TESTIMONY OF

The Honorable Michael P. Lewis

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Director, Rhode Island Department of Transportation

REGARDING

ENSURING A STRONG HIGHWAY TRUST FUND TO SUPPORT FEDERAL SURFACE TRANSPORTATION INVESTMENT

BEFORE THE

Committee on Environment and Public Works of the United States Senate

ON

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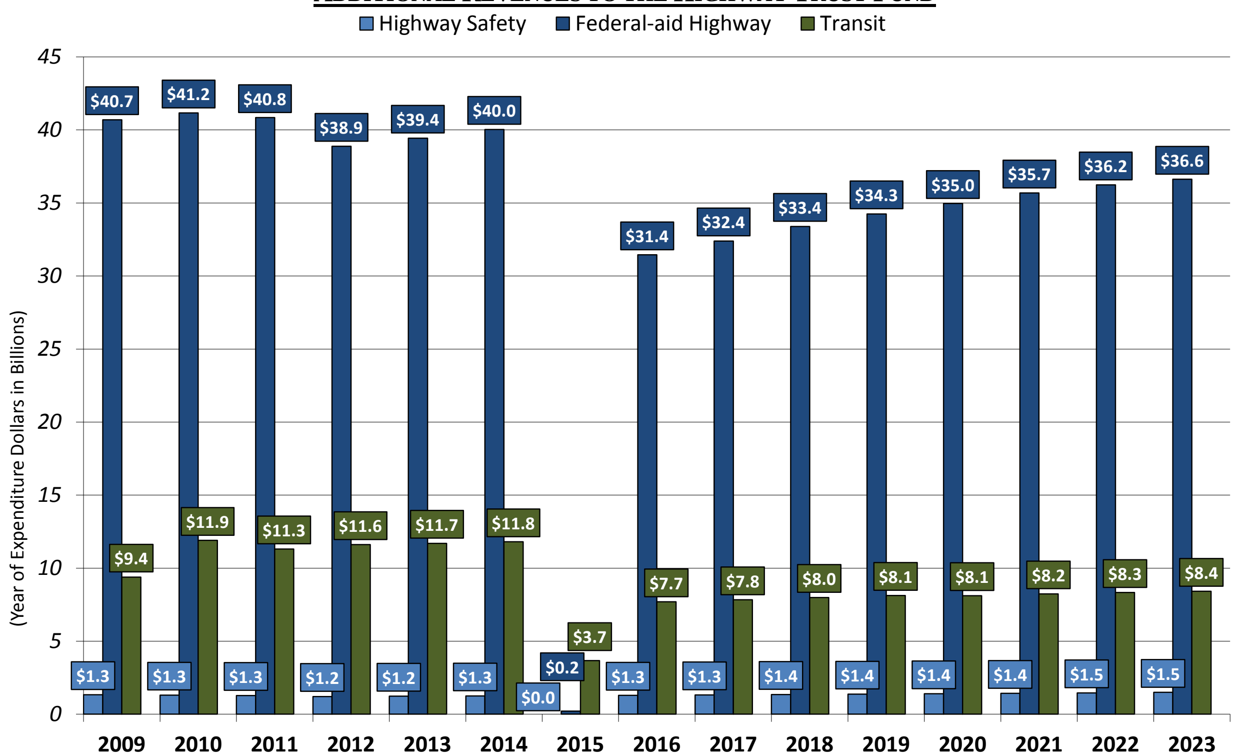
INTRODUCTION

Chairman Boxer, Ranking Member Vitter, and Members of the Committee, thank you for the opportunity to provide input on the current status of the Highway Trust Fund and how its impending cash shortfall could be addressed in order to support robust federal investment in surface transportation. My name is Michael Lewis, and I serve as Director of the Rhode Island Department of Transportation (RIDOT). Today I am testifying on behalf of the American Association of Highway and Transportation Officials (AASHTO), which represents the state departments of transportation (DOTs) of all 50 states, Washington, D.C. and Puerto Rico.

The federal surface transportation program is at a crossroads. While the Highway Trust Fund (HTF) has provided stable, reliable, and substantial highway and transit funding over decades since its inception in 1956, this is no longer the case. According to the Congressional Budget Office (CBO), HTF spending is estimated to exceed receipts by about $15 billion per year on average for the next ten years (FY 2014-2023). Furthermore, the HTF is expected to experience a significant cash shortfall in Fiscal Year 2015. By AASHTO's estimate, states may not be able to obligate almost any new federal highway funds that year, representing a 99.5 percent drop from FY 2014 (i.e., $40 billion to $0.2 billion). This situation could also impede federal reimbursements to states on existing obligations, leading to serious cash flow problems for states. Simply put, this is a devastating scenario that we must do all we can to avoid.

EXHIBIT 1. ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2014 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



As a major potential disruption to the HTF remains on the horizon, the Congressionally-chartered National Surface Transportation Policy and Revenue Study Commission has projected annual federal capital investment needs at $225 billion for the next fifty years. When compared to the current funding level of about $90 billion, there is a significant investment deficit in surface transportation infrastructure.

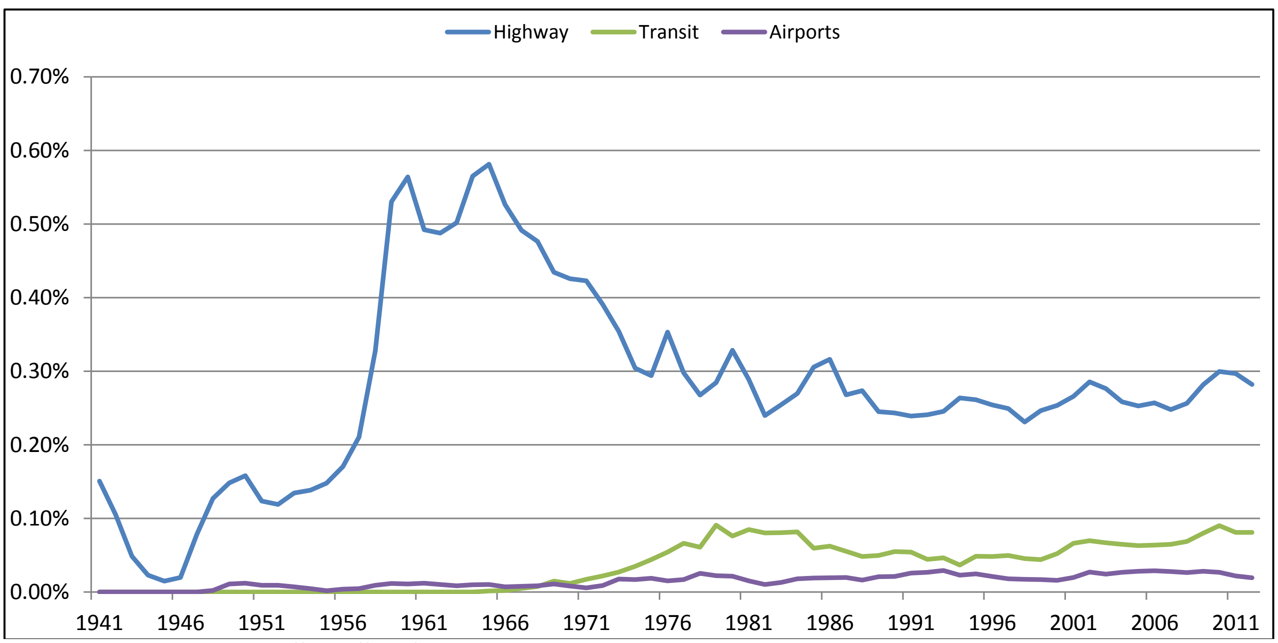
In order to sustain the long tradition of robust national investment in transportation, we must ensure the HTF's looming cash shortfall is addressed with solutions that enable sustainable program funding not just beyond FY 2015, but for the long term.

THE FEDERAL IMPERATIVE IN TRANSPORTATION INVESTMENT

Going back to the founding days of the Nation, Article I, Section 8 of the United States Constitution notes that it is a duty of the federal government to provide support for national transportation investment. Through the development of post roads, canals, railroads, highways, and airways with strong federal support throughout history, transportation investment has an illustrious track record of creating jobs and supporting economic development throughout the country.

However, in the recent decades—especially after the completion of the Interstate Highway System—federal investment in transportation has declined significantly as a share of the Gross Domestic Product (GDP).

EXHIBIT 2. FEDERAL TRANSPORTATION SPENDING AS PERCENT OF GDP



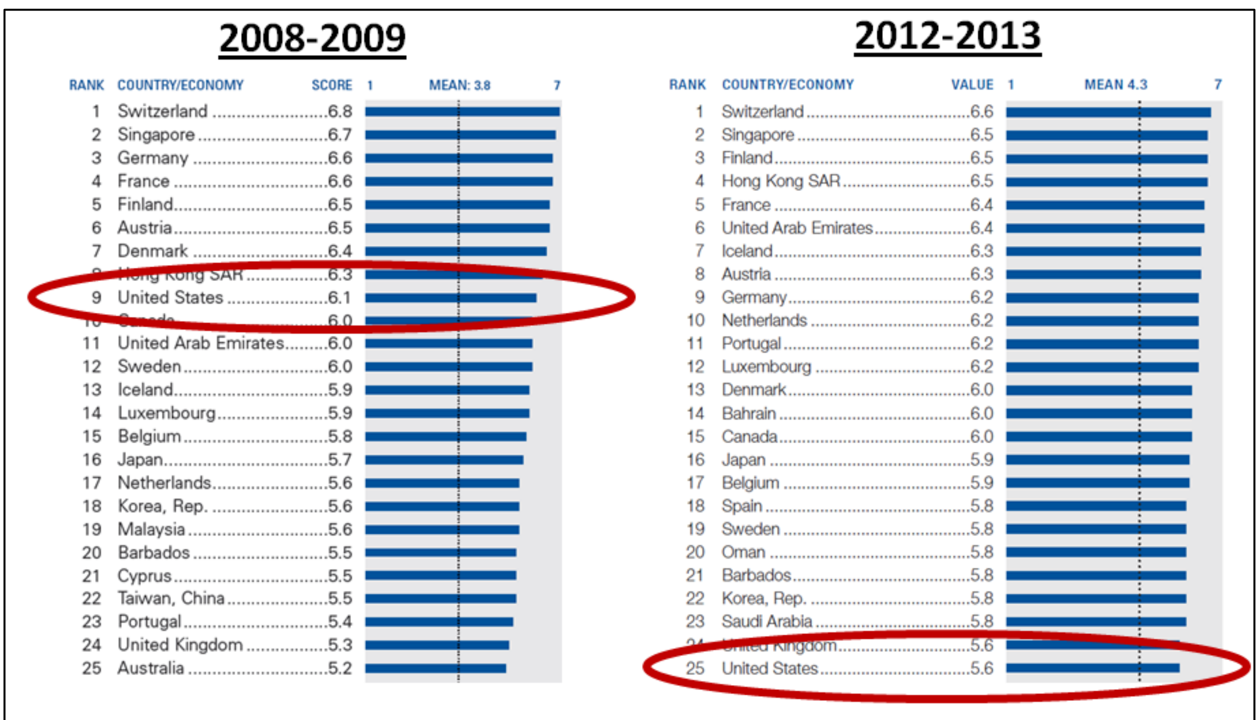
Sources: Congressional Budget Office, Office of Management and Budget

Given that much of the Interstate system has now reached the end of its design life and must be reconstructed or replaced, and there is considerable need for additional capital improvements to the broader federal-aid highway network and the country's transit system, there is a strong argument that the federal government should strive to return to this prior level of investment relative to the national economy.

While federal investment has declined, infrastructure conditions and performance continue to deteriorate, increasing indirect costs to travelers and broader economy. According to the American Society of Civil Engineers (ASCE), 66,749 of America's bridges—or 11 percent of the total—have been identified as structurally deficient, earning it a grade of C+. Road and transit system fare even worse, with a grade of D; aviation, inland waterways, ports, and rail earned grades of D, D-, C, and C+ for, respectively. Furthermore, ASCE has identified 42 percent of major urban highways as congested, costing $100 billion annually; 32 percent of roads are deemed to be poor or mediocre condition, costing the average motorist $324 per year.

At the same time, we're falling behind global peers in infrastructure quality and economic competitiveness. The recent *Global Competitiveness Report* rankings from the World Economic Forum on infrastructure quality has listed the United States at 25th place—down from ninth place just a few years ago in 2009.

EXHIBIT 3. DECLINE IN US INFRASTRUCTURE QUALITY RELATIVE TO PEER NATIONS



Source: World Economic Forum, *The Global Competitiveness Report*

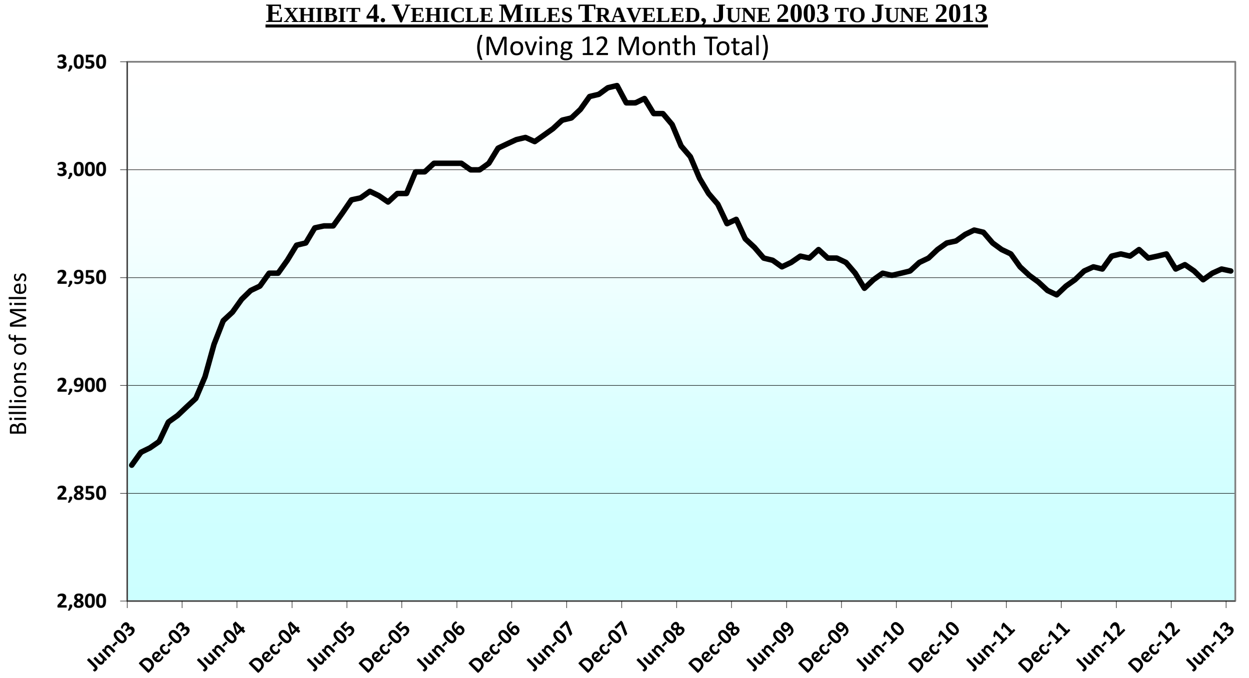
In light of continued population growth and increases in freight movements for all modes, capacity enhancements—and not just maintenance of existing infrastructure stock—must remain a key element of the national transportation investment strategy. A potentially catastrophic disruption to the federal transportation program in FY 2015 will produce serious losses that threaten the gradual macroeconomic recovery seen in the last few years after the Great Recession.

ADDITIONAL REVENUES NEEDED JUST TO SUPPORT CURRENT SPENDING

While the HTF continues to derive about 90 percent of its revenues from taxes on motor fuels, these taxes are facing an increasingly unsustainable long-term future, therefore placing the viability of the HTF in question. Three factors explain the challenges faced by the motor fuel taxes.

First is the stagnation of vehicle miles traveled (VMT) in the United States, on an aggregate basis. Steady increase in VMT has allowed the HTF to see corresponding revenue increases without necessitating constant adjustments in fuel tax rates for most of its existence. While the total VMT is expected to climb up in the future years due to increases in both population and economic activity in the post-recessionary environment, it is unlikely to see the 3.2 percent growth rate experienced on average between 1956 and 2007.

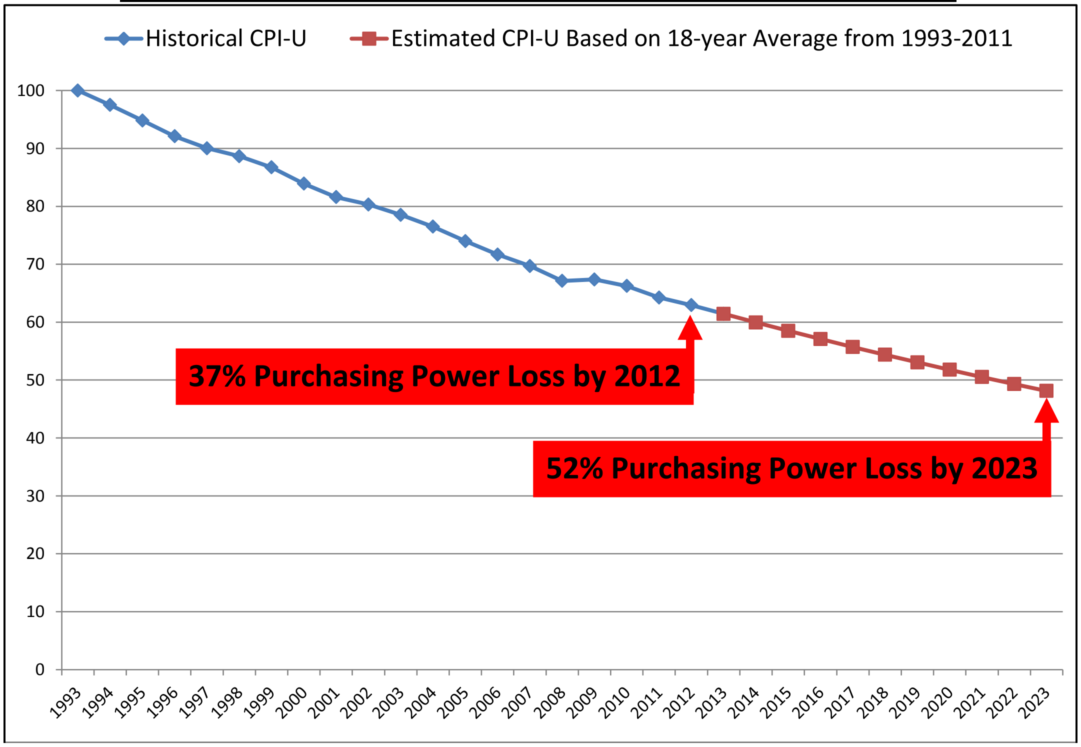
EXHIBIT 4. VEHICLE MILES TRAVELED, JUNE 2003 TO JUNE 2013



Source: Federal Highway Administration

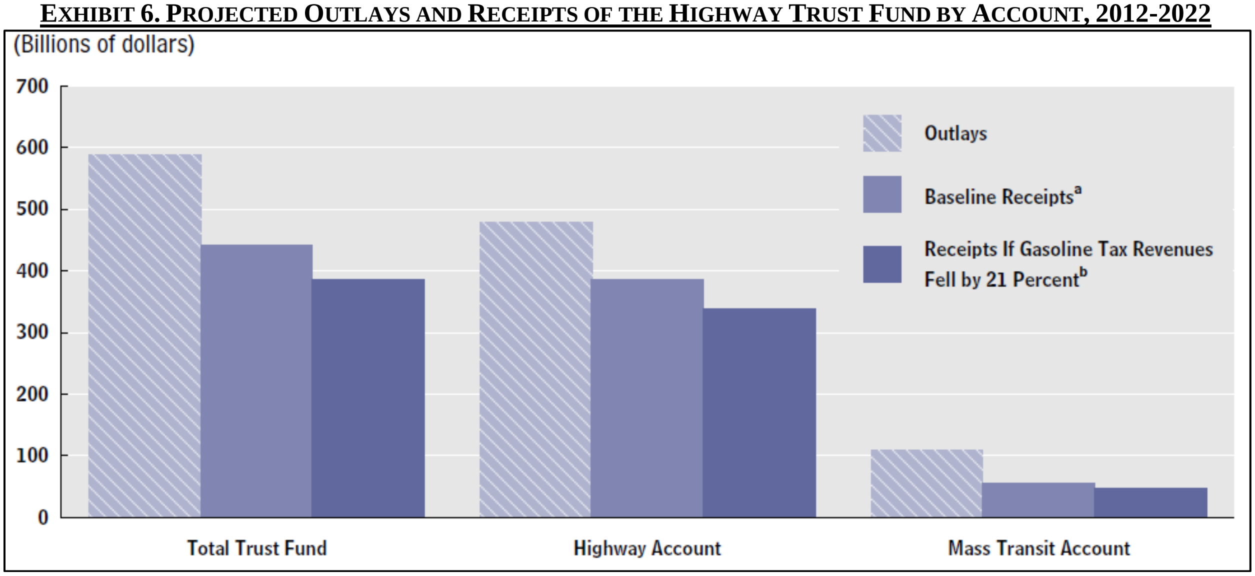
Second, motor fuel taxes at the federal level were last increased to the current rates of 18.4 cents per gallon for gasoline and 24.4 cents for diesel 20 years ago in 1993. As an excise tax levied per gallon, taxes on motor fuel have lost a significant share of its purchasing power. Compared to the Consumer Price Index, the gas tax had lost 37 percent of its purchasing power by 2012, and is expected to lose more than half of its value—or 52 percent—by 2023.

EXHIBIT 5. PURCHASING POWER LOSS OF THE GAS TAX DUE TO INFLATION



Third, according to the CBO, the recent increase in Corporate Average Fuel Economy (CAFE) standards is expected to cause a significant reduction in fuel consumption by light-duty vehicles, which would result in a proportionate drop in gasoline tax receipts. CBO expects gradual lowering of gasoline tax revenues, eventually causing them to fall by 21 percent by 2040. Just in the 2012 to 2022 period, CBO estimates that such a decrease would result in a $57 billion drop in revenues credited to the fund over those 11 years, a 13 percent reduction in the total receipts credited to the fund.

EXHIBIT 6. PROJECTED OUTLAYS AND RECEIPTS OF THE HIGHWAY TRUST FUND BY ACCOUNT, 2012-2022



Source: Congressional Budget Office

Facing these structural headwinds, CBO projects the HTF in FY 2015 to incur $53.2 billion in outlays while raising only $38.7 billion in receipts, leading to a total cash shortfall of $15.1 billion for its Highway and Mass Transit Accounts. This situation is not new, as the HTF will have—by the expiration of the Moving Ahead for Progress in the 21st Century (MAP-21) legislation in September 2014—relied on a series of General Fund transfers amounting to $53.3 billion since 2008 to close this gap. But the annual cash imbalance is only getting worse, and the HTF cannot incur a negative balance unlike the General Fund. This situation leads to three possible scenarios for FY 2015:

1. Provide additional General Fund transfers to the HTF in order to maintain the current level of spending and prevent a dramatic drop
2. Provide additional receipts to the HTF by adjusting existing revenue mechanisms or implementing new sources of revenue
3. Reduce federal highway obligations supported by the HTF by almost 100 percent

In order to support the first two scenarios where current highway and transit investment levels are maintained or increased, there is no shortage of technically feasible tax and user fee options that Congress could consider.

EXHIBIT 7. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

(all revenue estimates in $ millions)

Funding Mechanisms	Mechanism Yield 2014			Illustrative Rate	Revenues 2014	Avg Revenues 2015-2020	Total Revenues 2015-2020
Container Tax	$1 per TEU=	$	421	$15.00	$ 6,317	$ 6,893	$ 41,361
Customs Revenues (Partial Dedication)	1% of Receipts =	$	357	1.0%	$ 357	$ 408	$ 2,451
Drivers License Surcharge (Annual)	$1.00 Surcharge =	$	222	$5.00	$ 1,109	$ 1,154	$ 6,926
Excise Tax on Diesel (Increase)	1¢/gal =	$	399	15.0¢	$ 5,983	$ 6,480	$ 38,877
Excise Tax on Diesel (Indexing)	n/a				$ 440	$ 1,031	$ 6,183
Excise Tax on Gas (Increase)	1¢/gal =	$	1,282	10.0¢	$ 12,823	$ 13,367	$ 80,202
Excise Tax on Gas (Indexing)	n/a				$ 1,046	$ 2,384	$ 14,303
Freight Bill - All Modes	1% of Sales =	$	8,318	1.0%	$ 8,318	$ 9,236	$ 55,415
Freight Bill - Truck Only	1% of Sales =	$	7,221	1.0%	$ 7,221	$ 8,018	$ 48,110
Freight Charge - All Modes (Ton)	1¢/ton =	$	180	25.0¢	$ 4,492	$ 4,988	$ 29,929
Freight Charge - All Modes (Ton-Mile)	1¢/ton-mile =	$	47,530	0.5¢	$ 23,765	$ 26,389	$ 158,334
Freight Charge - Truck Only (Ton)	1¢/ton =	$	124	25.0¢	$ 3,098	$ 3,440	$ 20,641
Freight Charge - Truck Only (Ton-Mile)	1¢/ton-mile =	$	13,911	0.5¢	$ 6,956	$ 7,724	$ 46,342
Harbor Maintenance Tax (Increase)	0.1% Tax =	$	1,331	0.5%	$ 6,657	$ 7,264	$ 43,584
Heavy Vehicle Use Tax (Increase)	100% Increase =	$	852	15.0%	$ 128	$ 163	$ 977
Imported Oil Tax	$1.00/Bbls =	$	3,528	$1.00	$ 3,528	$ 3,528	$ 21,171
Income Tax - Business (Partial Dedication)	0.1% of current taxes =	$	440	1.0%	$ 4,396	$ 4,847	$ 29,082
Income Tax - Personal (Partial Dedication)	0.1% of current taxes =	$	1,508	1.0%	$ 15,084	$ 18,393	$ 110,356
Registration Fee on Light Duty Vehicles (Annual)	$1.00 Fee =	$	259	$10.00	$ 2,594	$ 2,731	$ 16,387
Registration Fee on Trucks (Annual)	$1.00 Fee =	$	9	$15.00	$ 131	$ 133	$ 797
Sales Tax on Auto-related Parts and Services	1.0% of Sales =	$	2,567	1.0%	$ 2,567	$ 2,883	$ 17,299
Sales Tax on Fuel - Diesel	1.0% of Sales =	$	1,253	11.0%	$ 13,782	$ 15,839	$ 95,033
Sales Tax on Fuel - Gas	1.0% of Sales =	$	3,711	8.0%	$ 29,686	$ 31,126	$ 186,753
Sales Tax on New and Used Light Duty Vehicles	1.0% of Sales =	$	2,619	1.0%	$ 2,619	$ 2,619	$ 15,715
Sales Tax on New Light Duty Vehicles	1.0% of Sales =	$	1,625	1.0%	$ 1,625	$ 1,625	$ 9,752
Sales Tax on Trucks and Trailers (Increase)	1% of Sales =	$	268	5.0%	$ 1,340	$ 1,677	$ 10,062
Tire Tax on Light Duty Vehicles	$1.00 Fee =	$	195	$3.00	$ 584	$ 615	$ 3,687
Tire Tax on Trucks (Increase)	100% Increase =	$	434	10.0%	$ 43	$ 54	$ 326
Vehicle Miles Traveled Fee on Light Duty Vehicles (All Miles)	1¢/VMT =	$	26,891	2.0¢	$ 53,781	$ 55,852	$ 335,111

However, if no new revenues can be found for the HTF and the third scenario prevails in FY 2015, state departments of transportation (DOT) will be left to face two dire consequences that will severely undermine much-needed transportation investments throughout the nation: the virtual elimination of federal funding and potentially significant delays on federal reimbursements to state DOTs for costs already incurred.

DEVASTATING IMPACT TO STATES IF HIGHWAY TRUST FUND SHORTFALL MATERIALIZES IN FY 2015

Should the cash shortfall of the HTF materialize in FY 2015 due to the failure of additional revenues identified in time, every state in the nation—based on the historical federal share—will experience an average of 45 percent funding decline in their capital program for the year.

EXHIBIT 8. ILLUSTRATIVE STATE-BY-STATE ESTIMATE OF FEDERAL HIGHWAY APPORTIONMENTS FY 2015 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND

State	FY 2014 Estimated Apportionments*	FY 2015 Estimated Apportionments Based Program Reduction by 99.5%	State	FY 2014 Estimated Apportionments*	FY 2015 Estimated Apportionments Based Program Reduction by 99.5%
Alabama	$739,377,548	$3,696,888	Montana	$399,854,985	$1,999,275
Alaska	$488,657,038	$2,443,285	Nebraska	$281,687,138	$1,408,436
Arizona	$713,043,171	$3,565,216	Nevada	$353,877,660	$1,769,388
Arkansas	$504,569,278	$2,522,846	New Hampshire	$161,019,216	$805,096
California	$3,576,886,247	$17,884,431	New Jersey	$973,045,591	$4,865,228
Colorado	$521,127,428	$2,605,637	New Mexico	$357,883,246	$1,789,416
Connecticut	$489,480,629	$2,447,403	New York	$1,635,828,880	$8,179,144
Delaware	$164,854,236	$824,271	North Carolina	$1,014,526,299	$5,072,631
Dist. Of Col.	$155,498,965	$777,495	North Dakota	$241,949,914	$1,209,750
Florida	$1,846,456,138	$9,232,281	Ohio	$1,306,308,688	$6,531,543
Georgia	$1,258,346,951	$6,291,735	Oklahoma	$618,075,107	$3,090,376
Hawaii	$164,830,236	$824,151	Oregon	$487,110,616	$2,435,553
Idaho	$278,743,444	$1,393,717	Pennsylvania	$1,598,989,212	$7,994,946
Illinois	$1,385,563,679	$6,927,818	Rhode Island	$213,132,752	$1,065,664
Indiana	$928,604,225	$4,643,021	South Carolina	$611,847,012	$3,059,235
Iowa	$468,941,803	$2,344,709	South Dakota	$274,835,348	$1,374,177
Kansas	$368,281,197	$1,841,406	Tennessee	$823,529,537	$4,117,648
Kentucky	$647,523,113	$3,237,616	Texas	$3,075,425,063	$15,377,125
Louisiana	$683,994,609	$3,419,973	Utah	$313,975,586	$1,569,878
Maine	$179,896,577	$899,483	Vermont	$197,790,025	$988,950
Maryland	$584,011,433	$2,920,057	Virginia	$991,722,683	$4,958,613
Massachusetts	$591,887,074	$2,959,435	Washington	$660,662,044	$3,303,310
Michigan	$1,026,080,875	$5,130,404	West Virginia	$425,895,633	$2,129,478
Minnesota	$635,487,719	$3,177,439	Wisconsin	$733,282,767	$3,666,414
Mississippi	$471,339,174	$2,356,696	Wyoming	$249,664,972	$1,248,325
Missouri	$922,597,239	$4,612,986	**TOTAL**	**$37,798,000,000**	**$188,990,000**

This means a significant portion of much-needed highway and transit projects—projects that underpin economic development and improve the quality of life—in every community and Congressional district will either be delayed or cancelled outright. Such cutbacks on contract lettings would mean missed opportunities to pare down the backlog of investment needs, while causing a negative domino effect on construction industry employment exactly when it is starting to rebound after being one of the hardest hit segments in the recent recession. Furthermore, ramping up and down construction activities—including equipment and labor resource management—due to the instability of the federal program would represent an extremely wasteful exercise and impose heavy opportunity costs for the entire transportation industry.

Rhode Island's entire capital highway program is completely dependent upon federal highway funding. The total capital program for Rhode Island averages $250 million annually, with $210 million annually from HTF apportionments. For decades, the state match for federal highway funds was provided by General Obligation bonds, creating a debt service burden on the only other transportation revenue stream in Rhode Island – the state gas tax. The state has taken steps to move away from a bond match for federal funds; steps that would potentially lead to the creation of a dedicated funding mechanism for road and bridge preservation. These steps, however, have not established a state-funded capital program.

A decade ago, Rhode Island moved ahead with innovative financing to complete more than $600 million in large-scale projects, including the relocation of a portion of interstate, improvements to the freight rail system, and the construction of a highway interchange vital to economic growth. The GARVEE method of financing allowed for borrowing against future federal funds. The result is an immediate 25 percent reduction of the state's capital highway program. Through FY 2021, Rhode Island must repay an average of $60 million annually, with $50 million a year obligated from federal funds. The shortfall in the HTF in FY 2015 would not only eliminate Rhode Island's capital program but the state would also face a $50 million GARVEE bond repayment.

In addition to cutbacks in new obligations, the HTF shortfall in FY 2015 could potentially cause delays on federal reimbursements to states for costs already incurred on highway and transit investments. This almost took place five years ago when the HTF experienced its first cash shortfall, leading to the imposition of modified payment procedures which occurs when the Highway Account's balance falls below a predetermined threshold. The Federal Highway Administration (FHWA) had to cease its longtime practice of reimbursing state governments electronically on the same day in which the state submits a request for payment. Rather, FHWA decided to reimburse only on a weekly basis subject to availability of cash in the Highway Account. This might have led to a situation where FHWA eventually could not cover 100 percent of the bills received, leaving states to provide the necessary cash cushion for costs already incurred while facing an ever-diminishing share of reimbursements from the federal government compared to the full amount owed. Given the urgency of this situation, Congress passed emergency legislation (H.R. 6532) which provided for $8 billion to the Highway Account from the General Fund, signed into law on September 15, 2008.

With the 2008 experience as historical reference, a similar situation—even with optimized cash management techniques—may occur at some point in FY 2015 due to the magnitude of the cash shortfall. Given that cash flow projections are subject to unexpected or uncontrollable changes, the HTF shortfall could take place even prior to FY 2015 if receipts come in lower than expected or outlays come in higher than expected in the period leading up to October 2014.

Here are two tangible examples of how other states would be negatively impacted if no additional revenues are found for the HTF by FY 2015. It's important to keep in mind that even states that do want to take leadership on infrastructure investment are hampered by slow recovery from the recession that has diminished the states' own resources, thereby necessitating even greater reliance on the federal transportation program.

California

California receives approximately $3.6 billion in federal reimbursements annually for transportation projects across the state. California's statewide transportation system would experience accelerated deterioration should major rehabilitation projects be cancelled or deferred. California's ability to manage one of its greatest assets, the State Highway System, would be severely impacted by the loss of federal resources. Even if reimbursements for existing projects were to continue, California's ability to move forward with billions of dollars of planned projects would be greatly impacted.

In total, the lack of new obligations would imperil current year planned construction of $2 billion for 250 state-sponsored rehabilitation projects, about $700 million in capacity improvement projects, and billions more on local streets and roads. Some of the current state projects that could be delayed or halted due to funding shortages include:

- Interstate 80 pavement rehabilitation project in Sacramento County (northern California) costing $95 million.
- Cajon Pass design-build roadway rehabilitation project in San Bernardino County (southern California) totaling $107 million.
- Major pavement and roadway rehabilitation projects in Los Angeles County on routes 710, 210, 101, and several locations along Interstate 5 totaling $300 million.
- California has also utilized Advanced Construction on many large projects that may have to be halted if federal obligations stop.

In addition, the California Department of Transportation oversees monthly capital expenditures of nearly $500 million. Loss of reimbursement from the HTF for projects already underway would quickly deplete available cash. If reimbursements from the HTF were to completely halt, the State's primary highway account (the State Highway Account) would become insolvent in as little as two months. Even projects and maintenance activities that do not rely on federal funding would be impacted as state funds are expended without reimbursement from the HTF. In surprisingly short order, the operations of the Nation's largest transportation agency would grind to a halt.

Louisiana

Louisiana would see a reduction of over $550 million in actual construction bid lettings in its FY 2014-2015 highway priority program if the HTF is not fully funded to the current level. This cut represents a drop from $700M to $132M or over 80 percent. Louisiana Department of Transportation and Development (LADOTD) has significant concerns with what the HTF shortfall will do to delaying projects and its effect on the state's infrastructure, including impacts to heavy road and bridge contractors.

LADOTD made significant strides in the last eight years since Hurricane Katrina to improve transportation infrastructure through investment of additional state dollars to complement federal transportation funding. If the federal funds are virtually eliminated in FFY15 and then restored at a reduced level in FY 2016 and beyond, projects will suffer a significant setback, and recent gains could be lost.

Louisiana has a number of significant Interstate Highway System projects scheduled for construction in FY 2015 and beyond. These projects—critical to Louisiana's commerce—will have to be deferred along with numerous other projects if the revenue shortfall in the HTF is not addressed.

CONCLUSION

There is ample documented evidence that shows infrastructure investment is critical for long-term economic growth, increasing productivity, employment, household income, and exports. Conversely, without prioritizing our nation's infrastructure needs, deteriorating conditions can produce a severe drag on the overall economy. In light of new capacity and upkeep needs for every state in the country, the current trajectory of the HTF—the backbone of federal surface transportation program—is simply unsustainable as it will have insufficient resources to meet all of its obligations in FY 2015, resulting in steadily accumulating shortfalls.

Since 2008, the Congress has avoided such shortfalls by transferring $41 billion from the general fund of the Treasury to the HTF. It has enacted an additional transfer of $12.6 billion that is scheduled to occur in 2014. If lawmakers chose to continue authorizing such transfers, an additional $15 billion in FY 2015 and increasing amounts in subsequent years would be needed to prevent future shortfalls, if spending was maintained at the 2013 level (as adjusted for inflation).

Congress could address the projected annual shortfalls by substantially reducing spending for surface transportation programs, by boosting revenues, or by adopting some combination of the two approaches. According to the CBO, bringing the HTF into balance in FY 2015 would require the devastating action of entirely eliminating the authority in that year to obligate funds (projected to be about $51 billion for the federal highway and transit programs), raising the taxes on motor fuels by about 10 cents per gallon, or undertaking some combination of those approaches.

Whichever revenue tools are utilized, at a minimum, it is crucial to identify solutions that will sustain the MAP-21 level of surface transportation investment in real terms. Meeting this minimum funding target would not represent an unreasonable financial burden on the traveling public. For example, on a monthly basis, the amount of additional federal contribution needed to support this level of expenditure is estimated to be $10.23 per household. This favors comparatively to the monthly household spending on electricity and natural gas service ($160), landline and cell phone service ($161), and cable and satellite television, radio and internet access ($124), according to the American Road and Transportation Builders Association.

Given the devastating impact that a virtual elimination of federal surface transportation funding and potential delays on federal reimbursements to state DOTs in FY 2015 can have on economic recovery and construction industry employment, we look forward to assisting you and the rest of your Senate colleagues in finding and implementing a viable set of revenue solutions to the HTF not only for FY 2015, but that can also be sustained for the long term.