney Company employs about 200,000 associates. These associates rely on a strong transportation infrastructure to commute between home and work, to conduct personal business, and to enjoy their leisure time. Reduction of highway congestion reduces commuting time and allows our associates more personal time. In addition, quality of life would be further improved due to reduced exhaust emissions.
  
2. **Provide additional funding for the National Highway System (NHS) and bridges.** The NHS constitutes only four percent of the nation's road mileage, but carries 40 percent of all traffic and 75 percent of all commercial traffic. Bridges, both on and off the NHS, provide a vital link for the transportation network. J.C. Penney uses highway transportation and intermodal connectors to get literally all of its merchandise to their final destinations. Additional funding for the NHS is critical for companies such as J.C. Penney to compete and flourish. Currently, only 31 percent of highway trust fund money goes to the NHS and bridges. J.C. Penney recommends that 75 percent or more of the available funds be put into these areas.

3. Provide funding for safety and research and development. Americans travel by highways extensively, both for business and leisure. The safety of the traveling public, as well as development of new construction techniques and better construction materials are of national concern. The J.C. Penney company has a vested interest in the health and safety of both its associates, and the consuming public, whom we rely on to buy our goods and services.

4. Discontinue allocation of highway user fees to the general fund. Highway user fees in the form of gasoline, diesel, and other related taxes should be used only to benefit those who contribute -- that is, the highway users. J.C. Penney recommends that all such funds be allocated to the areas previously described. Doing so would ensure that goals related to infrastructure maintenance and development are met; thereby, resulting in job growth and generally good economic health. If it is decided not to allocate fully these funds to highway uses, then J.C. Penney recommends that gasoline and diesel taxes be rolled back in the amount of the excess.

In addition to the above points, J.C. Penney asks that Congress look closely at the value of using highway funds for mass transit projects. While mass transit certainly benefits several areas of the country, including locations where J.C. Penney has a heavy presence, the regional nature of such projects tends to increase the effect of "donor" versus "donee" situations. J.C. Penney recommends that the Congress evaluate whether the benefit derived from such projects is worthy of the expenditures from a program that has a national focus, such as ISTEA.

In conclusion, the J.C. Penney Company supports reauthorization of ISTEA. A healthy transportation infrastructure is a critical component of the U.S. business community's competitiveness in what is becoming an increasingly global economy. Better allocation of highway trust fund money for maintenance and improvement of this infrastructure will allow the nation's economy to thrive, which will ultimately lead to job growth. Resulting job growth, reduced congestion, and reduced exhaust emissions will also promote the well-being of the nation's citizens, who rely increasingly on its roads and highways for business and leisure transportation. J.C. Penney will continue its efforts, both as a company and as an active member of the U.S. Chamber's grassroots network.

The business community is very excited about playing an active role in this process. J.C. Penney and the business community at-large require a transportation infrastructure that promotes economic development, international competitiveness, and quality of life. To that end, J.C. Penney and the U.S. Chamber pledge their support and resources.

## ADDITION TO THE RECORD

1215 School St., S.W., Suite 410  
 Washington, D.C. 20024-2797 USA  
 Telephone (202) 534-8050  
 Fax (202) 862-5488




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 INSTITUTE OF TRANSPORTATION ENGINEERS

May 9, 1996

The Honorable Nick Rahall  
 Ranking Minority Member  
 House Committee on Transportation and Infrastructure  
 Subcommittee on Surface Transportation  
 B-375 Rayburn House Office Building  
 Washington, DC 20515

Dear Congressman Rahall:

Attached please find testimony that I request be included as part of the record for your hearing held on May 7, 1996, relating to the reauthorization of the nation's surface transportation program.

The Institute of Transportation Engineers (ITE) is an organization of over 14,000 transportation professionals. We have members working for virtually every state Department of Transportation, almost 600 municipalities, over 175 counties, and some 100 metropolitan planning organizations. In addition, ITE members are employed by hundreds of consulting firms, universities and equipment manufacturers and suppliers throughout the United States.

As one of the largest bipartisan professional transportation organizations in the country, ITE's positions on federal transportation initiatives represent the consensus of a wide political spectrum. The goal of the Institute is to promote sound, safe and economic transportation investment. ITE is not and never will be in the business of lobbying Members of Congress. However, the Institute possesses relevant and objective information that should be considered in the legislative process.

The Institute believes that the federal government plays a critical role in transportation and that role should continue. ITE would be happy to answer any questions you, your colleagues or any staff might have relating to this testimony.

I hope that you and your colleagues find these comments helpful. I also hope that the Institute will have an opportunity to personally testify before the subcommittee as it continues its hearings into the reauthorization of the nation's surface transportation programs.

Sincerely,

 A handwritten signature in black ink, appearing to read 'Tom Brahm', is written over a circular stamp.
 

Thomas W. Brahm  
 Executive Director

**Testimony by  
Dennis L. Christiansen  
President of the  
Institute of Transportation Engineers  
Before the  
House Transportation and Infrastructure Committee  
Subcommittee on Surface Transportation  
Hearing on  
ISTEA Reauthorization: The Federal Role For Transportation and National Interests  
May 7, 1996**

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit my comments to the Committee as it focuses on ISTEA Reauthorization: The Federal Role For Transportation and National Interests.

My name is Dennis Christiansen and I am Deputy Director of the Texas Transportation Institute at Texas A&M University. However, I am submitting these comments as International President of the Institute of Transportation Engineers (ITE). The Institute of Transportation Engineers (ITE) is an organization of over 14,000 transportation professionals. On a day-to-day basis ITE members are responsible for keeping the nation's surface transportation systems operating in the safe, efficient and reliable fashion which our mobile society demands.

ITE members plan, design, operate, maintain and build the infrastructure that supports 17% of America's gross national product. We have members working for virtually every state Department of Transportation, almost 600 municipalities, over 175 counties, and some 100 metropolitan planning organizations. In addition, ITE members are employed by hundreds of consulting firms, universities and equipment manufacturers and suppliers throughout the United States.

As one of the largest bipartisan professional transportation organizations in the country, ITE's positions on federal transportation initiatives represent the consensus of a wide



political spectrum. The goal of the Institute is to promote sound, safe and economical transportation investments. Because of our member's experience and expertise, the Institute possesses relevant and objective information that should be considered as part of the reauthorization process.

It has long been the policy of the Institute that transportation decisions of international and national concern should be made at the federal level, and that those of state, regional and local concern should be made at the state, regional and local level respectively. ITE believes that Congress expressed its general agreement to this policy with the development and passage of ISTEA. However, many of the 104<sup>th</sup> Congress were not in office five years ago, so ITE supports efforts by the Committee and others in Congress to again examine and debate the appropriate role for the federal government in transportation.

#### **The Federal Role**

The federal government contributes only about 25 percent of all the funding that is annually invested in the country's transportation infrastructure. However, federal policy and investments play a significant role in driving state and local transportation investment priorities. As such, the federal government has a responsibility to ensure that its transportation policies will not only meet the transportation needs of today, but also will lead the nation toward meeting its transportation needs well into the 21st century. The federal government should establish clear, long-range transportation goals and objectives. Direct federal investments and policies under ISTEA-2 should focus on goals and objectives of the transportation program that cannot or will not be met at the state or local level or by the private sector.

ITE believes that the federal government should participate in those elements of transportation where its presence, direction, and funding assistance is essential to promote

and protect the safe and efficient movement of goods and service. Essential elements of the federal role in transportation include:

Increasing Overall Safety and Mobility - The federal government has provided the leadership role in programs that have significantly increased the mobility and safety of the traveling public. America's strength is directly related to the degree of mobility that we share as a nation. Thanks largely to leadership at the federal level, this mobility has been increasing simultaneously with significant improvements in transportation safety in all modes. Since the formation of the U.S. DOT in 1966, the number of traffic fatalities per vehicle mile of travel has been cut in half, due in large part to DOT and Congressionally-led national efforts. Continuing this progress will depend on retaining these efforts at the federal level.

Haste should not dictate changes to a continuing national objective which is to provide and maintain the best transportation system in the world. Future efforts should recognize that significant steps to achieve many of these objectives have already been taken through the passage and implementation of the 1991 Intermodal Surface Transportation Efficiency Act (ISTEA). State and local agencies are just now beginning to realize the benefits generated by the substantially increased decisionmaking authority granted to them under the ISTEA. Changing the rules again at this stage could undermine the progress that has been made.

Providing Uniformity and Consistency - The federal government will be instrumental in assuring that travelers and goods movers are provided uniform and consistent transportation across state lines. Uniformity and consistency promote mobility and safety. National guidance will be especially important in the coming years in helping states and localities to contribute to national objectives such as those contained in the Intermodal Surface Transportation Efficiency Act of 1991 and the Clean Air Act Amendments of 1990.

**Applying Advanced Technologies** - The federal government's leadership will be the key in nurturing a public/private partnership to develop and apply advanced technologies to America's transportation systems. Many of these technologies will be drawn from the defense industry, thereby generating future jobs and markets for these firms.

Leadership at the federal level will be essential to delivering a national program of research, operations tests, and a national systems architecture that is necessary to lay the foundation for long term deployment of practical and cost effective intelligent transportation systems.

**Enhancing the Knowledge, Skills and Abilities of the Transportation Community** - The number of transportation professionals and their skills will need to be intelligently matched to the needs at each level of government and in the private sector if we hope to "give Americans more value for the dollars they send us". It is these professionals who are responsible for planning, designing, implementing, operating and maintaining the nation's transportation systems.

Indiscriminate across-the-board cuts in personnel are now being considered at all levels of government. This could do more harm than good. Each level of government will need to define its mission, identify those programs that are needed to carry out this mission, and then assure that the knowledge and skills are available to best deliver these programs. With many state and local governments downsizing at the same time, it will be an essential role of the federal government to set the best example in this area, and not simply assume that a transfer of responsibility will work.

The U.S. DOT also has an essential role in assuring that the transportation community has the knowledge and skills needed for the nation to compete in the 21st century. A strong federal role in transportation education, training, and technology transfer will be critical. This will be especially important as many of the transportation professionals

who were involved in the Interstate building era enter retirement, taking their knowledge and skills with them.

Conducting Research and Development - A coordinated national transportation research and development program will continue to be the basis for future transportation progress at the national level. Adequate and continuing research in transportation cannot be accomplished solely at the state and local level, or in the private sector. The federal government must play a strong leadership role in the coordination and pooling of resources for research and development that cuts across systems and modes. Results of this research must be made available for application nationwide.

Ensuring a Strong and Viable National Highway System - The 160,000 mile National Highway System (NHS) reaches into every state and can benefit all areas. An orderly, long range program will be needed to upgrade the capacity, structural integrity, geometric and access control elements of the NHS. It will be vital to the national economy that we provide and preserve the highest possible levels of transportation efficiency, safety and convenience in every region of our nation—rural and urban. The nation will continue to grow and prosper, and will require a coordinated national transportation system. The National Highway System will be the backbone of such a system—a basic foundation to a balanced intermodal national transportation system.

Providing a Balanced Intermodal System - ISTEA set the basis for a balancing of modal interests, taking into account cost effectiveness, economic benefits, and the environment. This balance should be preserved in any future reorganization. The essence of national transportation policy should be to make it possible to use the inherent advantages of each mode in pursuit of safe, efficient, and effective movements of persons and goods, and to provide the necessary linkages among modes so that they function as one integrated transportation system.

**Enhancing the Nation's Economic Competitiveness** - Transportation generates 20 percent of the gross domestic product. In addition, each \$1 billion invested in transportation produces more than 25,000 construction-related jobs.

That transportation contributes significantly to the nation's economic health is undisputed. With NAFTA passed and a western hemisphere free trade agreement in the works, the U.S. transportation system will be even more vital to the delivery of goods and services. The European Commission is taking a stronger role to assure a seamless transportation system throughout European countries and across their borders. The U.S. can do no less.

**Protecting the Environment** - In recent years, the U.S. DOT has led the way in making transportation a tool to help improve the environment and to generate sustainable development. Transportation and environmental leadership at the federal level will continue to make it possible for state and local agencies to develop and implement mutually supporting transportation and environmental objectives. Future environmental requirements will need to be results oriented, rather than process-driven.

#### **Funding the Federal Role**

Attaining the above objectives cannot be accomplished without providing the necessary resources. Proposals are now being considered at all levels of government to reduce transportation spending at the same time that billions of dollars worth of identified transportation needs are not being met each year.

Cutting transportation funding will not cut transportation needs. The federal government needs to set an example for other levels of government by making intelligent decisions regarding the funding and delivery of transportation programs and projects.

While Americans want streamlined and better government, they do not want crumbling highways and bridges, broken down buses, or more accidents. Americans expect that their governments will provide a proper balance between capital and operations/maintenance programs for transportation.

The federal government must also assure that a stable and predictable funding source exists to pay for essential transportation programs. The federal Highway Trust Fund is that source for highway and transit programs. The "trust" needs to be put back into the Highway Trust Fund, however. This will require that user fees paid into the fund are used for highway and transit purposes, and that the fund not be used to mask or pay down the federal budget deficit.

The social and economic welfare of the United States depends on an efficient and safe surface transportation system to move people to work and goods to market. Unfortunately, U.S. transportation systems are seriously underfunded, and the transportation inefficiencies that result from this underfunding cost the United States far more in waste than the U.S. government is saving in withheld funds. Increasing investment in transportation will spur the nation's economic growth. As more people benefit from this growth, the federal government will benefit as tax rolls increase and social expenditures decrease..

About \$57 billion should be invested annually in roads, bridges and transit capital just to keep the systems performing at their current level of service. Unfortunately, the United States is actually reinvesting less than \$41 billion each year, only two-thirds of the nation's needs. As a result, the transportation infrastructure is not able to keep up with demand. Congress must recognize that cutting transportation funding will not cut transportation needs. Providing funding levels to maintain current conditions should be the minimum goal for lawmakers.

To ensure an adequate and predictable revenue stream for transportation investment, Congress should consider:

- Funding ISTEA-2 programs entirely from transportation user fees. Return the 4.3 cents per gallon currently going to deficit reduction to the Highway Trust Fund.
- Removing the Highway Trust Fund from the unified federal budget.
- Adopting a federal capital budget and/or other measures to achieve this objective.
- Expanding efforts to combat motor fuel tax evasion.
- Giving state and local agencies increased flexibility to implement innovative financing mechanisms.
- Requiring that any revenue from tolls on any highway facility be used solely for surface transportation purposes.
- Eliminating the practice of specifying funding for specific projects in federal transportation legislation.

#### **State and Local Roles**

ISTEA's flexible funding provisions have allowed decision-makers at the state and regional level to decide for themselves how best to allocate federal transportation assistance in their region. ISTEA provides for a potential \$70 billion in such flexibility over the six-year life of the bill. The Institute believes that maintaining the current planning and investment flexibility should continue as a central element in ISTEA-2.

Flexibility allows states and local agencies to best achieve local, regional and national transportation needs in a coordinated, efficient and economical fashion. As part of the biennial U.S. DOT Report "Status of the Nation's Surface Transportation System: Conditions and Performance Report to Congress," the U.S. Department of Transportation described its plans to develop integrated system performance measures that can be tracked, reported and evaluated over time. Such performance measures should be incorporated into ISTEA-2 and should establish new benchmarks to evaluate the

effectiveness of individual state and local transportation decisions. ISTEA 2 should provide state, regional and local entities with the flexibility to determine how to best meet the performance measures. Strategic overviews of investments based on performance measures should be done at the state level on a regular basis. Performance measurements should not be used to penalize states that are not meeting goals, but should be used as a federal tool to determine how they can best help states meet their local, regional and national needs.

ISTEA made metropolitan planning organizations (MPOs), local agencies and transit agencies a critical part of a state's transportation planning process. While some states were slower than others in fulfilling their new role as a partner in transportation planning, the initial apprehension is all but gone. Providing a voice to a state's entire transportation community has resulted in more prudent and equitable investments of scarce transportation resources. ISTEA's experiment has for the most part been a success and should be continued. To ensure the continued success of this new decision-making process, ISTEA-2 should continue to guarantee a minimum level of funding for larger metropolitan areas. Under the new relationships established by ISTEA, the state has played a significant role as the principle sponsor for transportation investments within its boundaries. This process has worked well and should not be changed in ISTEA-2.

#### Conclusion

The Intermodal Surface Transportation Efficiency Act of 1991 represented a dramatic shift in the federal government's role in transportation. ISTEA gave transportation leaders new tools to begin addressing America's changing transportation needs. ISTEA was more complex and far-reaching than any previous transportation authorization bill. It expanded funding for transportation, gave flexibility at the state and local level in deciding how federal highway and transit funds should be used, focused federal attention on traffic congestion and transportation safety, increased planning and management



requirements, widened transportation financing options and provided unprecedented emphasis on research as a means to address the nation's future transportation needs.

Many agencies are just now becoming comfortable with the new programs and policies that were developed through ISTEA. Therefore, one of the guiding philosophies towards reauthorization of ISTEA should be one of stability. The Institute believes that the federal role in transportation as established by ISTEA is sound. ISTEA created the appropriate balance of power and responsibilities between federal, state and local governments in the federal transportation investment process.

Transportation needs in this country far out weigh the amount of investment that is being made in the nation's infrastructure. Efforts to reduce the federal government role in transportation would had devastating consequences on an already bad situation. State and local governments already fund the vast majority of the nation's transportation projects and programs. Any void created by shrinking the federal government's role in transportation could not easily be filled by other levels of government.

The Committee is right to investigate the appropriate role for the federal government in transportation. However, ITE believes that once the Committee has finished its investigation, it will conclude that the federal government is an essential player in transportation.

## **ISTEA REAUTHORIZATION: TRANSPORTATION FINANCE IN AN ERA OF SCARCE RE- SOURCES—THE HIGHWAY TRUST FUND**

**THURSDAY, MAY 16, 1996**

**U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON SURFACE TRANSPORTATION,  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
*Washington, DC.***

The subcommittee met, pursuant to recess, at 9:30 a.m. in room 2167, Rayburn House Office Building, Hon. Thomas E. Petri (chairman of the subcommittee) presiding.

Mr. PETRI. The subcommittee will come to order.

Today we will continue our ISTEA reauthorization hearings by examining the status of the Highway Trust Fund. This is essential since the Trust Fund taxes must be extended next year and the revenues available in the Trust Fund will have a major impact on the level of spending we can provide in the reauthorization legislation.

Obviously, we would like to utilize all the resources available in the Trust Fund for needed transportation improvements.

Today we will have an opportunity to learn the effect on the cash balance of the Trust Fund under various funding scenarios.

Our second panel will provide a status report on improvements made and future challenges we face in the area of fuel tax evasion. Evidence in the early 1990s suggests that as much as \$3 billion annually in Federal and State revenues were being lost as a result of criminal efforts to evade the tax.

Several provisions included in ISTEA, such as changing the point of collection, seem to have proven effective in cutting down on these losses; however, the criminal mind knows no bounds, and we will also learn of new evasion schemes being devised and efforts which are underway to counter these tactics.

Finally, an issue I am particularly interested in is the effect on Trust Fund receipts of higher fuel efficiency, the increased use of alternative fuels, and other innovations.

The fuel tax is an indication of highway system usage, and various factors may call into question the reliability of these taxes for future income into the fund.

Our witnesses today include representatives from various Federal and State departments, Congressional agencies, and the National Association of Truck Stop Operators, who have been in the forefront in the fight against fuel tax evasion.

I now yield to the ranking democrat on the subcommittee, Congressman Nick Rahall.

Mr. RAHALL. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, for 40 years now the major source of Federal assistance for the construction and maintenance of our highways, roads, bridges, and mass transit facilities has been, as we all know, the Highway Trust Fund, financed primarily by the motor fuel tax.

While for the short term the financing of our basic surface transportation infrastructure program seems relatively secure, I think we all have to question whether we can continue to rely on the motor fuel taxes as the primary source of revenue for these projects as we approach the next century.

Federal policy is increasingly favoring mass transit over highway construction. The Clean Air Act and the cost in terms of air quality and to the economy of highway congestion are causing many metropolitan areas to look to other alternatives to building new roads—hence, the focus on light rail and high-speed rail.

In Detroit, automobile manufacturers continue to experiment with electric cars and other alternatives to the traditional internal combustion engine.

All of these modes of transportation do not provide any revenues to the Highway Trust Fund. This means that in the future, if we are to maintain our existing road network, build new highways where needed, provide for expanded transit opportunities, new means of financing must be found.

Experimentation with innovative financing is occurring today. For example, the authorization of a State infrastructure bank pilot program in last year's NHS bill is the most recent addition to the innovative financing arsenal. Yet, as it stands, the use of loan guarantees and other techniques where Federal funds are used for credit enhancement are nowhere near supplanting the direct subsidization of highway projects through Highway Trust Fund apportionments.

As such, while we must continue to keep an eye on the innovative financing ball, as we consider the reauthorization of ISTEA, the level of spending which can be supported by the Trust Fund will be of critical importance.

Thank you, Mr. Chairman. I look forward to hearing today's witnesses.

Mr. PETRI. Thank you. Statements by our chairman, Mr. Shuster, and senior minority member, Mr. Oberstar, if they would like, will be included in the record at this point.

Our first panel consists of: Ms. Phyllis Scheinberg, the associate director of Transportation and Telecommunications policy, the U.S. General Accounting Office, accompanied by Yvonne Putahl, senior evaluator, Transportation and Telecommunications issues, U.S. General Accounting Office; and good morning, Mr. Sunshine, Mr. Robert Sunshine, deputy assistant director, Budget Analysis Division, Congressional Budget Office.

Welcome. Ms. Scheinberg, would you like to lead off?

**TESTIMONY OF PHYLLIS F. SCHEINBERG, ASSOCIATE DIRECTOR, TRANSPORTATION AND TELECOMMUNICATIONS ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY YVONNE PUF AHL, SENIOR EVALUATOR; AND ROBERT SUNSHINE, DEPUTY ASSISTANT DIRECTOR, BUDGET ANALYSIS, CONGRESSIONAL BUDGET OFFICE**

Me. SCHEINBERG. Thank you. Good morning, Mr. Chairman and Mr. Rahall. We appreciate the opportunity to be here today to discuss the status of the Highway Trust Fund and how it operates. We hope to contribute to a better understanding of this fund and its ability to support future surface transportation information needs.

Let me begin by briefly outlining a few fundamentals concerning the Federal Highway Trust Fund.

It was established in 1956 essentially as an accounting mechanism to finance the Federal aid highway program. In 1982 the fund was divided into a highway program account and a mass transit account.

Financing for the fund is derived from a variety of highway user taxes. Currently these Federal taxes include a per gallon tax of \$0.183 cents on gasoline and \$0.243 on diesel fuel, and a graduated tax on certain tires.

During fiscal year 1995, taxes generated about \$23.7 billion for the Highway Trust Fund, with 60 percent coming from the gasoline tax.

When revenues credited to the fund exceed the amount required for current expenditures, an account balance exists. This balance is invested in public debt securities, and interest earned on these securities is considered revenue to the fund.

All revenues are credited to either the highway or mass transit accounts except for \$0.043 per gallon of fuel tax that's credited to the general fund for deficit reduction purposes.

Let me turn to the status of the highway account.

FHWA currently projects a balance of \$14.1 billion in the highway account at the end of fiscal year 1997. A balance is projected because more money will have been credited to the Trust Fund than spent at that time.

The Trust Fund balance, however, has often been misunderstood, with many believing that the balance represents excess cash. To illustrate how the Trust Fund works, let me compare it with my own credit card account. Normally I have cash on hand, but maybe not enough to pay my credit card charges. This is not excess cash, because I need it to pay my monthly credit card bill. On the other hand, this does not mean I cannot pay my bill at the end of the month, because I'll be getting a paycheck. Thus, the paycheck, together with the cash, will be more than enough to pay my credit card bill.

To apply the charge card example to the Trust Fund, let's look at the end of the authorization period, fiscal year 1997. At that time, the highway account balance is estimated to be \$14.1 billion. However, this will not be enough to cover all of ISTEA's authorization, or, in other words, outstanding commitments, which are estimated to be about \$44.6 billion.

Let's assume, for our discussion, that the Federal aid highway program was not reauthorized, and therefore no new commitments were made beyond fiscal year 1997. The highway account is designed so the revenue would continue to be credited to the account for two additional years. Therefore, revenues for fiscal years 1998 and 1999, plus the balance available at the end of fiscal year 1997, would be enough to pay off all ISTEA commitments and leave an estimated balance of \$18.7 billion. This balance could be used to support future authorizations.

However, changes in economic assumptions and conditions can cause revenue forecasts to fluctuate; therefore, FHWA suggests a safety cushion of up to \$3 billion, leaving a projected balance of \$13.7 billion that could be used for future authorizations.

Now let me briefly turn to the transit account. This account follows a pattern similar to the highway account, including consideration of future revenues, but with a safety cushion of half a billion dollars. The result is an estimated \$10.7 billion starting balance to support a new authorization for transit programs.

Mr. Chairman, this concludes our prepared statement. We would be pleased to respond to any questions that you or members of the subcommittee may have.

Mr. PETRI. Thank you.

Mr. PETRI. Mr. Sunshine?

Mr. SUNSHINE. Thank you.

Mr. Chairman and members of the subcommittee, I'm pleased to appear before you this morning to discuss the Highway Trust Fund. I will review the current status of the fund, present a number of projections of Trust Fund receipts and outlays for the next 6 years, and discuss the implications of the projections for the Federal budget deficit.

The Highway Trust Fund is a means for recording the collection of various excise taxes and netting them against spending on designated highway and mass transit programs.

Over the past 10 years, the fund's two accounts—one for highway programs and one for mass transit programs—received total tax revenues of \$181 billion; they spent \$170 billion; and they were credited with \$14 billion in interest.

As you can see from the last column of table one, which appears on page three of my prepared statement, the total unexpended balance grew steadily during the 1980s because balances in the transit account were increasing, but the total unexpended balance has been fairly stable since 1991.

At the beginning of the current fiscal year, the total unexpended balance in the Highway Trust Fund was \$19 billion. Although the fund shows a cash balance, existing obligations far exceed the amounts currently in the fund because projects are carried out and the money is spent over a number of years.

For example, at the end of fiscal year 1995, outstanding obligations of the Highway Trust Fund totaled \$36 billion, compared with the \$19 billion balance in the fund.

CBO has projected spending and receipts for the Highway Trust Fund over the next several years using a number of different assumptions.

Under our baseline projections, which assume no change in current tax and spending policies, we estimate that total receipts will exceed obligations and outlays for both the highway and transit accounts over the next 7 years.

Under baseline assumptions, assuming extension of the current excise taxes when they expire, revenues credited to the fund will grow steadily. Outlays would either grow slightly or decline slightly over the next several years, depending on whether one assumes that the 1996 spending limits are adjusted for inflation in the future or are frozen at current levels.

Under both sets of baseline projections, receipts from taxes and interest would significantly exceed new obligations and outlays, leading to a large unexpended balance in the fund in the year 2002—about \$42 billion if spending grows with inflation, and an even larger amount, \$52 billion, if spending remains roughly at current levels.

Neither of these projections includes highway demonstration projects other than those authorized in ISTEA; otherwise, these estimates are somewhat conservative, because recent information suggests that tax receipts earmarked for the Trust Fund are coming in higher than we estimated.

Table two on page eight of my statement shows our projections assuming that obligations grow with inflation, and table three on page nine shows our projections without adjustment for inflation. In both tables, the last column shows the unexpended balance in the fund for each year.

The highway account's unexpended balance would grow to \$27 billion in 2002 if spending grew with inflation and to \$35 billion if it did not.

Figure one on the top of page 11 graphically displays what would be happening with the highway account and the growing gap between income to the fund and spending of the fund under baseline assumptions.

Results for the transit account would be similar. Under baseline assumptions, its unexpended balance would grow from under \$10 billion today to \$15 or \$16 billion by 2002.

CBO has also developed projections assuming that the Congress provides additional contract authority after ISTEA expires in 1997 at the ISTEA levels adjusted for inflation, and assuming that all available contract authority could be obligated, including the amounts that are available now but have not yet been obligated. In that scenario, Trust Fund outlays would increase significantly—to about \$30 billion in 2002, compared with \$27 billion in tax receipts in that year. The unexpended balances would drop to less than \$7 billion by the end of 2002 and would continue to decline thereafter. Those figures are shown in table four on page 13.

Under the full-funding scenario, the cash balance in the highway account would be quite low—about \$2 billion by the end of 2002—leaving little room for error in estimates of future revenues or spending.

The bottom panel of figure one, back on page 11, illustrates this scenario, with the bottom line showing the drop-off in the cash balance.

As for the transit account, by the end of 2002 its cash balance would be about \$4 billion, but falling each year. Its outlays would be \$2 billion a year above tax receipts, the rate of spending that would be unsustainable over the long term.

Viewed in the context of the whole budget, the Highway Trust Fund has a different impact than the Trust Fund accounting implies. The principal difference is that the interest earnings of the fund are intergovernmental transactions that have no net effect on the budget deficit. Therefore, the current budgetary impact of the Trust Fund is simply the difference between the tax receipts credited to the fund and outlays charged to the fund.

Spending less than the annual tax receipts reduces the budget deficit, whereas spending more than the tax revenues increases it, even if the added spending comes from unexpended balances of the fund.

Those unexpended balances and the resulting interest earnings are indicators of the cumulative effect on Federal borrowing needs of past spending and tax policies associated with the Trust Fund, not of its current operations.

The presence of cash balances has led some people to conclude that the Highway Trust Fund is currently being used to reduce the Federal deficit. That has not been the case in recent years. From 1991 through 1995, for example, the fund's outlays totaled \$96 billion, exceeding the \$91 billion in tax revenues credited to the fund during that time.

These recent trends will not necessarily hold in the future, however, particularly because an additional 2.5 cents per gallon of the gasoline tax is now allocated to the Highway Trust Fund. As a result, under CBO's baseline assumptions, tax revenues credited to the fund would exceed outlays in each of the next several years. General fund receipts would decline correspondingly.

Under the full-funding scenario, the deficit would increase over the 1997-2002 period by about \$30 billion in relation to CBO's baseline adjusted for inflation, and by about \$38 billion in relation to the baseline without inflation, excluding interest effects. Thus, while it is possible to increase funding from the fund over the next several years by drawing down its balances, such a policy would have a significant adverse effect on the Federal deficit.

Such increases in spending would encounter another budgetary constraint: the limits on discretionary spending. The Federal Government has been and is likely to remain in a period of fiscal stringency, particularly for nondefense discretionary spending. Under current policies aimed at balancing the budget by 2002, such spending is likely to decline or, at best, remain level over the next few years.

Therefore, if highway and transit spending is to grow as Trust Fund income increases, it will have to compete against other spending priorities in order to obtain a growing share of the limited discretionary resources.

That concludes my statement, and I'll be happy to answer any questions you may have.

Mr. PETRI. Thank you both very much.

Mr. RAHALL, do you have any questions?

Mr. RAHALL. Thank you, Mr. Chairman.

Mr. Sunshine, let me ask you the first question.

Your testimony states that under CBO's projections, receipts into the Trust Fund would significantly exceed new obligations and outlays, leaving a large unexpended balance in the Trust Fund. If I understand your testimony correctly, then, this situation would develop if the Appropriations Committee continues to set annual obligation ceilings at the 1996 level; is that correct?

Mr. SUNSHINE. That is correct.

Mr. RAHALL. Does CBO, or, for that matter, GAO view the Trust Fund containing such a large unexpended balance as something that is fiscally imprudent in light of the purposes for which the Trust Fund was established, or fiscally prudent, I guess I should ask?

Mr. SUNSHINE. I'm not sure I would describe it as fiscally imprudent. I think it depends on what one's concept of the Trust Fund is. If it's a measure of the compact between the Government and the payers of the taxes that says, "You've paid in these taxes, and we have promised you that we're going to spend those taxes on these types of activities, highway and transit," then the failure to spend that money, if we fail to spend it, could be viewed as breaking a political compact with the taxpayers.

Now, part of—

Mr. RAHALL. A political contract, did you say?

Mr. SUNSHINE. Yes.

Mr. RAHALL. Compact?

Mr. SUNSHINE. A compact between the Government and the taxpayer, an implicit, understood, perhaps political compact. There is no written contract anywhere that describes it. That's one concept of the Trust Fund.

Now, part of the Trust Fund balance is, of course, interest payments that come from the Treasury, and one can raise the question of whether that is part of the deal or not part of the deal.

But I don't think the existence of balances in the Trust Fund necessarily requires that they be spent on these programs. I think that's really a political question and not a fiscal question.

Mr. RAHALL. So if it's a breaking of a political compact, then it would be the appropriators who are doing it, since they are the ones that actually set the obligation limits. Is that correct?

Mr. SUNSHINE. I think I'd better not answer that question.

[Laughter.]

Mr. RAHALL. Thank you, Mr. Chairman.

Mr. PETRI. Mr. Bateman, do you have any questions?

Mr. BATEMAN. Thank you, Mr. Chairman.

Reference was made to a safety cushion as a hedge against the inaccuracy of projections of revenues. What has historically been our experience there? Have we always had a more than adequate safety cushion, or do we need to rethink what should be required in the future projections?

Ms. SCHEINBERG. The safety cushion that the Department of Transportation recommends is based on the historic pattern of the Trust Fund, and it seems to have worked very well.

The projections do vary and in the past years have varied somewhat significantly, and, because of the recommended size for the



safety cushion, the safety cushion has proved to be adequate. It's worked well.

Mr. BATEMAN. Thank you. Your testimony indicates that the Highway Trust Fund is different from most other Federal trust funds. Could you give me some indication of how other trust funds do differ from the way the Highway Trust Fund is operated?

Mr. SUNSHINE. I think the concept of the trust funds is the same; the way in which some of the decisions are made affecting the programs that are financed by the trust funds is different. All the trust funds record income, spending and interest credited, so they track the total activity of the program over time.

The Social Security Trust Funds, the Medicare Trust Funds, the Federal Employees' Retirement Trust Fund all do that, just as the Highway Trust Fund does. In those cases, however, there are, specifications in law, as to how the money should be spent, and the spending of the money is automatic. Once the money comes into those Trust Funds, no actions have to occur in order for that money to be spent.

In the case of the Highway Trust Fund and the Airport and Airways Trust Fund, there is a break in the chain. The money that comes in has no specific relationship to the money that goes out, and the Congress, either each year or over a multiyear period, makes specific decisions about how much money should be spent and what it should be spent on. There's nothing automatic about it, and no one is entitled to it.

Mr. BATEMAN. Is that the primary difference that most of the other trust funds finance what we call "entitlements" as opposed to the Highway Trust Fund, which is not an entitlement?

Mr. SUNSHINE. Yes.

Mr. BATEMAN. Thank you, Mr. Chairman.

Mr. PETRI. Thank you. Mr. Mascara, do you have any questions?

Mr. MASCARA. Thanks, Mr. Chairman. I came in late. Under the current ISTEA, over the number of years since 1991, were it \$155 billion in revenues that was anticipated? How much under the reauthorization do you anticipate in extrapolating the current income to the Trust Fund?

Mr. SUNSHINE. We projected tax revenues of about \$154 billion over the 6-year period from 1997 through 2002. And then, depending on how much you spend out of the fund, you'd also get interest earnings that would vary somewhat, depending on that—maybe \$10, \$11, or \$12 billion. Potentially, there would be over \$160 to \$170 billion in total income to the fund over the 1997-2002 period.

Mr. MASCARA. As an accountant in my former life, I note on page 14 that the Federal budget, as a whole, basically operates on a cash basis—rather archaic. So in accounting for the monies coming into the Trust Fund, those are also on a cash basis?

Mr. SUNSHINE. Yes.

Mr. MASCARA. There's no capital budget, there's no allowing for the life of whatever we're building—a road, a bridge?

Mr. SUNSHINE. No.

Mr. MASCARA. It's in, it's out. You take it in, and when you pay it out you pay it out, and when you pay it out it's gone?

Mr. SUNSHINE. For highways and for all other capital expenditures of the Federal Government, yes.

Mr. MASCARA. Yes. Do you hope some day that we'll have a capital budget, not only for the Trust Fund but for the Federal budget, that will somehow, when we build an aircraft carrier and we expend a certain amount of dollars, that it has a life and we should account for that life and amortize that aircraft carrier over a period of years?

Mr. SUNSHINE. I think the theory of a capital budget has a lot of appeal. The practice of how you would apply a capital budget to the Federal Government, which has many significant differences from private enterprise, and how you would figure out what would go in that budget and what the life of those things was, and whether you would put in education expenditure or community development expenditures along with aircraft carriers would be very complicated issues.

Mr. MASCARA. Okay. Thank you, Mr. Chairman.

Mr. PETRI. Thank you. Mr. Poshard?

Mr. POSHARD. No questions, Mr. Chairman.

Mr. PETRI. Okay. I do have one or two questions.

Ma. Scheinberg, if the \$0.043 fuel tax going to the general fund were deposited in the Trust Fund, how much would you estimate that would generate over the next 5 years, and therefore how much more could be spent from the Trust Fund for highway and transit?

Ma. SCHEINBERG. You can estimate that the \$0.043 tax would generate about \$6.5 billion a year for each of the 5 years that you're talking about, so that would be a total of about \$32.5 billion.

Mr. PETRI. \$32.5 billion?

Ma. SCHEINBERG. Yes.

Mr. PETRI. Ignoring the interest factor, which we can't agree on with the appropriators.

Mr. Sunshine, I wonder if you could provide us with an estimate of how much revenue is lost to the Trust Fund due to the lower tax rate for gasoline. Do you have that figure?

Mr. SUNSHINE. Yes. It's about \$700 million a year.

Mr. PETRI. \$700 million?

Mr. SUNSHINE. \$700 million.

Mr. PETRI. Do you have any figures at all or—we will be hearing shortly from the IRS on the shortfall in the Trust Fund, and ways to try to deal with it, due to evasion of the gas tax, diesel fuel tax. Do you have any figures or information to shed on that aspect of Trust Fund funding or do you have any basis to disagree with their estimates that we were losing \$3 billion earlier this decade and it may be somewhat less than that but still a very significant amount now?

Mr. SUNSHINE. I don't believe we've done any particular work in that area, so I don't have any basis for commenting on that.

Mr. PETRI. In your testimony you point out that the Highway Trust Fund is different from most other Federal trust funds in that there is no direct relationship between receipts and spending. I wonder if you could elaborate briefly on how other Federal trust funds tie spending to receipts. If you could expand on the differences or help us to understand why this Trust Fund is not a trust fund in the same sense that the Social Security Trust Fund is a trust fund or—

Mr. SUNSHINE. I think it is a trust fund, just as the Social Security fund is a trust fund. The only difference I'm pointing out is the decision about how and when and how much and for what purposes money is spent out of this Trust Fund.

For Social Security and Medicare and the other major trust funds, the formula for spending, the obligation for the Federal Government to spend that money, is written into law and is automatic. So the money coming into the fund is automatically available for spending, and the Congress need take no further action to trigger the spending of the money that comes in.

In the case of the Highway Trust Fund, this committee has to provide contract authority by explicit legislative action, which is not the case in the other trust funds.

Mr. PETRI. One last question—for me, anyway. Under the full funding scenario described in your testimony, how much more could be spent through 2002 compared to current services levels?

Mr. SUNSHINE. Under the full-funding scenario, we estimated that spending would be about \$38 billion above the level where spending was frozen at current levels over the period of 1997 to 2002. If the base case was spending growing with inflation, the increment would be about \$30 billion.

I also indicated that this is really not a sustainable rate of spending in terms of maintaining balances in the fund. If, for example, you wanted to keep spending in the fund about equal to the tax revenues coming into the fund—which is certainly one prudent way of approaching it—you'd still be able to spend \$18 to \$20 billion more than if you froze spending at the current level.

Mr. PETRI. One other area I'd just be interested in hearing your comment on. Some of us I guess feel or would hold a lot of real substantive footing for this feeling that when you don't spend money on some things, it actually costs—not necessarily—it saves the Government money, but it costs society a lot of money.

The classic example used is here in D.C. We're very familiar with filling in potholes, and if you commute into town, as I do, you can count the number of hubcaps next to some potholes and you realize each one of those hubcaps represents a couple hundred dollar charge, probably, or potentially more for the motorists who experience the cost that resulted from the government saving \$50, or whatever it would have been to have someone put some asphalt in that hole.

So has there been any work done on looking at things from the point of view of—the Corps of Engineers looks for payback ratio when they make their recommendations and evaluate different bridges and dams and other projects that they are engaged in. Has that been done in the transportation area?

In other words, are we saving money by attempting to balance the Federal budget on the back of transportation investments, or are we allowing the growth in our economy and costing us money?

Are we being penny wise and pound foolish, or are we being really smart not to spend this money that people are paying in for transportation trust fund investments?

Have there been any studies like that or things we could really rely on? I know it's an aspect of a long debate about dynamic as opposed to static scoring.

Mr. SUNSHINE. I know CBO did a study within the past few years on the consequences of infrastructure spending, and I don't have a copy with me, but we can certainly provide it to the subcommittee.

[The information received retained in subcommittee's file.]

Mr. SUNSHINE. It looked at transportation and other kinds of infrastructure spending and some of the studies that have been done on the consequences of those. I do recall that it indicated that highway maintenance was a particularly valuable form of infrastructure investment.

One of the reasons that we've expressed concern over time about the growth of entitlement programs and the extent to which they're gobbling up Federal resources is, in fact, that they create the danger that they will crowd out spending on other important investments.

Of course, one of the reasons that people want to balance the budget is to make possible more investment in our society. Balancing the budget makes possible more private investment, but the overall thrust is to invest for the future. And it is important, we think, that the Government continue to provide money for infrastructure and other types of investments, and that we have a budget that allows us to do that.

Mr. PETRI. Thank you.

Mr. RAHALL.

Mr. RAHALL. Mr. Chairman, one last question I'd like to ask Mr. Sunshine.

With respect to your estimated \$700 million per year loss in Trust Fund revenues due to a lower tax rate on gasoline, don't you think that we ought to factor in other societal goals, as well, such as cleaner air and less dependence on foreign oil, that we can't just view this in a straight monetary context?

Mr. SUNSHINE. I think that's true of all budgetary decisions. The budget only captures a little bit of the decision-making process, and whether it's a tax benefit like this or various spending programs, I think the Congress has to weigh the benefits and costs to society of the various things that it does. The budget gives you only one little piece of that picture. There are lots of other pieces that have to be taken into account.

Mr. RAHALL. Thank you. Thank you, Mr. Chairman.

Mr. PETRI. Thank you.

Mr. LAHOOD.

Mr. LAHOOD. Mr. Chairman, I wondered if you'd lost a hubcap on the way to work today.

Mr. PETRI. Not today.

Mr. LAHOOD. Okay. I appreciated your interest in that.

Mr. Sunshine, have you or anybody in your office looked at the idea of reducing \$0.043 from the gasoline tax?

Mr. SUNSHINE. I think we've looked at some aspects of that.

Mr. LAHOOD. Do you think it's a good idea?

Mr. SUNSHINE. Well, it is certainly beneficial to the public to avoid paying taxes. It is not beneficial to the budget deficit, which is another one of our concerns. You have to weigh the two alternatives.

In terms of the variability of gasoline prices at the pump right now, my sense is that people wouldn't notice very much whether they were paying the \$0.043 or not, but it's really a question weighing a deficit impact against a benefit to the public of not having to pay the taxes.

Mr. LAHOOD. The \$0.043 is going where—that particular aspect that was raised 3 years ago?

Mr. SUNSHINE. It's just going into the Treasury.

Mr. LAHOOD. And do you have any notion about whether, if Congress repealed that, whether gas prices would go down or not?

Mr. SUNSHINE. Our expectation is that, at least over time, consumers would pay somewhat lower prices if that gas tax is removed than they would otherwise. How quickly that would happen is another question, because there could be tightness in the market that prevents immediate adjustment. But over time we would expect consumers to reap most of the benefits of that reduction.

Mr. LAHOOD. Thank you, Mr. Chairman.

Mr. PETRI. Thank you.

Are there other questions of this panel?

[No response.]

Mr. PETRI. If not, thank you very much.

The second panel consists of four people who we've invited to testify today: Mr. Marty Washburn, the national director of Specialty Taxes, Internal Revenue Service, United States Treasury; Mr. Edward L. Federico, the director of the National Operations for Criminal Investigations, Internal Revenue Service, United States Treasury; Mr. E. Philip Saunders, chief executive officer, Sugar Creek Corporation, on behalf of the National Association of Truck Stop Operators; and Mr. Julian W. Fitzgerald, Sr., the director of Motor Carrier Services, Virginia Department of Motor Vehicles, on behalf of the Federation of Tax Administrators.

Gentleman, we thank you for the effort you and your organizations have made in preparing your testimony, and we look forward to your summaries of that.

If you'd like to proceed in the order that you were listed, would that make most sense? In which case, Mr. Washburn, please proceed.

**TESTIMONY OF MARSHALL V. WASHBURN, NATIONAL DIRECTOR, SPECIALTY TAXES, INTERNAL REVENUE SERVICE, U.S. DEPARTMENT OF TREASURY; EDWARD L. FEDERICO, DIRECTOR, NATIONAL OPERATIONS FOR CRIMINAL INVESTIGATIONS, INTERNAL REVENUE SERVICE, U.S. DEPARTMENT OF TREASURY; E. PHILIP SAUNDERS, CEO, SUGAR CREEK CORPORATION ON BEHALF OF THE NATIONAL ASSOCIATION OF TRUCK STOP OPERATORS; AND JULIAN W. FITZGERALD, SR., FUEL TAX ADMINISTRATOR, MOTOR CARRIER SERVICES, VIRGINIA DEPARTMENT OF MOTOR VEHICLES, AND PAST CHAIR, MOTOR FUEL TAX SECTION, FEDERATION OF TAX ADMINISTRATORS**

Mr. WASHBURN. Thank you, Mr. Chairman and members of the subcommittee. I'm pleased to represent Commissioner Richardson and to testify on behalf of the Internal Revenue Service on Highway Trust Fund tax compliance and collections.

With me today is Ed Federico, director, National Operations Division, Criminal Investigation.

The Internal Revenue Service previously appeared before this subcommittee in August 1994, and described our plan for implementing the motor fuel excise tax provisions in the Omnibus Budget Reconciliation Act of 1993. Today we want to report on the actions we have taken and the progress we have made since that appearance.

ISTEA provides \$5 million annually from the Highway Trust Fund for Federal and State motor fuel tax enforcement. The Federal Highway Administration has allocated \$3 million of these funds to the States and \$2 million to the IRS. In addition, ISTEA authorizes the appropriation of \$2.5 million from the general fund each year, but the IRS has not received any appropriated funds under this provision.

The \$5 million provided to the States and to the IRS each year has been used to fund the joint Federal/State motor fuel tax compliance project, in which all 50 States and the District of Columbia participate.

The goal of the project is to increase voluntary compliance with Federal and State motor fuel tax laws through cooperative efforts and information sharing.

The IRS has used ISTEA funds to conduct additional motor fuel tax examinations and compliance initiatives, investigate and prosecute motor fuel excise tax evasion, and test the feasibility of a fuel tracking system.

As a result of the project, IRS has examined an additional 7,000 returns and assessed an additional \$110 million in excise taxes and penalties, at a yield-to-cost ratio of 20-to-1.

Additionally, our undercover operations resulted in 10 major indictments involving 136 defendants and more than \$363 million in evaded taxes.

ISTEA funding for Federal and State motor fuel excise tax compliance efforts is essential if current compliance levels are to be maintained in the future.

Without continued ISTEA funding, Federal and State motor fuel excise tax examinations and other related compliance activities carried on as part of the project will have to be curtailed.

State motor fuel compliance efforts funded by ISTEA have a direct impact on compliance with Federal motor fuel excise tax laws, and thus on Highway Trust Fund revenues.

OBRA changed the point of taxation for diesel fuel from the wholesaler to the terminal rack and required the dyeing of diesel fuel designed for tax-free use.

To implement the provisions of OBRA, the IRS, working closely with the Federal Highway Administration, the States, and the motor fuel industry, established an aggressive compliance program to inspect diesel fuel at terminals, wholesale and retail outlets, and vehicle propulsion systems to ensure that dyed fuel was not used for taxable on-road purposes.

The IRS has 150 dyed diesel compliance officers who sample diesel fuel at storage facilities and at roadside inspection sites. To supplement the work of the IRS inspectors, the IRS currently has

contracts in place or pending with 26 States to perform roadside inspections.

The dyed diesel fuel program has been a true success story. Increased compliance resulted in about \$681 million in additional Highway Trust Fund revenue in calendar year 1994, and preliminary data for the first three quarters of calendar year 1995 reflect similar levels of revenue.

In spite of the provisions of OBRA to deter motor fuel tax evasion and the IRS' aggressive enforcement programs, several methods of evasion have evolved that allow unscrupulous operators to evade as much as \$0.50 per gallon in combined Federal and State motor fuel excise taxes.

One emerging method of evasion we have detected involves blending untaxed products with diesel fuel. This is also known as cocktailing. Untaxed products are blended with diesel fuel to increase the fuel's volume. Major cocktail ingredients include kerosene, kerojet, waste fuels, and hazardous waste.

In order to deter cocktailing, a task force, including the IRS, the EPA, the Department of Defense, the U.S. Customs Service, and State participants has been formed. The task force is currently working to develop a viable testing methodology to accurately identify the contents of any fluids sold or used as diesel fuel.

Kerosene and kerojet, which is the base product for aviation fuel, create a particularly difficult enforcement problem for the IRS. Under current rules, this product is not taxed at the terminal rack. Instead, subsequent uses determine the rate at which the product is taxed. These different rates provide a ready opportunity for motor fuel excise tax evasion.

Ongoing investigations confirm that this product is being widely used as a diesel fuel, or cocktailed with diesel fuel, to evade motor fuel excise taxes.

Legislation to accommodate the application of the diesel fuel rules to kerosene and kerojet is necessary to limit tax evasion and has been proposed by the Administration in the fiscal year 1997 budget.

The IRS' compliance efforts could also be greatly enhanced by an automated fuel information reporting system commonly known in the industry as EXFIRS. This would permit the IRS to verify amounts reported on excise tax returns in much the same way it uses information reported on Form 1099 to verify interest and dividend income reported on Form 1040.

Currently, the only way the IRS can verify amounts reported on excise tax returns is by performing an examination.

The IRS, utilizing both IRS and ISTEPA funding, developed a working prototype for a fuel tracking system, but without supplemental funding IRS will not be able to implement the system.

We estimate that the hardware and software for the system will cost about \$10 million, with an additional \$2 million a year for maintenance.

EXFIRS has been developed at the urging of and with the participation of the motor fuel industry.

An essential component of the IRS' excise tax compliance strategy is the investigation and prosecution of those who criminally disregard the Federal and State diesel and gasoline excise tax laws.

Over the past several years, we have increased the criminal enforcement resources devoted to investigating both diesel and gasoline excise tax evasion schemes.

Through the innovative use of undercover operations in the past several years, we have achieved dramatic successes resulting in prosecutions.

The change in the point of taxation for diesel fuel under OBRA has effectively denied criminals the ability to use traditional methods of evading Federal motor fuel excise taxes such as the operation of daisy chains.

Our investigations are now beginning to uncover new evasion methods. We have recently completed several criminal investigations in the New York metropolitan area involving evasion through fuel blending. These cases are currently under review by IRS Chief Counsel and the Department of Justice.

In conclusion, Mr. Chairman, the provisions of OBRA to deter motor fuel excise tax evasion and the IRS' highly successful implementation of them over the past 2 years have resulted in increased taxpayer compliance and the substantial increase in Highway Trust Fund revenue.

The joint compliance efforts between the IRS, the Federal Highway Administration, and the States, funded in part by ISTEA, have also had a significant positive impact on motor fuel tax compliance.

Nevertheless, traditional noncompliance schemes, such as the filing of erroneous claims and credits, are still occurring and new schemes, such as fuel blending and cocktailing and trans-border noncompliance, are constantly evolving.

Ensuring the Highway Trust Fund receives all of the revenue due it will require sustained joint compliance efforts on the part of the IRS, the Federal Highway Administration, and State agencies, as well as the motor fuel industry; however, these efforts carry a price tag. Continued ISTEA funding is critical to the success of these efforts, and we seek the subcommittee's support in this regard.

Mr. Chairman, this concludes my statement. My colleague and I would be happy to answer questions.

Mr. PETRI. Thank you very much.

Mr. PETRI. Mr. Saunders, do you care to say something?

Mr. SAUNDERS. Good morning. My name is Phil Saunders, and I am the chief executive officer of Sugar Creek Corporation, which operates Griffith Oil, a large northeast petroleum distributor, Sugar Creek Convenience Stores, and 18 travel plazas under the name of Travel Ports of America, soon to be 17 in the middle of June.

Today I am presenting testimony on behalf of NATSO, the professional and legislative representative of America's \$28 billion travel plaza and truck stop industry.

For us, the battle against fuel tax evasion was a matter of economic survival. It was impossible to compete against a tax cheat who was able to sell diesel fuel at \$0.20 to \$0.40 below the cost of an honest retailer.

While our industry suffered, Federal and State governments were deprived of billions of dollars for highway projects.



Through the cooperative effort by private and public interests—I might add, because of this committee's leadership—we have been able to drastically cut fuel tax evasion.

A most profitable form of evasion, the so-called daisy chain, has been nearly eliminated by taxing fuel at the terminal rack and dyeing non-taxable diesel fuel.

The results are staggering. Four and a half billion gallons a year of previously bootlegged diesel fuel has been removed from the underground economy and is being sold by honest, taxpaying suppliers.

While we can all pat ourselves on the back for the job well done, it would be naive of any of us to believe that we have eliminated fuel tax evasion. With Federal and State taxes comprising a significant percentage of the cost of a gallon of fuel, the temptation to avoid these taxes remains great.

Cocktailing has replaced the daisy chain as the evasion scheme of choice. Fuel tax evaders cocktail or blend clear, untaxed substances such as kerosene or jet fuel with diesel fuel for on-road use. These substances are largely untraceable, creating a low-risk evasion scheme for the dishonest operator. One gallon of taxable diesel fuel is mixed with one gallon of untaxable kerosene, resulting in two gallons of fuel to sell with tax being paid on only one gallon.

The Clinton Administration has supported treating kerosene as diesel fuel for excise tax purposes. We support the Administration's goal, but the regulatory process should be structured to ensure no undue burden is placed upon legitimate users.

Meanwhile, the IRS, the FHWA should aggressively track kerosene deliveries, particularly in summer months when kerosene is not needed for home heating purposes.

Another area of fuel tax evasion occurs on the State level, where fuel shipments are bootlegged from low-tax States for sale in high-tax States. My own State of New York conservatively estimates \$20 million has been lost in tax revenues over the past 18 months alone, due to this particular scheme.

We urge development of a computerized system to account for the import and refinery production of motor fuels until their delivery. This system could assist the Federal and State governments' authorities in tracking fuel shipments, making evasion between high- and low-tax borders more difficult.

NATSO recommends next year's reauthorization legislation contain funding provisions for such a database. While sales of tax-free fuel on non-Indian reservations is not what we usually characterize as tax evasions, States are losing a significant amount of tax dollars through sales on Indian reservations to non-tribal members. Native American reservations have traditionally been exempt from State laws, including payment of State sales and excise tax.

Unfortunately, reservations in certain States have extended this tax exemption to non-Indians purchasing goods on reservations. This practice provides reservation retailers with an unbeatable price advantage over the non-Indian truck stop and travel plaza industry.

NATSO is alarmed that Federal funds are being given to tribes to build truck stops on reservation lands. In the interest of fair-

ness, NATSO urges Congress to prohibit using Federal grants to help construct retail fuel outlets on reservations that fail to collect and remit State taxes on the sales of non-Indian sales.

To continue our strides against fuel tax evasion, it is crucial that all those working on this effort do so cooperatively. The joint Federal/State motor fuel compliance project, a working group of Federal and State government and industries, to which NATSO belongs, has been instrumental in coordinating enforcement efforts.

NATSO recommends reauthorizing this project at no less than its current funding level, \$5 million per year.

In addition, NATSO recommends giving States the flexibility they need to increase their enforcement efforts. States should be permitted to expend up to one-fourth of 1 percent of their Federal highway apportionment on motor fuel tax counter-measures.

Finally, we strongly oppose eliminating the Federal fuel tax in favor of taxes established and collected solely on the State level. We, like the committee's leadership, believe in a strong unified Federal program with a national plan in focus. Replacing the Federal tax with State taxes would thwart our recent strides against fuel tax evasion and cause the States to dramatically increase their enforcement efforts.

A transfer of the Federal taxes to the State would create a greater disparity between the high- and low-tax States. This would increase illegal trans-border fuel shipments which thrive on differences between State fuel taxes.

Turning most taxing authorities back to the States would also aggravate the problem with fuel sales by Native Americans. As I mentioned previously, many Indian tribes, exempt from State laws, including State sales and excise taxes, have gradually extended this tax exemption to non-Indians purchasing goods on reservations.

In conclusion, we believe next year's highway reauthorization legislation can advance the progress being made against fuel tax evasion in five important ways:

Reauthorizing the joint Federal and State motor fuel tax compliance project at no less than \$5 million annually;

Authorizes funds for a computerized system to account for import and refinery production of motor fuels until their deliveries;

Provide State transportation departments with the flexibility to expend up to one-fourth of 1 percent of its Federal aid highway apportionment on motor fuel tax theft counter-measures;

Urge all States to adopt Federal diesel fuel taxing and dyeing requirements;

Reject proposals to eliminate the Federal fuel tax in favor of a State-based tax.

I conclude my oral testimony. Our written statement contains our position on other reauthorization issues that are vital to our industry.

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

Mr. PETRI. Thank you, Mr. Saunders.

Mr. PETRI. Mr. Fitzgerald?

Mr. FITZGERALD. Thank you. Mr. Chairman, members of the committee, I'm delighted to be here today to testify before this committee.

As fuel tax administrator for the Virginia Department of Motor Vehicles and past Chair of the FTA motor fuel tax section, I am an avid proponent of efficient and effective fuel tax administration. Let's face it: our way of life depends entirely on our transportation system. The motor vehicle industry and the millions of miles of highways that criss-cross the Nation move people and goods back and forth.

Not only does the transportation system keep the Nation moving, it also generates significant amount of revenue. Motor fuel tax generates more than \$40 billion in revenue annually. These are the revenues that build and maintain our highways and other transportation systems, reduce pollution, and engineer solutions to our transportation problems.

Tax evasion crimes, on the other hand, deprive the programs of badly-needed funding and line the pockets of organized crime, instead.

For organized crime, fuel tax is a lucrative target. Fuel tax evasion is relatively easy to perpetrate and often meets with little resistance from officials because of a lack of enforcement, weak laws, and watered-down penalties. As a result, fuel tax revenues are an easy mark for fat cat criminals.

As a motor fuel tax administrator, I am proud of the accomplishments that I and my colleagues across the Nation are making in the fight against fuel tax evasion. Working with each other, with the Government at all levels, and with the private industry, we have made tremendous strides in combating this pernicious crime which costs taxpayers between \$2 and \$5 billion annually.

Across the country, fuel tax revenues are up. Perhaps some of this is due to a healthier economy, but it's also due to our efforts to fight tax evasion. Through uniform laws, enforcement penalties, partnerships, exchange of information, and sophisticated technology, we are closing the loopholes and slamming the door on tax evaders. They are finding that they can no longer close up shop in one State when the going gets tough and simply relocate to another State.

Much of our success was made possible by Federal funding. For example, under the ISTEA bill of 1991, Virginia has received \$250,000 in Federal funding for participating in a joint Federal/State motor fuel tax compliance project. This funding has enabled Virginia and other States in our region to establish mutual targets to reduce fuel tax evasion. We also conduct joint meetings to discuss uniform issues, and also purchase computer equipment that will facilitate the electronic exchange of fuel tax information.

This funding has also helped our enforcement personnel to meet with their counterparts in other States and exchange information about prosecution techniques. All too often, fuel tax evasion taxes end up sounding like fish stories about the big one that got away. By interacting with our colleagues, we learn from each other about tactics that prevent criminals from slipping through the nets.

In Virginia, we also used Federal funding to establish an investigative unit dedicated to fuel tax evasion investigation. We are one

of a few States that has set aside resources exclusively for fuel tax investigations, and the creation of this unit would not have been possible without Federal assistance.

The bottom line is that fuel tax revenues are up. State fuel tax revenues have increased, on the average, between 3 and 12 percent, while at the Federal level fuel tax revenues have increased roughly \$1.2 billion.

Despite these successes, we cannot claim victory yet. Fighting fuel tax evasion requires a team effort and the proper tools. It requires uniformity in laws, enforcement and penalties for tax evasion crimes; it requires joint efforts between Federal and State agencies; and it requires the use of technology, whether it's dialing fuel or exchanging information electronically. These team efforts and tools require adequate funding.

As you review the results of programs combating fuel tax evasion and plan funding for future efforts, please keep in mind the devastating consequences of tax evasion. This criminal activity robs the Highway Trust Fund, which is the lifeblood of the Nation's surface transportation program.

On the other hand, keep in mind that, according to Federal estimates, motor fuel tax assessments average between \$15 and \$20 per dollar spent on tax evasion efforts. Ladies and gentleman, there are very few opportunities that offer this kind of return on your investment.

You can count on Virginia to continue to support the fight against fuel tax evasion. I hope that we can count on your partnership in this battle.

Mr. Chairman, that concludes my comments. I'll be happy to answer any questions.

Mr. PETRI. Thank you. Thank you all very much.

Mr. RAHALL, do you have any questions?

Mr. RAHALL. Thank you, Mr. Chairman.

I'd like to ask anybody on the panel, or each one on the panel, if they'd like to respond: with respect to the cocktailing, are you saying that the driver of the vehicle burning cocktailed fuel does not notice any vehicle performance differences?

Mr. WASHBURN. I think that depends on the blend. The diesel fuel burns readily with any number of substances. Whether there is an immediate—whether the difference is immediately noticeable to the driver, of course, depends on what the other substances are and the mixture. Eventually many of these substances would destroy the engine. Yes.

Mr. SAUNDERS. With reference to kerosene, it will not show up any long-term effects on the engine as long as it's mixed at a 50/50 ratio; however, it's got a lot less BTU and reduces the mile per gallon on the vehicle, so the efficiency does go down.

Mr. RAHALL. Mr. Saunders, I appreciate your testimony on the fuel tax issues, however, I would like to ask you about the issue of commercialization on interstate rights-of-way.

Are you aware of any developed nations such as England, Germany, or Italy allowing commercial developments along say the Autobahn in Germany?

Mr. SAUNDERS. No, I'm not. And as far as the issue of commercialization, if you'd like me to expand on it a little bit I'd be happy to.

Mr. RAHALL. I'm sure you could.

Mr. SAUNDERS. We at NATSO are very displeased with even the thought of commercialization on the interstates. Myself and many other entrepreneurs have invested billions of dollars to build nice facilities et interchange exits. When the Interstate system was formed, that was the name of the ball game, and we don't think it's fair to even consider changing the way the ball game is played in the middle of it, now that the States can look at it and there's a lot more traffic out there and they see it to be lucrative and want to move commercialization in rest areas up onto the interstates, and it ultimately will cost the consumer a lot more money because they're going to charge fat rents for these things.

Thank you.

Mr. RAHALL. Thank you.

Thank you, Mr. Chairman.

Mr. PETRI. Mr. Bateman?

Mr. BATEMAN. Thank you, Mr. Chairman.

You've mentioned that cocktailing has become the evasion of choice as opposed to daisy chaining. Would you explain what daisy chaining is?

Mr. FEDERICO. Yes, sir. Daisy chain is a complicated scheme that was developed, quite frankly, by some organized crime figures in the New York/New Jersey area. It is a system of creating a multitude of companies and taking the records of those companies and using those records to confuse the auditors and the investigators to show that the tax was actually paid when, in fact, they use these companies—and, in particular, a company that we've come to know as a "burn company," which has records that show that the tax has been paid and, in fact, no tax has been paid.

In one scheme, alone, there were 14 different companies or corporations used to do this. It required extensive amount of work by the investigators to go through the literally millions of records to prove, in fact, that no tax had been paid.

But by moving the point of taxation then back to the rack, as the legislation has done, then all tax paid would be at the rack and there would be no point in having these multitude of fictitious companies or burn companies.

Mr. BATEMAN. As to this practice of cocktailing, where does that actually take place? Who does the blending? Where does that occur in the chain from the refinery to the consumer?

Mr. FEDERICO. After the diesel fuel is purchased at the rack, it occurs between that point and the retail station, and it would be done surreptitiously at times by individuals—most notably, in the investigations we've done, by organized crime individuals. Just yesterday I testified at the Senate about Russian organized crime figures that have been doing this extensively not only in the northeast but also on the west coast.

The types of blending that are occurring, as Mr. Saunders and Mr. Washburn stated, is to blend the untaxed kerosene, which is not as noticeable, but we've also been discovering schemes that involve toxic waste and other rather hazardous chemicals that ini-

tially would not cause much detection by the operator, but eventually there would be some serious consequences to the vehicles, themselves, and, naturally, polluting the air.

Mr. BATEMAN. Do most of your leads come from motorists or vehicle users who have detected a loss of efficiency or any deterioration in the operation of their vehicles?

Mr. FEDERICO. There are some leads that way, but primarily they are through the cooperation that we're having with the industry folks, as well as other Federal agencies and the States.

Mr. BATEMAN. Reference was made to the possibility that we should impose a tax on kerosene but exempting it for home fuel heating purposes. Is it feasible to do that? Can you accomplish that by a dyed kerosene requirement?

Mr. WASHBURN. What we have proposed, what the Administration has proposed, is that kerosene be treated as diesel fuel, meaning that with some—well, that it would be taxed or dyed when it left the rack.

Now, what would happen is, because of concerns about the safety implications of having dye in kerosene that is used in small space heaters and that sort of thing, we have recommended that there be a provision for those vendors who sell small quantities of kerosene for use in space heaters to be entitled to get a refund of that tax.

Mr. SAUNDERS. Mr. Chairman?

Mr. PETRI. Yes, sir?

Mr. SAUNDERS. Could I expand on that?

Mr. PETRI. Yes.

Mr. SAUNDERS. We don't feel that simply taxing kerosene at the rack takes care of the problem, to be totally candid with you. I am a large petroleum distributor and operate several rack positions in the northeast United States, and more of the product that's being cocktailed is jet fuel, which is kerosene. But when you go to the process we're talking about now, you can't dye jet fuel, so really the major product that is out there for cocktailing would still be available.

There is also an issue of—there is a low-sulfur kerosene out there today and a high-sulfur kerosene. Low-sulfur kerosene really will meet the low-sulfur diesel specifications. The high-sulfur diesel will not. A lot of this product that's getting cocktailed is of the high-sulfur, which does then bring the product up over the sulfur requirement.

But to us any answer has to include something on jet fuel or we're really not accomplishing anything, because in the summertime, as we've mentioned in our testimony, the kerosene for heating purposes basically dries up. So if it dries up in the summertime, how are they getting this product to put into the cocktailing process? It's obviously jet fuel because it isn't too hard to track the racks around the country—there are probably about 1,500 rack positions in the United States, I believe, or something like that—and find out what they're movement of true kerosene is in the summertime. It's going to be zero unless it's going into cocktailing.

I think what we'll find it's mainly jet fuel.

Thank you.

Mr. BATEMAN. Mr. Chairman, could I ask a follow-up question?

Mr. PETRI. Yes.

Mr. BATEMAN. Is there any provision in law that allows for the prosecution and punishment of those who supply kerosene, jet fuel, or other commodities for cocktailing, where they have knowledge that it's going to be used for blending or cocktailing? Or is the only criminal sanction against those who actually do the blending?

Mr. FEDERICO. The only law I'm familiar with, Congressman, is if we can prove that they're part of the overall conspiracy.

Mr. BATEMAN. But unless actually a conspirator, the fact that they are selling it to someone with reason to believe that they are going to use it for illicit purposes would not, per se, make them subject to any regulatory or criminal sanction?

Mr. FEDERICO. The act, itself—I believe you're absolutely correct. But what we've been able to do is to pull it in under the conspiracy provisions of the criminal code, which has been an effective means of doing that.

Mr. BATEMAN. What's bothering me is that if someone who's wholesaling kerosene is selling it to someone who has no reason for that kerosene except for blending it, but they don't, in fact, know that that's the case, it would seem difficult to hold them accountable under the conspiracy requirement.

Mr. FEDERICO. Well, we would have the burden of proving that they had something to gain; that they were part of the illegal activity itself and they entered into an agreement with the parties they were trying to break the law. So they would be protected through the investigation in that way.

Most of the time these unwitting parties are very cooperative with us in the investigation.

Mr. BATEMAN. Thank you.

Mr. WASHBURN. I'd like to just add a follow-up comment, too, on the issue of the kerojet. We are proposing that Kerojet comes under the tax or dye regime. The data that we have indicate that the use of kerojet increased by 1.6 billion gallons in 1994 that cannot be accounted for by either the commercial use or Department of Defense use.

Mr. SAUNDERS. Mr. Congressman, can I add further to that?

Mr. BATEMAN. Sure.

Mr. SAUNDERS. On the process of who is responsible and where does the actual violation occur, most of the trucks that I am familiar with in the northeast today are automated. A driver will pull up to our truck position and really not in view of anybody. In fact, they're automated 24 hours a day when there's not even anybody there. He works it with a card.

He could come to my rack and pick up 5,000 gallons of diesel fuel or 4,500 gallons of diesel fuel, go to another rack somewhere else and pick up 4,500 gallons of kerosene. Then, in effect, he has made the blend.

I think maybe one of the places where some better enforcement or some better regulation could incur is to put some burden of proof on the truck driver. These truck drivers who are working for people that are in this illegal process are the first people to know that they're involved in an illegal activity. They know it first-hand.

I don't really think that we are doing anything to take that person to task, or even to let him know yet that he is in violation of some laws.

Mr. PETRI. Thank you. With your indulgence, there are two votes on the House floor, a 15-minute one and a 5-minute one. We have about eight minutes to get over for the first, and I think we can probably be back by about 11:05, and we may have a few more questions if you could wait and take a 15-minute break or so.

The subcommittee will adjourn until 11:15.

[Recess.]

Mr. PETRI. If it's all right, we'll reassemble and I'll begin with some questions, and then, as my colleagues get here, if they want another round of questions there will be plenty of time for that and we'll use all of our time.

The hearing will recommence.

There are a couple of comments I have to begin with. One is in the area of dyeing and trying to avoid diversion from the legal stream.

There was a controversy a few years ago in the aviation community. They evidently use a dye code system for different types of octane fuels for different engines, and it's very important for them not to get the wrong color in the wrong engine because the plane will not perform and they'll have an accident.

So I know when the dye system came in there was a lot of anxiety and confusion and concern, particularly in the general aviation community, about having to have a multiplicity of tanks and confusion and use of color.

Are you familiar with that? Has that been worked out?

Mr. SAUNDERS. Yes. I believe that was the difference between 80 octane avgas and 100 octane avgas, and to make a distinction between those two gases, more is a safety factor, because a person that wanted 80 octane in his engine, if he got 100 octane it would burn out his pistons and he could literally have a catastrophe over that. So they came up with a dyed system.

That is also one of the problems, I believe—I'm not 100 percent right on this, but I believe the 100 low-lead is dyed red.

Now, if you put jet fuel in airports that is also dyed red, I'm sure one of their concerns is going to be that we get the red gas in a jet engine. That would be another problem.

But before they were able to put that red dye in the naturally-aspirated airplane that used gas, I believe that there were several years of testing that went into that to make sure that it was going to have no disruption of interference or hindrance on the engine.

Mr. PETRI. So we won't run into that problem if we expand the dye system to—

Mr. SAUNDERS. I would believe that if you wanted to dye, put the red in the jet engine, you would have to go through a long process with the FAA or whoever does all of this testing to make sure that it has no residual effect on the use of that engine. Yes.

Mr. WASHBURN. Mr. Chairman, if I might add to that, the Administration's proposal, while it would include—it would call for the dyeing of any kerosene that's removed from the rack tax-free, there is a provision in there that a registered producer of aviation fuel could remove kerojet from the rack tax-free. In other words, we are not proposing that jet fuel that's actually going to be used in an aircraft would be dyed.



Mr. PETRI. Okay. Back home for a while there was quite a flurry of people buying diesel Buicks and Mercedes and so on and using their home heating oil. They discovered they could do that and avoid some taxes. I suspect that's not on the scale, or is that still a problem?

Mr. WASHBURN. Well, it's not so much a problem with an individual pulling it out of their heating tank, but we do have concerns about people buying dyed fuel for use off-road, whether it's construction equipment, farmers, that sort of thing—loggers—who then turn around—businesses who then turn around and use it for on-road vehicles, not just a Mercedes, but also trucks and so forth.

Mr. SAUNDERS. I think the fine that's been imposed, which I believe is \$10,000, has deterred a lot of the average motorists from taking out of his heating oil tank. Plus, most of the new diesel car engines are recommending the low-sulfur product, which fuel oil is now high-sulfur.

There is actually a difference between fuel oil today and diesel fuel with the new low-sulfur regulations for on-the-road trucks using the low-sulfur. Now they're setting the engines up more to burn the low sulfur than the high sulfur, so that's another reason why I don't think there is a lot of that going on.

As he mentioned, construction-type vehicles and off-road vehicles that go on the road or have both, I think there is a problem in that respect at times. Yes.

Mr. PETRI. Maybe just one comment. Mr. Saunders, you talked about the problem of not only diversion but of Indian reservations being able to possibly create unfair competition in the truck stop business, as is happening in a number of other businesses. The task is complicated by court decisions and a variety of other legal considerations, but we would be very eager, in working with you and your association and others, in doing what we can to minimize this type of tax island or unfair competition.

It's nothing against people getting in business and competing like everyone else, but it should be on an even basis rather than them being tax-advantaged.

Mr. SAUNDERS. Thank you. In the State of New York we did get a positive ruling from the Supreme Court of the United States that it was legal to collect—that the Indians should be collecting taxes for products being sold to non-Indians. And if we could also then get the Government's help in not funding, through HUD and through the Bureau of Indian Affairs, loans to them to build these truck stops to compete with us, that would also help.

Mr. PETRI. Thank you.

Mr. Fitzgerald, do you have any estimates as to how much money is being lost to fuel tax evasion at the State level, as opposed to the losses we are suffering at the Federal level?

Mr. FITZGERALD. Mr. Chairman, that is a difficult question. We can only estimate. I really don't think that anyone knows exactly how much is being lost through fuel tax evasion at the State or Federal level. There are certainly barometers out there that are used to make these estimates.

We can only gauge by the activities that we have going on as far as enforcement and prosecution. We've estimated that in the Com-

monwealth of Virginia, evasion ranges in the neighborhood of \$3 to \$7 million annually.

Mr. PETRI. Which of the different evasion schemes have been the greatest problem at the State level? Would it be the same as Federal? Probably.

Mr. FITZGERALD. Yes. Nationwide, the evasion schemes are pretty much the same. Where States have gone to the point of taxation at the rack, again, that pretty much eliminates the daisy chain, as was explained a little bit earlier.

Of course, in Virginia we've tried, however unsuccessfully, to get the point of taxation moved to the rack to eliminate the possibility of daisy chain.

Cocktailing, cross-border shipments of fuel, buying fuel at a low-tax State and running across the border, selling it in a high-tax State—those are the kinds of evasion schemes that are going on out there at the present time.

Mr. PETRI. One last area. Mr. Washburn, you referred to the system that you're working on with the States. I wonder if you could expand on that a little bit, indicating how helpful you believe that this improved reporting system in the area would be in curtailing tax evasion, how much money the system will cost to create, install, and maintain as either an estimate in dollars or as a percentage of revenue gained, whether it would be a cost-effective investment or not, and how much money it would save the system—it's a related question—in tax evasion.

I don't know, Mr. Fitzgerald, if you could comment on this system, too, if you've been working with the IRS in trying to develop it.

Mr. WASHBURN. Mr. Chairman, we do not have an estimate of how much revenue the EXFIRS system, as we call it, would bring in. We are working with the States and Federal Highway Administration, but we have not been able to come up with any sort of an estimate.

The industry—and through anecdotal information, we believe that it would help substantially.

In terms of the cost, we believe that right now it would cost us about \$10 million for hardware and software to develop the system, and then another \$2 million to maintain it on an annual basis.

In 1993, the Volpe Institute did a study for Federal Highway, and at that time they estimated the initial start-up cost would be about \$5 million and the annual maintenance would be \$3.5 million, I think it was.

Again, the advantage would be that it would electronically, take advantage of the systems that most of the terminals have in place, track the flow of fuel, and we would get monthly reports from the terminals, and then we would know, at the end of a quarter, basically the amount of fuel tax that we could expect to receive or have reported by the taxpayers, the position-holders.

Of course, if anything is missing, then we would be able to focus our efforts.

Mr. FITZGERALD. Mr. Chairman, several States have gone the route of developing computer systems to better track the movement of fuel through that particular State, and also to exchange informa-

tion with other States and, of course, work very closely with the Internal Revenue Service.

Several States that come to mind—Wisconsin, Nebraska, and Indiana—have implemented an electronic system to track the movement of fuel. These systems require reporting by terminals, as well as licensed—we call them “distributors.”

These States also have gone the route of moving the point of taxation to the rack.

When you do that, Mr. Chairman, you reduce your taxpayer base, which would allow you to deal with a smaller group of taxpayers, and thereby you are better able to monitor those taxpayers and the movement of product throughout your particular State.

Through the Federation of Tax Administrators, the Motor Fuel Tax Section, we are constantly pushing and assisting States to move to the arena of establishing electronic systems to track fuel and exchange information, which are, I think, some very good keys to help us combating motor fuel tax evasion.

Mr. PETRI. I often wonder—in fact, when I do my grocery shopping or go to the K-Mart or something like that and use a credit card, why we can't just piggy-back on some of these systems on the MasterCard or American Express system and just have their terminals and use the data, but I guess that's too simple. There must be some reason we can't take advantage of the systems that are already in place and just plug into them rather than replicating.

In any event, one last question. I wonder if you, Mr. Washburn, have any estimate—we had some estimates of \$3 billion lost to fuel tax evasion earlier in this decade. Do you have any range or estimate you could give us as to what we're losing now?

Mr. WASHBURN. I'm sorry, Mr. Chairman, I don't. The Service has not made any estimates. We're aware of estimates that have been made by academia and other groups, but the Service doesn't have any information on that.

Mr. PETRI. Thank you.

Mr. Baker, do you have any questions?

Mr. BAKER. No. Thank you, Mr. Chairman.

Mr. PETRI. Mr. Rahall?

Mr. RAHALL. No questions.

Mr. PETRI. Gentleman, thank you very much for your testimony. I apologize for the interruption.

The third panel consists of: Mr. Anthony Kane, executive director of the Federal Highway Administration of the U.S. Department of Transportation, accompanied by Mr. Jack Basso, the deputy assistant secretary for budget and program of the U.S. Department of Transportation.

Once you're comfortable, please proceed, Mr. Kane. Of course, your full statement will be included in the record.

**TESTIMONY OF ANTHONY KANE, EXECUTIVE DIRECTOR, FEDERAL HIGHWAY ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY JACK BASSO, DEPUTY ASSISTANT SECRETARY, BUDGET AND PROGRAM, U.S. DEPARTMENT OF TRANSPORTATION**

Mr. KANE. Thank you, Mr. Chairman, Mr. Rahall. It's a pleasure to be here this morning.

As you mentioned, with me is Jack Basso, deputy assistant secretary for budget at the U.S. Department of Transportation.

We appreciate your putting the full statement in the record. In the interest of time I'd just like to emphasize a couple of important points. We've heard some terrific testimony so far this morning.

First, I think the original purpose of the Highway Trust Fund, to support the construction of the Eisenhower system of Interstate and defense highways, has certainly served us well, but it's surely been modified over the years and accepted both by the Executive and Legislative Branches to be a very appropriate vehicle for funding important highway and transit investments.

The Trust Fund values include stability, fairness in terms of being supported by dedicated user fees, ability to fund contract authority, and a more-efficient method of meeting national objectives and 50 separate State funding mechanisms.

We believe the concept of the Highway Trust Fund should definitely be continued.

Second, we continue to see the need for a strong Federal role in highways as the reason to maintain the Trust Fund. This Federal role must continue to support needed infrastructure for enhanced economic growth and interstate and international commerce, to enhance safety, to serve Federal lands in national emergencies, and to support needed research, development, and technology applications.

Third, within an overall national goal of a balanced budget, we need to maximize our infrastructure investment due to significant highway and transit-infrastructure needs.

Fourth, fuel tax evasion is a real and serious problem. The Congressional actions that raised the point of taxation of fuel tax collection, required dyeing of non-highway-use fuel, and provided special authorizations in ISTEA for enhanced Federal and State enforcement efforts have clearly helped.

The Highway Trust Fund receipts are close to \$1 billion larger annually because of these efforts.

We give great praise to the U.S. Treasury and Justice Departments and those efforts of the State officials.

Fifth, currently the use of total alternative fuels as opposed to gasoline, including liquefied petroleum gas, neat alcohol, compressed and liquefied natural gas, and hydrogen account for about one-tenth of a percent of on-road fuel use. Therefore, revenue losses to the Trust Fund today are not that significant from those alternative fuels.

For the short-range period of reauthorization, we would continue to expect no significant revenue loss from those fuels. As we advance into the 21st century, however, with advances in electronic vehicles, possible major advances in vehicle fuel efficiencies, we must look to other ways to recoup vehicle road user charges.

Distance-based fees, including intelligent transportation technology, may be one solution. It is important that we explore such options over time and be prepared for the long-run health of the Highway Trust Fund.

Thank you, Mr. Chairman.

Mr. PETRI. Thank you.

Mr. Rahall?

Mr. RAHALL. They, Mr. Chairman.

Mr. Kane, in your submitted testimony you state that Trust Fund spending must be considered in larger context, the bipartisan effort to balance the budget. Does this mean that DOT endorses the concept of maintaining large, unexpended balances in the Highway Trust Fund, not for the purposes of building and maintaining our transportation system, but rather to make the deficit look smaller, of course?

Mr. KANE. I would anticipate that in reauthorization that both the revenue titles, as well as the authorization titles, will be closely looked at, and I would anticipate that during that deliberative process there would be a balance struck between the receipts coming in from the revenue title, as well as the expenditures.

As you are familiar, Mr. Rahall, many of the forecasts by the budget committees, republicans and democrats aside, make forecasts of receipts based on current law, and so those balances exist and appear not only in what might have been submitted with the Administration's budget, but as well as budget committees in both the House and in the Senate.

But, again, I believe that that balance will be struck as the debate proceeds in reauthorization between the revenue titles and the authorization titles.

Mr. RAHALL. Thank you. As expected, a very eloquent response.

Let me ask you: does the DOT have a position on whether or not it's still appropriate for lower taxes on alternative fuels?

Mr. KANE. Well, I believe that construct—and I repeat what was mentioned earlier—needs to be debated in the larger picture of things like effect on the environment, air quality, etc., and so with regard to the current exemptions that exist right now, we support that.

With regard to reauthorization, I think all of the highway user fees, both exemptions as well as rates, will be on the table for discussion.

Mr. RAHALL. Has DOT noticed any connection between the repeal of the national speed limit, gas prices, and Trust Fund receipts?

Mr. KANE. I wish we could estimate that carefully. Clearly, with regard to the effect of the speeds, we're just beginning to get information in on that. We're often asked questions with regard to safety, and it's a little too early to have the full information with regard to increased speeds as well as safety effects.

Clearly, increased speeds will result in increased consumption, and therefore increased receipts into the Trust Fund, but we don't have that detail yet, Mr. Rahall.

Mr. RAHALL. Okay. Thank you, Mr. Chairman.

Mr. PETRI. Thank you.

Mr. Baker?

Mr. BAKER. Thank you, Mr. Chairman.

Could you give us—you or Mr. Basso—an idea of how many projects are ready to go in the next 5 years, how much could we spend prudently, and what kind of a trust balance should we hold while we're trying to meet the needs?

Mr. KANE. In terms of the number of projects ready to go, our program is a grant and aid program. The States do have significant

projects ready to go. They rely on both Federal resources, as well as State and local resources.

If we take a look at how much you could fund from the Trust Fund, budget agreements aside, based upon both the balances that are in the Trust Fund as well as the current income to the Trust Fund, you could probably support on the highway side a program of about \$24 billion a year on average—a little lower in earlier years, a little higher as we move out in time, because we do forecast an increase in Trust Fund receipts.

A prudent balance—we had estimated, again, just based upon having an assurance that your forecasts for future revenue streams are sound, you need to maintain some kind of a balance to worry about error estimates in terms of forecasts.

We have estimated in the \$2 to \$3 billion range for the highway account could be a prudent balance if your only constraint, again, was worry about anticipated future revenues with authorizations, not in the larger budget context.

Mr. BAKER. Will our revenues be \$24 billion over the next 5 years?

Mr. KANE. On average, we do anticipate increases in revenues. Increased fuel efficiencies aside, the travel growth increases will produce increased revenues coming into the Highway Trust Fund.

Mr. BAKER. Our match to the States, noting their trust balances also, is it too high? Do we try and over-match from the Federal side?

Mr. KANE. I think that's a question that's certainly a good one as we enter into debates this year and next year on reauthorizations, and many times the Federal match rate is a function of the incentives you're trying to do or the way in which you're trying to push certain investments—example, rehabilitation on the interstate at 90 percent, the initial construction of the interstate at 90 percent, versus 80 percent.

It has been suggested by some that perhaps a better way to leverage total investment is to change the Federal match, increase the State one.

The national highway system bill gave a lot of flexibility with regard to the issue of how you use Federal aid, including allowing alternatives for that match so that States now can make use of in-kind services, private donations, to count as that match.

So we are giving flexibility to the States in terms of how they come up with that match, but I think the overall issue, itself, is a very good one as we get into debate this year and next.

Mr. BAKER. More and more in California, even freeway interchanges, we're nicking the developers and others, half-cent sales tax agreements and so forth, to match. In some of our transit programs, the match is less than 50 percent, so we're really getting our bang for our buck. We're stimulating more growth throughout the Nation.

When we try and be 90 percent, there isn't enough money in the world, unless we can get our hands on that \$0.043 that was stolen from us and given to that black hole called "deficit reduction."

Could you give me the same figures for transit? What are the needs over the next 5 years, what's the balance, and what—

Mr. KANE. Mr. Basso will answer that one.

Mr. BASSO. Let me give you, Congressman, a few figures.

With regard to the needs, I think we've estimated the need studies between \$7 to \$8 billion in transit needs. With regard to what the Trust Fund could support, we estimate, on average, through the year 2002, that it could support about \$5 billion a year in investment without regard to current funding constraints or current deficit reduction measures.

With regard to a prudent balance in that fund, we've estimated that about half a billion dollars, which is about, in ratio, counterpart to the highway account.

Mr. BAKER. About 10 percent then?

Mr. BASSO. About 10 to 12 percent.

Mr. BAKER. Of that \$5 billion, how much of that comes from the Highway Trust Fund and how much from the general fund?

Mr. BASSO. Actually, the \$5 billion I'm quoting would come from the Trust Fund. We're assuming an additional general fund contribution when we make that. If, in fact, we had to fund the program totally from the Trust Fund, the cap would be effectively \$5 billion, given the current solvency tests on the fund.

Mr. BAKER. And that would be our expected revenue over the next 5 years?

Mr. BASSO. Yes, sir. Right around that range.

Mr. BAKER. Thank you very much, both of you, for your answers. My time has expired.

Mr. PETRI. All right. I have one area I wonder if you could expand on at all, Mr. Kane, and that was the points or point you made on trying to move to new sources of revenue for the system because of changing technology and so on. There is no area—I think in ISTEA we gave people the option, but no one has really figured out how to exercise it—of trying to have congestion pricing.

The gurus in this industry all think that's the way to go and we can move traffic around or get less-vital traffic off of beltways and some congested areas, and that high-paid executives shouldn't mind paying a little money to save an hour in commuting, and this, therefore—

Mr. KANE. Those must be other people.

Mr. PETRI. Right. But it makes theoretical sense, but how to get from where we are now to there politically is a big problem.

We would be eager to work with you in thinking of more innovative trial programs or other ways maybe where people—you think maybe if people did it, knowing it was a short-term experiment, and then had the option of getting rid of it or keeping it, that might make people less nervous about it, and we can't—I would assume, now, off-satellite, if people participate and put something on their vehicle or other way of—like with the modern toll bar things in Dallas and San Francisco. There are other ways of monitoring usage and sending people a bill at the end of a month and maybe giving them a discount from their gas taxes or some way so that it's not regarded as just one more tax.

We'd be eager to work with you in trying to start actually experimenting like this to use our existing infrastructure more efficiently in coming up with the resources to pay for needed expansions in it.

I don't know if you have any further ideas you'd like to expand on that.

Mr. KANE. First of all, let me say I really appreciate that offer. We'd certainly like to do that—work with you on that.

I think, as you look towards the long term, it may be different from where we are today, and let me state that in two ways.

One, you're starting to get more use of electronic technology for collecting tolls, flat tolls. As we look at some of the new toll roads, both in California, existing toll roads where we're utilizing that technology, smart lanes on a number of toll bridges, so people will get used to the concept of electronic charging, the concept of automatic billing—it's not peak-period pricing, and that's where a lot of the difficulty comes into play, and that's where we've had more difficulty in the congestion pricing experiments, as you mentioned, from ISTEA. If we're not wholeheartedly endorsed immediately, perhaps in the long-term.

So I think one point is that in the longer term we'll get people more used to paying fees electronically, but they're flat fees as opposed to peak-hour pricing.

Second, I think people in the long term will also be more used to ITS technology on their vehicles. You'll be having more vehicles equipped that way. We'll be utilizing systems to just keep track of distances, levels of congestion, speeds, where people are, providing information to motorists. There will be a lot of two-way communication utilizing electronic technology.

When that's in place, you've got a more natural vehicle to then start charging fees.

A replacement for something like the fuel tax could be an electronic mileage-based fee. That is not peak-hour pricing.

So I think in the longer term you could, at least theoretically, both have the electronic capability, as well as the citizenry who's getting more used to that kind of technology and communication.

I wanted to repeat what I said earlier about the short run—that certainly forecasts we have through the next 10 years—and CBO had similar forecasts, and GAO—that our current level of taxation, the use of fuel taxes and truck excise taxes and annual truck payments, certainly provides for continued revenue growth. So our forecasts are showing that revenue growth in the near-term.

But it does mean that we should be—and we welcome your thought of looking at these longer-range techniques for collecting revenues to support the Highway Trust Fund.

Mr. PETRI. Where do we stand on—there evidently were or are some proposals to allow for roll-through at toll gates for trucks or for other users that could be monitored so that you wouldn't have to stop and pay.

Mr. KANE. We have experiments in—

Mr. PETRI. But there is a lot of argument in the industry because they figure it's going to raise their rates, and they are willing to pay a little something for the convenience, but their idea of how much they'll save and the proposal's idea of how much it's worth to them seem to be wildly at variance at this point.

Mr. KANE. Yes. And there are all issues, obviously, with using electronic technology, and there is some fear that perhaps it will become too easy a vehicle to perhaps collect too high fees.



And the issue of just using it for being able to move more smoothly through size and weight stoppage points or for clearing trucks for other purposes are more widely accepted.

There is always the potential that if you had that technology there is some fear on, in effect, using it to raise fees that perhaps are beyond what they feel should be appropriate.

But we certainly have been working with the trucking industry on utilizing technology to make their day-to-day business easier, to make more-efficient truck movements, and have demonstrated that in several corridors.

Mr. PETRI. Great. Thank you both very much.

You don't plan on getting people a speeding ticket off satellite yet, though?

Mr. KANE. That's in the hands of State officials. We've given that back to them.

Mr. PETRI. That concludes our series of panels, and this hearing is adjourned.

Mr. BAKER. Mr. Chairmen?

Mr. PETRI. Yes?

Mr. BAKER. When it comes to finding new electronic ways to pluck the goose, put me down as nervous.

Mr. PETRI. Yes, sir.

[Whereupon, at 11:55 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

## PREPARED STATEMENTS SUBMITTED BY WITNESSES

**Congressional Subcommittee Testimony  
May 16, 1996  
Julian W. Fitzgerald, Sr.**

- Good morning. Thank you for the opportunity to testify before this subcommittee. As Fuels Tax Administrator for the Virginia Department of Motor Vehicles and past chair of the FTA Motor Fuel Tax Section, I am an avid proponent of efficient and effective fuel tax administration.
- Let's face it, our way of life depends entirely on our transportation system. The motor vehicle industry and the millions of miles of highways that crisscross the nation move people and goods back and forth.
- Not only does the transportation system keep the nation moving, it also generates a significant amount of revenue. Motor fuel taxes generate more than \$40 billion in revenue annually. These are the revenues that build and maintain our highways and other transit systems, reduce pollution and engineer solutions to our transportation problems. Tax evasion crimes, on the other hand, deprive these programs of badly needed funding and line the pockets of organized crime instead.
- For organized crime, fuels taxes are a lucrative target. Fuel tax evasion is relatively easy to perpetrate and often meets with little resistance from officials because of a lack of enforcement, weak laws and watered-down penalties. As a result, tax revenues are an easy mark for fit-out criminals.

- As a motor fuel tax administrator, I am proud of the accomplishments that I and my colleagues across the nation are making in the fight against fuel tax evasion. Working with each other, with government at all levels and with private industry, we have made tremendous strides in combating this pernicious crime which costs taxpayers between two and five billion dollars a year.
- Across the country, fuel tax revenues are up. Perhaps some of this is due to a healthier economy; but, it is also due to our efforts to fight fuel tax evasion. Through uniform laws, enforcement and penalties; partnerships; the exchange of information and sophisticated technology, we are closing the legal loopholes and slamming the door on tax evaders. They're finding that they can no longer close shop in one state when the going gets rough and simply relocate to another state.
- Much of our success was made possible by federal funding. For example, under the ISTEA bill of 1991, Virginia has received \$250,000 in federal funding for participating in the Joint Federal/State Motor Fuel Compliance project. This funding enabled Virginia and other states in our region to establish mutual targets to reduce fuel tax evasion, conduct joint meetings to discuss uniformity issues and to purchase computer equipment that will facilitate the electronic exchange of fuels tax information.

- This funding also allowed our enforcement personnel to meet with their counterparts in other states and exchange information about successful prosecution techniques. All too often, fuels tax evasion cases end up sounding like fish stories about the big one that got away. By interacting with our colleagues, we learn from each other about tactics that prevent criminals from slipping through our nets.
  
- In Virginia, we also used federal funding to establish an investigative unit dedicated to fuel tax evasion investigations. We are one of a very few states that has set aside resources exclusively for fuels tax investigations and the creation of this unit would not have been possible without federal assistance.
  
- The bottom line is that fuels tax revenues are up. State fuel tax revenues have increased, on the average, between three and 12 percent while at the federal level, fuel tax revenues have increased by roughly \$1.2 billion.
  
- Despite these successes, we cannot claim victory yet.
  
- Fighting fuels tax evasion requires a team effort and the proper tools—it requires uniformity in the laws, enforcement and penalties for tax evasion crimes. It requires joint efforts between federal and state governments and it requires the use of technology, whether it's dying fuel or exchanging information electronically. And, these team efforts and tools require adequate funding.

- As you review the results of programs combating fuels tax evasion and plan funding for future efforts, keep in mind the devastating consequences of tax evasion. This criminal activity robs the Highway Trust Fund, which is the life-blood of the nation's surface transportation program.
- On the other hand, keep in mind that, according to federal estimates, motor fuel tax assessments average between \$15 and \$20 per dollar spent on tax evasion efforts. Ladies and gentlemen, there are very few opportunities that offer this kind of return on your investment.
- You can count on Virginia's continued support in the fight against fuel tax evasion. I hope that we can count on you as a partner in this battle.
- Thank you.

**Statement of Anthony R. Kane  
Executive Director, Federal Highway Administration  
U.S. Department of Transportation**

**Before the House Transportation and Infrastructure Committee  
Subcommittee on Surface Transportation**

**May 16, 1996**

**The Highway Trust Fund**

Mr. Chairman, Members of the Committee, I thank you for the opportunity to testify before you today on the current status and future outlook of the Highway Trust Fund and on the successful Federal-State efforts to address the very costly problem of fuel tax evasion. With me today is Jack Basco, Deputy Assistant Secretary for Budget and Programs.

**Establishment of the Highway Trust Fund**

The Highway Trust Fund was established by the Highway Revenue Act of 1956 (Revenue Act) in part to finance the increased authorizations Congress provided for the construction of the Interstate System. While Federal highway user taxes existed prior to that time, they were deposited in the general fund of the Treasury, and there was no tie between revenues collected and Federal funding for highways. Although a 40,000-mile National System of Interstate Highways was authorized to be designated in 1944, little progress had been made on the system until President Eisenhower signed the Federal-Aid Highway Act of 1956 (a part of the same legislation that established the Highway Trust Fund) into law, thereby increasing annual funding

for this national system from \$175 million in 1956 to \$1.17 billion in fiscal year 1957, and rising to \$2.2 billion in fiscal year 1960. To finance this massive public works project, the Revenue Act increased some of the existing highway user taxes, established new ones, and provided that the revenues from most of these taxes would be credited to a Highway Trust Fund.

From its inception, the Highway Trust Fund was not only the means of funding the construction of the Interstate System, but it supported other highway programs as well. In fact, by the mid 1970's, over one-half of the funds from the Highway Trust Fund went toward non-Interstate highway-related programs. In 1973, eligible trust fund uses were increased to permit States to use a portion of their highway funds on transit projects. The Surface Transportation Assistance Act of 1982 raised the fuel tax by 5 cents per gallon, from 4 cents to 9 cents--the first increase in 23 years--to fund an expanded highway and transit program. The 1982 Act also established the separate mass transit account within the Highway Trust Fund, dedicating to it 1 cent of the 9 cent Federal fuel tax. By this time, work on the Interstate System--the original impetus for establishing the trust fund--was 95.3 percent complete. Yet Congress recognized that increased Federal investment in surface transportation supported by dedicated user fees in the Highway Trust Fund continued to be important and necessary. After increases of 0.1 cents/gallon in 1987, 5 cents/gallon in 1990, and 4.3 cents/gallon in 1993, the Federal gasoline tax was reduced by 0.1 cents/gallon on January 1 of this year. Accordingly, the current Federal tax on gasoline totals 18.3 cents/gallon, with all but 4.3 cents/gallon of this total credited to the Highway Trust Fund.

#### The Federal Role in Highway Transportation

That critical need for a Federal role in transportation continues today as construction of

the Interstate System draws to a close. The Highway Trust Fund is more than simply a vehicle for redistributing highway user tax revenues among States of varying size and population density or even a reliable means of operating a predominately user-financed transportation program. It is the means for funding programs by which the transportation concerns affecting the Nation as a whole are systematically and cohesively addressed in a way that would be impossible to replicate on the State level.

As we continue to define our views about what the next surface transportation legislation should include, we are principally examining the Federal role in meeting transportation needs. We look to build on the successes of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) as the foundation for future national surface transportation programs. The National Highway System, established under ISTEA, is one of our highest priorities since it is the backbone of our Nation's 21st century transportation system, serving to sustain the economic growth that has flourished during the Interstate era. President Clinton has stated that America's competitiveness in the world economy rests on the foundation of its infrastructure. Continued Federal leadership in transportation is needed to ensure that there is a cohesive, interconnected, intermodal network reaching across the Nation. Such leadership will require, among other things, continued Federal investment in our Nation's highway system. Ensuring the safety of the traveling public is a fundamental duty of the Department and one we take very seriously; any waning Federal commitment in this area could erode important safety gains. We also envision a Federal role in addressing the infrastructure needs of interstate and international commerce. In the area of motor carrier safety, we recognize that a single set of cohesive Federal standards has ensured that uniform safety rules are applied across the country. We believe that the Federal



government continues to have a key role in ensuring sound transportation on Federal lands, protecting our environment, and in transportation research and technology to solve real-world problems, as we work to close the gap between what we are currently able to do and what we know is ultimately possible.

#### The Highway Trust Fund and Spending Levels

The Highway Trust Fund has been a reliable and stable source of funding for the improvement of highways over the past 40 years. The trust fund concept of dedicating motor vehicle fuel and truck taxes to transportation needs has enjoyed wide public support as a fair and prudent way to fund highway improvements. This steady and relatively predictable revenue source has given the Federal government and, in turn, State and local governments, the ability to plan for transportation needs in the future. This is a concept, along with contract authority for highway programs (which allows for the commitment of funds in advance of an appropriation), that has worked well and should be retained.

But trust fund spending must also be considered in the larger context of the bipartisan effort to balance the budget. The Administrator is committed to balancing the budget, and all spending and taxing decisions should be made in this context.

Be assured that the current balance in the highway account of the trust fund, totaling \$9.421 billion at the end of fiscal year 1995, is not surplus revenue languishing in the trust fund. At the end of fiscal year 1995, there were also \$44.2 billion in unpaid authorizations still outstanding, including \$30.9 billion in unpaid obligations on projects already started. These are commitments against this balance and future tax receipts. In addition, this balance is invested, earning interest at an average rate of 7.1 percent over the life of ISTEA. This interest, too, is not

simply sitting idle, because over the life of the trust fund, expenditures from the fund have exceeded tax receipts deposited into the fund. So interest as well as tax revenue has been spent out of the highway account.

We recognize that highway, bridge, and other surface transportation needs are great, and will continue to seek the highest funding possible. We have been successful in securing substantial funds for transportation investment in these tight budget years. This has been accomplished in part through the innovative finance programs, active efforts to secure private sector financial participation in public projects, and greater flexibility in the use of funds by recipients. Average annual federal transportation infrastructure investment over the past three years has been over 10 percent higher than it was in fiscal year 1993. Our fiscal year 1997 budget continues this strong record: we propose \$19.5 billion in new highway investment--\$1.5 billion higher than the fiscal year 1993 level. Although Federal spending has increased in this period, we recognize that there is still a substantial gap between the costs of needed transportation improvements and the Federal government's ability to fully pay for them. Our primary concern in future budgets and in ISTEA reauthorization will be to responsibly maximize the overall level of transportation investment within the framework of a balanced Federal budget.

#### Future Revenue to Highway Trust Fund

Growing concern about the environment, air quality standards, and dependence on foreign oil has resulted in legislation designed to increase the use of alternative transportation fuels and to require more fuel efficient vehicles. The Clean Air Act Amendments include several programs governing the use of cleaner fuels and open up the fuel market to non-petroleum additives. The Energy Policy Act of 1992 requires that the Federal Government, alternative fuel providers, State

and local governments, and certain private fleets buy alternative fuel vehicles in increasing percentages when purchasing new light-duty vehicles, with the goal of replacing 10 percent of transportation petroleum fuel with alternative fuels by the year 2000, and 30 percent by 2010. The impacts of these programs and certain fuel tax exemptions on the Highway Trust Fund have been felt: DOT estimates that the lower Federal tax rates on gasohol have resulted in \$5.9 billion in forgone revenues since fiscal year 1983. But revenue forecasts for the near term predict only a modest further decrease in future trust fund revenues as a result of these alternative fuels standards for a number of reasons.

First, alternative fuels, including liquefied petroleum gas (propane), neat alcohol fuels (such as M85), compressed and liquefied natural gases, and hydrogen, account for only a tiny fraction of all motor fuels consumed. For example, they totaled only 0.1 percent of total U.S. on-road fuel use in 1992. Second, although some alternative fuels are taxed at rates lower than gasoline and diesel fuels rates, by far the most commonly used alternative fuel, liquefied propane, is taxed at the same rate as gasoline. Methanol fuels are taxed at rates lower than gasoline, but contain less energy than gasoline and therefore methanol-fueled vehicles have higher fuel consumption rates, effectively neutralizing their impact on trust fund revenues. Third, fleets of government-owned light-duty vehicles, which are the principal targets of the Energy Policy Act, comprise only 1 percent of all light-duty vehicles and are being replaced at very slow rates due to general budget constraints and the relatively higher costs of alternative fuel vehicles. Fourth, the purchase of alternative fuel vehicles by the general public, the greatest potential market, is still limited by vehicle costs and concerns about the availability of fueling sites.

When alternative fuel vehicles become a significant part of the U.S. auto fleet, the revenue

impacts will depend on the particular fuels they use. As noted above, vehicles burning propane and methanol do not cause revenue losses to the trust fund. However, vehicles burning compressed natural gas or electricity would pay on fuel taxes to the trust fund under the current tax law. The Partnership for a New Generation of Vehicles, a joint initiative by the Federal government and the domestic auto industry, has set a goal to triple the efficiency of the standard automobile over the next several decades to help meet environmental, energy, and global climate change goals. A prototype vehicle is to be introduced in the next decade. This vehicle could include a much more efficient conventional engine, or it could introduce non-fossil fuel sources. Such developments could have a long term effect on trust fund revenues, but the scope of their impact is difficult to predict at this time.

Similarly, we have predicted modest increases in fuel economy in projecting the impact of fuel efficiency on future trust fund revenues. Passenger car fleet fuel efficiency has increased substantially in recent years, as both government standards and consumer demands dictate that automakers build more fuel efficient vehicles. For example, fleet fuel efficiency increased from 15 miles per gallon in 1980 to 21.5 miles per gallon in 1994, thereby reducing the rate of trust fund revenues per vehicle-mile of travel. While passenger car travel grew by 43 percent during this same period, fuel consumption by these vehicles rose less than one percent. During the 1980's, the growth in fuel tax receipts that would have been expected, based on the increase in travel, was flattened by improving fuel economy. These improvements have slowed in the 1990's. The least fuel-efficient vehicles from the pre-oil shock period have already been retired, so we are no longer seeing dramatic changes in fuel efficiency as old gas guzzlers are replaced with newer vehicles. Also, increasing numbers of American drivers are replacing their passenger cars with light-duty

trucks and sport utility vehicles, which are less fuel efficient than the vehicles they replace.

For the longer term, however, we will be looking at alternative means of assessing user fees for drivers.

#### Combating Fuel Tax Evasion

This Committee has been very involved in preventing criminal activities which have jeopardized the revenues of the Highway Trust Fund. During the last few years this Committee has held three very useful hearings in order to assure that fuel tax evasion ends. We would like to briefly mention current efforts to stem fuel tax evasion. We are all mindful that fuel tax evasion schemes can continue to undermine Highway Trust Fund revenues.

We believe that the funding the Congress has provided to deal with fuel tax evasion has had tremendous payoff. Congress authorized initial funding for the program in 1990, and ISTEA authorized \$5 million annually in contract authority funds from the Highway Trust Fund through FY 1997. By 1995, FHWA had about \$22 million invested in this program, about \$12 million of that provided to State fuel tax enforcement agencies and most of the remainder provided to the Internal Revenue Service (IRS).

Under the auspices of the Joint Federal/State Motor Fuel Tax Compliance Project, known as the Joint Project, a program Steering Committee and nine regional motor fuel tax enforcement task forces have been organized to foster cooperation among State and Federal agencies, and with the petroleum industry, to improve motor fuel tax compliance. Currently all of the States and the District of Columbia are participating in the program and we commend everyone for their extensive efforts and cooperation.

Some of the current activities reported at the most recent Steering Committee meeting in

March 1996 include:

- formation of a "below the rack" blending task force to develop strategies to detect kerosene or waste petroleum derivatives added to motor fuels to avoid paying the required taxes,
- negotiation of cooperative agreements to provide IRS funds to the States to perform roadside inspections of diesel fuel used in highway vehicles,
- efforts to improve information sharing among the States to prevent unreported deliveries across State lines by encouraging adoption of uniform reporting forms, definitions, and taxpayer identification numbers, and
- indictment and prosecution of some of the largest tax evasion cases ever investigated, such as the recent New Jersey case alleging \$140 million in evaded State and Federal taxes.

One of the fundamental legislative changes that has considerably reduced tax evasion was the concentration of motor fuel tax collection at the terminal rack, both for Federal motor fuel taxes (for gasoline beginning January 1, 1988, under the Tax Reform Act of 1986, and for diesel beginning January 1, 1994, under the Omnibus Budget Reconciliation Act of 1993) and similar action by many States as well. Fuel dyeing was also mandated as of January 1, 1994, requiring all untaxed diesel fuel to be dyed.

Since those changes, the FHWA and our partners in this effort have learned that taxing fuels at the terminal rack and dyeing nontaxable diesel fuel are the best methods for preventing fraud, assuring that honest retailer and wholesalers do not have to compete with those supplied with untaxed fuel, and securing revenue needed to support the Nation's transportation

infrastructure. The effects of this effort on trust fund revenues have been impressive. The total amount of 1994 receipts available for the trust funds increased by \$1.23 billion over 1993, adjusting for the rate increase. Taking into account increased refunds and credits, and attributing some of the increase to economic growth, the Treasury Department recently estimated that diesel fuel tax receipts, net refunds, were \$600-\$700 million higher in 1994 than in 1993 due to improved compliance alone.

What did the Highway Trust Fund gain from these efforts? It has realized additional fuel tax revenues far beyond our expectations. FHWA has accumulated information documenting over \$1 billion of revenue enhancements annually from compliance initiatives. Let me briefly summarize some of the revenue gains:

- Some \$240 million are assessed annually from motor fuel tax audits and reviews of taxpayer returns.
- In the past 3 years, over \$170 million of tax loss has been uncovered and prosecuted annually in criminal cases (investigators from the DOT Office of Inspector General assisted State and Federal agencies in many of these cases).
- Some \$800 million in additional State and Federal revenues are being collected every year from diesel fuel taxes, since the Federal change in point of collection and diesel fuel dyeing took effect.

These gains to the Highway Trust Fund and to State revenues (total of \$1.2 billion) are set forth in the following table:

<b>Revenue Enhancement Summary</b> (Annual Impact, \$ Million)			
<b>Enforcement Strategy</b>	<b>States</b>	<b>Federal (IRS)</b>	<b>Total</b>
Audits (Assessments)	\$140	\$100	\$240
Criminal Investigation (Estimated tax loss)	50	120	170
Dyed Fuel Point of Collection (Revenue increase)	150	650	800
<b>Total</b>	<b>\$340</b>	<b>\$870</b>	<b>\$1,210</b>

The decisions of this Committee and the Congress in funding the evasion program have meant money well-spent. It must be emphasized, however, that the FHWA funds represent only a part of the resource commitment that made these results possible. Additional tens of millions of dollars in State as well as Federal resources, and industry expenditures to implement the fuel dyeing program, were committed to this effort. The single most important contribution of the FHWA funds was to bring the parties affected by fuel tax evasion together to work cooperatively on solutions. Information sharing and cooperation cost little but pay huge dividends. Again, we compliment everyone involved in the project for their cooperation.

Inasmuch as the IRS is testifying today I will not go into the Treasury Department's revenue projections that have been affected by the success of these compliance efforts except to say that they are impressive and substantial and in the billions of dollars.



Some may feel that the Joint Project compliance effort has been so successful that evasion problems are now resolved. Even though the gains are remarkable and undoubtedly make a huge dent in the problem, one thing we have learned from the project is that attempts to evade will not diminish. The large sums involved and the concentration of tax liability in a relatively small number of companies mean that phenomenal sums can be stolen. As quickly as old schemes are put to rest, new ones are hatched. I am sure that the IRS can cite some of the continuing areas of concern.

The unmistakable conclusion from our efforts to date is that funds invested in motor fuel tax compliance programs pay substantial dividends. Accordingly, aggressive support for compliance initiatives should be an element of every transportation agency's financial planning portfolio. As we begin developing proposals for reauthorization of the surface transportation program, these results should figure prominently in deliberations to assure a strong financial base to meet our country's sizable and critical transportation needs.

#### Highway Trust Fund Revenue Outlook

Motor vehicle fuel taxes are the lifeblood of our highway revenue programs, with taxes on gasoline and diesel fuels providing roughly 87 percent of estimated receipts flowing into the Highway Trust Fund in fiscal year 1996. From the standpoint of revenue productivity, fuel taxes have no equal. These taxes are relatively easy to administer and they provide a reasonable way to charge vehicles in rough proportion to highway use. Even though we think motor fuel taxes will remain a major source of highway finance in the foreseeable future, we also recognize that a number of factors, such as fuel tax evasion, alternative fuels, and more fuel efficient vehicles, could affect the revenue productivity of our current motor fuel tax structure.

Because of our continuing concern with the long-term future of highway financing programs at all levels of government, we have supported research in this area examining possible long-term alternatives to motor fuel taxes. For example, a 1995 National Cooperative Highway Research Program report concluded that motor fuel taxes will remain important components of State and Federal surface transportation revenues for at least the next three decades.

In examining new user fee options, we are seeking to identify user fees that more directly assess charges to users according to costs attributable to their use. Our cost allocation study is on schedule for completion by September of this year. We are already witnessing the greater use of direct charges based on user tolls, and we have been supporting the efforts that many States and localities are undertaking in this area. For instance, several State and local governments are examining the potential use of mileage taxes. There has been limited use of weight-distance fees, and some areas are considering congestion charges to improve demand management on congested urban facilities. Vehicle mileage taxes, taxes based on both vehicle weight and miles, and vehicle registration fees have also been suggested as possible future supplements to or replacements for Federal fuel taxes. All of these alternatives have important revenue implications, which we believe must be examined as part of the long-term revenue future for highway transportation. It is too early to responsibly predict the future path of these alternatives, such as determining which alternative fuels will be the ultimate winners in the marketplace. The only certainty is the need to adapt our fuel tax provisions in the future to account for these changes.

Mr. Chairman, this concludes my prepared remarks. Mr. Basso and I would be pleased to answer any questions you have.



**Testimony of E. Philip Saunders  
Chief Executive Officer  
Sugar Creek Corporation  
on behalf of  
NATSO, Inc.,  
Representing America's Travel Plazas and Truckstops**

**Hearing Before the Subcommittee on Surface Transportation  
Transportation Finance in an Era of Scarce Resources: The Highway Trust Fund  
May 16, 1996**

Good morning. My name is Phil Saunders and I am the chief executive officer for the Sugar Creek Corporation which operates Griffith Oil, Sugar Creek convenience stores and 16 travel plazas under the name of Travel Ports of America. Today, I am presenting testimony on behalf of NATSO, the professional and legislative representative of America's \$28 billion travel plaza and truckstop industry. Our association currently has over 1,050 travel plaza and truckstop members employing nearly 200,000 individuals nationwide and more than 300 allied companies that provide products and services to the industry and its customers.

We are extremely pleased to be presenting testimony on fuel tax evasion, a subject which has been one of our association's top legislative priorities for the past decade. For us, the battle against fuel tax evasion was a matter of economic survival. There was simply no way to compete against a tax cheat who was able to sell diesel fuel 20 to 40 cents below the cost of an honest retailer. While our industry suffered, federal and state governments were deprived of billions of dollars for much-needed infrastructure projects.

Through a cooperative effort by private and public interests, and I might add, because of

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this Committee's leadership, we have been able to drastically cut fuel tax evasion. The most profitable form of evasion, the so-called "daisy chain," has been nearly eliminated by taxing fuels at the terminal rack and dyeing nontaxable diesel fuel.

The daisy chain scheme started with a string of companies created by organized crime groups, designed to create a massive paper trail. In the daisy chain, a "burn" company was created and existed only on paper. By the time auditors and investigators unraveled the series of transactions to determine the tax liability, the burn company had disappeared without a trace of records or assets. These groups pocketed up to 50 cents per gallon in federal and state taxes, enabling them to sell diesel fuel well below cost. Often these groups forced legitimate operators out of business.

Now that the government collects the federal tax at the fuel terminal rack, before the daisy chain operation is initially established, this form of tax evasion has been severely curtailed. As a result of this change and heightened enforcement efforts, the highway trust fund has picked up over a billion dollars in additional revenues in each of the last two years, a 22 percent increase over 1993. This increase does not include the additional revenues due to the 1993 increase of 4.3 cents per gallon in the tax rate. The results are staggering. Four and a half billion gallons a year of previously bootlegged diesel fuel has been removed from the underground economy and is being sold by honest, tax-paying suppliers.

States who followed the federal government's lead to taxing and dyeing requirements are reporting an average seven percent increase for the same period. For instance, Mr. Chairman,

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since changes in collection procedures took effect in your home state of Wisconsin, officials report an increase of more than nine percent in taxes collected. This Committee should urge all states to frustrate fuel tax evaders by moving the tax collection point to the terminal rack and dyeing untaxed fuel.

*Cocktailing: Today's Evasion Scheme of Choice*

While we can all pat ourselves on the back for a job well done, it would be naive for any of us to believe that we have eliminated fuel tax evasion. With federal and state taxes comprising a significant percentage of the cost of a gallon of fuel, the temptation to avoid these taxes remains great. We believe there is still fuel tax cheating today, though to a much lesser degree than when ISTEA was written in 1991. We also believe it is a problem, however, which will become more significant should the government retreat from its commitment of aggressive enforcement.

"Cocktailing" has replaced the dairy chain as the evasion scheme of choice. Fuel tax evaders cocktail, or blend, clear untaxed substances such as kerosene or jet fuel with diesel fuel for on-road uses. Under current federal excise tax regulations, kerosene is not taxed or dyed when removed from the terminal. The law does require, however, that all substances blended with diesel fuel for on-road use be taxed as diesel fuel. Substances like kerosene and jet fuel are largely untraceable, creating a low-risk evasion scheme for the dishonest operator. One gallon of taxed diesel fuel is mixed with one gallon of untaxed kerosene, resulting in two gallons of fuel to

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sell, with taxes paid on only one gallon. The retailer can sell the cocktailed diesel fuel at the normal retail price and pocket the unremitted taxes as profit. Still more common, the tax cheat could reduce the price to below the cost of honest operators, creating a competitive advantage and still pocketing that portion of the unpaid taxes not used to discount the retail price.

Although not as profitable as the daisy chain, cocktailing can yield up to approximately 23 cents per gallon of cocktailed fuel sold, depending on the level of state taxes.

The Clinton administration has supported treating kerosene as diesel fuel for excise tax purposes. The proposal would require that kerosene for on-road uses be clear and taxed and kerosene for untaxed uses be dyed. The dye in untaxed kerosene will allow easy detection of "cocktailed" kerosene. Under the administration's proposal, those purchasing clear, taxed kerosene for an off-road purpose would be eligible for a tax refund as are purchasers of clear, taxed diesel. In addition, kerosene purchases of five gallons or less would be excluded from these requirements, thus effectively exempting individuals who buy small quantities of kerosene for home heating purposes. We support the administration's goal, but it should be broadened to include jet fuel. In addition, the regulatory process should be structured to ensure no undue burden is placed on legitimate users of either product.

The administration estimates closing this loophole will increase federal revenues by \$218 million over five years. This proposal is *not* a new tax but rather constitutes the only effective way to enforce current tax policy. This year the General Accounting Office cited the biggest unresolved problem with diesel fuel taxation is the definition and collection of taxes on fuel

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additives--primarily kerosene--added after fuel leaves the terminal. Congressional action to treat kerosene and jet fuel as diesel fuel for tax purposes would eliminate this problem. IRS and FHWA should aggressively track kerosene (particularly in the summer months) and jet fuel deliveries.

#### *Transborder Fuel Shipments*

Another area of fuel tax evasion occurs on the state level, where fuel shipments are bootlegged from a low-tax state for sale in a high-tax state. My own state of New York conservatively estimates \$20 million in lost tax revenues over the past 18 months alone due in this particular scheme. New York's fuel tax of 34.2 cents per gallon is significantly higher than New Jersey's tax of 17.5 cents per gallon, and fuel is purchased in New Jersey, with taxes legally paid. The purchaser then illegally transports the fuel into New York without paying the higher New York tax rate.

A computerized system, as called for by the American Association of State Highway and Transportation Officials (AASHTO), could be developed to account for the import and refinery production of motor fuels until their deliveries. This system could assist federal and state government authorities in tracking fuel shipments, making evasion between high- and low-tax borders more difficult. NATSO recommends next year's reauthorization legislation contain funding provisions for such a data base.

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*Native American Tax Compliance*

While sales of state tax-free fuels on Indian reservations is not what we usually characterize as tax evasion, states are losing a significant amount of tax dollars through sales on Indian reservations to non-tribal members. Native American reservations have traditionally been exempt from state laws, including payment of state sales and excise taxes. Unfortunately, reservations in certain states have extended this tax exemption to non-Indians purchasing goods on reservations. This practice provides reservation retailers with an unbeatable price advantage over non-Indian retailers who must collect and remit the state taxes. The uncollected taxes also deprives states of vital revenues.

Many states have working agreements with tribes to enforce collection of state taxes on reservation sales to non-Indians, but other states (particularly New York, Oklahoma and New Mexico) have met strong tribal resistance to attempts to enforce tax collection. While these states seek their own solutions, NATSO believes the federal government should play a role in this policy question.

NATSO is alarmed that federal funds are being given to tribes in Oklahoma to build truckstops on reservation lands. In 1995, the Choctaw tribe of Oklahoma received \$750,000 from the Housing and Urban Development (HUD) Indian Community Development Block Grant Program to help build a truckstop along a busy trucking route. Meanwhile, the Bureau of Indian Affairs (BIA) is giving the Cherokee Nation of Oklahoma \$150,000 to complete a truckstop on an interstate highway. NATSO is concerned about these grants because once constructed, these



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reservation fuel outlets will be able to sell fuel state tax-free to Indians and non-Indians alike.

In the interest of fairness, NATSO urges Congress to prohibit using federal grants to help tribes construct retail fuel outlets on reservations that fail to collect and remit state taxes on fuel sales to non-Indians. Requiring Native American fuel outlets to collect these taxes will not jeopardize their economic viability; it will simply level the playing field for retail fuel outlets--both off and on reservations. Additionally, collection of state taxes will prevent states from losing revenues vital to meeting infrastructure needs.

Some reservations have found a new way to avoid federal and state fuel taxes. Reservations, legally allowed to purchase tax-exempt fuel for government vehicles, can illegally divert this fuel to fuel-purchasing customers and non-Indian retailers. A truckstop owner reported he was offered this type of tax-free fuel from a reservation fuel distributor. Given these questions, Congress should add reservation fuel tax collection practices to the list of other Indian issues--like gaming and BIA reform--already under congressional scrutiny. We hope the current Congress addresses some of these issues, if not, then perhaps we need to explore solutions in next year's reauthorization.

*Enforcement is Critical to Continued Success Against Evasion*

To continue our strides against fuel tax evasion, it is critical that all those working on this effort do so cooperatively. The Joint Federal/State Motor Fuel Tax Compliance Project, a working group of federal and state governments and industry, to which NATSO belongs, was

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instrumental in coordinating enforcement efforts which helped to cut fuel tax evasion by such a huge margin last year. Only through such cooperation among industry and all levels of government can the battle against fuel tax evasion continue to boast such successes.

The joint project was authorized in ISTEA, and should be included in next year's reauthorization bill. NATSO recommends reauthorizing this project at no less than its current funding level, \$5 million per year. In addition, Congress should fully fund the project once it is authorized. Unlike some other programs that divert critical highway funds, this project should be viewed as an investment that returns dollars for highway programs. In fact, the IRS estimates that for every dollar spent in fuel tax evasion enforcement efforts, \$24 is returned to the Treasury. The project is absolutely essential for the IRS, states and industry to keep money that should be going into the highway trust fund from winding up in the pockets of tax cheats.

In addition, NATSO recommends giving states the flexibility they need to increase their enforcement efforts. States should be permitted to expend up to one-fourth of one percent of their Federal-aid highway apportionments on motor fuel tax countermeasures. Some have suggested that states could fund fuel tax compliance efforts *solely* from regular federal highway program funds; however, most states would choose to use these funds for much-needed road and bridge improvements.

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*A Strong Federal Program Works Best*

Finally, we strongly oppose eliminating the federal fuel tax in favor of taxes established and collected solely on the state level. We, like this Committee's leadership, believe in a strong, unified federal program, with a national plan and focus. Replacing the federal tax with state taxes would thwart our recent strides against fuel tax evasion. As previously mentioned, not all states collect their tax at the rack, and not all states require dyeing of diesel fuel. These states would see a return to pre-1994 conditions, where daisy chains put over a billion dollars annually into the pockets of tax cheats.

A transfer of the federal tax to the states would create a greater disparity between high- and low-tax states. Some states would greatly increase their state taxes, while others would only slightly increase them. This would increase illegal transborder fuel shipments, which thrive on differences between state fuel taxes. In addition, interstate businesses such as ours would have a difficult time competing in a high-tax state against businesses just across the border in neighboring low-tax states.

Turning most taxing authority back to the states would also aggravate the problem with fuel sales by Native Americans. As I mentioned previously, many Indian tribes, exempt from state laws including state sales and excise taxes, have gradually extended this tax exemption to non-Indians purchasing goods on reservations. This uncollected tax would deprive the states of vital revenues.

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#### *Summary*

In conclusion, we believe next year's highway reauthorization legislation can advance the progress being made against fuel tax evasion in five important ways:

- Reauthorize the Joint Federal/State Motor Fuel Tax Compliance Project at on less than \$5 million annually.
- Authorize funds for a computerized system to account for the import and refinery production of motor fuels until their deliveries.
- Provide state transportation departments with the flexibility to expend up to one-fourth of one percent of its Federal-aid highway apportionments on motor fuel tax theft countermeasures.
- Urge all states to adopt federal diesel fuel taxing and dyeing requirements.
- Reject proposals to eliminate the federal fuel tax in favor of state-based taxes.

We appreciate this opportunity to discuss the good news about fuel tax evasion, as well as give our recommendations to help put tax cheats out of business for good. We would also like to take this opportunity to comment on several other reauthorization issues which are of great importance to our association.

#### *Commercialization of Interstate Rights-of-Way*

As the Subcommittee knows, some have proposed again to eliminate current law and allow commercial development on interstate rights-of-way. This Committee demonstrated sound leadership in 1991 by rejecting this proposal. We urge you to reject any similar plans next year. Quite simply, this plan would devastate thousands of small businesses at the interchanges.

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When lawmakers created the interstate system, they believed private sector businesses at the interchanges could best serve the needs of motorists, so they specifically prohibited the commercial development of interstate rights-of-way. Congress did not want to repeat the conditions on state-funded toll roads where monopolies operated in commercialized rest areas and charged motorists exorbitant prices for services.

Today, 40 years later, we can witness the wisdom in the decision to keep the interstate system free from commercialization. A drive along any of our interstate highways shows how the private sector meets the needs of highway users. An estimated 52,000 businesses employing nearly 2.5 million people have been created at the interchanges, each competing on a level playing field--one that would be gravely imbalanced if rest area commercialization was permitted on rights-of-way.

In 1994, NATSO undertook a study to compare business development on toll roads and turnpikes, where commercialized rest areas are permitted, and interstates. NATSO compared the number of restaurants and service stations at the interchanges of toll roads and turnpikes and parallel-running interstates in Pennsylvania, Ohio and Indiana. Small business development was almost twice as great on interstate highways. Because of the highly competitive environment on interstates, the highway traveler also enjoyed more food and fuel choices and lower prices.

The highway user is not the only one benefiting from a competitive interstate system. Local governments near interstate interchanges profit as well. The highway service industry has become an integral part of the tax and employment base of local government. It is not unusual

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for a NATSO member to be one of the largest property taxpayers and employers in a rural area.

Although some may try to argue that the decision to commercialize rest areas is better left to the states, it is not a states' rights issue. A state's decision to commercialize or not to commercialize will not only harm businesses located within its borders, it will have a profound effect on many businesses in neighboring states as well. For example, one state may decide to lease interstate land to businesses selling fuel and food. A neighboring state, on the other hand, makes the decision not to commercialize its rest areas because it wishes to protect the businesses and jobs at the interchanges. Because of the nature of the interstate system, however, not only would businesses located in the commercialized state suffer, businesses in the neighboring state would be adversely affected as well.

Despite the success of current law, some would like to allow commercialization on the interstates. Although advocates view commercialization as an innovative way to increase revenue for escalating infrastructure needs, there are grave public policy implications if rights-of-way are commercially developed.

Established businesses at the interchange would be unable to fairly compete for the highway traveler's fuel and food needs if a business right on the interstate provided these services. Interchange businesses--and jobs--would be seriously threatened as no additional gallons of fuel would be sold or hamburgers purchased. Commercialization of rest areas would merely transfer the point of sale away from interchange businesses to a single business entity operating directly on the interstate that would achieve market dominance purely by virtue of its

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location.

Existing interchange development would be immediately curtailed. None of our members would be willing to spend millions of dollars to develop a new travel plaza at an interchange if that business had to compete against an entity located directly on the right-of-way.

Allowing interstate commercialization on the right-of-way would not only harm the economic vitality of interstate businesses, it would erode the tax and employment base of municipalities that depend on these businesses as well. However, local governments would still be responsible for providing police and fire protection for the new facility on the right-of-way. Children of employees would still need to be educated at the locally-funded public school. Yet funding for these expenses would be significantly lower as businesses which were once property taxpayers are replaced by a business which pays rent to a state transportation department.

Our hope is that policy makers will recognize that commercialization of interstate rights-of-way will cost businesses and jobs and threaten the economic health of local governments.

#### *Truck Parking*

To increase the number of truck parking spaces available on interstates, a provision allowing full federal funding of rest areas was included in last year's National Highway Systems legislation. We do not believe this is the best use of Highway Trust Fund dollars. First, only 15 percent of truck drivers surveyed prefer to use rest areas to meet their long-term sleeping needs; most depend instead on travel plazas and truckstops. If this Committee believes that adding

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truck parking is an issue that the government should address, we urge Congress to create incentives for the private sector to provide the parking spaces. Even though the federal government provides the funds to create and expand rest areas, states simply don't have the resources to maintain and provide security for more truck parking. Scarce highway dollars would be better spent by providing incentives and eliminating barriers for the private sector to provide this service to the trucking community.

#### *Interstate Tolls*

As Congress debates next year's highway reauthorization, some may propose increasing or creating taxes on the highway user. Each time motorists buy fuel, they pay steep federal and state taxes to support roads and bridges. Congress shouldn't ask drivers to pay higher taxes for road repairs when much of the money they already pay is being diverted to other programs. Likewise, allowing states to collect tolls from interstate travelers is nothing more than a double tax on highway users. The interstate traveler should not be forced to pay for something that has already been purchased. In addition, establishing interstate tolls would undoubtedly shift traffic from interstate highways, proven to be the safest and most efficient, to secondary roads that have not been designed to handle large volumes of traffic. This could mean an increase in congestion and more traffic accidents along these roads.



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*Summary*

In addition to the recommendations regarding fuel tax evasion efforts, the association strongly recommends the following:

- Ensure that interstate rights-of-way remain free of commercialization.
- Develop practical solutions to the truck parking problem which does not include a dependence on limited federal or state government highway dollars.
- Keep the interstate system free of tolls.

United States General Accounting Office

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**GAO**

**Testimony**

Before the Subcommittee on Surface Transportation,  
Committee on Transportation and Infrastructure,  
House of Representatives

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May 16, 1996

**HIGHWAY TRUST FUND**

**Financial Status and Outlook**

Statement of Phyllis F. Scheinberg, Associate Director,  
Transportation and Telecommunications Issues,  
Resources, Community, and Economic  
Development Division



Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to testify on the financial condition and outlook for the Highway Trust Fund. We hope to contribute to a better understanding of the Highway Trust Fund and its ability to support surface transportation infrastructure needs in the future.

My testimony today is based on work GAO has conducted over the past several years, and updated information on the Highway Trust Fund.<sup>1</sup> I will focus on how the Highway Trust Fund operates and its ability to meet existing and future funding needs.

#### THE HIGHWAY TRUST FUND

The federal Highway Trust Fund was established in 1956 essentially as an accounting mechanism to finance the federal-aid highway program. In 1982, the fund was divided into a highway account and a mass transit account. Programs funded through the highway account are generally administered by the Federal Highway Administration (FHWA), with the Federal Transit Administration (FTA)

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<sup>1</sup> Highway Trust Fund: Condition and Outlook for the Highway Account (GAO/RCED-89-136, May 1989); Highway Trust Fund: Revenue Sources, Uses, and Spending Controls (GAO/RCED-92-48FS, Oct. 1991); Highway Trust Fund: Strategies for Safeguarding Highway Financing (GAO/RCED-92-245, Sept. 1992); Transportation Trust Funds (GAO/AIMD-95-96R, Mar. 1995).

administering those funded through the transit account.

Financing for the fund is derived from a variety of highway user taxes. Currently, these federal taxes include fuel taxes of 18.3-cents per gallon of gasoline, a 24.3-cents per gallon tax on diesel fuel, a graduated tax on certain tires, and a heavy vehicle use tax imposed on large trucks.

During fiscal year 1995, these taxes generated about \$23.7 billion for the Highway Trust Fund,<sup>2</sup> with 60 percent of these revenues coming from the gasoline tax. (See Appendix I for a listing of the receipts generated by various highway user taxes in fiscal year 1995). The total tax collections, however, were subject to certain tax refunds, credits, and transfers, such as a tax rebate for diesel powered vehicles, totaling about \$1.1 billion, thus net taxes generated totaled approximately \$22.6 billion in fiscal year 1995.

When revenues credited to the fund exceed the amount required for current expenditures, an account balance exists. This balance is invested in public debt securities, and interest earned on these securities is considered revenue to the fund. In fiscal year 1995, interest earned totaled approximately \$1.2 billion.

Although the majority of highway user tax revenues are credited to either the

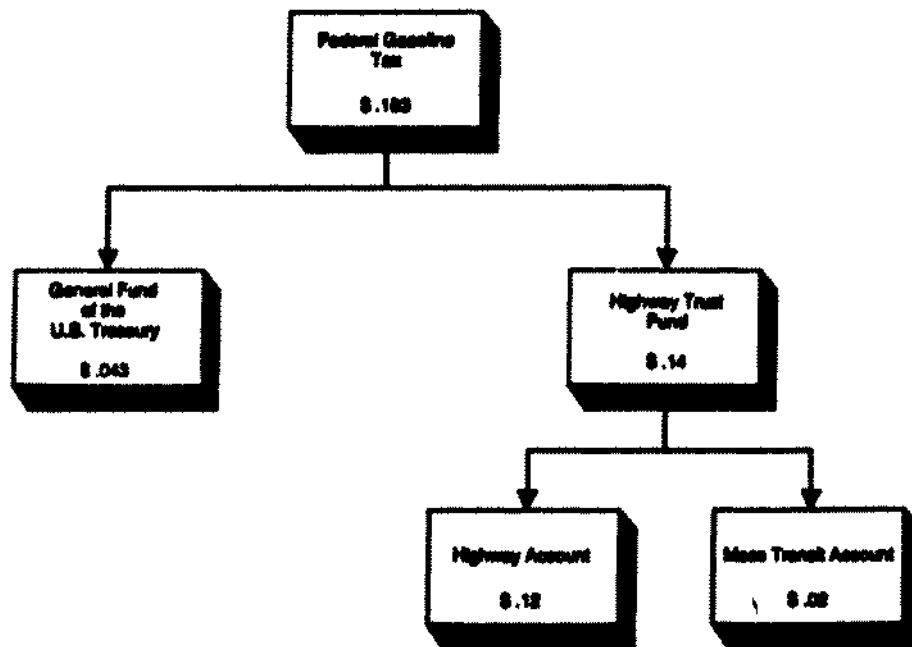
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<sup>2</sup> Represents total excise tax receipts prior to any refunds or tax credits.

highway or mass transit accounts, there is a noteworthy exception. The exception is that 4.3 cents per gallon of fuel taxes are credited to the General Fund of the U. S. Treasury for deficit reduction purposes.

For example, figure 1 shows what happens to the funds from the federal tax on one gallon of gasoline. The federal tax per gallon for other types of motor fuels generally follow a similar breakdown pattern, with 4.3 cents from other fuel sources going to the General Fund of the U. S. Treasury.

Figure 1: Gasoline User Fee Breakdown Per Gallon of Gasoline



Source: Based on a modified FHWA graph.

Revenues in the trust fund are used to reimburse state governments and mass transit authorities for money spent on surface transportation programs including the federal-aid highway system projects and for transit projects. The federal government generally pays 80 percent of a project's cost, although for some projects, such as Interstate projects, the federal share may reach as high as 90 percent, or 100 percent for federal land projects. Once the federal government approves a project, the federal share is considered "obligated."<sup>3</sup> At that point, a state or transit authority is able to start work, and when the state or transit authority incurs costs for this work, it pays the bills and seeks reimbursement of the federal share. When this reimbursement occurs, the federal funds are actually "outlayed" or "expended." The outlays for a project are generally spread over a number of years, as they reflect the time lag between the start and completion of a project.

The Congress periodically reauthorizes the funding of federal surface transportation programs, with the most recent reauthorization occurring in 1991 through the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). This

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<sup>3</sup> A two-step process implements most federal programs. The initial step is the congressional passage of authorizations that sets an upper limit on program funding. But the program may start, only after passage of a second piece of legislation, the appropriations act. In an appropriations act, the Congress appropriates an amount that can actually be used for the program. However, many federal highway and mass transit programs do not require this two-step process to commit or obligate federal funds. Through what is termed "contract authority" (a special kind of budgetary authority), sums authorized for many highway and mass transit programs are made available for obligation without an appropriations action.

✓ legislation authorized a total of approximately \$155 billion for surface transportation programs for fiscal years 1992 through 1997, with about \$140 billion of the funds coming from the Highway Trust Fund and about \$15 billion from the General Fund. Of the approximately \$140 billion, about \$122 billion were for highways and related programs and about \$18 billion for mass transit programs.

However, not all of the funds authorized for a given year may be available in that year for states' or transit authorities' use. The Congress may impose an obligation limitation on funds authorized as part of an overall effort to control federal spending. A limitation on obligations acts as a ceiling on the sum of all obligations within a specified time period, usually a fiscal year. The limitation does not reduce the amount of funds already distributed (apportioned) to the states;<sup>4</sup> it only slows the rate of obligations.<sup>5</sup> The funds that are distributed annually for highway and mass transit programs are generally based on prescribed formulas in surface transportation legislation.

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<sup>4</sup> For transit, the limitation on obligations sets the amount of funds apportioned to transit authorities.

<sup>5</sup> The Congress could, but rarely does, rescind previously authorized funds. In that case, the amounts rescinded, or eliminated, are not available in the future for the federal-aid highway or transit programs.

**THE HIGHWAY ACCOUNT RECOGNIZES FUTURE INCOME**

Current projections by FHWA estimate an end of fiscal year 1997 balance of \$14.1 billion in the highway account. The balance exists because more money will have been taken into the trust fund than spent at that time.

The trust fund balance, however, has often been misunderstood, with many believing that the balance represents excess cash. How the trust fund functions becomes clearer when it is compared with an individual's charge account. For discussion purposes, assume an individual has cash on-hand but not enough to pay his or her total monthly charges. In this case, the cash cannot be considered excess because it is needed to pay the incoming charges. On the other hand, the individual is also not in a deficit situation because at the end of the month his or her monthly income will be available to help pay the outstanding charges. Thus, the cash the individual has on-hand plus future income helps to ensure that there will be sufficient funds to pay all outstanding charges.

Similarly, the fiscal year 1997 estimated highway account balance of \$14.1 billion will be needed to cover outstanding authorizations but is not sufficient to cover all of ISTFA's authorizations. FHWA estimates that the authorized amounts outstanding, or commitments, will total about \$44.6 billion in fiscal year 1997.<sup>6</sup>

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<sup>6</sup> Includes funds constrained from state spending through obligation ceilings.



This apparent shortfall, however, needs to be viewed in relation to the financial design of the Highway Trust Fund. When the Congress established the Fund in 1966, it also established a safety mechanism, referred to as the Byrd Amendment, to ensure that sufficient funds would be available to liquidate commitments at the end of each fiscal year. As revised by the Surface Transportation Assistance Act in 1982, the Byrd Amendment permits the total of projected unpaid commitments against the trust fund at the close of any fiscal year to exceed the end-of-year balance, as long as projected income for the following 2 fiscal years will be sufficient to cover the commitments. If the balance plus projected income does not cover outstanding commitments, proportionate reductions to the amounts apportioned to all programs must be made.

Thus, if it is assumed for purposes of analysis that the federal-aid highway program will not be extended and that no new commitments will be authorized beyond fiscal year 1997, the highway account is designed so that revenue will continue to be credited to the account through fiscal year 1999.<sup>7</sup> Given this infusion of revenue for fiscal years 1998 and 1999, there would be sufficient revenue to pay off all commitments and leave an estimated balance of \$16.7 billion.

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<sup>7</sup> Estimated revenue in fiscal year 1998 and 1999 is approximately \$23.2 billion and \$24 billion respectively, thus bringing the revenue total during the 2-year period to about \$47.2 billion.

This estimated balance of \$16.7 billion could be used to support future authorizations. However, because revenue forecasts can and do change because of changes in economic assumptions and conditions, FHWA recommends that a safety cushion of up to \$3 billion be provided for, thus reducing the projected beginning balance available for future authorizations to \$13.7 billion.

#### THE MASS TRANSIT ACCOUNT RECOGNIZES FUTURE REVENUES

As mentioned earlier, the Highway Trust Fund also includes a transit account, which is funded through a share of the federal motor fuel taxes. The Federal Transit Administration (FTA) estimates that the transit account will have a balance of \$9.8 billion at the end of fiscal year 1997. But once again, this ending balance is not the end of the financing story for the transit account, because like its highway counterpart, outstanding commitments will remain to be paid.<sup>8</sup> Nonetheless, even after all unpaid commitments are considered, the revised uncommitted balance is estimated to total approximately \$4.0 billion at the end of fiscal year 1997.

However, because both the highway and mass transit accounts are designed to recognize future revenues, a future revenue stream will increase the funds available for reauthorization. Similar to the Byrd Amendment, which provides the highway

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<sup>8</sup> These unpaid commitments are estimated to total approximately \$5.9 billion in fiscal year 1997.

account with 2 years' of future revenues, the "Roskenkowski Amendment" provides the transit account with one future year's revenues to apply against outstanding commitments. Because the transit account is expected to have a balance of approximately \$4.0 billion after providing for all outstanding commitments, the additional income (taxes plus interest) projected for fiscal year 1998 would increase the funds expected to be available to \$7.6 billion.

However, if it is assumed for purposes of analysis that the mass transit programs funded through the Highway Trust Fund are not extended and that no new commitments will be authorized beyond fiscal year 1997, the mass transit account will continue to have revenues credited to the account through fiscal year 1999, one year beyond what the Roskenkowski Amendment provides for. Thus, the uncommitted balance of approximately \$7.6 billion, plus additional income (taxes plus interest) projected at about \$3.6 billion for fiscal year 1999 would increase the funds expected to be available to \$11.2 billion. The \$11.2 billion is the amount estimated to be left after all ISTEA authorizations have been considered. In other words, the amount could be used to support future authorizations. But, a senior Department of Transportation budget analyst recommended a safety cushion of \$.5 billion to guard against revenue fluctuations, thus reducing the estimated starting balance of funds available to support a new authorization for transit programs to \$10.7 billion.

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**This concludes my prepared statement. I will be happy to respond to any questions that you or members of the Subcommittee might have.**

APPENDIX I

APPENDIX I

**FEDERAL HIGHWAY USER TAX RECEIPTS FOR THE HIGHWAY  
TRUST FUND FISCAL YEAR ENDED SEPTEMBER 30, 1995**

(Dollars in millions)

Type of Tax	Receipts <sup>9</sup>	Percentage of Total Receipts
Gasoline	\$14,172	60
Gasohol	758	3
Diesel	5,869	24
Special motor fuels	37	—
Tires	395	2
Trucks and trailers	2,009	8
Use tax on heavy vehicles	682	3
Fines and Penalties	<u>11</u>	<u>—</u>
<b>TOTAL</b>	<b>23,733</b>	<b>100</b>

Source: FHWA

(342920)

<sup>9</sup> Represents total excise tax receipts prior to any refunds or tax credits or transfers, which in fiscal year 1995 totaled about \$1.1 billion.

# **CBO TESTIMONY**

**Statement of  
Robert A. Sunshine  
Deputy Assistant Director  
for Budget Analysis  
Congressional Budget Office**

**on  
The Highway Trust Fund**

**before the  
Subcommittee on Surface Transportation  
Committee on Transportation and Infrastructure  
U.S. House of Representatives**

**May 16, 1996**

## **NOTICE**

**This statement is not available for  
public release until it is delivered  
at 9:30 a.m. (EDT) on Thursday,  
May 16, 1996.**



**CONGRESSIONAL BUDGET OFFICE  
SECOND AND D STREETS, S.W.  
WASHINGTON, D.C. 20515**

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you this morning to discuss the status of the Highway Trust Fund. My testimony will review the current status of the trust fund, present a number of projections of trust fund receipts and outlays for the next six years, and discuss the implications of the projections for the federal budget deficit.

### FINANCIAL STATUS OF THE HIGHWAY TRUST FUND

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The Highway Trust Fund is a set of accounts in the federal budget for recording the collection of various receipts from fuel taxes and other earmarked excise taxes, spending on designated highway and mass transit programs, and interest earnings on unexpended balances. There are two separate accounts in the fund, one for highway programs and one for mass transit programs.

Unlike most other federal trust funds, there is no direct relationship between the Highway Trust Fund's receipts and budget authority for its spending programs. Authorization acts provide budget authority for most highway programs in the form of contract authority, the authority to incur obligations in advance of appropriations. Outlays from the trust fund are largely controlled by limits on annual obligations set in appropriation acts, which constrain the amount of outstanding contract authority that can be obligated in any one year. The unexpended balance (sometimes called

the cash balance) in the trust fund consists of the amount of cash and Treasury securities credited to the fund, and it represents the cumulative difference between receipts (taxes and interest) and outlays over the life of the fund.

Over the past 10 years, the fund's two accounts received total tax revenues of \$161 billion, spent \$170 billion, and earned \$14 billion in interest. The total unexpended balance grew steadily during the 1980s because balances in the transit account were increasing, but it has been fairly stable since 1991. At the beginning of this fiscal year, the total unexpended balance in the Highway Trust Fund amounted to \$19 billion, consisting of \$9.4 billion in the highway account and \$9.6 billion in the transit account (see Table 1).

Outlays for the highway account have roughly kept pace with new trust fund receipts in recent years. Since 1985, tax revenues and interest income to the highway account have totaled \$153 billion, while outlays have totaled about \$154 billion. As a result, the unexpended balance in this account has fluctuated within a narrow range over the past decade.

The transit account was established in 1983, when 1 cent per gallon of the fuel tax was designated for mass transit programs. The account's unexpended



**TABLE 1. FINANCIAL POSITION OF THE HIGHWAY TRUST FUND, 1985-1995**  
(By fiscal year, in billions of dollars)

Year	Receipts		Total	Budget Authority <sup>b</sup>	Outlays	Unexpended Balance
	Tax Revenue <sup>a</sup>	Interest Income				
<b>Highway Account</b>						
1985	11.8	1.1	12.9	15.2	12.8	18.4
1986	12.3	1.1	13.3	14.8	14.2	9.5
1987	11.8	0.9	12.7	13.8	12.8	9.4
1988	12.8	0.8	13.6	14.1	14.0	9.8
1989	14.4	0.8	15.1	14.4	13.6	10.6
1990	12.5	1.0	13.5	15.2	14.4	9.6
1991	14.3	0.8	15.1	14.3	14.7	10.2
1992	15.7	0.9	16.6	17.8	15.5	11.3
1993	16.0	0.8	16.9	21.8	16.6	11.8
1994	16.3	0.8	17.0	22.5	19.0	9.8
1995	18.8	0.5	19.4	21.4	19.8	9.4
<b>Transit Account</b>						
1985	1.2	0.2	1.4	1.1	0.5	2.5
1986	1.1	0.3	1.4	1.1	0.6	3.3
1987	1.2	0.3	1.6	1.1	0.7	4.2
1988	1.3	0.4	1.7	1.2	0.7	5.2
1989	1.8	0.5	1.7	1.3	0.8	6.1
1990	1.4	0.6	2.0	1.3	0.9	7.2
1991	2.5	0.7	3.1	1.4	1.1	9.3
1992	1.1	0.7	1.8	1.8	1.3	9.8
1993	2.0	0.7	2.7	2.9	1.9	10.6
1994	2.0	0.7	2.7	3.0	3.4	9.8
1995	2.2	0.6	2.8	2.9	3.2	9.6
<b>Combined Trust Fund</b>						
1985	13.0	1.8	14.3	16.3	13.8	12.9
1986	13.4	1.8	14.7	15.8	14.8	12.9
1987	13.0	1.8	14.3	14.9	15.5	13.6
1988	14.1	1.8	15.5	15.3	14.7	14.2
1989	15.6	1.2	16.9	15.7	14.5	16.6
1990	13.8	1.6	15.4	16.5	15.3	16.8
1991	17.0	1.5	16.5	15.7	15.7	19.5
1992	16.7	1.7	18.4	19.8	16.8	21.1
1993	18.0	1.6	19.7	24.4	18.6	22.1
1994	18.3	1.4	19.8	25.5	22.4	19.4
1995	21.0	1.8	22.2	24.3	22.7	19.8

SOURCE: Congressional Budget Office, Office of Management and Budget.

- a. About \$1.6 billion of the tax revenue collected in 1994 was not deposited in the highway account until 1996. This table shows estimated figures for each year.
- b. Includes contract authority for federal-aid highways, major center safety grants, highway traffic safety grants, highway-related safety grants and transit grants, as well as appropriations for several smaller programs.

balance grew gradually until 1993, when it reached \$10.6 billion. In the last two years, spending from the transit account has exceeded its income, and the balance has dropped by \$1 billion.

The unexpended balance in the Highway Trust Fund does not measure the amount of unobligated funds available for future spending on highway and transit projects. On the contrary, existing obligations far exceed the amounts currently in the fund, but projects are carried out and the money is spent over a number of years. For example, at the end of fiscal year 1995, outstanding obligations of the Highway Trust Fund totaled \$36 billion, compared with the \$19 billion balance in the fund.

The apportionment to states of contract authority for the highway account is limited by a provision of law known as the Byrd Amendment. Under this provision, unexpended budget authority (referred to as unpaid authorizations) can exceed the cash balance by no more than the projected receipts for the next two years (including interest). A similar mechanism, known as the Rostenkowski test, applies to the transit account, but encompasses only one year's worth of expected revenue. Neither account is currently constrained by these limitations.

These rules do not effectively measure whether the fund has adequate cash resources to pay for present or future commitments, which are largely determined by the rate at which funds are obligated, rather than by the amount of unused budget

authority. At the end of fiscal year 1995, amounts obligated but not yet spent by the highway account exceeded the cash balances by about one year of future income, whereas obligated balances of the transit account are far less than its current cash balance.

### SPENDING AND REVENUE PROJECTIONS

The Congressional Budget Office (CBO) has projected spending and receipts for the Highway Trust Fund over the next several years using a number of different assumptions. Under CBO baseline projections, which assume no change in current taxing and spending policies, the Congressional Budget Office estimates that total receipts will exceed obligations and outlays for both the highway and transit accounts over the next seven years.

#### Revenue Projections

The Highway Trust Fund is financed by excise taxes on motor fuels, a sales tax on tires and tread rubber, a use tax on heavy vehicles, and a sales tax on large trucks and

trailers. Approximately 90 percent of the trust fund's revenue comes from the excise taxes on motor fuels. Of the 18.3 cents a gallon federal gas tax, 14 cents is now dedicated to the trust fund and 4.3 cents goes into the general fund for deficit reduction.

CBO projects that excise tax receipts earmarked for the trust fund will increase significantly in fiscal year 1996, growing to \$23.7 billion from the \$21 billion collected in 1995. The increase will occur largely because, under the provisions of the Omnibus Budget Reconciliation Act of 1993, 2.5 cents per gallon of gasoline and diesel fuel taxes, which until this year had been allocated to the general fund, is now credited to the Highway Trust Fund. Of that amount, 2 cents is targeted for the highway account and one-half cent is earmarked for the transit account. In subsequent years, CBO projects an increase in excise tax collections of about 2.4 percent per year, assuming that the taxes are extended at current rates when they expire in 1999. By 2002, tax revenues deposited in the trust fund will reach an estimated \$27 billion a year. (Recent information suggests that tax receipts earmarked for the trust fund, and thus fund balances, may be higher than estimated under CBO baseline assumptions.)

**Baseline Outlay Projections**

In estimating baseline outlays, CBO has assumed that most trust fund spending will continue to be limited by appropriations of budget authority or ceilings on annual obligations—either adjusted for inflation or frozen at the 1996 level. In addition, CBO has estimated future obligations for the mandatory programs not covered by such a ceiling—the minimum allocation program, emergency relief, and highway demonstration projects authorized in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA).

If the appropriated limits are adjusted for inflation, CBO estimates that trust fund outlays will grow to about \$25 billion in 2002 (see Table 2). If the appropriations are maintained at the current level, trust fund outlays will remain at \$22 billion to \$23 billion a year (see Table 3). Neither of these projections includes highway demonstration projects other than those authorized in ISTEA. If CBO assumed future authorizations for such projects in annual amounts similar to those in ISTEA, estimated outlays after 1999 would increase by about \$1 billion a year.

**TABLE 2. CBO BASELINE PROJECTIONS FOR THE HIGHWAY TRUST FUND, WITH ADJUSTMENT FOR INFLATION (By fiscal year, in billions of dollars)**

Fiscal Year	Receipts		Total	Budget Authority	Total Obligations	Outlays	Unexpended Balance
	Tax Revenue	Interest Income					
<b>Highway Account</b>							
1996	20.8	0.7	21.5	18.4	20.6	20.1	11.0
1997	21.1	0.7	21.8	22.6	20.9	20.4	12.2
1998	21.7	0.8	22.5	23.4	20.8	20.6	14.1
1999	22.2	1.0	23.2	23.7	21.0	20.5	16.7
2000	22.8	1.1	23.9	24.2	21.4	20.8	19.8
2001	23.3	1.3	24.6	24.6	22.0	21.2	23.1
2002	23.9	1.5	25.4	25.1	22.5	21.8	26.8
<b>Transit Account</b>							
1996	2.8	0.7	3.5	2.8	2.8	3.1	10.0
1997	2.9	0.6	3.6	4.8	2.9	3.1	10.5
1998	3.0	0.7	3.6	4.9	2.9	2.9	11.2
1999	3.1	0.7	3.8	5.1	3.0	2.9	12.1
2000	3.1	0.8	3.9	5.2	3.1	3.0	13.0
2001	3.2	0.8	4.0	5.4	3.2	3.1	14.0
2002	3.3	0.9	4.2	5.5	3.3	3.1	15.0
<b>Combined Trust Fund</b>							
1996	23.7	1.3	25.0	21.2	23.3	23.2	20.8
1997	24.0	1.4	25.4	27.4	25.7	23.5	22.7
1998	24.6	1.5	26.1	28.3	23.7	23.5	25.3
1999	25.3	1.7	27.0	28.8	24.0	23.5	28.8
2000	25.9	1.9	27.8	29.4	24.5	23.8	32.8
2001	26.5	2.2	28.7	30.0	25.1	24.3	37.2
2002	27.2	2.4	29.6	30.6	25.8	24.9	41.9

SOURCE: Congressional Budget Office.

**TABLE 3. CBO BASELINE PROJECTIONS FOR THE HIGHWAY TRUST FUND, WITHOUT ADJUSTMENT FOR INFLATION (By fiscal year, in billions of dollars)**

Fiscal Year	Receipts		Total	Budget Authority	Total Obligations	Outlays	Unexpended Balance
	Tax Revenue	Interest Income					
<b>Highway Account</b>							
1996	20.8	0.7	21.5	18.4	20.6	20.1	11.0
1997	21.1	0.7	21.8	22.6	20.3	20.4	12.3
1998	21.7	0.8	22.5	23.3	19.7	20.1	14.7
1999	22.2	1.0	23.2	23.7	19.3	19.6	18.3
2000	22.8	1.3	24.1	24.1	19.2	19.4	22.9
2001	23.3	1.6	24.9	24.6	19.2	19.3	28.6
2002	23.9	2.0	25.9	25.0	19.1	19.3	35.2
<b>Transit Account</b>							
1996	2.8	0.7	3.3	2.8	2.8	3.1	10.0
1997	2.9	0.6	3.6	4.8	2.8	3.0	10.6
1998	3.0	0.7	3.7	4.9	2.8	2.8	11.4
1999	3.1	0.7	3.8	5.1	2.8	2.8	12.4
2000	3.1	0.8	3.9	5.2	2.8	2.8	13.6
2001	3.2	0.9	4.1	5.4	2.8	2.8	14.9
2002	3.3	1.0	4.2	5.5	2.8	2.8	16.3
<b>Combined Trust Fund</b>							
1996	23.7	1.3	25.0	21.2	23.3	23.2	20.8
1997	24.0	1.4	25.4	27.4	23.1	23.4	22.8
1998	24.6	1.5	26.2	28.3	22.4	23.0	26.0
1999	23.3	1.8	27.0	28.7	22.1	22.4	30.7
2000	25.9	2.1	28.0	29.3	22.0	22.2	36.5
2001	26.5	2.5	29.0	29.9	21.9	22.1	43.4
2002	27.2	2.8	30.1	30.6	21.9	22.1	51.3

SOURCE: Congressional Budget Office.

### Projected Fund Balances

Under both sets of baseline projections, receipts from taxes and interest would significantly exceed new obligations and outlays, leading to a large unexpended balance in the trust fund in 2002: about \$42 billion if spending grows with inflation and \$52 billion if it remains at current levels.

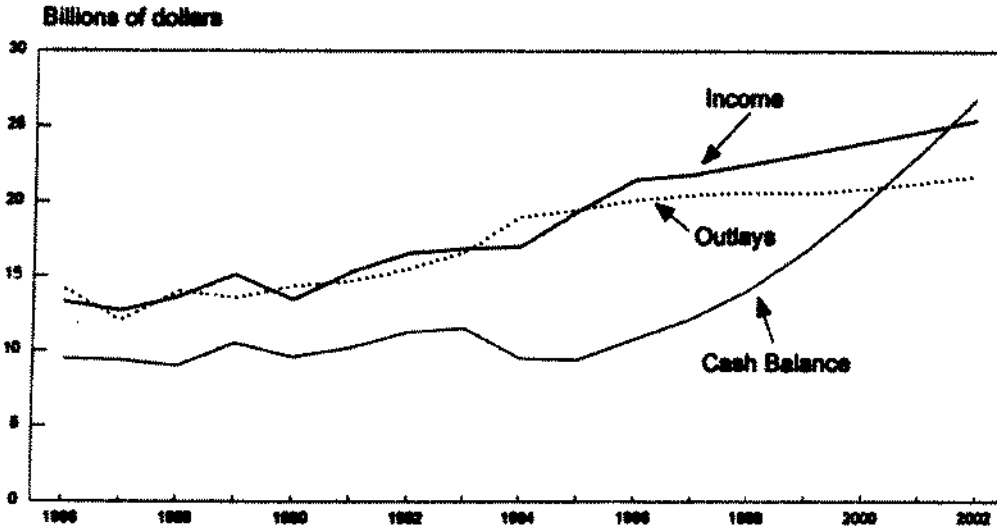
In the highway account, receipts over the next seven years would exceed total outlays by about \$18 billion if discretionary obligations grow with inflation (see Figure 1, top) and by \$26 billion if they are frozen at the 1996 level. As a consequence, the highway account's unexpended cash balance would grow to \$27 billion in the first instance and \$35 billion in the second. In either case, CBO projects that the Byrd Amendment would not be triggered in the next seven years.

Under baseline assumptions, the transit account's unexpended balance would grow to \$15 billion or \$16 billion by 2002. The mechanism of the Rostenkowski test would be close to being triggered in 2002 under the baseline adjusted for inflation, when the cash balance plus projected revenue for 2003 would exceed the unexpended budget authority by only \$1.5 billion. The account would contain substantial cash balances, however, and would be in no danger of insolvency as long as obligations remained significantly below the projected contract authority.

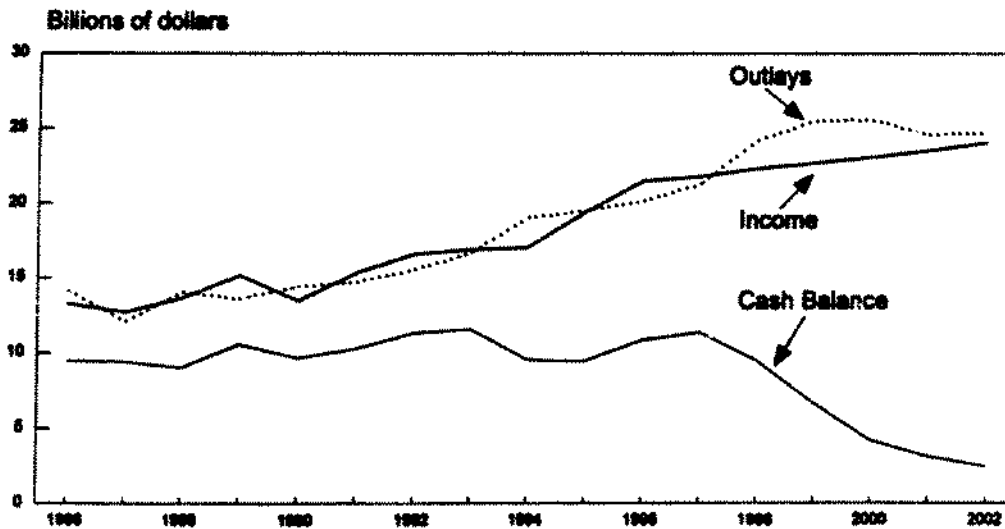


**Figure 1. Alternative Projections of Spending, Receipts, and Balance for the Highway Account of the Highway Trust Fund (By fiscal year)**

**Spending, Receipts, and Cash Balance under CBO Baseline Assumptions  
(Including Adjustments for Inflation)**



**Spending, Receipts, and Cash Balance under a Full-Funding Scenario**



Note: Fiscal year 1994 and 1995 revenue data are corrected to show amounts collected for each year.

**Alternative Projection: Full Funding at Authorized Levels**

CBO has also developed projections assuming that the Congress provides additional contract authority after ISTEA expires in 1997 (at ISTEA levels adjusted for inflation) and allows the obligation of all available contract authority. In this scenario, trust fund outlays would increase significantly--to about \$30 billion in 2002--compared with \$27 billion in tax receipts in that year (see Table 4). The trust fund's total receipts would be less than they would be under baseline assumptions because interest income into the trust fund would fall as the cash balances decline. The unexpended balances would drop to less than \$7 billion by the end of 2002 and continue to decline thereafter.

Under the full-funding scenario, the cash balance in the highway account would be quite low--about \$2 billion by the end of 2002--leaving little room for error in estimates of future revenues or spending (see Figure 1, bottom). Nevertheless, the Byrd rule--established to protect the account from insolvency--would not be triggered. By the end of 2002, the cash balance in the transit account would be about \$4 billion and falling each year, and spending would be \$2 billion a year above tax receipts. That rate of spending would be unsustainable over the long term.

**TABLE 4. CBO PROJECTIONS FOR THE HIGHWAY TRUST FUND UNDER A FULL-FUNDING SCENARIO (By fiscal year, in billions of dollars)**

Fiscal Year	Receipts		Total	Budget Authority	Total Obligations	Outlays	Unexpended Balance
	Tax Revenue	Interest Income					
<b>Highway Account</b>							
1996	20.8	0.7	21.5	18.4	20.6	20.1	11.0
1997	21.1	0.7	21.8	22.6	25.7	21.3	11.3
1998	21.7	0.7	22.3	23.4	26.9	24.2	9.5
1999	22.2	0.5	22.7	23.7	26.9	25.5	6.7
2000	22.8	0.3	23.1	24.3	24.4	25.6	4.3
2001	23.3	0.2	23.5	24.6	24.8	24.6	3.1
2002	23.9	0.2	24.1	25.1	25.2	24.7	2.4
<b>Transit Account</b>							
1996	2.8	0.7	3.5	2.8	2.8	3.1	10.0
1997	2.9	0.6	3.5	4.8	4.8	3.9	9.7
1998	3.0	0.6	3.6	4.9	4.9	4.0	9.3
1999	3.1	0.6	3.6	5.1	5.1	4.3	8.5
2000	3.1	0.5	3.6	5.2	5.2	4.7	7.4
2001	3.3	0.4	3.6	5.4	5.4	5.0	6.1
2002	3.5	0.3	3.6	5.5	5.5	5.3	4.5
<b>Combined Trust Fund</b>							
1996	23.7	1.3	23.0	21.3	23.3	23.3	20.8
1997	24.0	1.3	23.3	27.4	30.5	25.3	21.0
1998	24.6	1.3	23.9	28.3	31.9	28.2	18.6
1999	23.5	1.1	26.3	28.8	32.0	29.8	15.1
2000	25.9	0.8	26.7	29.4	29.6	30.3	11.6
2001	26.5	0.8	27.1	30.0	30.1	29.6	9.3
2002	27.3	0.5	27.7	30.6	30.7	29.9	6.9

SOURCE: Congressional Budget Office.

**Matching Spending and Income**

Because the Highway Trust Fund's projected income is above current spending levels and growing, the fund can support a higher rate of expenditure. But a large portion of the fund's outlays occur well after money is obligated. Therefore, significant increases in the rate of spending are difficult to accomplish quickly without overshooting the mark later on—as in the full-funding case just discussed. Therefore, the fund's unexpended balance is likely to grow for the next few years, even if the obligation rate is increased substantially.

**BUDGETARY IMPACT OF THE TRUST FUND**

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The federal budget as a whole basically operates on a cash basis; this year's tax collections and other incoming payments from the public are used to pay for this year's cash outlays. The shortfall in receipts compared with outlays constitutes the budget deficit and is financed by borrowing from the public.

Viewed in this light, the Highway Trust Fund has a different impact on the budget than the trust fund accounting implies. The principal difference is that the interest earnings of the fund are intragovernmental transactions that have no net effect on the budget deficit. The interest receipts credited to the fund are matched

dollar for dollar by Treasury outlays. Therefore, the current budgetary impact of the trust fund is simply the difference between the tax receipts credited to and outlays charged to the fund. Spending less than the annual tax receipts reduces the budget deficit, whereas spending more than the tax revenues increases it, even if the added spending comes from unexpended balances of the fund.

The unexpended balances and the resulting interest earnings are indicators of the cumulative effects on federal borrowing needs of past spending and taxing policies associated with the trust fund. Tax revenues credited to the highway account exceeded spending from that account in the 1970s; the same situation occurred with the transit account in the 1980s. As a result, the federal deficit and the government's borrowing from the public during those years were reduced. The interest credited to the trust fund is largely a measure of the current savings in interest costs resulting from those past policies.

The presence of cash balances has led some people to conclude that the Highway Trust Fund is currently being used to reduce the federal deficit. That has not been the case in recent years. From 1991 through 1995, for example, the fund's outlays have totaled \$96 billion, exceeding the \$91 billion in tax revenues credited to the fund during that time.

Recent trends will not necessarily hold in the future, however, particularly because an additional 2.5 cents per gallon of the gasoline tax is now allocated to the Highway Trust Fund. As a result, under CBO's baseline assumptions, tax revenues credited to the fund would exceed outlays in each of the next several years. (General fund receipts, however, would decline correspondingly.) Under the full-funding scenario, in which obligations and outlays are increased above baseline projections, the deficit would increase over the 1997-2002 period by about \$30 billion in relation to CBO's baseline with inflation and by about \$38 billion in relation to the baseline without inflation, excluding interest effects. Thus, while it is possible to increase spending from the fund over the next several years by drawing down its balances, such a policy would have a significant adverse effect on the federal deficit.

Such increases in spending would encounter another budgetary constraint—the limits on discretionary spending. The federal government has been in, and is likely to remain in, a period of fiscal stringency, particularly for nondefense discretionary spending. Under current policies aimed at balancing the budget by 2002, such spending is likely to decline, or at best remain level, over the next few years. Therefore, if highway and transit spending is to grow as trust fund income increases, it will have to compete against other spending priorities in order to obtain a growing share of limited discretionary resources.

## CONCLUSION

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Deciding the appropriate level of federal infrastructure spending while attempting to balance the budget will be difficult, but the existence of trust fund balances should not, by itself, justify additional highway or transit spending. Although beneficiary-based taxes are certainly a reasonable way to finance government spending, decisions about additional spending on highways and transit programs--as with any federal program--are best made on the basis of the benefits to be derived, not on the basis of available earmarked revenues. Such decisions should also take into account the appropriate role for state and local governments, which pay most of the country's highway and transit costs, and the resources that are available to them. There is no fundamental economic reason why federal spending for transportation infrastructure should be identical to the income from the gasoline tax and other transportation-related excise taxes. Rather, our nation is best served if limited resources are allocated to programs and projects that yield the greatest net benefits to society.

**Statement of Marshall V. Washburn  
National Director, Specialty Taxes  
Internal Revenue Service**

**Before the**

**Subcommittee On Surface Transportation  
House Committee On Transportation and Infrastructure**

**May 16, 1996**

**Mr. Chairman and Members of the Subcommittee:**

I am pleased to represent Commissioner Richardson and to testify on behalf of the Internal Revenue Service on Highway Trust Fund tax compliance and collections.

With me today is Edward L. Federico, Jr., Director, National Operations Division, Criminal Investigation.

**I. INTRODUCTION**

The Internal Revenue Service (IRS) previously appeared before this Subcommittee in August 1994. On that occasion, we described our plans for implementing the motor fuel excise tax provisions in the Omnibus Budget Reconciliation Act of 1993 (OBRA), and provided the Subcommittee with preliminary data showing increased compliance and its positive effect on Highway Trust Fund revenue.

Today, we want to report on the actions we have taken and the progress we have made since our appearance in August 1994. The change in the point of taxation for diesel fuel and the dyeing of tax-free diesel fuel effected by OBRA have resulted in greater taxpayer compliance and increased Highway Trust Fund revenue. Additionally, our joint compliance efforts with the Federal Highway Administration



(FHWA) and the states, funded in part by the Intermodal Surface Transportation and Efficiency Act of 1991 (ISTEA), have had a significant, positive impact on compliance.

Despite the increase in Highway Trust Fund tax revenue voluntarily reported over the past two years, there is evidence of continuing noncompliance with the motor fuel excise tax laws -- incorrect filings, failures to file, and fraudulent schemes to evade taxes. In an industry where profit margins are measured in pennies-per-gallon, noncompliance with Federal motor fuel excise taxes offers a substantial monetary return. Revenue lost as a result of such noncompliance impedes the ability of the Federal government to build and maintain the Nation's transportation system. Motor fuel excise tax evasion also places legitimate businesses at a competitive disadvantage and is harmful to the motor fuel industry.

Increased enforcement activities, expanded working partnerships between the IRS, the FHWA, the states, the motor fuel industry, and the Congress will be necessary to combat these challenges.

## II. JOINT FEDERAL/STATE MOTOR FUEL TAX EFFORTS

Section 1040 of ISTEA provides \$5 million annually for FY 92 through FY 97 from the Highway Trust Fund for Federal and state motor fuel tax enforcement. The FHWA has allocated \$3 million of these funds to the states and \$2 million to the IRS annually for FY 92 through FY 97. In addition, ISTEA authorizes that \$2.5 million from the General Fund may be appropriated each year for FY 92 through FY 97. However, the IRS has received no appropriated funds under ISTEA from the General Fund.

The \$5 million provided to the states and to the IRS under ISTEA each year from the Highway Trust Fund has been used to fund the Joint Federal/State Motor Fuel Tax Compliance Project (Project). The Project was initiated in 1990 with three pilot states and five pilot IRS districts, with the support and cooperation of the FHWA. It was subsequently expanded to include all IRS district offices and additional states. At the present time, all 50 states and the District of Columbia participate in the Project.

The goal of the Project is to increase voluntary compliance with Federal and state motor fuel tax laws through cooperative efforts and information sharing. The IRS has used ISTEA funds to:

- o Conduct additional motor fuel tax examinations and compliance initiatives,
- o Aggressively investigate and prosecute motor fuel excise tax evasion, and
- o Test the feasibility of a Federal fuel tracking system.

As a result of the Project, IRS has examined an additional 7,000 returns and assessed an additional \$110 million in excise taxes and penalties at a yield to cost ratio of 20:1. Additionally, beginning in March 1993 and continuing through August 1995, our undercover operations resulted in 10 major indictments. Collectively, these indictments involved over 136 defendants and over \$363 million in evaded taxes. Although these efforts represent only a fraction of the total IRS compliance effort in the motor fuel excise tax area, the benefits of the Project go beyond the additional dollars cited above. The synergy of our enforcement personnel working together with state enforcement personnel has resulted in increased information sharing and transference of auditing and investigative skills. This will have a long-term impact by increasing the

productivity and quality of all motor fuel excise tax examinations for states as well as for the IRS.

ISTEA funding for Federal and state motor fuel excise tax compliance efforts is essential if current compliance levels are to be maintained in the future. Without continued ISTEA funding, the motor fuel excise tax examinations and other related compliance activities carried on as part of the Project will have to be curtailed. The state motor fuel compliance efforts funded by ISTEA also have a direct impact on compliance with Federal motor fuel excise tax laws and thus on Highway Trust Fund revenues. Without continued ISTEA funding, state motor fuel excise tax compliance efforts will most likely also have to be curtailed. Both the Federal and state motor fuel excise tax compliance efforts funded by ISTEA are highly productive and are a good investment.

### III. DYED DIESEL FUEL

OBRA changed the point of taxation for diesel fuel from the wholesaler to the terminal rack. OBRA also provided that only dyed diesel fuel can be sold for tax exempt purposes after January 1, 1994, and dyed fuel may not be used on the highway. Sales of dyed diesel are allowed for exempt uses only, e.g. state and local government, farming, and off-road uses, such as in construction. The legislation also provided a penalty against users who know, or have reason to know, that they used dyed (untaxed) fuel for a taxable purpose. The penalty is the greater of \$1,000 (for

multiple violations, the \$1,000 is multiplied by the number of cumulative violations) or \$10 per gallon of fuel involved.

In order to implement the provisions of OBRA, the IRS, working closely with the FHWA, the states, and the motor fuel industry, established an aggressive compliance program to inspect diesel fuel in terminals, wholesalers, retail outlets, and vehicle propulsion systems to ensure that dyed fuel is not available or used for taxable on road purposes.

To ensure compliance with current regulations, the IRS has 150 Dyed Diesel Compliance Officers (DCO) who sample diesel fuel at storage facilities and at roadside inspection sites. To supplement the work of the IRS inspectors, the IRS currently has contracts in place or pending with 26 states to perform roadside inspections. The IRS funded these contracts with state agencies by transferring appropriated funds to the Federal Highway Administration.

The dyed diesel fuel program has been a true success story. Increased compliance resulted in about \$681 million in additional Highway Trust Fund revenue in calendar year 1994, and preliminary data for the first three quarters of 1995 reflect similar levels of revenue. In contrast, it was estimated that the motor fuel excise tax compliance provisions in OBRA would only produce \$200 million dollars per year or \$1 billion over 5 years.

#### IV. TAX EVASION SCHEMES

##### "Cocktailing"

In spite of the provisions in OBRA to deter motor fuel tax evasion and the IRS' aggressive enforcement programs to ensure compliance with OBRA, several methods of evasion have evolved that allow unscrupulous operators to evade as much as 50 cents per gallon in combined Federal and state motor fuel excise taxes. One emerging method of evasion we have detected involves blending untaxed products with diesel fuel. This is also known as "cocktailing." Untaxed products are blended with diesel fuel to increase the fuel's volume. Major cocktail ingredients include kerosene, kerojet, waste fuels, and hazardous waste.

In order to deter cocktailing, a task force including the IRS, the Environmental Protection Agency (EPA), the Department of Defense (the DOD), the U.S. Customs Service (Customs), and state participants has been formed. The goal of the group is to identify sources and volumes of products added to diesel fuel after the point of taxation (the terminal rack), and design a comprehensive compliance strategy. One of the task force's high priorities was to identify a viable testing methodology to accurately identify the contents of any fluid sold or used as diesel fuel. To accomplish this, "blind" samples were sent to the Air Force Laboratory at Cape Canaveral. These samples included cocktails mixed by IRS personnel as well as samples of diesel pulled from retail outlets in the Houston, Texas area in conjunction with state officials. The objective was to determine whether the laboratory could identify the makeup of various concoctions using gas chromatography (fingerprinting). Initial results were both

successful and sobering. The lab had no difficulty in accurately identifying all samples. Some of the samples taken from the retail outlets were found to contain a combination of diesel and kerosene, diesel and naphtha, aged diesel fuel sold as a nontaxable middle distillate oil, diesel and a combination of paint thinners, varnishes, perfumes, deodorants, cleaning fluids and antifreezes. One sample was a combination of diesel and a mixture so toxic that it could not be handled safely in an open environment. Disclosure laws prevent us from sharing information concerning the taxpayers involved in these cocktailing schemes with EPA.

#### **Kerosene/Kerojet**

Kerosene and kerojet (the base product for aviation fuel) create a particularly difficult enforcement problem for the IRS. Under current rules, this product is not taxed at the terminal rack. Instead, subsequent use determines how the final product is taxed. Kerosene blended with heating fuel is tax free, kerosene based aviation fuel is taxed at 4.3 cents per gallon, and kerosene used as diesel fuel is taxed at 24.3 cents per gallon. These different rates provide a ready opportunity for motor fuel excise tax evasion. For example, data from the Energy Information Administration in the Department of Energy show that production of kerojet increased by over 1.6 billion gallons in calendar year 1994. This increase cannot be accounted for by commercial aviation or the DOD usage. In 1995, the production of kerojet increased by another 2.1%, indicating that use of kerojet in 1994 was not aberrant. Ongoing investigations confirm that this product is being widely used as diesel fuel or cocktailed with diesel fuel

to evade motor fuel excise taxes. As much as 50 cents in state and Federal taxes create a very lucrative target for potential misuse of kerosene/kerojet. Legislation to accommodate application of the diesel fuel rules to kerosene/kerojet is necessary to limit tax evasion and has been proposed in the Administration's FY 97 budget.

#### **Border Compliance**

Another emerging method of evasion involves the importation into the U.S. of tax-free diesel fuel that has not been dyed to U.S. specifications or that has been improperly documented. Except for bulk transfers by pipeline to an approved terminal, importation is the point of taxation for diesel fuel. Any diesel fuel that is not dyed to U.S. specifications is taxable. Neither Canada nor Mexico has a dyed diesel requirement which fulfills the requirements for importation of tax-free dyed diesel fuel under the Internal Revenue Code. Some of the Provinces of Canada require dyeing of tax-free diesel fuel, but have different dye specifications, none of which meets U.S. specifications. There are no dyed diesel provisions under Mexican law. Under the North American Free Trade Agreement, diesel fuel will continue to be imported into the U.S. from each of these countries. A joint border project conducted by the State of Montana, Customs, and the IRS in November of 1994 and January of 1996 reveals the potential for transborder noncompliance. Tanker trucks of diesel fuel purchased in Canada were tested for compliance with U.S. and Montana law. More than 40 tank trucks per day routinely pass through the tested ports. During the project, only 17 tankers passed through the ports during the 6 days of enforcement activity. Many

drivers chose to park their trucks before entering the port and simply waited until the project was over before proceeding.

Of the 17 tankers passing through the port, 16 had erroneous invoices for dyed tax-free diesel. The fuel was either not dyed to specification (normally 2-3 parts per million versus the required 11 parts per million making it very easy and profitable to blend to the point that the dye is not detectable), or contained no dye at all. We will continue to work with Customs to ensure that diesel fuel is taxed on entry into the U.S.

#### **Fuel Tracking System**

The IRS' compliance efforts could also be greatly enhanced by an automated Excise Tax Fuel Information Reporting System (ExFIRS). This would permit IRS to verify amounts reported on excise tax returns in much the same way it uses information reported on Form 1099 to verify interest and dividend income reported on Form 1040. Currently, the only way the IRS can verify amounts reported on excise tax returns is by performing an examination. The IRS, utilizing both IRS and ISTEAs funding, developed a working prototype of an ExFIRS system, but without supplemental funding, the IRS will not be able to implement the system. We estimate that the hardware and software for this system will cost \$10 million, with an additional \$2 million a year for maintenance. Our ability to make significant compliance gains and effectively administer fuel taxes is contingent on the availability of timely and meaningful information. ExFIRS has been developed at the urging of and with the participation of the motor fuel industry.



#### **IV. CRIMINAL INVESTIGATION ACTIVITIES**

An essential component of the IRS' excise tax compliance strategy is the investigation and prosecution of those who criminally disregard the Federal and state diesel and gasoline excise tax laws. Over the past several years, we have increased the criminal enforcement resources devoted to investigating both diesel and gasoline excise tax evasion schemes. Our strategy is to concentrate the majority of our special agent resources in those geographic areas where motor fuel excise tax evasion schemes are most prevalent. Through the innovative use of undercover operations in the past several years, we have achieved dramatic successes resulting in significant prosecutions.

The increased and enhanced cooperative efforts of the IRS with the Federal Bureau of Investigation, the Department of Transportation Office of the Inspector General, state revenue agencies and state and local police forces have contributed significantly to our criminal enforcement successes. We have also received strong support for our criminal enforcement efforts from the motor fuel industry. This enhanced spirit of cooperation is a direct result of the Joint Federal/State Motor Fuel Compliance Project.

Following are examples of schemes detected by undercover operations funded in part by ISTEA:

- o "Red Daisy" Phase I --Twenty-two persons were convicted in 1995 for their role in a massive fraud scheme in New York, New Jersey, and Pennsylvania. Among those convicted was organized crime boss

Anthony "Fat Tony" Morelli, who was sentenced to 20 years in prison for racketeering, extortion, tax and mail fraud in connection with a scheme that cheated the Federal and state governments out of \$60 million in motor fuel excise taxes. Morelli helped oversee this massive fuel tax evasion scheme in which members of the Russian Mafia paid tribute to members of the New York organized crime families including the "Teflon Don" John Gotti.

- o "Red Daisy" Phase II – On July 8, 1995, 25 individuals were indicted in Newark, New Jersey for perpetrating a \$140 million diesel fuel tax scheme. Among those indicted are corrupt fuel dealers and some of the highest ranking members of both traditional and Russian organized crime. This case, which is currently being prepared for trial, may be the largest criminal tax prosecution in history.
- o On September 12, 1995, Larry Iorizzo, the originator of the "daisy chain" evasion method was arrested in Bellevue, Washington on charges that he participated in a \$1.3 million motor fuel excise tax evasion scheme in Texas. At the time of his arrest, Iorizzo was running a new scheme in the State of Washington, in which he was purchasing gasoline and diesel fuel in Canada, transporting it across the border, and selling it to retailers as far south as Seattle, Washington. Iorizzo was paying cash for the fuel and paying all applicable Canadian taxes which he had refunded to him because the fuel had been exported. In March 1996, Iorizzo was

convicted of offenses charged in Texas (including tax evasion), and is currently awaiting sentencing.

Other evasion schemes, which have arisen since the change in diesel fuel laws effected by OBRA, are those designed exclusively for the purpose of stealing state excise taxes. Denied the ability to steal Federal excise taxes due to the change in the point of taxation, criminals continue to operate "daisy chain" schemes to steal state excise taxes exclusively. On September 12, 1995, 23 persons were indicted in Los Angeles, California for engaging in a pattern of racketeering activity and tax evasion. This indictment was the result of a year long multi-agency Federal and state investigation into attempts by organized criminal elements to gain control of a large segment of the independent fuel retailing industry in California. Many of the persons involved in the scheme had previously been involved in evasion schemes, which involved Federal excise taxes. When the State of California mirrored the Federal statute by moving the point of taxation on diesel fuel to the terminal rack for state tax purposes, the conspirators in this scheme experimented with means of circumventing the current Federal law by blending aviation fuel with diesel fuel, a variation of the "cocktailing" or blending scheme.

Finally, we have recently completed several criminal investigations in the New York Metropolitan area involving evasion through fuel blending. These cases are currently under review by IRS Chief Counsel and the Department of Justice.

**V. CONCLUSION**

The provisions in OBRA to deter motor fuel excise tax evasion and the IRS' highly successful implementation of them over the past two years have resulted in increased taxpayer compliance and a substantial increase in Highway Trust Fund revenue. The joint compliance efforts between the IRS, the FHWA and the states, funded in part by ISTEA, have also had a significant, positive impact on motor fuel tax compliance. Nevertheless, traditional noncompliance schemes, such as the filing of erroneous claims and credits, are still occurring, and new schemes, such as fuel blending and cocktailing, are constantly evolving. Ensuring that the Highway Trust Fund receives all of the revenue due it will require sustained joint compliance efforts on the part of the IRS, the FHWA, state agencies, and the motor fuel industry. However, these efforts carry a price tag. Continued ISTEA funding is critical to the success of these efforts, and we seek the Subcommittee's support in this regard.

Mr. Chairman, this concludes my prepared statement. My colleague and I would be happy to answer any questions you or other Subcommittee members might have.

ADDITION TO THE RECORD

**RAY BARNHART & Associates**Supplementary Testimony  
by

Ray Barnhart

to the

**House Subcommittee on Surface Transportation**

for its

Public Hearing held on May 16, 1996

28 May 1996

Mr. Chairman and Members:

Although I was unable to offer testimony pertaining to motor fuel tax evasion at the Subcommittee's Hearing on May 16, I would appreciate your consideration of my concerns and recommendations expressed herein.

A bit of background may help to explain more fully why these three recommendations are critical to preventing motor fuel tax theft, and why many of us who have been deeply involved are impatient and frustrated at the Department of Transportation's failure to aggressively support appropriate counter-theft initiatives.

It was more than a decade ago during my tenure as Administrator of the Federal Highway Administration in the Reagan administration that the FHWA initiated its efforts to stop the theft of federal and state motor fuel taxes. You will recall that in 1982 the Congress more than doubled the federal excise tax on gasoline and imposed a six-cent higher tax on diesel motor fuel. Four years later, it seemed to us that the Federal Highway Trust Fund was not realizing the revenue increase that had earlier been anticipated. Although the FHWA had no authority regarding the collection of taxes, we nonetheless attempted informally to determine why our fiscal expectations had been so much greater than what was actually occurring.

Accordingly, FHWA's Chief Counsel, Anthony McMahon, visited several state Departments of Transportation and Departments of Revenue and Taxation. We found that there was no centralized system whereby one could determine the total national production of the various fuels, nor how much fuel was subject to taxation. Some state governments partially tracked the import, production, and disposition of fuels, but most did not. Volumes of fuels sold for tax exempt usage were often just ignored, with no effort to verify that the fuel was actually used for exempt purposes; fuel exported to adjacent states was likewise ignored. There was little reconciliation of data, almost anyone could obtain federal certificates to purchase fuels tax-free, and because of inadequate numbers of revenue personnel the crooks could anticipate operating for years before they would encounter government auditors. Tax procedures varied significantly from state to state, and they, along with tax exemptions for selective fuels and fuel usage

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mandated by legislative bodies, were vastly different from federal requirements. In short, there were no uniform procedures whereby revenue and enforcement authorities could share information, no system to account for the total gallonage of fuels produced, imported, distributed, and sold. It was simply impossible to gauge with any degree of certainty how many dollars should have been derived from taxable fuels. As a consequence, there were enormous opportunities for massive theft on a nation-wide scale. In 1986 the FHWA estimated that motor fuel tax theft might total as much as \$ 1.7 billion annually, but because it lacked legal jurisdiction in this area little credibility was given the agency's assertions.

In retrospect, that is not surprising. Revenue agencies, both state and federal, knew very little about the production and distribution of motor fuels. Despite highway users spending some \$ 25 billion annually on fuel taxes, few people realized that a serious problem of tax evasion was occurring; each of the many revenue authorities with jurisdiction over aspects of fuel taxes was confident that it was properly executing its responsibilities, and assumed that others were doing the same. Without coordination of their activities, however, and because of the hodgepodge of laws governing motor fuel tax procedures, loopholes in the system were created that ultimately proved that FHWA's estimate of annual theft was actually grossly understated.

Tremendous progress in curtailing the revenue loss to the Trust Fund has been made in the intervening ten years. As you know, anti-theft actions increased diesel tax revenues \$ 1.23 billion in FY '94 alone, and gains continue at a rate of \$ 100 million each month over previous years. But what is shocking . . . and extremely disturbing to the career civil servants in the FHWA, the IRS, the DOJ, their counterparts in many state governments, as well as to those of us in the private sector . . . is that *despite recovering billions of tax dollars and diligently doing all that the available budgets and laws allow, and proving beyond a doubt that fuel tax theft is still a flourishing enterprise, the Administration and the Department of Transportation continue to hamstring our anti-theft activities by their penurious funding levels for anti-theft initiatives.*

Let me state it clearly so that there can be no misunderstanding: since assuming office, Secretary Pena has refused to seek appropriations to finance a program that is vital to gaining control over fuel tax theft, money Congress previously authorized in the '92 ISTEA.

Others testified in your previous Hearing about FHWA's Joint Federal/State program that has been funded annually at a level of \$ 5 million from the Federal Highway Trust Fund, and has seen a return that varies between \$ 13 to \$ 25 for each dollar invested. Everyone has praised that program! What those testifying have not mentioned, however, is that also included in that ISTEA provision was authorization to annually expend \$ 2.5 million from the General Fund, a total of \$ 15 million, for anti-theft activities. I had hoped that those funds would be used to develop, operate, and maintain a central computerized system to aggregate the production and import of motor fuels, their distribution, their disposition, and consequently the taxes that would be derived therefrom; in effect, the ExFIRS system, about which you have been given testimony. **WITHOUT SUCH A SYSTEM WE**

**WILL NEVER BE ABLE TO FULLY GAIN CONTROL OVER MOTOR FUEL TAX THEFT!**

Every critic of government, and even many Members of Congress, say, "Run government like a business." What businessperson would insist on "saving" \$ 15 million when actual records show that investing it in anti-theft activities would return hundreds of millions of dollars? And year after year! The DOT insists on spending \$ 340 million annually on sophisticated ITS gear, none of which will yield cash as will ExFIRS, nor even indirectly bring as many benefits to the motoring public. Frankly, I'm confident that I could find the \$ 15 million in Federal Highway's training and travel budget alone! But to the recommendations.

**A proposed three-part solution**

**Step 1 -** Under ISTEA, highway funds have been used to finance everything from restoring remote missions to building hiking trails to painting courthouses and libraries. Why aren't fuel tax theft countermeasures declared eligible items for federal funding? *Using those funds would be strictly optional, at the discretion of the state DOT.* If the Secretary of a state DOT decided that enforcing the dyed diesel law, for instance, and thus stopping the theft of millions of fuel tax dollars was more important to the state's transportation program than building a bicycle path, why should that option be denied?

**Recommendation:**

- 1 - Make fuel tax theft measures eligible for federal-aid apportionments.
- 2 - The amount of funds that could be expended by a state would be limited to no more than, perhaps, one-fourth of one percent of its apportionment.
- 3 - The FHWA would issue a regulation defining what functions or items would be eligible uses for such funds.
- 4 - The state DOTs could use their funds to contract with other state or private entities to perform specific functions.
- 5 - These funds could not replace or substitute for expenditures customarily made in the course of business, but would have to finance *additional or increased* activities.

**Step 2 -** The FHWA should be given a one-time authorization of \$ 15 million to develop a computerized system to account for motor fuels. Such a system would enable audit and enforcement officials to expeditiously gather and aggregate data on the import and refinery production of motor fuels, and to compare terminal fuel receipts with deliveries. Without such a system, enforcement authorities will never be able to get this deplorable problem under control. ISTEA authorized the FHWA \$ 5 million per year from the Trust Fund to fight tax evasion, and \$ 2.5 million per year from general funds. Secretary Pena has adamantly refused to seek appropriations for that \$ 2.5 million, thus depriving the program of \$ 15 million (I suspect the thieves lift glasses in his honor at every meal!).

## Recommendation:

- 1 By legislation, authorize \$ 15 million to FHWA, and require the Secretary of DOT to seek appropriations to cover that amount.
- 2 Require the FHWA to develop the tracking system through a contract or contracts in the private sector.
- 3 Require that the development of any systems and procedures be concurred in by the IRS and AASHTO. (We cannot have duplicative efforts in this regard that may at times conflict with each other; uniformity is of paramount concern.)
- 4 Such a system, when developed, must be able to be accessed by state and federal authorities.

**Step 3-** Re-authorize the annual \$ 5 million from the Federal Highway Trust Fund to continue the Joint Federal/State Motor Fuel Tax Compliance Project.

I suspect that there are few government agencies, either state or federal, that have realized such astonishing dollar returns on their investments as has this program. To ensure its continuation, and to enhance its effectiveness, will be of immense value to every transportation agency. It is alarming to think that some people believe we've got the theft problem under control: we do not! The scams involving kerojet alone continue to cost us upwards of \$ 700 million annually!

A draft of suggested legislation to accomplish Step 1 of the above initiatives is attached for your consideration.

Incidentally, The American Association of State Highway and Transportation Officials (AASHTO) unanimously endorsed this 3-step plan at its 1995 annual meeting in Norfolk, Virginia.

Thank you for your consideration. If there are any questions, I'll respond immediately.

Sincerely,  
  
 Ray Barnhart

Attachment: Suggested federal legislation



## Suggested Amendment to Title 23

SEC. \_\_\_\_\_

(1) Chapter 3 of title 23, United States Code is amended by adding a new section, section 326, to read as follows:

**"§ 326. Highway Use Tax Evasion Program**

**"(a) In General.-** The Secretary shall make available to the States, for use at States discretion, funds apportioned under section 104 of this title to carry out the Highway Use Tax Evasion Program in accordance with this section and in the same manner and to the same extent as otherwise provided by chapter 1 and section 120 (c) of this title.

**"(b) Limitation on Use of Funds.-** Funds made available under this title to carry out this section may only be used to expand efforts to enhance motor fuel tax enforcement activities, to supplement motor fuel tax examinations, and criminal investigations, develop automated data processing tools to monitor motor fuel production and sales, evaluate and implement registration and reporting requirements for motor fuel taxpayers, reimburse State expenses that supplement existing fuel tax compliance efforts, and analyze and implement programs to reduce tax evasion associated with other highway use taxes.

**"(c) Maintenance of Effort.-** In order for a state to be eligible to use funds apportioned under section 104 of this title for such activities defined in subsection (b), the State must certify at least 90 days prior to the beginning of each fiscal year that aggregate expenditure of funds of the State, exclusive of federal funds, for motor fuel tax enforcement activities will be maintained at a level that does not fall below the average level of such expenditures for its last two fiscal years.

**"(d) Funding.-** The federal share payable for eligible activities under this section shall be as provided in section 120 (c) of this title."

(2) Conforming amendment- Subsection 120(c) of title 23, United States Code is amended to read as follows:

**"(c) Federal Share Payable For Certain Safety Projects and the Highway Use Tax Evasion Program.-** The federal share payable on account of:

**"(1)** any project for traffic control signalization, pavement marking, commuter carpooling and vanpooling, or installation of traffic signs, traffic lights, guardrails, impact attenuators, concrete barrier and treatments, breakaway utility poles, or prior control systems for emergency vehicles at signalized intersections; may amount to 100 percent of the cost of construction of such project(s) except that not more than 10 percent of all sums apportioned for Federal-aid highways for any fiscal year in accordance with section 104 of this title shall be used under subsection (c) (1).

**"(2)** activities eligible for funding under the Highway Use Tax Evasion Program of section 326 of this title, provided that for highway use tax program activities, the State certifies to its maintenance of effort as required by section 326; except that not more than 1/4 of one percent of all sums apportioned for Federal-aid highways for

any fiscal year in accordance with section 104 of this title shall be used under subsection (c) (2)."

**SECTION BY SECTION ANALYSIS**

A new section, section 326, is added to chapter 3 of title 23, United States Code, to establish a highway use tax evasion program. A State would be granted discretion to use up to 1/4 of one percent of its Federal-aid apportionments under section 104 of title 23, at up to 100 percent of the cost of such activity, as set forth in section 120(c) of title 23, to fund anti-fuel tax evasion activities as further defined in section 326, provided that a State certifies to its maintenance of effort with regard to such activities. A conforming amendment is made to section 120(c) of title 23.

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