

AMERICAN ASSOCIATION OF
STATE HIGHWAY AND
TRANSPORTATION OFFICIALS

AASHTO
THE VOICE OF TRANSPORTATION

TESTIMONY OF

The Honorable Michael W. Hancock
President, American Association of State Highway and
Transportation Officials (AASHTO);
Secretary, Kentucky Transportation Cabinet

REGARDING

**MAP-21 REAUTHORIZATION:
THE ECONOMIC IMPORTANCE OF
MAINTAINING FEDERAL INVESTMENTS IN OUR
TRANSPORTATION INFRASTRUCTURE**

BEFORE THE

**Committee on Environment and Public Works
of the United States Senate**

ON

February 12, 2014

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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 economic importance of maintaining federal investments in transportation infrastructure and how the impending cash shortfall in the Highway Trust Fund will affect state departments of transportation. My name is Mike Hancock, and I serve as the Secretary of the Kentucky Transportation Cabinet (KYTC) and as President of the American Association of State Highway and Transportation Officials (AASHTO). Today I am testifying on behalf of AASHTO, which represents the state departments of transportation (DOTs) of all 50 states, Washington, D.C. and Puerto Rico.

Our Nation's transportation system is the backbone of our economy. It supports interstate travel and interstate commerce. It is how people get to and from work and how goods get to market. But if we do not make the necessary investments in our nation's transportation infrastructure it will hurt our ability to compete in the global economy. State DOTs play a critical role in ensuring that we have a reliable and efficient transportation network. But states are only able to play this role through a robust partnership with the Federal government.

For 50 years, the Highway Trust Fund (HTF) provided stable, reliable, and substantial highway and transit funding. However, over the past five years this has not been the case. Since 2008, over \$52 billion have been transferred from the General Fund to the HTF to keep it solvent. In January, the U.S. Department of Transportation (USDOT) announced that the Highway Account of the HTF will likely run out of money as early as this summer. If this is allowed to happen, states may not be reimbursed for work they have already paid for. In addition, failure to ensure the solvency of the HTF will prevent states from being able to obligate any new federal highway funds in Fiscal Year 2015.

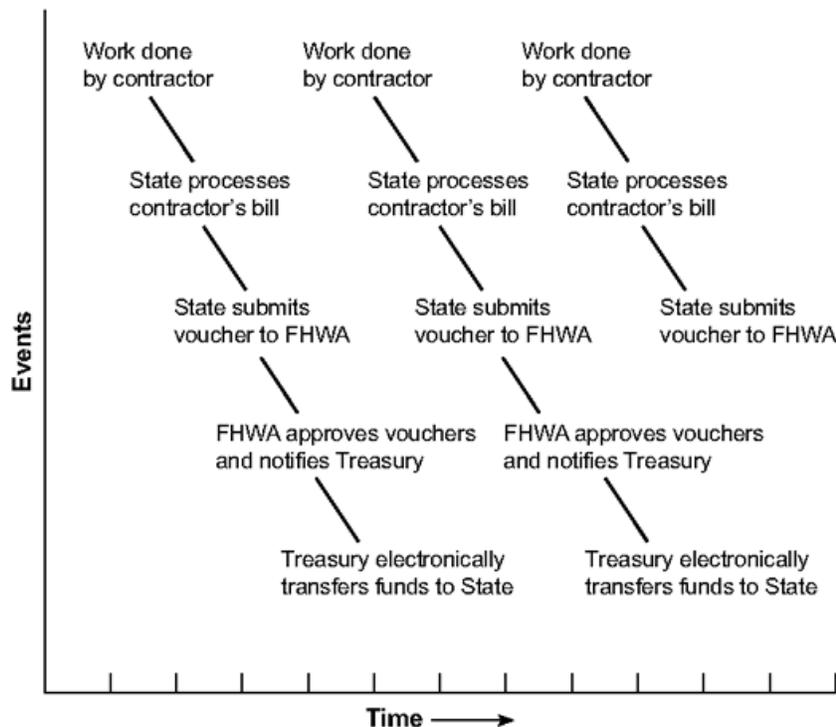
Almost half of capital investments made by states on our nation's roads, bridges, and transit systems are supported by the federal highway and transit programs administered by the USDOT. Without this strong federal-state partnership, state DOTs will not be able to play their part in building and maintaining the national transportation network on which our economy relies to be competitive in the global marketplace.

FAILURE TO REIMBURSE STATES FOR PRIOR OBLIGATIONS

The Federal-aid Highway program apportions about \$40 billion a year to state DOTs for road and bridge projects across the country. It is important to note that federal dollars are not provided upfront; rather, this is a program based on reimbursement. States only receive funding from the Federal Highway Administration (FHWA) when work is completed on a project and the state submits a request for reimbursement. States typically receive reimbursement electronically from FHWA the same day payments to the contractor are made.

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EXHIBIT 1. FEDERAL-AID HIGHWAY PROGRAM REIMBURSEMENT PROCEDURES

Source: Federal Highway Administration

On January 15, 2014, Secretary of Transportation Anthony Foxx announced that the Highway Account of the HTF is likely to run out of money in August of this year. In order to prevent the Highway Account from becoming insolvent, FHWA will likely change how quickly states are reimbursed for costs already incurred on highway and transit projects. Rather than being reimbursed daily, states may only receive reimbursement once every two weeks or once a month. In fact, FHWA instituted this type of modified payment procedure when the Highway Account experienced its first cash shortfall in September 2008. Instead of reimbursing states on the same day in which the state submitted a request for payment, FHWA reimbursed on a weekly basis subject to availability of cash in the HTF. This could 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 which provided \$8 billion for the Highway Account from the General Fund.

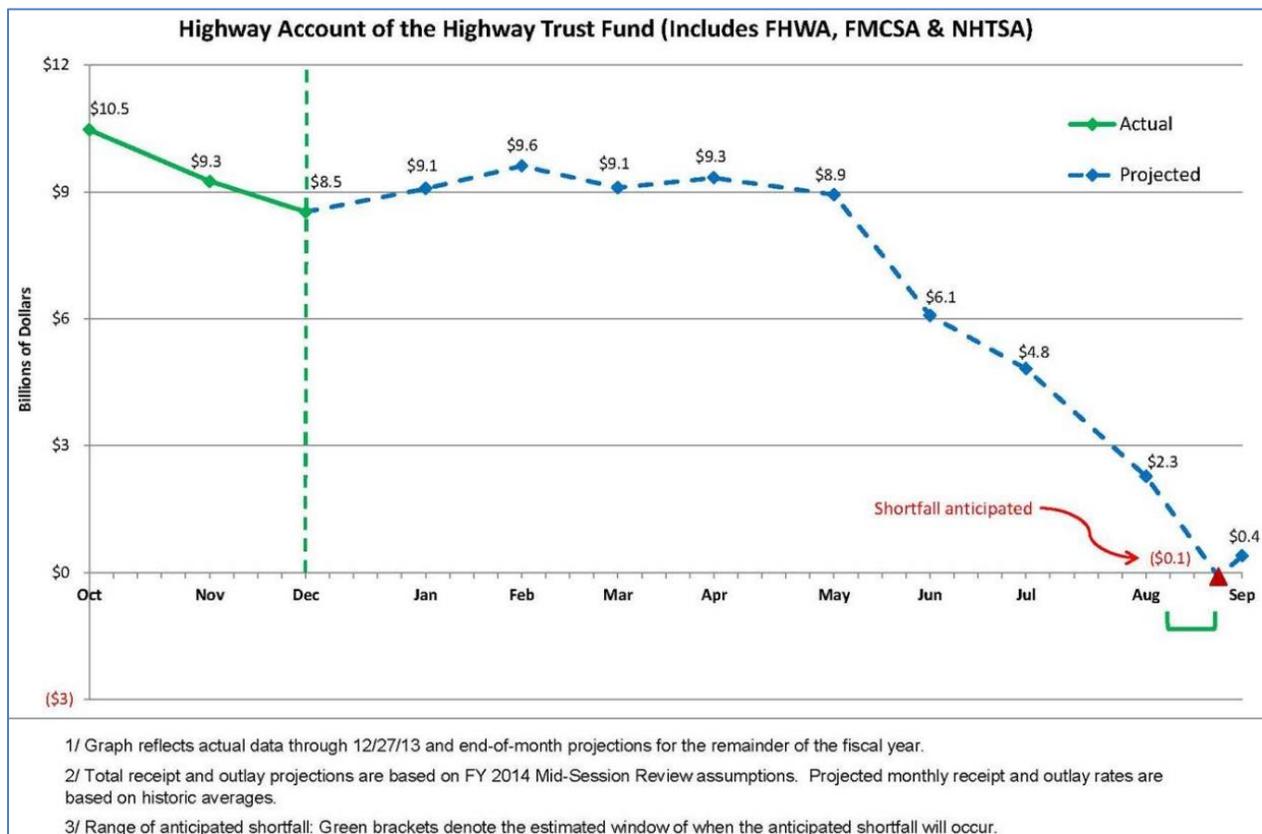
States count on prompt payment from the Federal government to be able manage cash flow and to be able to pay contractors for work they have already completed. Any delay in reimbursement from FHWA will prevent states from being able to pay contractors in a timely manner. In turn, contractors rely on prompt payment from the state to be able to pay their employees and

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suppliers. Disruptions to this process have the potential to send unwelcome shockwaves throughout the transportation community and other industries indirectly supported by infrastructure investment.

EXHIBIT 2. PROJECTED ESTIMATES FOR END-OF-MONTH CASH BALANCE AS OF DECEMBER 27, 2013



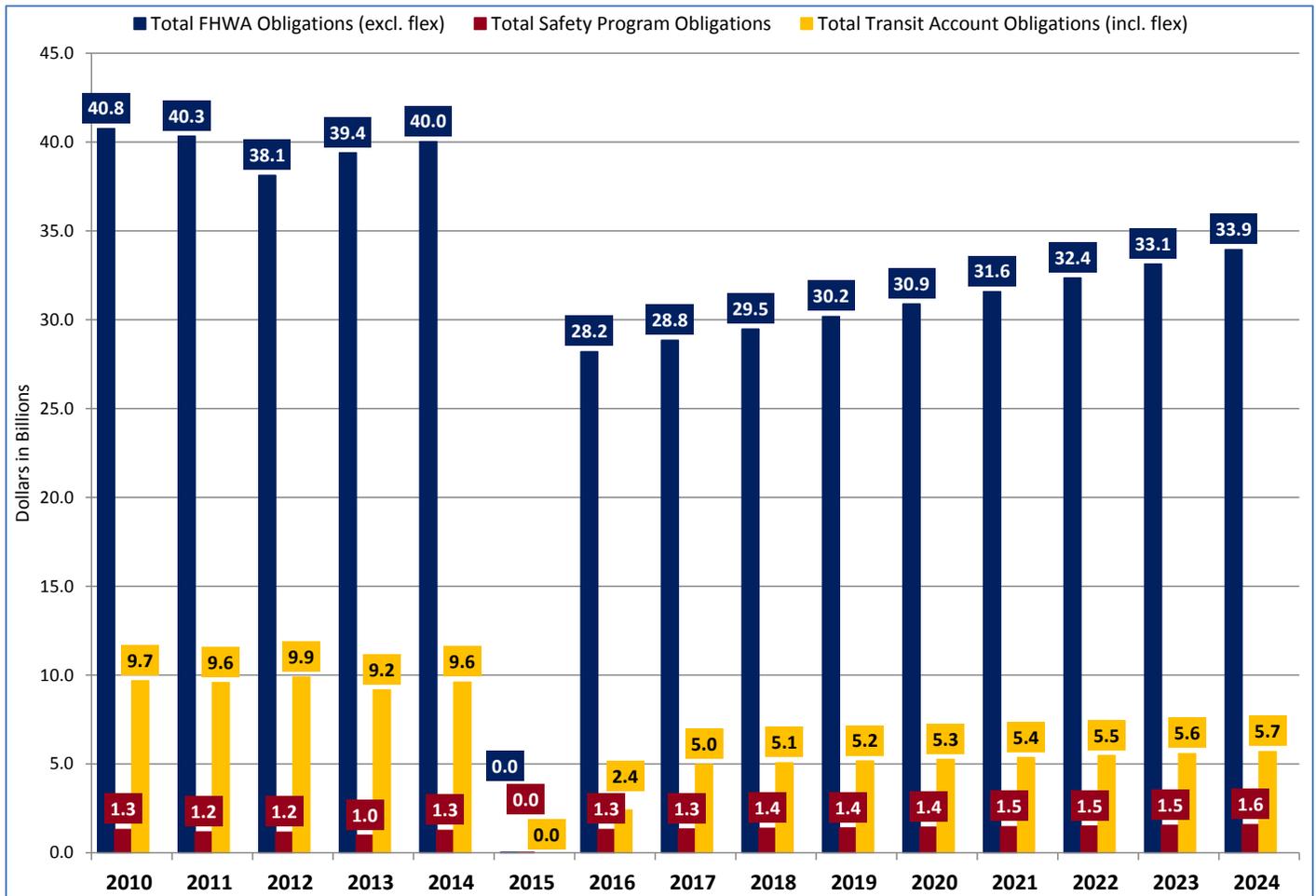
Source: Federal Highway Administration

DEVASTATING IMPACT TO STATES OF A HIGHWAY TRUST FUND SHORTFALL IN FY 2015

Even if FHWA is able to keep the Highway Account solvent by delaying reimbursements to states this summer, it will not address the underlying problem. The Congressional Budget Office (CBO) estimates that yearly HTF receipts will be \$17 billion a year less than HTF spending over the next ten years (FY 2015-2024). In order to keep the HTF solvent beyond this fiscal year, AASHTO estimates that states will not be able to obligate any new federal highway funding in FY 2015, representing a 100 percent drop from FY 2014—going from \$40 billion to zero dollars. Even with no new highway funding in FY 2015, it is likely that FHWA will still have to alter its reimbursement procedures in FY 2014 to be able to pay for prior-year obligations, which would continue throughout FY 2015.

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EXHIBIT 3. ESTIMATED FEDERAL HIGHWAY AND TRANSIT OBLIGATIONS BEYOND FY 2014 WITH NO ADDITIONAL REVENUES TO THE HIGHWAY TRUST FUND



Historically, federal highway funding has accounted for approximately 45 percent of what state DOTs spend on highway and bridge capital improvements. Based on this assumption, should this be cut back to zero in FY 2015 due to the HTF cash shortfall, states will experience an average of 45 percent decline in their capital program funding for the year.

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.

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Here are tangible examples of how states would be negatively impacted if no additional revenues are found for the HTF by this summer. It is 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 states' own resources, thereby necessitating even greater reliance on the federal transportation program.

Kentucky

Kentucky receives approximately \$650 million in federal funding from the HTF each year. This funding supports the development and construction of approximately 40 percent of Kentucky's annual highway program. If the projected HTF shortfall occurs in FY 2015 and the states are unable to obligate any new federal funding in that year, Kentucky would be required to postpone over \$350 million in FY 2015 construction lettings and shift our entire Statewide Transportation Improvement Program (STIP) at least one year into the future. Given that the projections for revenues into the HTF are less than current levels well into the foreseeable future, the impacts to Kentucky's program would be both short- and long-term in nature.

Another concern for Kentucky is that we have extensively utilized both the advance construction and Grant Anticipated Revenue Vehicle (GARVEE) financing opportunities provided in previous federal highway authorization acts. We typically carry between \$150 and \$200 million of regular pre-financed project activity, and have committed over \$675 million of GARVEE bond proceeds to major interstate reconstruction projects in our state. As we approach FY 2015, Kentucky is having to slow the rate of advance construction commitments in order to avoid a greater commitment of state resources to support those projects until federal funds are available again. Our agreement with FHWA to repay the GARVEE bonds comes directly "off-the-top" of HTF apportionments to Kentucky, and amounts to almost \$60 million annually.

To enable Kentucky to meet the ongoing commitments contained in its six-year highway plan, it is essential that we be able to count on a level of Federal-aid Highway Program funding at least commensurate with current HTF funding levels. Anything less than current funding levels will impact project schedules in a manner reflective of HTF reductions. All states plan for the delivery of effective highway programs, and decreased funding will materially affect every state's plans. It is critical that the FY 2015 "fiscal cliff" issue be resolved as soon as possible to protect our highway program commitments.

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

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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:

- The \$950 million Gerald Desmond bridge replacement project in Los Angeles county.
- The \$201 million Schuyler Heim bridge replacement project in Los Angeles county.
- The \$105 million Sacramento I-80 HOV and pavement rehabilitation project.
- The \$62 million Alameda 880 23rd to 29th mobility project.

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.

Rhode Island

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.

Wyoming

Wyoming, with the nation's lowest population, relies heavily upon federal funding, especially for projects on the extensive network of Interstates and other National Highway System (NHS) routes. Typical of rural and small population states, the federal investment in capital projects in Wyoming exceeds the national average by nearly half. Over 66 percent of Wyoming funding for highway construction comes from federal funding, down from the 80 percent level that prevailed before the Wyoming Legislature passed a ten-cent fuel tax increase in 2013. In 2015,

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approximately 70 projects (primarily on the Interstates and NHS) totaling \$225 million to \$250 million are in danger of not proceeding to letting without continuing federal funding obligations.

This situation would worsen the condition and safety of the roadway on these major routes, with consequences for the national economy, mobility, and defense, and it would negatively impact the business of in-state and out-of-state contractors dependent upon this work. Any delay increases the project expense when later undertaken, if funding does later become available. Today, the Wyoming Department of Transportation faces a \$64 million shortfall in maintaining current roadway conditions even with present federal funding, so the short-term and long-term impacts of any reduction in federal highway funding to the state, particularly a complete stop in the ability to proceed with new contracts, would be very significant.

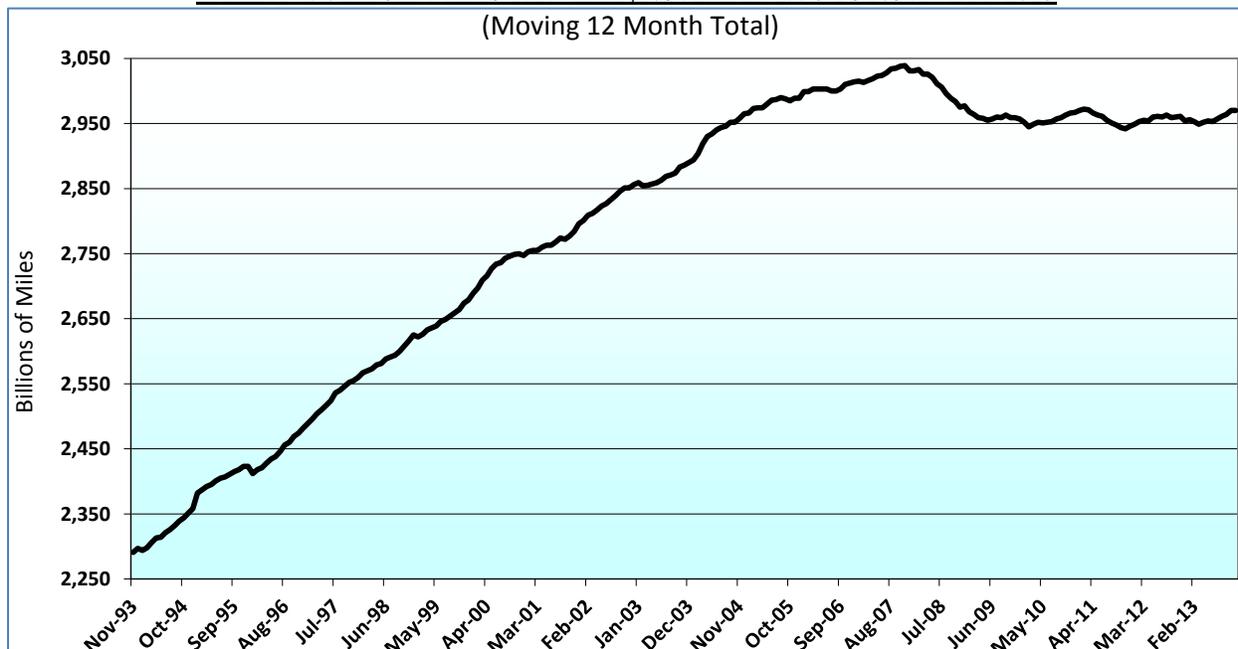
ADDITIONAL REVENUES NEEDED JUST TO MAINTAIN CURRENT INVESTMENT LEVELS

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.

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.

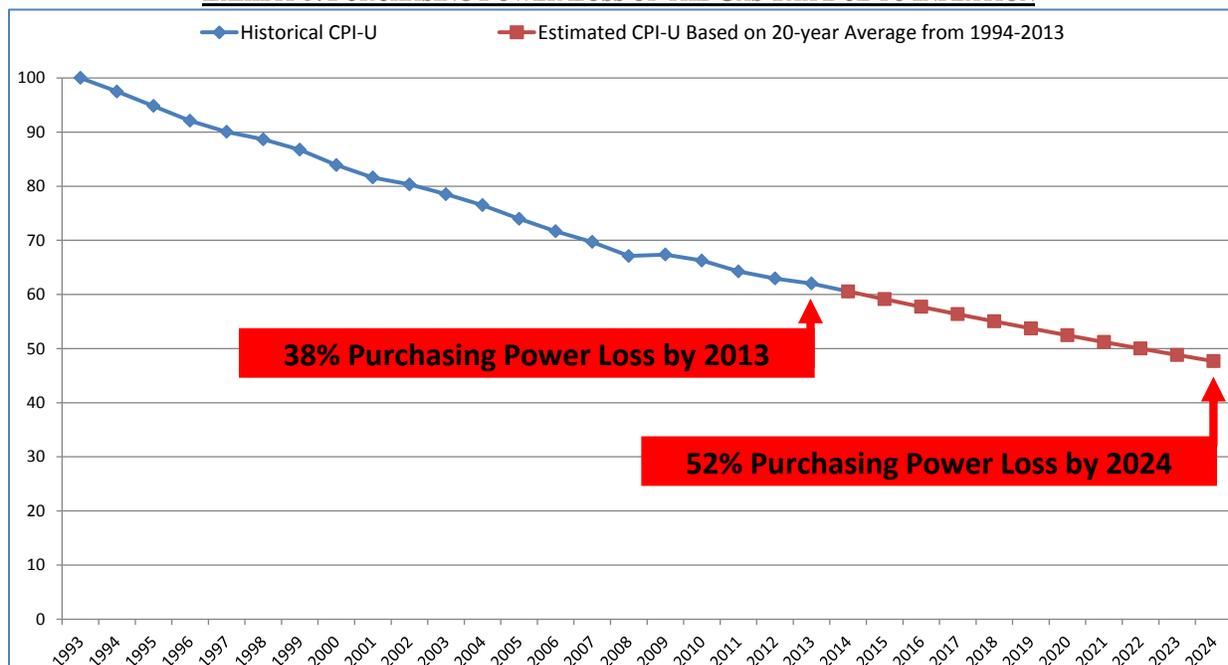
EXHIBIT 4. VEHICLE MILES TRAVELED, NOVEMBER 1993 TO NOVEMBER 2013



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 their purchasing power. Compared to the Consumer Price Index, the gas tax had lost 38 percent of its purchasing power by 2013, and is expected to lose more than half of its value—or 52 percent—by 2024.

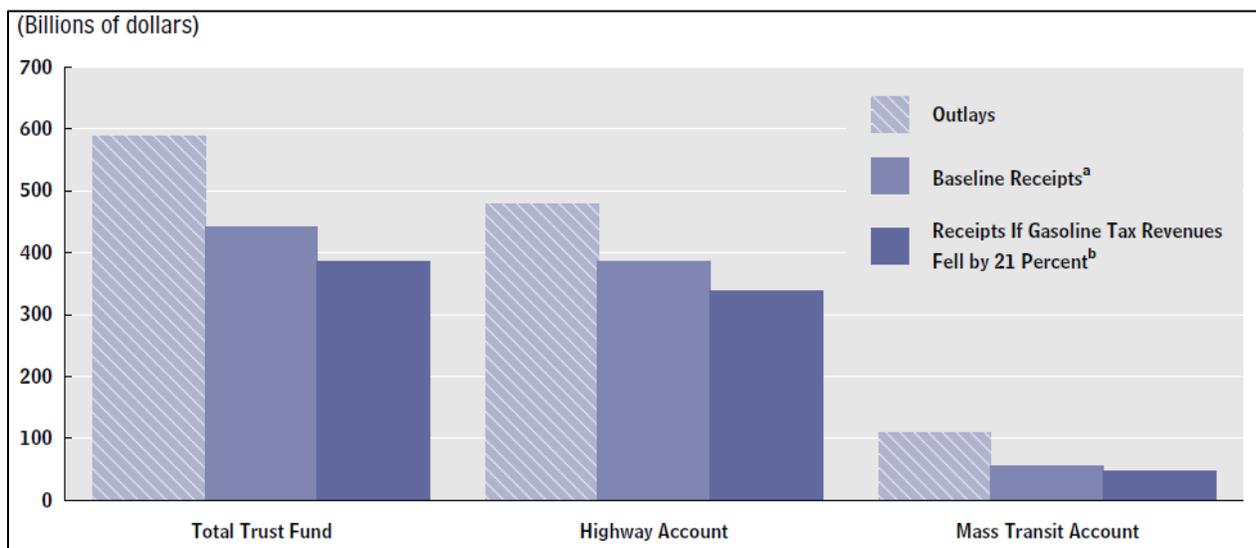
EXHIBIT 5. PURCHASING POWER LOSS OF THE GAS TAX DUE TO INFLATION



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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 \$54.4 billion in outlays while raising only \$38.3 billion in receipts, leading to a total cash shortfall of \$16.1 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 \$52.1 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 later this year:

1. Provide additional General Fund transfers to the HTF in order to maintain the current level of highway and transit investment and meet prior-year obligations
2. Provide additional receipts to the HTF by adjusting existing revenue mechanisms or implementing new sources of revenue
3. Virtually eliminate new federal highway and transit obligations in FY 2015

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In order to support one of the first two scenarios where current highway and transit funding levels are maintained or increased, there is no shortage of technically feasible revenue options—including user fees and taxes—that Congress could consider.

EXHIBIT 7. MATRIX OF ILLUSTRATIVE SURFACE TRANSPORTATION REVENUE OPTIONS

Matrix of Illustrative Surface Transportation Revenue Options						
<i>(all revenue estimates in \$ millions)</i>						
Funding Mechanisms	Mechanism Yield 2014	Illustrative Rate	Revenues 2014	Average Revenues 2015-2020	Total Revenues 2015-2020	
Container Tax	\$1.00 per TEU = \$ 421	\$15.00	\$ 6,317	\$ 6,893	\$ 41,361	
Customs Revenues (Partial Dedication)	1.0% 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)	1c per Gallon = \$ 399	15.0c	\$ 5,983	\$ 6,480	\$ 38,877	
Excise Tax on Diesel (Indexing)	n/a		\$ 440	\$ 1,031	\$ 6,183	
Excise Tax on Gasoline (Increase)	1c per Gallon = \$ 1,282	10.0c	\$ 12,823	\$ 13,367	\$ 80,202	
Excise Tax on Gasoline (Indexing)	n/a		\$ 1,046	\$ 2,384	\$ 14,303	
Freight Bill - All Modes	1.0% of Sales = \$ 8,318	1.0%	\$ 8,318	\$ 9,236	\$ 55,415	
Freight Bill - Truck Only	1.0% of Sales = \$ 7,221	1.0%	\$ 7,221	\$ 8,018	\$ 48,110	
Freight Charge - All Modes (Ton)	1c per Ton = \$ 180	25.0c	\$ 4,492	\$ 4,988	\$ 29,929	
Freight Charge - All Modes (Ton-Mile)	1c per Ton-mile = \$ 47,530	0.5c	\$ 23,765	\$ 26,389	\$ 158,334	
Freight Charge - Truck Only (Ton)	1c per Ton = \$ 124	25.0c	\$ 3,098	\$ 3,440	\$ 20,641	
Freight Charge - Truck Only (Ton-Mile)	1c per Ton-mile = \$ 13,911	0.5c	\$ 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 per Barrel = \$ 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	
Oil, Gas, Minerals Lease - Rent, Bonus, and Other Income (Partial Dedication)	1.0% of GF Revenues = \$ 15	50.0%	\$ 750	\$ 750	\$ 4,500	
Oil, Gas, Minerals Lease - Royalties (Partial Dedication)	1.0% of GF revenues = \$ 55	50.0%	\$ 2,750	\$ 2,750	\$ 16,500	
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 - Gasoline	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)	1.0% 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)	1c per VMT = \$ 26,891	2.0c	\$ 53,781	\$ 55,852	\$ 335,111	

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

THE FEDERAL IMPERATIVE IN TRANSPORTATION INVESTMENT

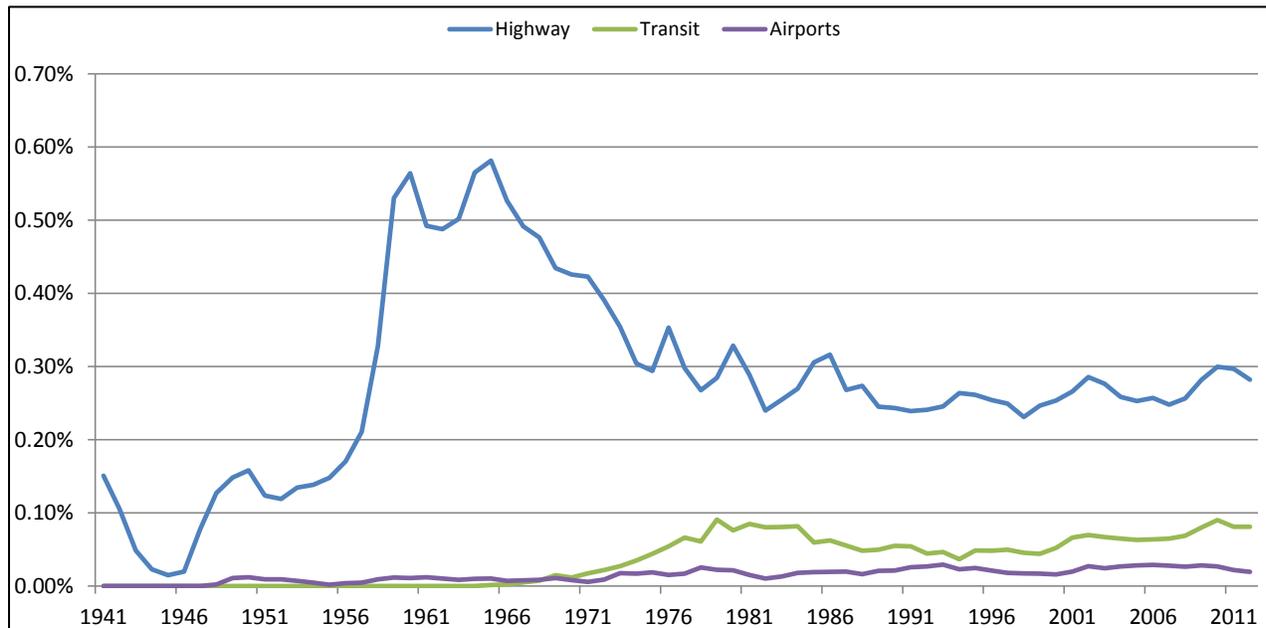
Going back to the founding days of the Nation, Article I, Section 8 of the United States Constitution notes that it is a duty of the Federal government to provide support for national transportation investment. Through the development of post roads, canals, railroads, highways, and airways with strong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

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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 8. 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.

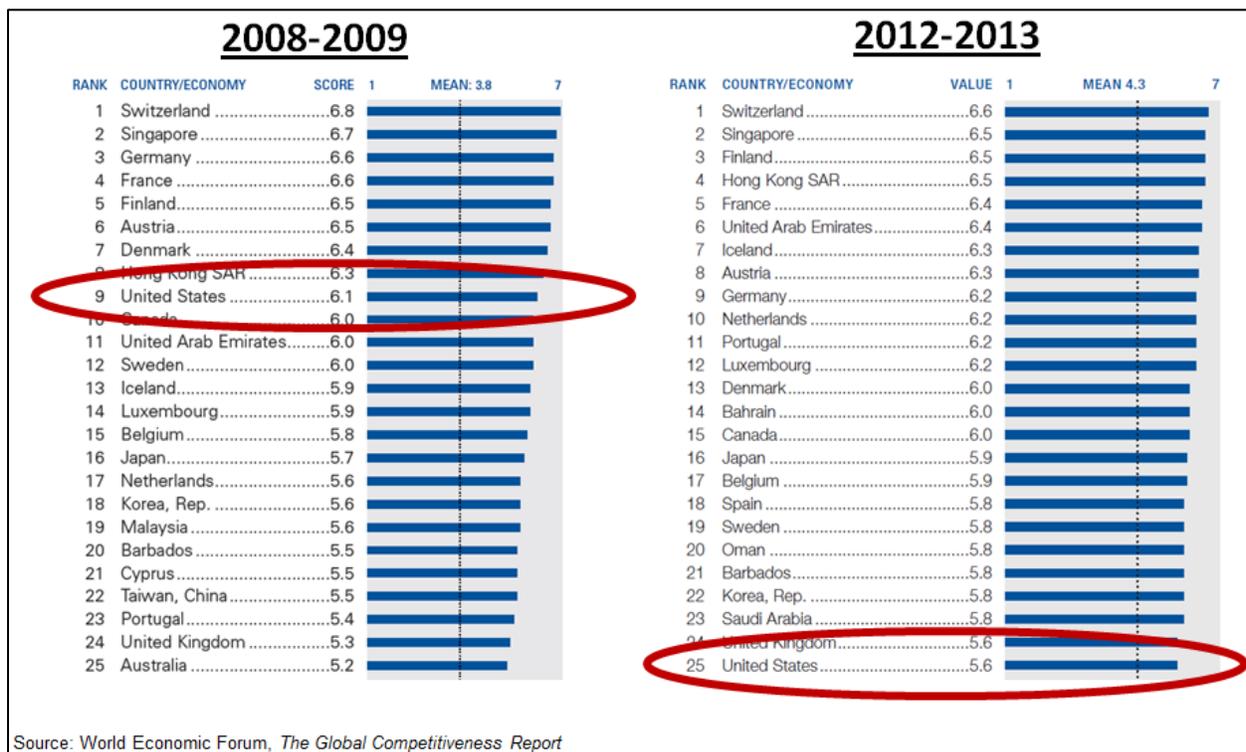
While federal investment has declined, infrastructure conditions and performance continue to deteriorate, increasing indirect costs to travelers and the broader economy. According to the American Society of Civil Engineers (ASCE), 66,749 of America's bridges—or 11 percent of the total—have been identified 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+, 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 in 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.

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EXHIBIT 9. DECLINE IN US INFRASTRUCTURE QUALITY RELATIVE TO PEER NATIONS



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 later this year will produce serious losses that threaten the gradual macroeconomic recovery seen in the last few years after the Great Recession.

DEFINING FEDERAL INVESTMENT LEVELS

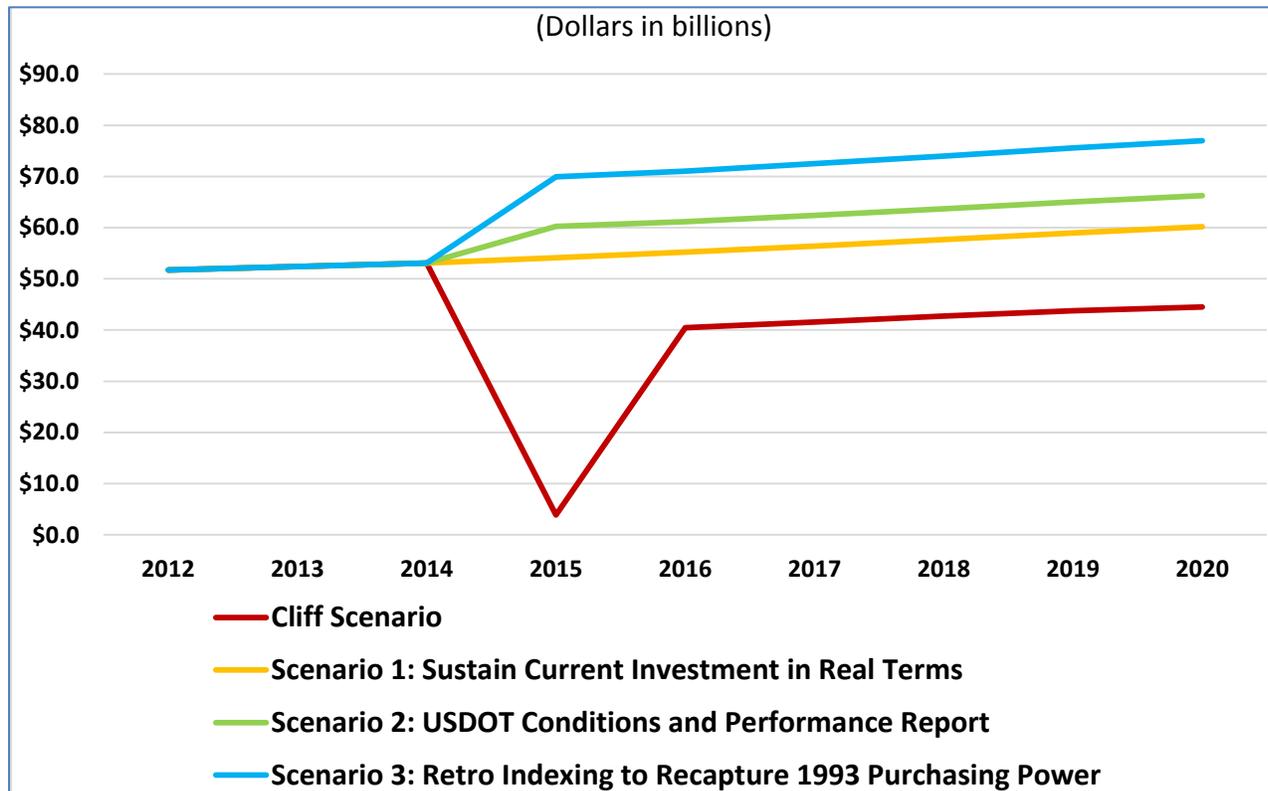
To continue the vibrant federal commitment to surface transportation investment—which will require states to maintain their current share of overall investments as well—consideration should be given to the following potential funding scenarios for reauthorization of MAP-21:

- Scenario 1: Sustain Current Investment in Real Terms (Average of \$57.1 billion per year between 2015 and 2020)** – This scenario maintains the existing MAP-21 investment level, adjusted for inflation. At minimum, it is imperative to identify solutions that will enable Congress to sustain this current level of surface transportation investment in real terms. On a monthly basis, the amount of additional federal funding needed to support this level of expenditure is estimated to be \$10.23 per household.

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- **Scenario 2: Investment Needs Identified by USDOT Conditions and Performance Report (Average of \$63.1 billion per year between 2015 and 2020)** – USDOT’s 2010 *Conditions and Performance* report to Congress (C&P report) provides an objective appraisal of the nation’s highway, bridge, and transit conditions and future investment needs. This scenario shows the minimum levels of investment needed to maintain current highway, bridge, and transit conditions and performance and to allow transit agencies to continue accommodating recent historical growth rates. The resulting spending level represents an 11 percent increase in program funding over Scenario 1. On a monthly basis, the amount of additional federal funding needed to support this level of expenditure is estimated to be \$13.52 per household.
- **Scenario 3: Return Program to 1993 Purchasing Power (Average of \$73.3 billion per year between 2015 and 2020)** – This scenario represents the annual Federal-aid Highway funding levels that would be required to equal and maintain in real terms, the revenue levels that were achieved in 1993 from federal motor fuel taxes and the other HTF funding sources (the last time federal motor fuel taxes were increased). This scenario will place us on the path to restoring the contribution of our infrastructure in enhancing our global competitiveness. The resulting spending level represents a 28.4 percent increase in program funding over Scenario 1. On a monthly basis, the amount of additional federal funding needed to support this level of expenditure is estimated to be \$19.06 per household.

EXHIBIT 10. ILLUSTRATIVE FEDERAL HIGHWAY AND TRANSIT FUNDING SCENARIOS



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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 starting this summer, resulting in steadily accumulating shortfalls.

Since 2008, the Congress has avoided such shortfalls by transferring \$52.1 billion from the general fund of the Treasury to the HTF. If lawmakers chose to continue authorizing such transfers, an additional \$16 billion in FY 2015 and increasing amounts in subsequent years would be needed to prevent future shortfalls, if spending is to be maintained at existing levels and 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 potential delays on federal reimbursements to state DOTs combined with a wholesale elimination of federal surface transportation obligations 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 later this year, but also for the long term.

Finally, the discussion surrounding the reauthorization of MAP-21 is largely focused on the state of the Highway Trust Fund, the need for long-term stability and the impacts of inaction. However, we believe that it is important to emphasize the significance of the policy reforms that were included in MAP-21 which are resulting in more value for the federal dollars being

invested in transportation. AASHTO supports these provisions and applauds this Committee for its leadership in advancing those critical modernizations to the Federal-aid highway and transit programs. We recognize that the ultimate value of the reforms will not be realized until the provisions of MAP-21 are fully implemented. Nevertheless, we believe that there are some adjustments and additional innovations that may enable us to further improve program and project delivery. Therefore, we urge you to remain open to policy as well as funding enhancements in your reauthorization deliberations.

Testimony of **Michael W. Hancock**
President, American Association of State Highway and Transportation Officials
Secretary, Kentucky Transportation Cabinet