

WRITTEN TESTIMONY OF PETER J. BASSO

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**HEARING ON THE NEED TO INVEST IN AMERICA'S
INFRASTRUCTURE AND PRESERVING FEDERAL TRANSPORTATION
FUNDING**

**BEFORE THE SENATE COMMITTEE ON ENVIRONMENT AND
PUBLIC WORKS**

SEPTEMBER 25, 2013

Chairman Boxer, Ranking Member Vitter and other members of the Committee, I am Peter J. Basso, Principal of Peter J. Basso and Associates, LLC, Transportation Finance consultants. I am pleased to have the opportunity to testify here today on the critical need for infrastructure investment and how the current crisis facing the Highway and Transit program funding might be addressed.

The Federal government is a key player in partnership with the State and local governments and the private sector for advancing investment in infrastructure and a critical funder of transportation infrastructure. We all face an immediate crisis because of the shortfall in revenue to maintain the solvency of the Highway Trust Fund; this comes at a time when we must start to address the reauthorization of these major infrastructure programs.

In my testimony I will discuss: the serious condition of the Highway Trust Fund revenues and the negative impact on the Highway Program if we fail to address the issue. The following issues are discussed:

- provide background on the dimensions of the revenue shortfall and its impact on Surface Transportation Programs.
- provide information on the differences between funding and financing.

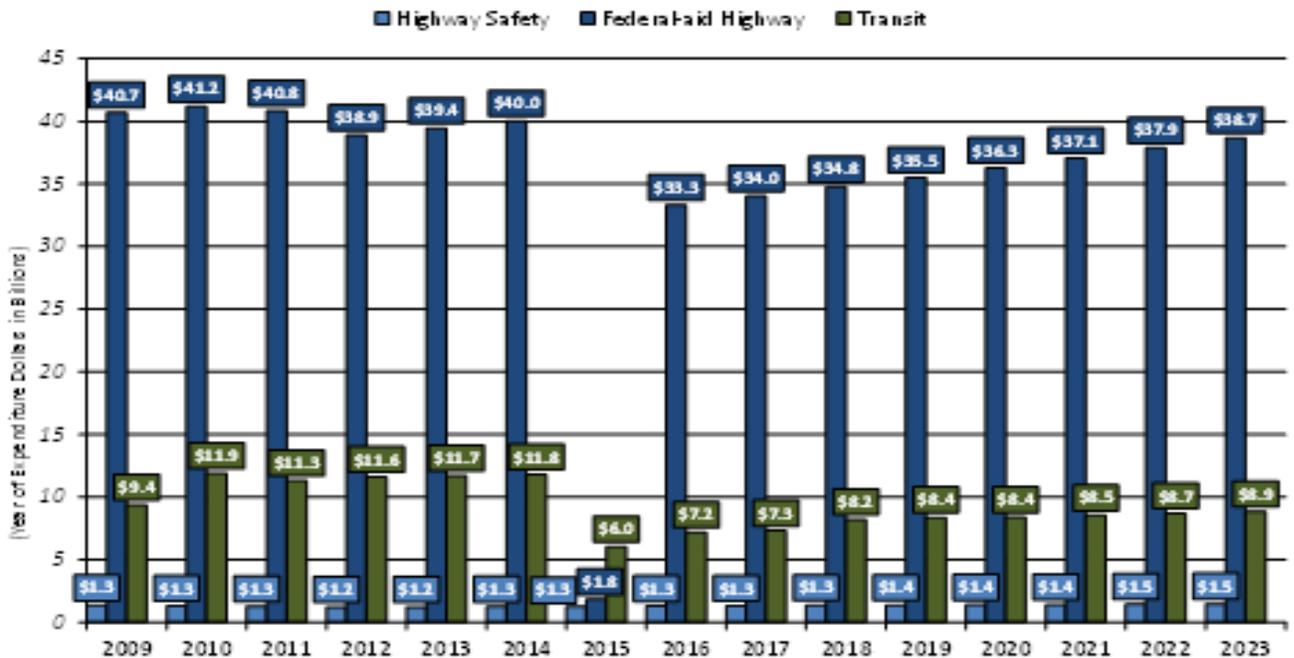
THE CURRENT CRISIS IN SURFACE TRANSPORTATION INFRASTRUCTURE INVESTMENT

While the Highway Trust Fund has served as the backbone of Federal Surface Transportation programs since 1956, it is now expected to reach a shortfall situation where almost all new obligations will have to be eliminated in FY 2015. According to the Congressional Budget Office, this is due to the structural deficit between receipts and outlays which averages around \$15 billion and will continue to increase over time. The following chart based on CBO projections illustrates the depth of the shortfall.

The Congressional Budget Office (CBO) projects ever growing deficits in the subsequent years leading to a drastically diminished program. To highlight, if no new revenues are identified for the Highway Trust Fund, highway obligations are expected to be reduced by almost 99 percent from \$40 billion in FY 2014 to \$0.2 billion the following year transit obligations are expected to also experience a significant funding reduction.

ESTIMATED FEDERAL HIGHWAY AND TRANSIT PROGRAM FUNDING LEVEL WITH NO NET NEW REVENUES TO HTF

Assumes a minimum balance of \$4 billion for the Highway Account and \$1 billion for the Mass Transit Account



The chart above shows the reductions that would be required for the Surface Transportation Programs if no new revenue is found. **While there appears to be a recovery in funding levels in the subsequent years it is brought about by a critical reduction in program levels in fiscal year 2015.**

HOW THE SHORTFALL DEVELOPED

Beginning in 2005 with the passage of SAFETEA: LU Congress authorized the maximum program levels for the Highway and Transit Programs that the revenue projections at that time sustained. Subsequently for the first time in five decades Vehicle Miles Traveled by Americans declined substantially below historic levels. VMT is a key proxy for revenue to the Highway Trust Fund.

Coming on the heels of this decline was the impact of the Great Recession with the combined impact being a major shortfall in revenue compared to outlays. That gap was approximately \$35 billion in revenue vs. \$51 billion in outlays. In 2008 the balances in the Highway Trust Fund Highway account were not sufficient to pay upcoming outlays.

Congress starting in 2008 enacted a series of General Fund transfers totaling \$55 billion. These transfers allowed the programs to continue at current levels and made possible the necessary passage of MAP-21.

FUNDING AND FINANCING

Starting in the early 1990's The Federal government enacted new tools to allow for credit financing. These programs include the State Infrastructure Bank programs, The TIFIA program and GARVEE bonds to name a few.

While these new developments have markedly helped advance infrastructure investment, they require revenue streams since funds must be paid back. Given the magnitude of the short-fall in investment in infrastructure financing is most valuable but it is not a substitute for direct revenue. Both funding and financing increases are sorely needed.

However, financing is not a substitute for direct revenue but rather is a compliment to it. The financing tools require revenue streams to pay back financing and thus alone cannot satisfy investment needs.

Conclusions

- It is clear that the U.S. investment levels as documented by two national commissions, the American Society of Civil Engineers and AASHTO are inadequate to meet the nation's needs.
- A further erosion of investment will come about in Fiscal Year 2015 if the revenue question goes unaddressed.
- The American economy and jobs could be negatively impacted if no solution is found to the need to fund the Highway Trust Fund.