TESTIMONY

Before the United States Senate Committee on Commerce, Science, and Transportation related to

Moving Passengers and Freight into the Future: A Review of the Report of the National Surface Transportation Policy and Revenue Study Commission

by

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Tuesday, April 22, 2008

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Good afternoon, Chairman Inouye, Vice-Chairman Stevens, members of the Committee. My name is Frank Busalacchi. I am Secretary of the Wisconsin Department of Transportation and Chairman of the 31-member States for Passenger Rail Coalition. It is a distinct pleasure to appear before your Committee today with colleagues from the National Surface Transportation Policy and Revenue Study Commission (the Commission).

As a state DOT Secretary, I see firsthand how transportation affects our citizens' lives. Serving on the Commission offered me the opportunity to consider how federal policy could be crafted to best serve citizens nationwide – and to assure that states work in concert to achieve national goals. I am honored that Speaker Nancy Pelosi appointed me to serve as a member of this Commission, and I am proud of our accomplishments.

The Commission's Vision – Needs and the Federal Role

The Commission delivered its report to Congress in December 2007. That report is supported by a bipartisan group of Commissioners who came together to chart a course for the nation's transportation system over the next 50 years. To do this, we began with the end in mind. Early in our work, we created a vision that we believed should drive our nation's transportation policy – ***to create and sustain the preeminent transportation system in the world***.

Commissioners came to the table with perspectives from every conceivable viewpoint. We held ten public hearings across the nation. We spent three days together at a retreat in August 2007. We had many long and difficult conversations. In the end, we came together to support the report before you because we recognized our charge was critically important to the nation. We also recognized that if we did not come together as democratic, republican, public-sector and private-sector members, we could not look members of Congress in the eye and ask them to come together over the critical issue of transportation policy.

We started with needs. The Commission gathered and analyzed information to project the nation's transportation needs over the next 50 years. For highways and transit systems, this exercise was somewhat easier than for rail. We had the benefit of highway and transit data collected by US DOT over many years. For both freight and passenger rail, the Commission relied on Commissioner Matt

Rose and me to oversee the collection of needs data. For all surface transportation, the needs are staggering – a minimum of $225 billion each year, potentially as much as $338 billion. Counting all levels of government, our nation currently spends less than $90 billion each year.

While sobering, these dollar figures gave us a firm foundation for the remainder of the Commission's work and, specifically, our next task – determining the federal role. Again, my role as Wisconsin DOT Secretary informed my view of this issue. From a parochial perspective, Wisconsin DOT works to provide the best transportation value to the citizens of Wisconsin. At the same time, investments made in the Chicago metropolitan area and in other areas around the country directly impact upon Wisconsin's transportation system. The important point here is that without a strong federal vision supported by federal policy and funding, the states will always act in their self-interest.

The Commission spent a morning with representatives of the "Big Seven" organizations[1] last May, and the testimony of these organizations drove that point home to me. They told the Commission that only the federal government has the ability to move policy in big, national ways. Each state or city can work to be innovative, but national coordination, supported by funding, must come from the federal level.

The federal government must assure a *national* transportation system. Without this, we have merely a conglomeration of state, regional and local transportation systems. Only national policy and funding can assure that all Americans have mobility options and can afford to use the system. Only national policy and funding can assure that our freight system consists of rails and roads in good condition. Only national policy and funding can assure that we rebuild our intercity passenger rail network and revitalize our transit systems to address the current challenges presented by a growing population, global warming, and the need for energy conservation and smart land use.

Finally, I believe that we must define the system first – and then determine what method, or methods, we'll use to pay for transportation. Different visions of the transportation system call for different funding sources and approaches. However, since release of the Commission's report, the discussion has focused on how we pay – should we toll, raise the gas tax, sell the system off to the

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[1] Council of State Governments, National Governors Association, National Conference of State Legislatures, National League of Cities, U.S. Conference of Mayors, National Association of Counties, International City/County Management Associations

private sector, or focus on an entirely new revenue approach? Not one of these options is compelling without a clear understanding of what our citizens need and what the system should look like. Only with that knowledge can we identify the associated costs, benefits, and stakeholders and better understand the pros and cons of each financing approach. No one benefits from a conversation about financing without understanding what it is we need to build.

These considerations highlighted for me the importance of the federal role – because interstate roads, intercity rail, a sound freight system and world-class transit systems cannot, by and large, be built by towns, or villages, or even cities or states. All levels of government need to come together to deliver what is among the most important of government services to citizens – the promise of mobility – to earn a living, see a family member, seek health care, or go to school.

The Commission's Vision – Program Elements

After determining that national needs were large and that the federal government had a key role to play in creating national policy and providing federal funding, the Commission focused its efforts on the federal transportation program. We worked with US DOT staff to learn what is working and not working with the current program. We tried to envision a program structure that would address identified needs, support the federal role, maintain federal, state and local government partnerships, and include the private sector when appropriate to meet national policy goals.

The Commissioners agreed that the current program structure is complex beyond reason. Over the past 50 years, more than 100 separate programs have evolved. This translates into an accounting nightmare for state DOTs and others responsible for programming federal dollars. Each month, my state DOT receives reports from the Federal Management Information System (FMIS), an FHWA database that tracks the various categories of federal funding that can be applied to highway projects and assists states in programming their oldest funds first to avoid unnecessary funding lapses. Wisconsin's current report is over 150 pages long, with funding accounts that date back to the 1980's. This report is for highways alone; it doesn't speak to the accounting challenges of our current transit and rail programs.

The Commission created a program structure that simplifies the existing complex array of federal programs. We recommend that today's 100 programs be consolidated to ten programs that are in the federal interest.[2] The proposed programs are designed to address key federal priorities while offering state and local governments flexibility in applying federal funds to their needs.

The Commissioners reached consensus support for federal funding for transportation on federal lands and research that benefits the federal program. The remaining eight programs are the result of long deliberations that began with discussions of the federal role.

In my testimony, I will address two of the eight programs recommended by the Commission: Intercity Passenger Rail: A Program to Serve High-Growth Corridors by Rail; and Connecting America: A National Access Program for Smaller Cities.

Intercity Passenger Rail Program

The Commissioners looked carefully at the nation's population growth estimates. Experts predict that our population will grow from about 300 million people in 2007 to 450 million people by 2050. We looked at congestion on our highways and airways and quickly recognized that our federal program must become more multi-modal to address population growth and other critical national priorities such as energy conservation and global warming.

Our Commission recognized that federal policy and funding approaches have, unfortunately, led to a disinvestment in passenger rail over the past 50 years. Years ago, intercity passenger rail routes comprised the backbone of the country's transportation network. Freight rail is investing in its system, but based on a freight rail analysis,[3] freight rail cannot economically justify sufficient investment in its infrastructure to address the demand for added freight rail capacity, much less added passenger rail capacity. We must create a healthy, vibrant passenger and freight rail system

[2] Rebuilding America: A National Asset Management Program; Freight Transportation: A Program to Enhance U.S. Global Competitiveness; Congestion Relief: A Program for Improved Metropolitan Mobility; Saving Lives: A National Safe Mobility Program; Connecting America: A National Access Program for Smaller Cities and Rural Areas; Intercity Passenger Rail: A Program to Serve High-Growth Corridors by Rail; Environmental Stewardship: A Transportation Investment Program to Support a Healthy Environment; Energy Security: A Program to Accelerate the Development of Environmentally-Friendly Replacement Fuels; Federal Lands: A Program for Providing Public Access; Research, Development, & Technology: A Coherent Transportation Research Program for the Nation.

[3] National Rail Freight Infrastructure Capacity and Investment Study, September 2007.

that can provide a key mobility option for people and freight. Rail has the added benefit of reducing carbon dioxide and other emissions per passenger mile compared to highway and air travel.

The Commission heard testimony from state and local officials and others asking for additional public investment in intercity passenger rail. The intercity program includes a federal/state funding partnership for intercity passenger rail similar to the partnerships that exist for highways, transit and aviation. We do not envision rail replacing other transportation modes. We see rail providing greater mobility to help meet the needs of our growing and aging population.

To assist the Commission in advising Congress, I engaged a Passenger Rail Working Group to develop a passenger rail analysis.[4] This group mapped a vision of the national rail system in 2050 and determined cost estimates to achieve this vision. Its focus is city-to-city connections in corridors of 500 miles or less. The 2050 map, contained in the Commission report, provides one perspective on the future of passenger rail and is entirely illustrative. Individual states will be responsible for their own rail plans. Many states are already working on estimates and plans for new passenger rail service; they are undertaking this work because they understand their citizens want a mobility option – especially in light of high gas prices and increasing highway and airway congestion. With federal support, these states will be empowered to implement their passenger rail service plans.

Of the ten new transportation programs recommended by the Commission, Intercity Passenger Rail is the only program focused on one specific mode of transportation. The federal government would fund 80 percent of the program, similar to what it now provides for other modes.

Connecting America: A National Access Program for Smaller Cities and Rural Areas

Commissioners quickly recognized the problems of congestion, inadequate freight capacity, a limited passenger rail system and lack of transit options in some cities. These are the issues that get most coverage in the news. However, there were strong voices as well for the transportation challenges of rural America.

[4] Vision for the Future – U.S. Intercity Passenger Rail Network through 2050, December 2007.

Commissioners found particular resonance in the following quote by President Dwight Eisenhower: "Our unity as a nation is sustained by free communication of thought and by easy transportation of people and goods... Together the unifying forces of our communication and transportation systems are dynamic elements in the very name we bear – United States. Without them, we would be a mere alliance of many separate parts." [5] All states – regardless of their population density, geographical size or economic status – depend on their transportation systems for their economic vitality and quality of life.

The Commission's report does not specifically define "rural states." These states generally have higher lane miles and fewer people to support the upkeep of their roads. In many states, the ability to raise adequate revenues through property and income taxes is limited. They likely have inadequate Vehicle Miles Traveled (VMT) to support a privately managed toll system. In addition, they may have limited transit services and certainly not the typical transit system found in an urbanized area. These states have elderly residents and residents with disabilities who cannot drive and have severely limited mobility options. They may have one or two larger cities, but beyond the urban area, the state's population is rural in nature. There are likely between 20 and 25 states that fall into the "rural state" category.

Urban congestion may impact the daily lives of most of us, but we cannot ignore the extreme needs of our rural areas. Many trips begin, end or travel through rural areas. Rural roads and rail lines are both critically important in moving our goods to market. Rural transit services must be implemented to serve residents with limited mobility options. The Commission recommends the "Connecting America" program to address the needs of all states with rural areas and to assure the national character of our transportation system.

The Future of the Highway Trust Fund and Paying the Bill

Our final task was to address financing. Commissioners agreed that our nation showed uncommon wisdom in establishing the Highway Trust Fund (HTF). The Clay Committee actually recommended debt financing, specifically bonding, as an approach to funding its ten-year highway plan. The

[5] A 10-Year National Highway Program-A Report To The President, The President's Advisory Committee On A National Highway Program, Clay Committee, 1955.

Congress looked at this proposal and rejected it, believing instead that a pay-as-you-go system was in the best interest of the nation. In light of the current issues with debt across our economy, we should all be grateful for your predecessors' wisdom on this issue.

The Commission came down strongly on the side of a multi-modal system where all modes are treated similarly in terms of their access to the trust fund. We recommend renaming the Highway Trust Fund the Surface Transportation Trust Fund (STTF). States would then be able to choose the right transportation solution – instead of selecting a less-preferable option that assures access to federal funding.

We spoke plainly in our Commission report: there is no free lunch when it comes to financing. Our Commission came down strongly on the side of a pay-as-you-go system. We do not believe that this is the time to make federal transportation investments based on more debt. We also faced up to the issue that the nation's transportation needs are enormous. Our report outlines a variety of revenue sources that could be, and likely should be, tapped to fund the investments we see as important.

We recognized that in order to bring freight and passenger rail investments into the trust fund, the trust fund's resources must be increased significantly. The recommendation of a gas tax increase of 25 to 40 cents over five years, with subsequent indexing to the Consumer Price Index, has been widely reported. Other recommended revenue increases to support the new STTF include an increase in container fees, custom duties, ticket taxes, and tax incentives for freight transportation businesses investing in transportation infrastructure. A carbon tax could be instituted or a cap-and-trade system adopted to reduce greenhouse gas (GHG) emissions. The Commission believes it is appropriate for transportation activities that contribute to reductions in GHG emissions to receive a proportionate share of these revenues.

The Commission looked carefully at private sector investment in large Interstate projects through the use of long-term leases. The Interstate and National Highway Systems were built with user fees paid for by the citizens of this nation. Fundamentally, the Commission agreed that the roads and transit systems are not only a public asset; they are, more importantly, a public good. Public ownership assures that policy makers are responsible to citizens for the maintenance and improvement of our transportation assets. It also assures that the value of these assets – and the sizable public investment made in them – accrues to citizens. As these assets are tolled to limit transportation demand, the mobility of our citizens and businesses is also limited. In my view, that is not a sound transportation vision for our nation.

For that reason, the Commission developed protections to assure that public assets and the public good are protected. The current issues plaguing Wall Street and our economy with regard to leveraging by large investment banks should be considered in relation to transportation financing. Leveraging is used in many of the deals negotiated by states and local governments with the private sector. Bear Stearns was involved in transportation financing, both as a bidder on projects and as a consultant to governments reviewing private sector bids. For the past decade, Bear Stearns hosted transportation conferences focused on increasing private investment in what has been primarily a public sector-financed transportation system.

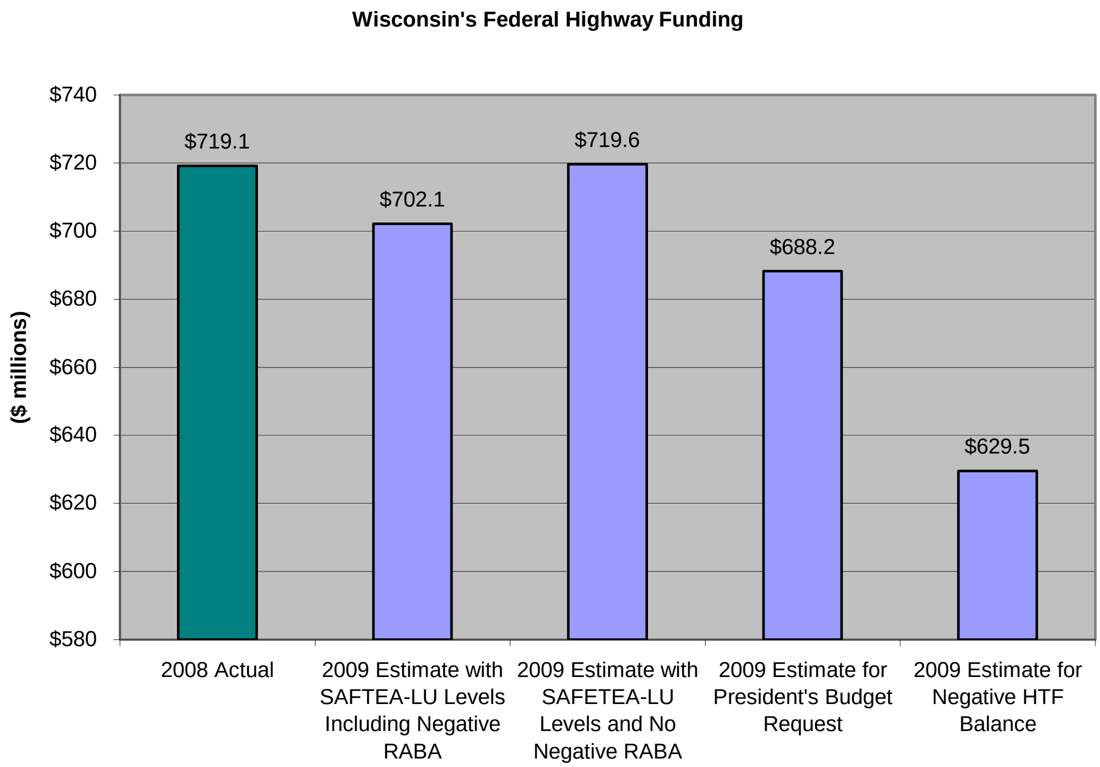
Congress will ultimately have to address how to treat the "shadow banking system" with its leveraged deals supported by complex financial instruments that bypass financial regulation.[6] Many of the deals negotiated by states include private equity firms. We should not allow private companies to take their profits from our transportation system, while the public takes the risk. My view may be considered old-fashioned; perhaps that is why so many US DOT programs that advocate debt call it "innovative financing." In my world, debt is debt. It has its place, but it should be considered carefully.

The Highway Trust Fund Challenge for Federal Fiscal Year 2009

Before closing, let me comment on the current challenge facing the Highway Trust Fund. As this Committee is aware, the Congressional Budget Office (CBO) estimates that by the end of Federal Fiscal Year (FFY) 2009, the Highway Account of the HTF will have a negative cash balance of $1.4 billion. The Treasury's estimate for the HTF-Highway Account deficit is a negative $3.4 billion. I asked my staff to evaluate the impact of the estimated HTF-Highway Account deficit on Wisconsin in FFY 2009 if no corrective action is taken. The following chart identifies how Wisconsin's highway funding would be affected under the various proposals, using CBO estimates.

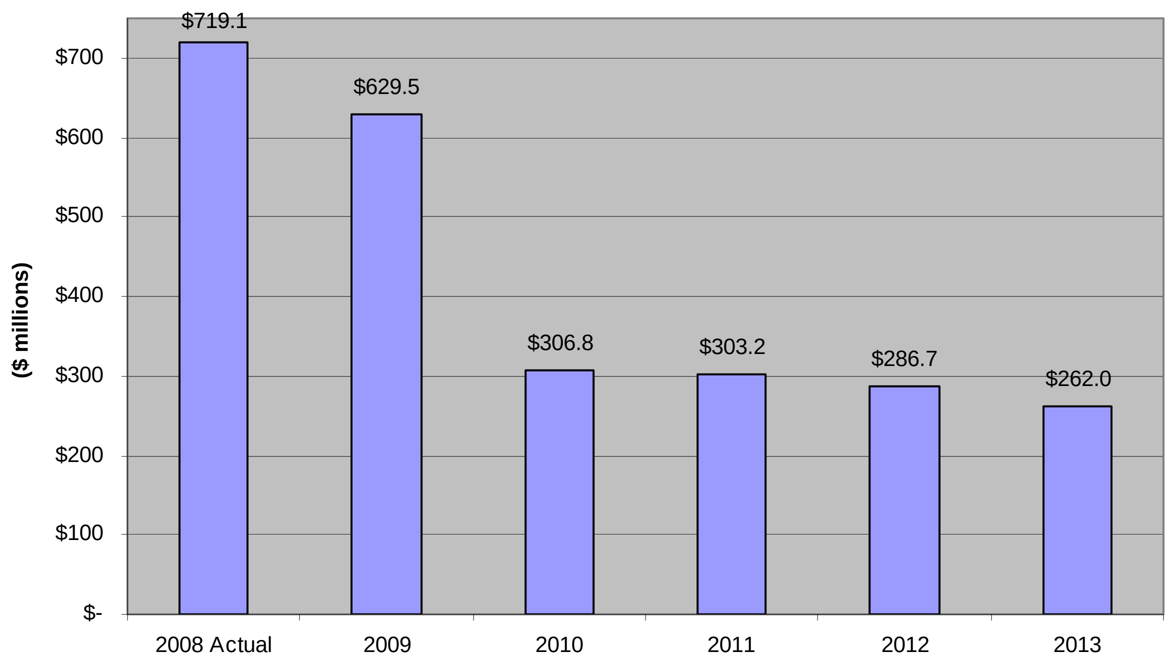
[6] Krugman, Paul, "Partying Like It's 1929," *The New York Times*, March 21, 2008.

Recall, if this graph illustrated Treasury estimates, the FFY 2009 impact would be much greater. All states will be similarly impacted by the HTF-Highway Account deficit.



The next graph shows the long-term impact of the HTF-Highway Account cash balance if the Administration and Congress take no action. Again, the chart is based on CBO estimates of the HTF-Highway Account deficit; the Treasury estimates would show a more significant reduction in highway funding to Wisconsin in the earlier years. Like the chart above, the estimates for future years can be compared with Wisconsin's highway funding for FFY 2008.

Wisconsin's Estimated Highway Obligation Authority (2009-2013) with No HTF Correction Other than Reduced Obligation Authority



With no revenue solution, the Mass Transit Account of the HTF will go negative in FFY 2012. With no revenue solution, neither account will regain its FFY 2008 level until the mid-2020's. With no revenue solution, the federal funding partnership in transportation, for all intents and purposes, will end.

I am disappointed that the approach taken by the President's budget is to transfer funding from the HTF-Mass Transit Account to the HTF-Highway Account, moving the Transit Account deficit one year closer. I am troubled by the Administration's unwillingness to address the negative cash balance in the HTF-Highway Account. Like every challenge, if this issue were confronted earlier, the fix would have been easier. Instead, the burden of meeting this challenge is left for Congress, making the reauthorization discussion next year all the more difficult.

I want to thank the Committee for the opportunity to provide my views on our Commission's work and the short-term issues associated with the potential negative HTF-Highway Account cash balance. Despite this short-term challenge, I hope that in the Commission report you will find a sound blueprint for the next golden age of transportation in the United States.