

**STATEMENT OF
THE HONORABLE RAY LAHOOD
SECRETARY OF TRANSPORTATION**

**BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE**

June 25, 2009

Madam Chairman, Members of the Committee, thank you for inviting me to appear before you today to discuss the state of the Highway Trust Fund and its impact on the Federal surface transportation programs that are supported through the Highway Trust Fund.

Before I address the issue of highway and transit needs and the Highway Trust Fund, I want to begin by reporting briefly to you on our efforts to help the economy recover from the recession in which we found ourselves when President Obama took office. Economic recovery is crucial to our plan for meeting long-term investment requirements for our Nation's highway networks and transit systems.

The Recovery Act has several statutory deadlines that the Department was directed to meet, and I am happy to report to you that we have met all our deadlines to date. As we have gotten these programs underway, month by month, the transportation portions of the Recovery Act are increasing the number of dollars obligated, projects under way, and jobs created. As of June 19, the Department had obligated \$19 billion of the \$48.1 billion appropriated, with 1,935 projects under way. Moreover, through these projects we will dramatically improve our transportation infrastructure, bring it substantially closer to a state of good repair, and make it better able to meet the long-term needs of the American people.

SHORT-TERM NEEDS OF THE HIGHWAY TRUST FUND

Let me now turn to the issues of the Highway Trust Fund. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) authorized funding for the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), the National Highway Traffic Safety Administration (NHTSA), and the Federal Motor Carrier Safety Administration (FMCSA) through fiscal year 2009. The Act provided a record \$286.4 billion investment in our highways, transit, and highway safety programs over the life of the Act. At the same time, the funding levels set in SAFETEA-LU were designed to spend down the accumulated balance in the Highway Account of the Trust Fund. At the time the bill was signed into law, economic forecasts indicated that there would be sufficient revenues to

cover estimated expenditures from the Highway Trust Fund through the end of the current authorization period.

However, revenues into the Trust Fund have not been as high as originally estimated, leading to a growing imbalance over the years between Highway Trust Fund revenues and spending. This has left the Highway Account of the Trust Fund unable to sustain spending for current highway programs. The sustainability issue became apparent when in 2008 the Highway Trust Fund required an \$8 billion cash transfer from the General Fund in order to remain solvent. While the cash transfer enabled us to continue to pay our bills on time, the current reduction in economic activity has only exacerbated the problem of sustainability. We anticipate another cash shortfall in the August timeframe, and we already anticipate that the Highway Account will be unable to sustain spending at current levels into fiscal year 2010.

We have shared our internal projections on the status of the Highway Trust Fund with the staff of the authorizing, appropriations and tax committees in the House and Senate. Based on current spending and revenue trends, DOT estimates that the Highway Account of the Highway Trust Fund will encounter a shortfall in August 2009. Based upon current economic assumptions, we estimate that an additional \$5-7 billion will be needed in the Highway Account to manage the cash flow and pay all of our bills on time through the end of the current fiscal year. And we estimate that another \$8-10 billion will be needed to cover the anticipated cash shortfall in fiscal year 2010. Left unchecked, the situation would only worsen in the coming years.

Let me assure the Committee that we are monitoring the situation very closely. The Department is ready to take more proactive steps to manage the cash flow should the balance in the Highway Account fall below what we believe to be a prudent balance. Under these procedures, we would continue to run our surface transportation programs normally and obligate funds, but we may need to delay the payment of some bills.

The Administration inherited a difficult problem – a system that can no longer pay for itself. There simply is not enough money in the Highway Trust Fund to do what we need to do. The fiscal year 2010 President's Budget frames the challenging spending decisions facing policymakers. We are fast approaching the expiration date for SAFETEA-LU and we need to enact sustainable funding mechanisms for the Trust Fund to ensure that we continue to meet our Federal surface transportation infrastructure investment needs.

Last week, I proposed an immediate 18-month highway reauthorization through March 2011, and that Congress immediately replenish the Highway Trust Fund to prevent a shortfall this August. To carry the program to March 2011, we estimate that the Highway Trust Fund will require a \$20 billion cash infusion. As part of this proposal, I also called for the inclusion of initial, but critical, program reforms to help us make better investment decisions. They include making better use of cost-benefit analysis in investment decisions, creating a new program to improve the movement of people and goods in metropolitan areas, and promoting livable communities. Given the short period

of the reauthorization, these would be leading edge reforms that could be built upon in subsequent legislation.

The Administration opposes a gas tax increase during this recessionary period, which has hit consumers and businesses hard across our country. But we will work closely with the White House and Congress to identify funding and offsets to ensure the solvency of the Highway Trust Fund.

LONG-TERM FUNDING OF THE SURFACE TRANSPORTATION SYSTEM

While we have not yet established a long-term plan for funding the surface transportation system, we can lay out some of the principles that would be reflected in that plan.

First, our system of transportation funding should be both adequate to address the needs of the Nation's economy and sustainable with respect to changing economic circumstances. Transportation patterns will change. Prices of fuel will rise and fall. New technologies will emerge. We need a robust transportation funding system that can continue to generate the revenues we need in spite of changes in the environment within which the transportation system operates.

Second, we need a transportation funding system that is flexible with respect to the surface transportation needs it can support. All the surface transportation modes make an important contribution to meeting the Nation's surface transportation needs; we need a funding system that can meet the funding needs of all these modes. We need to be able to invest in the kinds of transportation infrastructure that will meet the Nation's needs, and that will achieve our objectives of safety, economic competitiveness, sustainability, and livability. A transportation funding system that is restricted to funding only certain kinds of transportation cannot meet these needs efficiently.

Third, transportation provides mobility to travelers, allowing them to gain access to jobs and economic opportunities, and it also provides people with leisure and recreational opportunities, keeping families connected in our highly mobile society. Since users benefit directly from transportation systems, it makes sense as a general principle for users to fund investments in the system. In some instances, however, user based funding may be inappropriate because collecting revenue from users is impractical, or because the project generates benefits that are not captured by its users. In such cases, projects should be funded out of general spending. We need a flexible and robust funding system that draws upon a variety of different funding sources.

SURFACE TRANSPORTATION PRIORITIES

The surface transportation system that we will be funding also needs to reflect certain important priorities.

In the long run, our goal is to increase the economic competitiveness of our Nation by investing more aggressively in our future. Just as past generations built the transcontinental railroad, the Erie Canal, and the Interstate Highway System, so our generation must build the transportation infrastructure that our Nation will need in the 21st Century. Measurably, the Nation's inventory of roads, bridges, and transit systems has steadily improved. Over the past ten years, we have expanded our highway network by more than 80,000 miles, enough to circle the globe more than three times, and the number of route-miles of transit systems has increased by 44,000 miles. The percentage of miles traveled that is on highways in good condition has increased from 39 percent to 47 percent; the percentage of bridges that are structurally deficient or functionally obsolete has declined from 35 percent to 29 percent; and the average condition of the Nation's transit buses has improved from 2.94 to 3.01 (3.0 = "fair").

Still, there is much work to do. We need to bring our Nation's highways, bridges, and transit systems up to a state of good repair, both to improve safety and to enhance economic competitiveness. About 53 percent of highway miles traveled are on roads that are in less than "good" condition. Almost 30 percent of our bridges are structurally deficient or functionally obsolete. Almost 22 percent of our transit buses – and 32 percent of our transit rail cars – are over-age, while 76 percent of our transit bus facilities and 56 percent of our transit rail facilities are in less than good condition. We don't even know the condition of our railroads and ports, because we don't gather any data on that in a systematic way. President Obama believes that we need increased infrastructure investment – and we need to invest smartly – so that the resources we dedicate to our surface transportation system effectively contribute to a state of good repair and ensure the competitiveness of our economy. As we increase our investment in infrastructure, we must also ensure that we are obtaining a high return on this investment by committing government funds to projects that can demonstrate that they will achieve performance goals.

At the same time, we need to begin making progress on halting the seemingly inexorable growth of greenhouse gases in our atmosphere, and that means reducing the carbon footprint of the Nation's transportation system. About 28 percent of the greenhouse gases generated in the United States are attributable to transportation, so this is an area in which we need to make progress. We need to reduce the amount of energy needed to operate our transportation system, and that means moving more of our freight by energy-efficient means such as rail and water, and making more strategic investments for passenger travel. We need to accelerate the introduction of energy-efficient cars and trucks into our highway vehicle fleet. We need to build a sustainable model for transportation in the 21st Century, built on cleaner energy and reduced environmental costs.

We also need to make sure that our transportation system makes a more positive contribution to enhancing the livability of our communities. We need to build a transportation system that gives our citizens the choices they want – to get to their destinations by the transportation mode of their choice, whether that is driving, or public transportation, or bicycling, or walking. When people choose public transportation, we need to make sure that intermodal connections are safe and easy – from transit to intercity

rail, from transit to air, and from highways to transit. We need to make sure that the transportation system doesn't adversely affect local communities, either by generating excessive noise or by blocking highway-rail grade crossings. We need to make sure that Americans, whether they live in urban areas or rural areas, have access to our bus, rail, and aviation systems that is cost effective for users and society as a whole. We need to integrate our planning processes for transportation, land use, and housing so that we build communities where our transportation systems and land use patterns are made for each other.

Finally, we want to take advantage of the opportunities that new technologies present to us. We need to make greater use of Intelligent Transportation Systems, both to reduce highway congestion and to improve safety in all our modes. We will move promptly to implement the positive train control requirements in last year's Rail Safety Improvement Act, and we will provide the resources necessary to deploy the Next Generation Air Transportation System. And, of course, new technology will be the basis of more energy-efficient and safer cars, trucks, and other vehicles.

REFORM OF THE SURFACE TRANSPORTATION SYSTEM

What do these priorities imply for how Federal surface transportation programs should work? First, because economic competitiveness is such a compelling objective for our surface transportation system, it is important for that system to be designed to address national needs for an efficient 21st Century economy. When supply chains reach across America, it is important to have a national vision that addresses national needs as well as local visions that address local needs.

Second, because of the need to invest in the full range of surface transportation infrastructure modes – highway, transit, rail, and water – we need to have a transportation financing system that can meet the needs of each of these modes. The traditional trust fund approach to transportation funding has been essential in building the Interstate Highway System and expanding our network of transit systems. We need to ensure that the funding system is sufficiently flexible to address the different transportation challenges that face state, local, and regional governments.

Third, if we are to focus our transportation infrastructure investment on improving the Nation's economic competitiveness, we need to draw upon the best available economic analysis to guide our transportation infrastructure investment decisions. In the Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grants portion of our Recovery Act programs, we have called upon grant applicants seeking more than \$100 million in funding to provide a full benefit-cost analysis of their proposed investment. We recognize that economic analysis cannot quantify all the benefits and costs of proposed infrastructure investments, but the systematic assessment of all categories of benefits and costs provides us with a decision-making framework that allows all kinds of benefits and costs to be evaluated and compared, whether they can be quantified or not. For projects designed to maintain or rebuild existing infrastructure, we

will be calling on infrastructure owners to make greater use of asset management techniques to reduce the costs of maintaining their infrastructure in a state of good repair over the long term. If we invest more efficiently, we can get more from every dollar that we invest – more economic productivity, more safety benefits, more accessibility, more sustainability, and more livable communities.

Fourth, we need to improve accountability by making greater use of performance measures for our transportation system. When we invest tax dollars in transportation infrastructure, people have a right to know what performance they can expect from that investment. We need to measure how well our transportation system is performing and report back on whether we are meeting our performance objectives. We need to demonstrate that we are using our tax dollars responsibly and that people are getting the performance improvements for which they paid.

Thank you for the opportunity to appear before you today to discuss the challenges we all face with regard to the Highway Trust Fund. I believe that this challenge offers us an opportunity to chart a new course for transportation infrastructure investment in the United States over the years to come. I look forward to working with Congress and transportation stakeholders to make this a reality.

I will be pleased to respond to your questions.