TESTIMONY OF THE HONORABLE RAY LAHOOD

CHALLENGES TO THE FUTURE OF HIGHWAY FUNDING

SENATE FINANCE COMMITTEE

JUNE 18, 2015

Chairman Hatch, Ranking Member Wyden and members of the Committee, thank you for the opportunity to testify before you on the challenges facing the nation's Highway Trust Fund. This hearing is quite timely as the Highway Trust Fund is again facing insolvency sometime in August.

I am here today as a co-chair of Building America's Future, an organization that was co-founded by former Pennsylvania Governor Ed Rendell, former New York Mayor Mike Bloomberg and former Governor Arnold Schwarzenegger. Building America's Future represents a diverse and bipartisan coalition of state and local elected officials working to advance infrastructure investment to promote economic growth, global competitiveness and better quality of life for all Americans.

Whether it's on our roads, in the air, in our ports or on our rails – our nation's infrastructure is falling apart. That is causing us to lose our economic competitiveness and to negatively impact our quality of life.

The nation's roads are essentially one big pothole, and the tens of thousands of bridges that millions of Americans drive across every day are in dire need of repair.

42 percent of our major roadways are congested causing delays and inefficiencies for commerce and the average driver. The Texas Transportation Institute's 2012 Urban Mobility Report states that traffic congestion had Americans wasting time and 2.9 billion gallons of fuel at a cost of $121 billion – that equates to $818 per commuter. And it's no wonder. From 2000 to 2012 the nation's population grew by 11.6 percent and the vehicle fleet increased by 10.7 percent but the road system has grown by four percent.

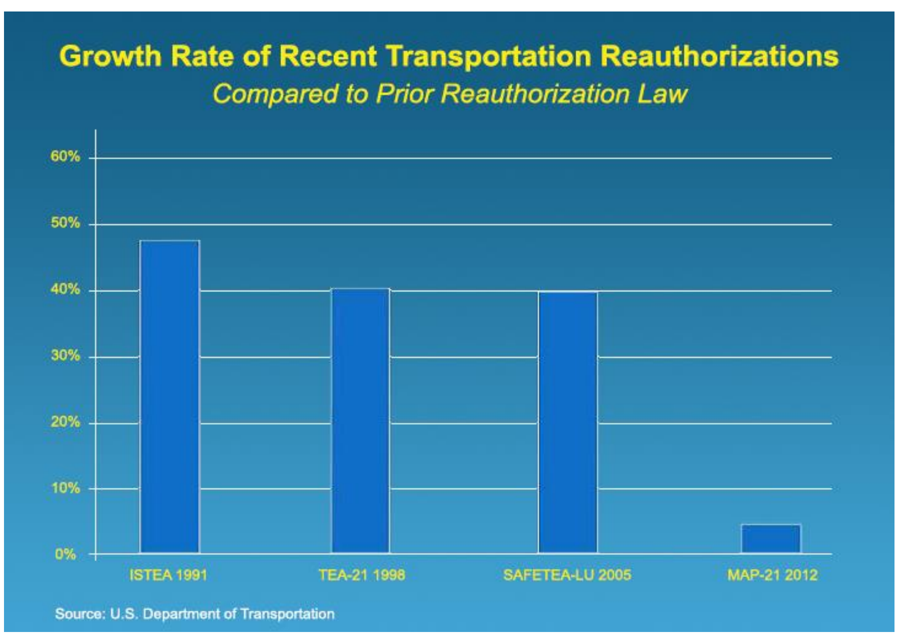
When it comes to air travel our skies are approaching gridlock and our World War II-era air traffic control system can't keep pace with the demand. According to the U.S. Travel Association, within the next decade, 25 of the nation's top 30 airports will suffer the same level of congestion as the day before Thanksgiving at least two days each week.

Despite a large surplus in the Harbor Maintenance Trust Fund, the busiest U.S. harbors are under-maintained. The U.S. Army Corps of Engineers estimates that full channel dimensions of the nation's busiest 59 ports are available less than 35 percent of the time. And only two of our East Coast ports are deep enough to accommodate the post-Panamax ships that will become the norm when the newly widened Panama Canal opens.

Although we still don't have all of the answers to the cause of the horrific derailment of the Amtrak train near Philadelphia last month, it serves as a wake-up call on the critical importance of properly maintaining our infrastructure – whether it be rails, roads or bridges. The safety of all Americans depends upon it.

These challenges are immense but not impossible. Building America's Future is calling on Congress to pass a long term and sustainable bill that does much more than provide small inflationary increases in funding. To do that it's going to take all of us working together – Republicans with Democrats; the House and the Senate; and both ends of Pennsylvania Avenue. It's also going to take vision and courage. Vision to craft a long-term strategic plan that is based on measurable economic results and courage to make the tough choices to pay for it.

The next bill must include a growth rate more aligned to ISTEA, TEA-21 and SAFETEA-LU. The growth rate in each of these bills was on average 40 percent higher than what was in MAP-21. This chart prepared by the U.S. Department of Transportation clearly demonstrates the growth rate from these reauthorizations:



According to the American Society of Civil Engineers, failing to provide funding levels above the baseline by 2020 would have dire consequences. The impact on a family's budget would be $1,060 and American businesses and workers would pay a heavy price in that 877,000 jobs would be lost and transportation costs would increase by $430 billion.

It is past time for Washington to step up and produce a long term transportation plan that is robust and sustainable. To do otherwise would amount to putting a Band-Aid on a gunshot wound. America needs a strategic plan with a vision – not another short term bill that isn't even enough to keep filling the potholes.

A level-funded bill will not have what it takes to maintain and modernize our roads, bridges and transit systems. In short, we won't be able to build - or rebuild – to keep Americans moving safely and reliably around the country.

For examples of what has been working I would encourage the Committee to take a look at what has been happening in the states. Governors, mayors and state legislators have been watching the gridlock in Congress with growing alarm. They are concerned that the level of funding they have traditionally received from Washington has been shrinking and will continue to do so without a change in vision and courage in Washington.

As a result, many of them have made the hard choices to propose legislation to increase the fuel tax, replace the gas tax with a sales tax on fuels, or referenda allowing voters to increase local sales taxes.

This has been occurring in red, blue and purple states alike.

Over the past three years 14 states have successfully increased either their fuel or sales taxes including Wyoming, Virginia, New Hampshire, Maryland, Pennsylvania, Vermont, Massachusetts, Rhode Island, Georgia, Iowa, Idaho, Nebraska, South Dakota and Utah.

In 2013, Oregon approved legislation to undertake a pilot program with 5,000 volunteers to test the feasibility of transitioning to a system where motorists are charged by miles driven instead of paying a gas tax. This program will be getting underway next month. Other states that have adopted mileage-based user fee-related legislation include California, Indiana and Washington. And states that considered such legislation this year include Arkansas, Florida and Massachusetts.

Governors and mayors have also used the private sector to leverage their dollars, and as a result, more than 30 states have passed laws to authorize partnerships with the private sector.

The public has also endorsed many of these revenue increases by consistently approving well-constructed ballot measures to increase investment in transportation.   In last November's elections, 72 percent of ballot measures were approved and in 2013 the success rate was 91 percent. One of the critical reasons why these measures were successful is that a clear and coherent case was made about which projects would be built in exchange for approval of the revenue increase.

Examples of some recent success include: the approval of $250 million in bonds to fix aging roads, bridges, sidewalks and buildings in Atlanta in March of this year. In order for citizens to track the projects and their progress, the City has set up a special webpage. In November of 2014 voters in Arlington, VA approved four bond referenda totaling more than $218 million to fund Metro and transportation as well as local parks, recreation, community infrastructure and schools. And in 2008 voters in Los Angeles approved Measure R to hike the sales tax by half a cent and generate up to $40 billion over 30 years to fund various transit and highways projects.

But it is important to understand that these local and statewide efforts can not replace the federal government's responsibility. Devolution is not the answer. The role of the federal government in promoting interstate commerce is clearly stated in the Constitution.

Legislation such as the Transportation Empowerment Act (TEA) would reduce funding for the federal-aid highway program by more than 80 percent by 2019, from $45 billion to less than $8 billion. A recent study by the Transportation Construction Coalition showed that under the TEA Act states would need to increase their gas tax by an average of nearly 24 cents – just to achieve level funding. Specifically, Utah would need to raise its gas tax by 18.7 cents; Oregon by 24.1 cents; Idaho by 25.5 cents; Ohio by 15.9 cents; and North Carolina by 16.4 cents.

<u>Federal Options</u>

The nation's surface transportation program has traditionally been funded through the most pure and direct of all sources – a fee paid by the users of the system. But with better fuel economy and an increasing number of hybrids and vehicles that use little or no gasoline at all, spending from the Highway Trust Fund has outpaced revenues since 2008. In order to prevent the Highway Trust Fund from becoming insolvent, Congress acted in a bipartisan fashion and transferred $8 billion from the General Fund to the Highway Trust Fund. Since 2008, approximately $63 billion has been transferred to the Highway Trust Fund. But all of these transfers have done nothing to increase the amount of revenue needed to address the nation's vast transportation challenges.

The most straightforward way to generate the needed revenue for a long term transportation bill is to increase the gas tax which has not seen a raise since 1993. The cost of everything has gone up since 1993 – except for the gas tax. In 1993 the cost of a First Class stamp was 29 cents – today it is 49 cents. A dozen eggs cost 87 cents in 1993 and today the average cost is $2. The cost of the average car was $12,750 in 1993 and today the average cost is $31,252.

Yet the gas tax has remained at 18.4 cents for 21 years. And since that time it has lost over a third of its purchasing power.

In order to begin generating sorely needed revenue, Building America's Future is calling on Congress to immediately increase the gasoline user fee by 10 cents and index it to inflation. According to the Congressional Budget Office, a one cent increase in the gas tax generates $1.5 billion annually so a 10 cent increase would generate $15 billion. While this would not be enough to fund a robust long term bill, it would be enough to keep the Highway Trust Fund solvent while Congress considers other sustainable and longer term solutions.

As a former elected official I fully understand the difficult politics of raising revenue. Voting to increase the gas tax is a tough vote. But leadership takes vision to see the big picture and courage to do the right thing.

Your colleagues in the states have stepped up and their actions did not result in defeat at the ballot box. To the contrary. A political analysis by the American Road and Transportation Builders Association showed that 95 percent of all Republican state legislators who voted to increase their state gas tax in 2013 and 2014 and ran for re-election in last November's elections won their races. For Democrats there was an 88 percent re-election rate.

Prior to 1993, votes to increase the gas tax in Congress were a bipartisan affair. In 1982 Congress approved a four cent hike by a vote of 54 to 33 in the Senate and 180 to 87 in the House. The legislation was signed into law by President Ronald Reagan.   Another five cent increase was included in the Omnibus Reconciliation Act of 1990 that passed the Senate 54 to 45, the House by 228 to 200 and was signed by President George H.W. Bush.

It wasn't until the Omnibus Reconciliation Act of 1993 when the politics of increasing gas tax revenue began to turn more partisan. The final package contained a 4.3 cent increase that ended up being devoted to deficit reduction – not the Highway Trust Fund. The package passed the House with no Republican votes and although there were a handful of Republican votes in the Senate, Vice President Gore had to cast the 51st vote to break the tie. President Clinton signed the package into law.

The Taxpayer Relief Act of 1997 ultimately re-allocated the 4.3 cent increase from 1993 away from deficit reduction and to the Highway Trust Fund.

It is time to get serious and increase the gas tax. Proposals to do so have been offered by Democrats and Republicans alike in Congress. In particular I want to commend Senators Corker and Murphy as well as Representatives Blumenauer and Renacci for their vision and courage in offering such proposals.

We must also look at a variety of other options such as establishing a National Infrastructure Bank, raising the cap on Private Activity Bonds, creating a new kind of tax-exempt municipal bond called Qualified Public Infrastructure Bonds, consider other user based funding mechanisms such as road user charges, and lift federal restrictions on tolling so that states may take greater advantage of partnering with the private sector.

There has been much discussion in recent months about using repatriated funds to fund a six year transportation bill. While I am much more supportive of continuing the tradition of relying on a true user fee to fund our transportation system, I can see the merit of tapping into repatriated funds to give Congress more time to come up with a more long term and sustainable funding source.

If America wants to maintain its global economic competitiveness we must reverse course. We must reject the Band-Aid and duct tape approach and go big and bold.

This Committee has an opportunity to work together to do the right thing to put America back on the right path. We can no longer sit on the sidelines as our infrastructure continues to deteriorate and we as a nation fall behind our global economic competitors. In just ten years the economic competitiveness of our infrastructure has gone from being number one in the world to number 12 according to the World Economic Forum.

There is no better time to invest in our infrastructure. Interest rates are at record lows and putting our friends and neighbors to work repairing and modernizing our roads and bridges is an economic plus for everyone. Let's get to it.

Thank you Chairman Hatch. I look forward to answering the Committee's questions.