THE AMERICAN ASSOCIATION OF
STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Impacts Expected From the Highway Trust Fund Insolvency

Testimony of

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Madame Chairman, Ranking Member Inhofe, and Members of the Committee, I am Peter J. Basso, Director of Program Finance and Management. Today I am appearing on behalf of the American Association of State Highway and Transportation Officials (AASHTO), which represents the departments of transportation in the fifty states, the District of Columbia and Puerto Rico.

First, I want to thank you, Madame Chairman and Senator Inhofe, for holding this important hearing on the impacts of the Highway Trust Fund Insolvency and for your leadership in working toward a new, multi-year surface transportation authorization bill to replace the expiring Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) Act.

Transportation is a critical engine of the American economy. Capital investment in our national surface transportation infrastructure is important and fundamentally different from other kinds of government operations spending. Investing in transportation assets that last 50 to 100 years or more produces economic and societal benefits for many generations to come. <u>Moreover, it creates and sustains good-paying American jobs.</u>

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

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

Consequently, we find ourselves at a crossroads. Will we step up and increase Trust Fund resources so that the Trust Fund can meet the short-term and long-term investment needs of the Nation? Or will we allow the Trust Fund to wither away—instead funding national surface transportation investment through the vagaries of the annual Federal appropriations process or by devolving the programs back to state and local governments in the hope that they will be able to raise the necessary resources? Those are essentially our choices.

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

Today, as we consider these issues I would like to emphasize several key points:

First, there are distinct short-term and long-term funding crises facing the Highway Trust Fund, and we must fix both.

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

In September of 2008, when the United States Department of Transportation (USDOT) announced that insolvency of the highway program was imminent, Congress transferred $8 billion back into the Trust Fund from the General Fund to enable USDOT to honor the commitments made to the states through October, 2009. That action kept the program solvent and enabled billions in highway investments to continue.

Unfortunately, recent reports from USDOT indicate that the $8 billion will not be enough to sustain the program until September 30, 2009. Current projections now show that insolvency of the highway program is again imminent. Without an immediate fix, USDOT will not be able to honor the commitments to the states for all of FY 2009.

We must transfer sufficient funds into the Trust Fund to assure that USDOT can honor all of its commitments in FY 2009. We estimate that $8 billion would be necessary to accomplish this task. That is consistent with the Administration's estimate.

The Short-Term Funding Crisis—Part Two: A second facet of the Trust Fund short-term funding crisis relates to what happens in FY 2010. While AASHTO is committed to completing the new long-term authorization bill on schedule, the possibility remains that additional time will be required for the House, Senate and Administration to agree on a final bill. Interim funding should be provided to assure that there is no interruption in the highway program in FY 2010 which begins on October 1, 2009.

We must transfer sufficient funds into the Trust Fund to assure that interim funding, if needed, will be at adequate levels. Again consistent with the Administration's estimate an additional $10 billion would be necessary for this purpose.

The Long-Term Funding Crisis: While the current economic downturn has highlighted the crisis condition of the Trust Fund, this condition has been playing out since fiscal year 2002. We have consistently been paying out more than we have been taking in and thus drawing down the balance of the Trust Fund.

User fees were last increased in 1993 and costs have skyrocketed since then. While it is true that the added receipts that came to the Trust Fund in 1995 and 1998 from those enacted for deficit reduction, they are not enough to sustain the current program level.

A 2006 Transportation Research Board study and two congressionally-chartered national commissions (The National Surface Transportation Policy and Revenue Study Commission and the National Surface Transportation Infrastructure Financing Commission) have thoroughly documented the needs and called for substantial increases in user fees to meet those needs.

In the new multi-year authorization bill, we must sufficiently increase Trust Fund revenues to begin to address these documented national surface infrastructure investment needs.

Second, a failure to act would be devastating and would seriously undermine our economic recovery.

If the Highway Trust Fund becomes insolvent in FY 2009, States will likely suspend new contract awards, halt right-of-way acquisition, and look for ways to stop on-going construction while maintaining public safety. If inadequate Trust Fund results cause the highway program to be cut back in FY 2010 to $5.7 billion, or 86 percent below the current program level, States will have to again cut back their programs substantially. Given the severity of the current recession, States will not be in a position to step in and fill the void. Likewise, the private sector will have to cut back—this will mean cancelled contracts, plant closures and layoffs. Expansion plans will be put on hold or cancelled.

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

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

State	FY 2010 Reduced Level	Number of Affected Projects	Dollar Value of Affected Projects	State Comments
ARIZONA	$436,826,558	17	$300,000,000	While the ARRA funding offset a portion of these reductions, an additional $300 million cut would negate the positive impact that the ARRA funding had in Arizona. It would severely impact ADOT's construction program and the Arizona economy by eliminating virtually every major project from the program in 2010 outside of the Phoenix metro area.
CONNECTICUT	$271,582,747	59	$151,200,000	If obligation authority was provided in FY2010 at the same level as FY2009, ConnDOT could start an additional 59 projects with the additional $151.2 million. These are the projects that would not proceed under the 35% ceiling reduction scenario.
GEORGIA	$746,516,328	n/a	$397,326,417	If this anticipated reduction in funding occurs, the need to maintain the existing infrastruction would virtually consume the limited funding provided and essentially eliminate some programs as well as constrict most all new construction.
KENTUCKY	$365,636,425	50 to 75	$202,500,000	With state road fund receipts continuing to decline, our state program has already been cut dramatically. While ARRA funds will help in the short-term, the long-term sustainability of our highway program in Kentucky is uncertain without an adequately funded and prioritized federal program. Kentucky operates on a cash flow basis and any changes or delays in federal reimbursement have to be carried by our state road fund. With ever shrinking state road fund cash balances, Kentucky cannot afford to carry reimbursements any longer than necessary.
MICHIGAN	$590,918,727	215	$400,000,000	Reductions in federal-aid at the proposed 35% level would adversely affect an already economically depressed economy. When FY 2009 apportioned program funding is combined with funding from ARRA, our drop in funding is 67% (from $1.8 billion to $591 million). This would result in 30,000 fewer jobs than is supported by the overall level of federal funding Michigan received in FY 2009.
MISSOURI	$490,242,398	59	$414,000,000	It will negate any job creation and economic benefits associated with ARRA funding in 2010. The loss would be catastrophic to Missouri's transportation system.
NEW HAMPSHIRE	$92,609,976	40	$57,000,000	NH relies solely on federal funds for transportation program with very limited direct State funding, so such significant reductions in federal funds would correspondingly significantly affect the State program.
NEW YORK	$914,849,737	102	$468,393,070	Would result in the loss of 13,100 construction jobs (based on FHWA coefficients).

State	FY 2010 Reduced Level	Number of Affected Projects	Dollar Value of Affected Projects	State Comments
NORTH CAROLINA	$600,800,707	400	$300,000,000	The proposed reduction could affect our State's GARVEE abilities and may influence the rate of our upcoming sale. The proposed reduction is approximately 50% of the amount of ARRA transportation funding just received, which in essence reduces the intended economic impact by half.
NORTH DAKOTA	$130,451,970	76	$94,300,000	NDDOT's own pavement-management-system estimation tool indicates that a 35% decrease in funding would mean that within 2 years NDDOT's overall system condition would drop into "Fair" condition and in less than 20 years would drop into "Poor" condition.
OREGON	$234,603,774	100+	$138,000,000	The cuts would come sooner than otherwise required because ODOT does not have sufficient balances in the state highway fund to cushion the federal cut. It is likely that basic pavement preservation, bridge, and maintenance would sustain the bulk of the cuts.
PENNSYLVANIA	$915,977,986	115	$528,000,000	The reduction of $528 million immediately following the "ramp-up" of ARRA monies will dramatically impact construction contractors and consultant engineering firms not to mention delay of greatly needed highway and bridge repair.
RHODE ISLAND	$101,190,176	20	$60,000,000	If the funding is reduced, we would not be able to begin any new transportation construction projects during FY2010 as the funding received would have to be used to pay GARVEE debt service and to continue funding projects already underway using advanced construction.
TEXAS	$1,867,967,643	96	$2,800,000,000	This level of reduction would result in no new construction or added capacity projects being awarded in Texas for the entire year. It would also result in our annual letting being reduced from a total of $4.357 billion to only $1.600 billion.
UTAH	$165,695,761	n/a	$73,000,000	If the predicted Highway Trust Fund shortfall occurs the cost/benefit of these dollars will be worse, as lower funding levels would require a shift to a more reactive type project.
VERMONT	$82,992,948	n/a	$50,000,000	Although it is too early to tentatively identify any specific project, it is clear that such a reduction would essentially negate any positive impact from the FFY-10 economic stimulus funds provided to Vermont. Like other small States caught in the economic recession, with an already high tax burden, we do not have the option of generating additional State funding to compensate for such a large reduction in federal funding.
WISCONSIN	$419,247,634	206	$223,400,000	Not only will current deficiencies go untreated, most will cost significantly more to address in the future.

Third, we must act expeditiously.

If we are to avoid construction and construction-related job losses, if we are to avoid slowing down our economic recovery, and if we are to avoid shutting down and postponing important transportation projects, then we must act expeditiously to ensure that the short-term Trust Fund crisis is addressed in a timely manner. Legislation addressing Trust Fund insolvency should be enacted by the August recess. If Congress and the Administration are unable to complete action on the new multi-year authorization bill by October 1, 2009, legislation providing sufficient Trust Fund resources to support adequate interim funding should be enacted just before the August recess to assure that there is no interruption in the highway program in FY 2010. It is also important to complete the multi-year authorization bill on schedule, i.e., October 1, 2009, or as close to that date as possible.

Fourth, we must preserve contract authority and the sanctity and integrity of the Highway Trust Fund.

As we work through these issues and develop solutions, we must be careful to preserve contract authority for the highway and transit programs. The predictability and stability that contract authority provides is essential for state and local governments to make long-term commitments to major transportation investment projects.

Fifth, solutions must include increased resources to restore and sustain the solvency of the Highway Trust Fund in the short term and to modernize our national surface transportation systems to meet the challenges of the 21st Century in the long term.

We are faced with an immediate need to meet commitments for the remainder of this fiscal year and to ensure steady funding for fiscal 2010 if Congress is not able to complete work on a new authorization by October 1.

Last year the Congress acted to provide $8 billion to the Trust Fund recognizing the write-off of that amount in the 1998 TEA 21 legislation. Given the immediate need we propose that the Congress take similar action before the August recess. This will prevent the slowdown of payments to the States.

While this money would come from the General Fund there are similar kinds of considerations for recovering funding forgone or paid out from the Trust Fund.

The following table provides some illustrative examples of such funding:

Proposed Action	Revenues Foregone from the Highway Account	Revenues Foregone from the Mass Transit Account	Total Revenues Foregone from the Highway Trust Fund
Reimburse the Highway Trust Fund for revenues from the 4.3 cent per gallon federal excise tax increase enacted in 1993 that were credited to the General Fund during FY 1994-1997	**$17.8 billion**	**$4.5 billion**	**$22.3 billion**
Reimburse the Highway Trust Fund for interest on the HA and MTA balances that were credited to the General Fund between FY 1999 and FY 2008: **a. Interest on the actual balance** **b. Interest if $8 billion had not been transferred from the Highway Account in FY 1998 to the General Fund**	**a. $11.55 billion** **b. $17.64 billion**	**a. $5.22 billion** **b. $5.22 billion**	**a. $16.77 billion** **b. $22.86 billion**
Reimburse the Highway Account for emergency highway repairs that were charged to the Highway Account since FY 1989	**$7.3 billion**		**$7.3 billion**

Estimates by the American Road and Transportation Builders Association

In the long term, as both National Commissions have reported, we will need to increase income to the Trust Fund to begin to address the documented infrastructure investment needs. Thank you for holding this hearing and the opportunity to present testimony.