

PANEL I: SETTING THE STAGE – TRANSPORTATION AND THE ECONOMY
(Wednesday, November 15th 2 – 3:30 p.m.)

- **GERALD SHAHEEN, Group President, Caterpillar, and Chairman of the Board of Directors U.S. Chamber of Commerce**
- **ROBERT D. YARO, President, Regional Plan Association**
- **RAE ROSEN, Senior Economist and Assistant Vice President, Federal Reserve Bank of New York**

GERALD SHAHEEN
Group President, Caterpillar,
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GERALD SHAHEEN
Group President, Caterpillar
and
Chairman of the Board of Directors
U.S. Chamber of Commerce

Gerald L. Shaheen is chairman of the board of directors of the U.S. Chamber of Commerce, the world's largest business federation. He is former chairman of the Chamber's Transportation Infrastructure and Logistics Committee and currently serves on the board of directors of the National Chamber Foundation, the Chamber's public policy think tank.

The U.S. Chamber represents more than 3 million businesses in the United States and abroad. Its resources include the National Chamber Litigation Center, a public interest law firm; the Institute for Legal Reform, an aggressive lobbying and political program; the Center for Workforce Preparation; and an international presence that includes more than 100 American Chambers of Commerce abroad and the Center for International Private Enterprise.

In his Chamber role, Shaheen provides the organization with strategic guidance and carries forward the Chamber's platform of job creation, fewer lawsuits, free trade and open markets, technological innovation, immigration reform, greater access to affordable health care, and improved education.

Shaheen is group president of Caterpillar Inc. in Peoria, Illinois, where he is responsible for the design, development, and production of Caterpillar's mining and construction equipment. He also oversees marketing and sales operations in North America, the components business, and the research and development division.

Since joining Caterpillar in 1967, Shaheen has held numerous marketing and management positions both in the United States and Europe. At one time, he was responsible for Caterpillar's business in Europe, Africa, the Middle East, and the former Soviet Union. While living overseas, he was active in several international organizations and served on the board of directors for the International Enterprise Foundation of Geneva. He was elected a vice president of Caterpillar with responsibility for engine marketing and administration in 1995 and assumed his current position in 1998.

Shaheen received his bachelor's degree in marketing from Bradley University in 1966 and a master's degree from the same institution in 1968. He has served the university in several capacities, including president of the Bradley University Alumni Association. He was recognized as Distinguished Alumnus in 1993 and was inducted into the Centurion Society that same year. Shaheen completed the Tuck Executive Program at Dartmouth College in 1988.

National Surface Transportation Policy and Revenue Study Commission
Testimony Summary
Gerald L. Shaheen
Chairman, U.S. Chamber of Commerce

The Company

- Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines.
- Caterpillar machines are involved in all aspects of road building, and Caterpillar is also one of the bigger users of the nation's surface transportation infrastructure.
- Nearly 1,700 trucks move Caterpillar products, parts and components around the country. Truck miles per year have grown by more than 20% over the last two years.
- This year Caterpillar expanded into rail by purchasing a leading provider of remanufactured locomotive and railcar products. It plans to leverage this new capacity to better serve its own needs and those of its clients and customers.
- In addition to moving its own equipment, Caterpillar's rapidly growing logistics arm manages distribution and supply chain functions for more than 60 third-party clients.

Vision for Surface Transportation

- It is imperative to build and maintain a modern and interconnected transportation system with far greater capacity.
- The Trans-Texas Corridor, which incorporates car and truck lanes, rail lines and a utility zone, is one vision of the next-generation transportation system.
- Increasing rail and transit capacity is critical to overall improvement of the surface transportation system because of the potential to alleviate road congestion.

Funding

- Fundamentally, we believe that all revenues collected from surface transportation should be spent on surface transportation.
- The National Chamber Foundation's independent study released last year identified options to fill the gaps between investment levels and needs and to address federal highway trust fund shortfalls.
- In the immediate term, Federal options include indexing the federal gas tax to inflation and closing exemptions to Highway Trust Fund revenue collections.
- In the longer term, Federal funding sources could include user fees for alternative energy cars that use less fuel but still cause wear and tear on the roads, sales taxes on fuel, and mileage-based transportation revenue systems.
- The Federal program could stimulate greater use of financing tools at the state level including loan guarantees, private activity bonds, tax-credit bond financing, investment tax credits, and tolling.

National Surface Transportation Policy and Revenue Study Commission
Testimony by Gerald L. Shaheen
Chairman, U.S. Chamber of Commerce

November 15, 2006
*** *As Prepared for Delivery* ***

Good afternoon. My name is Gerry Shaheen. I'm chairman of the board of directors of the U.S Chamber of Commerce and group president of Caterpillar.

Let me quickly say a word about my company. Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines.

We operate more than 100 production facilities in 40 countries and we sell our manufactured goods through a global network of nearly 200 independent dealers.

We have approximately 90,000 employees globally – with more than 17,000 of them working in the Peoria, Illinois, area where we are headquartered.

Transportation—whether we're enabling it through our products or relying on it to serve our customers—is essential to Caterpillar's business. Caterpillar machines are involved in all aspects of roadbuilding—from preparing the base to finishing the road to completing the final landscaping along the roadway. We also support customers who provide the aggregate material.

But our involvement with infrastructure extends far beyond the big yellow machines you see working on road and bridge construction sites. We also happen to be one of the bigger users of the nation's surface transportation infrastructure.

Every day, nearly 1,700 trucks move Caterpillar products, parts and components around the country. Annually, these trucks log more 439 million miles on our nation's highways and roads. Caterpillar truck miles have grown by more than 20% in the last couple of years, and we anticipate continued growth.

In addition to moving our own equipment, Caterpillar manages distribution and supply chain functions for more than 60 third-party clients. Logistics is a rapidly growing arm of our business as companies put a higher premium on on-time delivery.

Caterpillar is a proud member of the transportation community. We're proud to have helped the nation realize President Eisenhower's vision of a highway system for the 20th century. This system has been an extraordinary success.

Now we need a new vision for a new century, and we must explore new ways to pay for it. It is imperative – for our economy, our safety, and our way of life – to build and maintain a modern and interconnected transportation system with far greater capacity.

In some areas of the country, a vision of the next-generation transportation system is already beginning to take shape.

For example, the Trans-Texas Corridor, when completed, will be an 800-mile mega-highway running from Mexico to Oklahoma and consisting of six car lanes, four truck lanes, up to six rail lines and a utility zone for electricity, gas and data-network connections. We must encourage more of these types of groundbreaking projects and closely study their impact.

Let's remember that increasing rail and transit capacity is critical to the overall improvement of our surface transportation system. These modes have great potential to alleviate road congestion.

Recognizing this, Caterpillar is making rail a bigger part of its business.

This year we purchased a leading provider of remanufactured locomotive and railcar products and services with 90 facilities in 29 states, Canada and Mexico. We will leverage this new capacity to better serve our own needs and those of our clients and customers.

To have a strong vision is one thing...to be able to pay for it is quite another. I appreciate this commission's efforts to examine alternative transportation funding sources.

As you know, the Chamber's public policy think tank, the National Chamber Foundation, commissioned an independent study to identify ways to fill the gaps in highway and public transportation investment. The results were released last year.

The basic conclusion was that the federal highway trust fund is quickly running out of money. The study makes several recommendations for alternative financing, and I would be remiss not to mention a few of them now.

Let me stress that our study merely points out options—its recommendations do not necessarily represent the Chamber's policy positions. The idea here is to put all the options on the table, examine them, and decide what's best.

That being said, in the immediate term, the study concluded that indexing the federal gas tax to inflation must be considered. It's the only major existing user fee not indexed.

Since 1993, the last time the gas tax was adjusted gas tax revenues have lost one-third of their purchasing power.

The study also recommended that stakeholders consider closing exemptions to the Highway Trust Fund so that revenues collected for surface transportation are, in fact, spent on transportation. This is one recommendation I can say the Chamber wholeheartedly endorses!

Federal and state governments should consider following California's example. In 2002, voters there overwhelmingly approved a legislative constitutional amendment that requires gasoline and diesel fuel sales tax revenues to be allocated for specified transportation purposes. Together, the gas tax and statewide sales tax on gasoline purchases generate some \$5.4 billion a year in California.

The implementation of a user fee for alternative energy cars is another option that should be considered. The study found that people driving hybrids may not be paying their fair share to maintain our roads. Hybrids use less fuel—but they still cause wear and tear on roads.

Mileage-based transportation revenue systems should also be considered. For instance, states should think about vehicle miles of travel (VMT) fees as a way to reduce their dependence on the gas tax.

On the state level, the study says that we should think about stimulating greater use of innovative finance tools such as loan guarantees, private activity bonds, tax-credit bond financing, investment tax credits, and tolling.

I want to emphasize that the study was not meant to provide all the answers to our transportation funding challenges, and the Chamber itself does not endorse every one of the study's recommendations.

But it's a conversation starter, and I'm pleased to continue that conversation with you today. I'd be happy to take your questions.

ROBERT D. YARO
President
Regional Plan Association

PANEL I: SETTING THE STAGE – TRANSPORTATION AND THE ECONOMY

ROBERT D. YARO
President
Regional Plan Association

Robert D. Yaro is the President of Regional Plan Association (RPA), America's oldest independent metropolitan policy, research and advocacy group. At RPA, he led the five-year effort to prepare RPA's Third Regional Plan, A Region at Risk, which he co-authored in 1996. He chairs *The Civic Alliance to Rebuild Downtown New York*, a broad-based coalition of civic groups formed to guide redevelopment in Lower Manhattan in the aftermath of the September 11 attacks on the World Trade Center. He also co-chairs the *Empire State Transportation Alliance (ESTA)*, a coalition of business, civic and construction industry groups that has successfully advocated for more than \$50 billion in major transportation investments for New York State since 1999.

Mr. Yaro is currently Professor in Practice in City and Regional planning at the University of Pennsylvania. He has also served on the faculties of Harvard and Columbia Universities.

Before coming to RPA in 1990, Mr. Yaro was Associate Professor at the University of Massachusetts at Amherst and founder and Director of the University's Center for Rural Massachusetts. In this role he initiated *Growing Smart in Massachusetts*, the nation's first smart growth program, which coined and popularized the term "smart growth." His 1988 book, Dealing with Change in the Connecticut River Valley received awards from the American Planning Association and the Nation Trust for Historic Preservation.

From 1976 to 1984 Mr. Yaro served as Chief Planner and then Deputy Commissioner of the Massachusetts Department of Environmental Management. In this capacity he developed and led the state's largest urban revitalization and environmental protection programs. From 1973 to 1975 he served as an urban planner at the Boston Redevelopment Authority, where he worked on the City's waterfront redevelopment and neighborhood revitalization programs.

He holds a Masters Degree in City and Regional Planning from Harvard University and a Bachelors Degree in Urban Studies from Wesleyan University.

Mr. Yaro is an honorary member of the Royal Town Planning Institute, and Vice President of the Forum for Urban Design. He has received awards from the American Institute of Architects and the American Society of Landscape Architects.



**Written Testimony to the National Surface Transportation Commission
Robert D. Yaro, President, Regional Plan Association**

November 8, 2006

Thank you for the opportunity to submit testimony to the National Surface Transportation Commission. I am president of Regional Plan Association (RPA), a private, independent planning organization for the New York-New Jersey-Connecticut Region. For more than 80 years, RPA has been shaping transportation systems, protecting open spaces, and promoting better community design for the region's continued growth. We anticipate the challenges the region will face in the years to come, and work with the region's civic, business, and government sectors to take action.

While RPA's primary focus is on the tri-state region, when necessary and appropriate RPA addresses national trends and policies. In the 1960's, for example, RPA led a national public education effort in support of creating the federal Urban Mass Transit Administration and its federal funding for transit systems across the country.

RPA is once again engaged in a national research and advocacy effort, this time around the need for national strategies to accommodate the nation's population growth and meet its mobility needs in coming decades. RPA has convened the National Committee for America 2050 of regional planners, researchers and policy makers to promote an ambitious framework for America's growth by mid century.

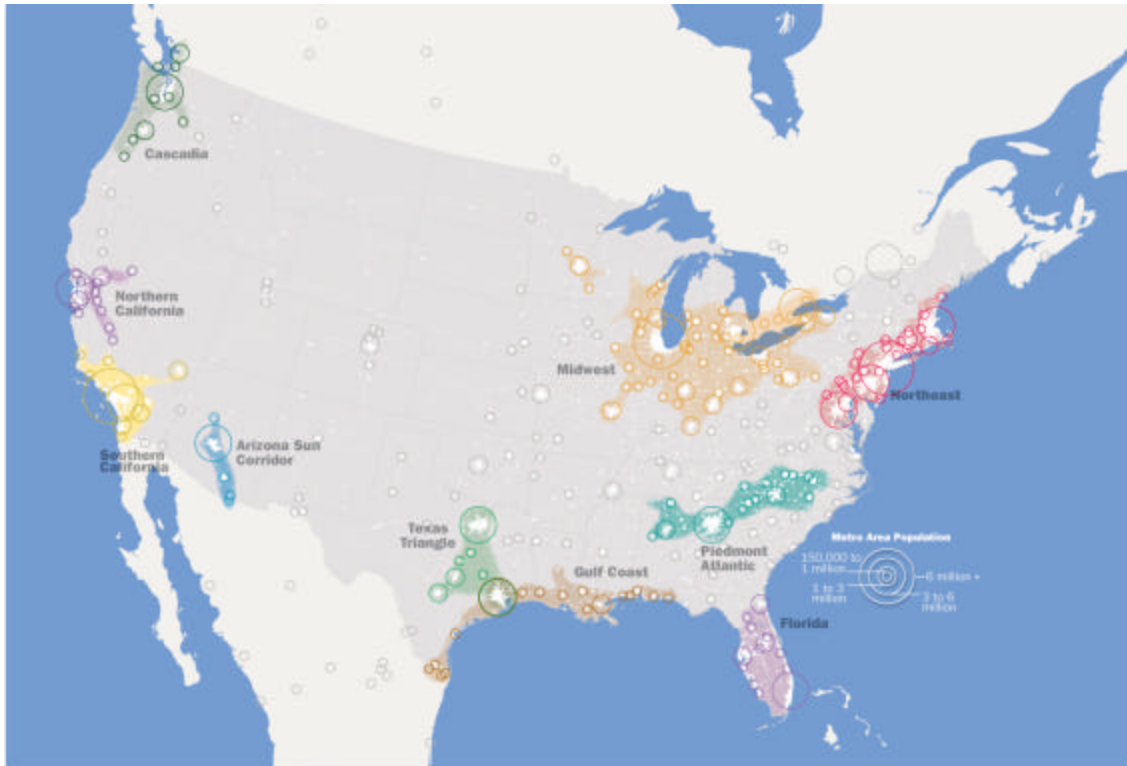
As was highlighted recently in the media, America passed the 300 million population mark last month, and continues to grow. According to the U.S. Census, our nation is expected to grow about 40 percent by mid century, adding at least 120 million people by the year 2050.

RPA's analysis of land use trends indicates that most of the growth in this country will take place in metropolitan areas, and specifically, in ten or more "megaregions," which are large networks of urbanized areas like the Northeast Megaregion, which stretches from Boston to Washington, D.C. We consider these megaregions, places like Southern California, the Texas Triangle and the Arizona Sun Corridor, the new competitive units in the global economy. They are competing with the similarly-sized "global integration zones" of Europe and Southeast Asia, where tens of billions of dollars in investments have been made in high-speed rail and goods movement systems to support the highly-mobile workforce of the global economy.

The Next Generation of Transportation Investments

If America is to compete internationally, accommodate rapid population growth, and preserve the quality of life and environment in its metropolitan regions, it must make dramatic investments in its metropolitan infrastructure systems. Much in the manner of the

Interstate Highway Act of the last century, our surface transportation policy must provide a bold framework for another half century of growth and development in America. In doing so it will need to accommodate population growth, move goods, and transition to alternative energy sources and alternative transportation options that can be supported by increased density.



Emerging Megaregions of the United States

America must reduce its dependence on foreign oil to promote greater energy security for the nation. Federal transportation policy should promote the use of alternative fuels through tax incentives. It should also direct greater proportions of the gas tax to public transportation, which is more energy efficient and less polluting than individual automobile use. Only 16 percent of Federal gas tax revenue, or \$4.9 billion out of \$31.4 billion, is dedicated to public transit today.

The New York region boasts the highest use of public transit anywhere in the country (68% of the region uses public transit compared to 9% in the rest of the country). And yet our systems are struggling because of a history of taking on debt to cover operating costs and a lack of funding for capital improvements to expand capacity in the region. It is critical that we invest in capacity-expanding projects such as the Second Avenue Subway, East Side Access and Access to the Region's Core. History has shown that as public authorities have invested in the safety, efficiency and operation of their systems, the public has responded by riding transit more often. The construction of Moynihan Station and the overhaul of the existing Penn Station will also encourage increased ridership by re-creating a

glorious public space and vastly improved facilities for regional commuters and riders along Amtrak's vital Northeast Corridor.

Nationally, metropolitan areas and megaregions must contend with the greater movement of goods and people within and among their regions. The key to accommodating this rising mobility is to provide greater choice and modal options for each trip. In the Northeast Megaregion, for example, this means investing in Amtrak's Northeast Corridor to improve the efficiency, frequency and reliability of intercity rail service. Improvements in intercity rail can help offset regional air travel, which is growing at the rate of 7 percent a year, and clogs airport runways because of the short, frequent and small nature of these flights.

Nationally, megaregions of 300 – 500 miles across should invest in their intercity rail systems and look toward high-speed rail as an energy efficient and safe alternative to regional air travel.

Within metropolitan regions, we must continue to invest in our public transportation systems as economic development tools. Our metropolitan regions can accommodate the projected increases in population in this country if we focus density near transit to support healthy lifestyles and a healthy environment. There are 900 transit stations in the New York region; all should and could be focal points for development and smart growth.

We also must continue to invest in our nation's highways, and adopt intelligent transportation and pricing systems to manage congestion and traffic incidents. The highways of tomorrow should be high-tech – offering options and different pricing to the users based on traffic flow, incidents, and time of day. Highways should be connected to networks of commuter rail connected to airports, so that each route provides redundancy and modal choice, and so that fare and toll payments are seamless.

Finally, we must prepare and contend with the major impact of goods movement on our nation's highways. This is a competitiveness issue. In the last 75 years, foreign trade increased from 11 percent to 27 percent share of our gross domestic product – putting a greater burden on our airports, seaports, and the highways that carry the majority of our goods. This is combined with the trend toward “just in time” delivery, in which retail businesses have consolidated and shifted large parts of their inventory to the trucks traveling on our nation's highways.

Pricing and demand management are two ways of dealing with truck movement on our highways. So is the implementation of truck-only toll lanes and waterborne and rail solutions. These must be considered within the framework of expanded capacity in our nation's surface transportation system.

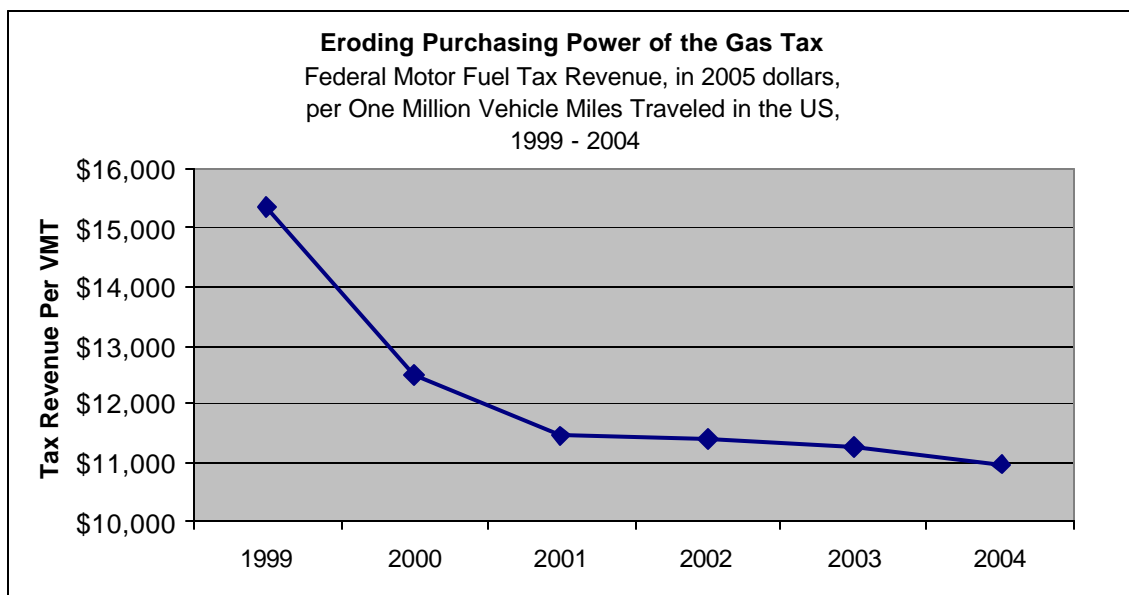
How to Finance the Next Generation of Transportation Infrastructure

Today in the United States the primary source of funding for surface transportation is the Federal Motor Fuels Tax of 18.4 cents per gallon – commonly known as the gas tax. The gas tax raises \$31.4 billion per year. The gas tax is a good tax: it raises a lot of revenue,

which is appropriate for our aging transportation system; it provides an incentive to conserve energy; and it is easy to administer.

Each additional penny raises \$1.7 billion. But we should stop thinking in terms of pennies per gallon. One major problem with the gas tax is that it is a stagnant excise tax that does not change when prices change. Its purchasing power erodes with inflation and with improved vehicle mileage. As you can see in the graph below, the purchasing power of the gas tax declined by \$4,000 for every million miles traveled just in the five years from 1999 – 2004.

To combat the eroding value of the gas tax, and keep pace with the steady stream of investments needed to maintain and expand our surface transportation network, we should make a shift to an ad valorem gas tax – a percentage tax on the price of the fuel. An ad valorem tax on motor fuels can raise a steadier stream of funds without requiring frequent increases. Using an ad valorem tax captures the increase in prices that today are going solely to the oil companies and to foreign governments.



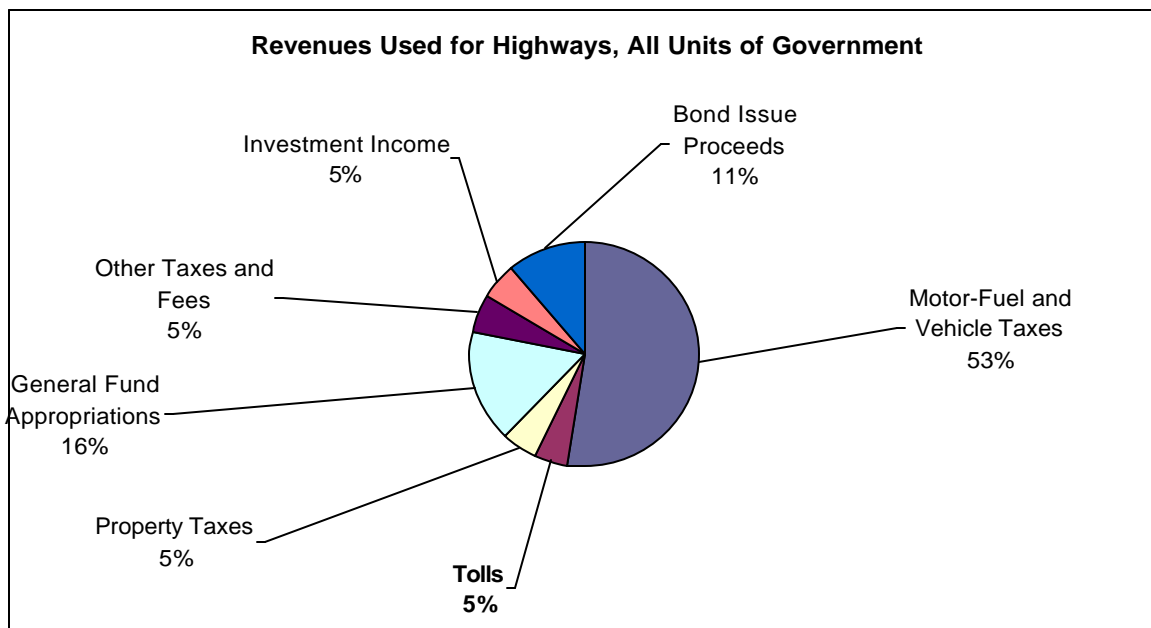
Source: Federal Highway Administration, Highway Statistics 2004

RPA estimates that an ad valorem gas tax of 10 percent would raise approximately \$32 billion per year – roughly equivalent to today’s revenue from the gas tax. A 15 percent ad valorem gas tax would raise \$48 billion annually. And an ad valorem tax has the added benefit of not translating directly into a perceived hike at the gas pump, because it is not phrased in terms of “cents per gallon.”

Another way to raise revenue, which has received a great deal of attention lately, is with tolls and public private partnerships. Toll raise about \$6.5 billion per year in the U.S., one-fifth of the amount raised by the gas tax.

Tolls are important at the local level. They can be used to control traffic congestion and to raise funds for specific projects. In New York, tolls are used to subsidize the region's transit system. And the public authorities of our region, such as the Metropolitan Transportation Authority and the Port Authority of New York and New Jersey use tolls to finance the long term planning and implementation of the transportation infrastructure of the region.

Yet while tolling is an important piece of the highway funding, it is not nearly as potent as the gas tax. Even if the Federal government strongly encourages public private partnerships, greatly relaxes laws around tolling, and vigorously promotes tolling, toll revenue will still make up a very small portion of revenue compared with the motor fuels tax. To meet the needs of the next generation of infrastructure, an ad valorem gas tax is a more appropriate tool at the national level.



Source: Federal Highway Administration, Highway Statistics 2004

In summary, I must stress the vital importance to our economy and environment of making the necessary investments to create a robust, multimodal system of infrastructure to accommodate a new generation of growth in this nation. There is no more natural role for our federal government than to build the infrastructure framework to ensure the growth and competitiveness of our nation's future.

RAE ROSEN
Senior Economist and Assistant Vice President
Federal Reserve Bank of New York

PANEL I: SETTING THE STAGE – TRANSPORTATION AND THE ECONOMY

RAE ROSEN

**Senior Economist and Assistant Vice President
Federal Reserve Bank of New York**

Rae Rosen, is a senior economist and assistant vice president at the Federal Reserve Bank of New York. Ms. Rosen represents the bank to the business, banking, government and media groups interested in the regional economy and is a member of several economic advisory panels to state and local governments. Ms. Rosen is responsible for analyzing the economic conditions and critical issues that affect the region's economy. She develops the regional employment forecast and directs research on topics of regional interest.

Ms. Rosen joined the bank in December 1992. Her prior positions have included Vice-President, Senior Economist at the Federal Home Loan Bank of New York, where Ms. Rosen was responsible for forecasts of the regional economy and the real estate market; and Senior Economist at Merrill Lynch Economics, Inc., where Ms. Rosen was a consultant to major U.S. and European motor vehicle manufacturers and their suppliers.

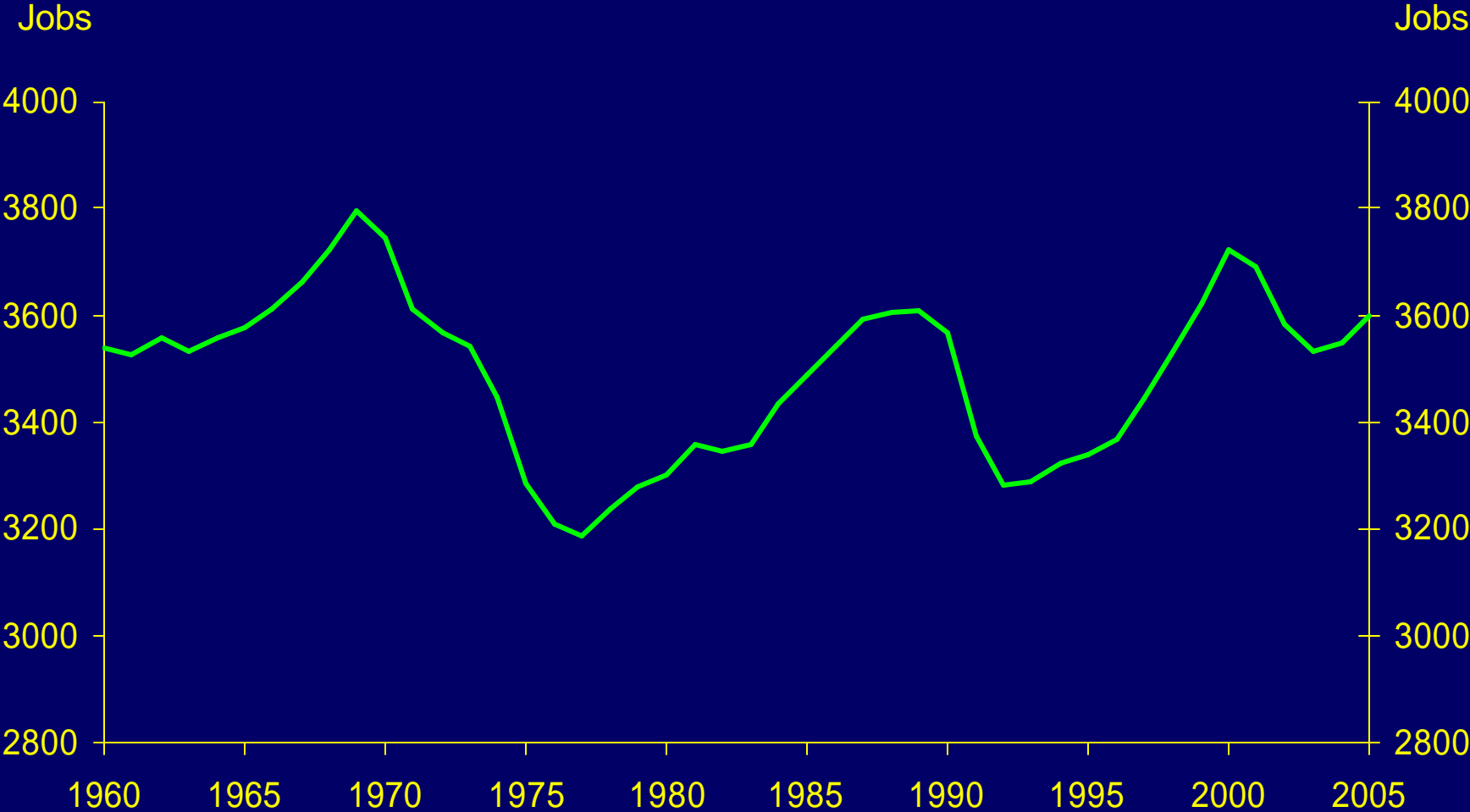
Ms. Rosen earned an M.B.A. at the Graduate School of Business, New York University and a B.A. in economics at Barnard College, Columbia University.

Agglomerative Economies and Regional Transportation

Rae D. Rosen
Assistant Vice President
Federal Reserve Bank of New York
November 15, 2006

Total Payroll Employment in New York City 1960 – 2005

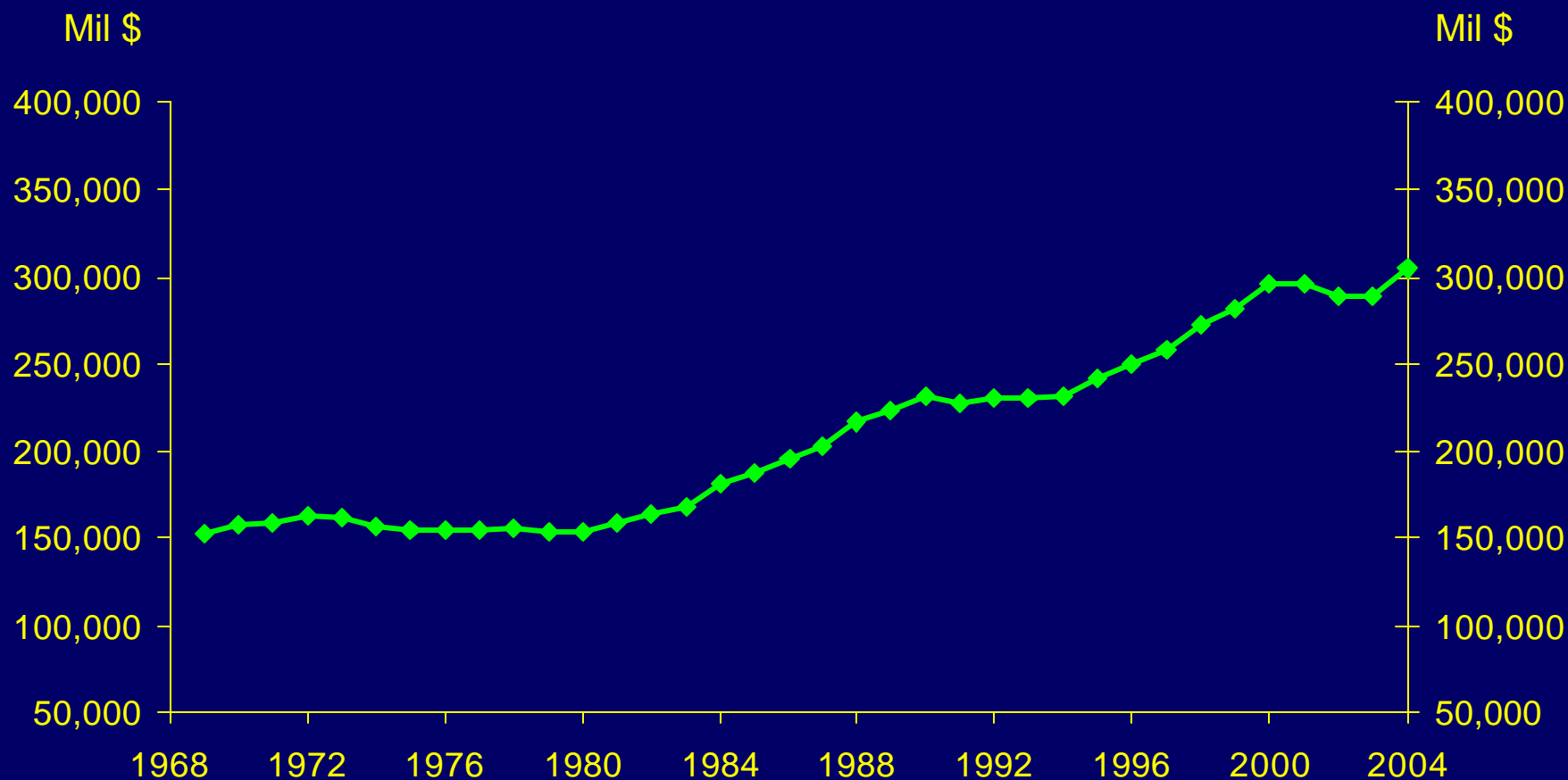
(000's of Jobs)



Source: Bureau of Labor Statistics.

New York City Real Personal Income 1969 – 2004

(Million dollars)

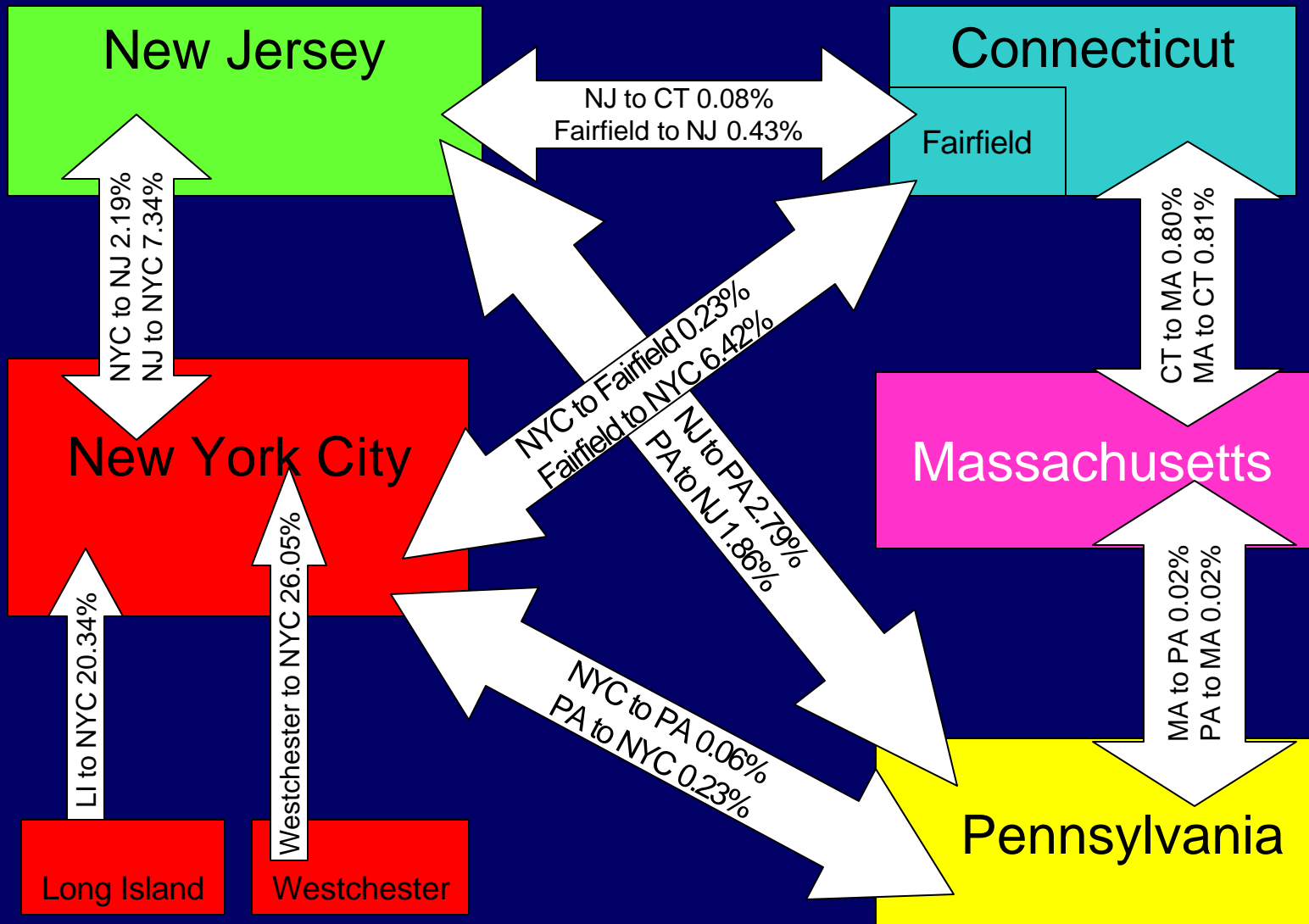


Source: U.S. Bureau of Economic Analysis, FRBNY Calculations.

Commuting to New York City

Metropolitan Area	1990	2000
Westchester	119,288	117,839
Rockland	27,248	26,673
Long Island	276,349	277,867
Fairfield	27,569	28,743
New Jersey	280,299	307,913
Total	730,753	759,035

Percent of Workers Who Commute to Outside Area of Residence



Source: U.S. Census Bureau: 2000 County to County Worker Flow, Bureau of Labor Statistics.