Mr. Chairman and Members of the Committee, my name is Larry King. I am the Deputy Secretary of the Pennsylvania Department of Transportation, and I serve as Secretary/Treasurer to the Board of Directors of the American Association of State Highway and Transportation Officials (AASHTO), and I lead AASHTO's Financial Issues Work Team for Reauthorization. I also am here today to testify on behalf of AASHTO.

I want to thank you for your leadership in scheduling a hearing to specifically address the impacts of the President's proposed Fiscal Year 2003 budget on the Nation's highway infrastructure. I am also honored that you invited me to testify before your Committee. I believe that I can offer a real world picture of the significance of the federal-aid highway program to the states' highway infrastructure programs.

Mr. Chairman, I would like to start by giving your colleagues a brief picture of the Commonwealth of Pennsylvania. Although the Keystone State is not large in geographic size, we are fifth in population with more than 12 million people. One-third of our population lives in rural areas, giving us the largest non-urban population in the country. By 2025 our population is expected to grow by 20% to 14.3 million, and most significantly, the number of residents aged 65 and older is expected to grow by 80% during the same time period. Pennsylvania also ranks fifth among the states in the size of the highway system under its jurisdiction. The Commonwealth owns, maintains and operates 40,500 miles of highways – 34% of the total system – and 25,000 bridges, which are spread out across many rural miles as well as in the metro areas. This 34% percent of the system carries 76 percent of the total vehicle miles of travel. The remaining travel is on systems maintained by municipalities or other governmental agencies.

Pennsylvania also serves as a highway freight land-bridge for the Northeastern States, carrying a higher percentage of trucks on its interstates – roughly 35 percent – than any other northeastern state. Pennsylvania is called the Keystone State for a good reason. It is the connection between New York, New Jersey, New England and the rest of the country. With more cars, trucks, and increasing vehicle miles of travel, we must focus on preservation of our highways and bridges. At the same time, our highest priority will continue to be ensuring the safety and security of the transportation system while preserving and enhancing the environment. The unique demographics of our state present challenges in developing, maintaining and operating a multi-modal transportation infrastructure that balances the diverse needs across the state – increasing congestion in growing urban areas, access and economic development in rural regions, and an aging population with special needs.

To address these challenges, we are working with our local officials and the private sector to try to keep pace with the competing demands on our transportation infrastructure. We have been able to make progress in our safety and highway and bridge preservation and capacity needs across all regions of the state. For example, in just one year beginning in 2000, we reduced the number of closed bridges by 29 percent while the number of miles of Interstate highways with poor pavements declined by 26 percent and the number of miles of National Highway System road with poor pavements declined by 41 percent. This progress would not have been possible without the 40% growth in the federal aid highway and transit programs provided by the Transportation Equity Act for the 21st Century enacted in 1998. The additional resources from

TEA-21 have enabled us to leverage our state and local resources to complete such projects as:

- U.S. 22/322 , Dauphin Bypass, Dauphin County, $85.4 million, a crucial four-lane limited access connection north of the state capital at Harrisburg.
- U.S. 11/15, widening, Perry County, $58.8 million, another important connection north out of Harrisburg to the Williamsport area.
- Kittanning Bypass, Armstrong County, $39 million, and U.S. 6, Tunhannock Bypass west, nearly $21 million -- two projects which stood in line for decades awaiting funding. Both are taking heavy truck traffic off the Main Street of two towns, making them much more livable.

Mr. Chairman and Members of the Committee, we in the states are stunned by the FY 2003 budget proposal which, in the midst of trying to climb our way of a recession, would cut the federal aid highway program by $8.6 billion. While we recognize this reduction is the product of an apparent reduction in estimated revenues to the Highway Trust Fund, which triggered a reduction in the calculation of Revenue Aligned Budgetary Authority (RABA), the results are not mechanical. This reduction would mean a disastrous cutback in highway improvements, reducing our ability to meet basic highway needs, and the loss of thousands of jobs.

We support S. 1917, the Highway Funding Restoration Act recently introduced by Senate Environment and Public Works Committee Chairman James Jeffords, which would restore highway assistance to no less that the $27.7 billion level for FY 2003 authorized in TEA-21. We believe that this is a good first step.

However, we want to share with you our emphatic view that it is vital to sustain federal highway investment in FY 2003, at no less than the $31.8 billion level provided in FY 2002. With 37 state governors and legislatures already contending with severe budget shortfalls, with revenue projections down in 45 states, and the nation in an economic downturn, cutting the highway program by $8.6 billion just makes no sense. This is especially so when there are more than sufficient reserves in the Highway Trust Fund to provide funding for FY 2003.

Let me outline what we believe the consequences would be unless current levels of funding are sustained.

As early as next month, state and local officials will begin the task of cutting billions of dollars in highway projects from their FY 2003 Transportation Improvement Programs. Final decisions will be made public in September affecting nearly every community in the nation.

Construction contractors throughout the country will start making business plans on how to cut back their equipment purchases and lay off tens of thousands of well-paid construction workers. The stock prices of several heavy equipment manufacturers and construction companies have already dropped. Engineering consulting firms, already hard hit by the recession, will almost immediately have to start laying off engineers and technicians as design work for next year's projects is delayed or canceled.

Numerous projects will be delayed in every state. These are projects that the public has long awaited and expect to be completed as promised.

This cut is proposed at a time when we continue to have increased needs for highway safety and preservation projects, and for new capacity projects in the more rapidly growing western, southwestern and southeastern regions of the country. In addition, since the tragic events of September 11th, the capital and operating needs associated with hardened transportation facilities and dealing with emergency response, including communication infrastructure needs, are greater than ever.

At the same time, traffic volumes are up all over the country. The most recent data from the Federal Highway Administration shows an increase in annual traffic growth of nearly 3 percent.

State Impacts

AASHTO recently completed a survey of state departments of transportation to assess the direct and indirect dollar and project impacts across all 50 states. I have attached a copy of the results of that survey, but want to share some of the highlights of the consequences of a $8.6 billion cut in the federal aid highway program:

- ***The reduction will result in substantial project delays and increased costs, even if federal funding is eventually restored***. In North Dakota, the reduction would increase the size of the existing backlog of needed projects, and increase the gap between the program and program needs by about 50 percent. In Iowa, this result would be a delay of approximately $50 to $60 million in state highway/bridge construction projects in FY 2003. Cities and counties would be forced to delay approximately $25 to $30 million in local road and bridge projects. South Carolina would be forced to delay $25 million in pavement and reconstruction contracts, $22 million in Interstate upgrades, $35 million in Interstate maintenance, $15 million in Safety upgrades, $11 million in Bridget Replacement, and a total of $31 million in other areas including Enhancements, Planning, and Advance Construction for FY 2003. Texas reports that the long term effects of their anticipated $532 million reduction include significant project scheduling impacts with less funding available in FY 2003 to acquire right-of-way and fund preliminary engineering. In Oklahoma a total of $120 million in construction and right-of-way projects would be delayed or cancelled.

- ***The reduction in federal funding will put a great strain on state resources during a time when the economy is and state tax revenues are declining***. Washington State reported that it is in the midst of a transportation funding crisis and the $125 million reduction could not come at a worse time. Wisconsin is facing a $1.1 billion general fund deficit. While the state's transportation fund is currently in balance, it has been used to help offset the general fund deficit. Current proposals include transfers of $25 million or more from the transportation fund, $15 million of which has already been transferred. The combination of the federal funding reduction, state budget overestimate, and state transportation fund transfer for the general fund deficit could reduce transportation funding in the state by $175 million or more.

- ***The reduction in federal funding would result in unacceptable job losses***. Estimates show that an $8.6 billion reduction could result in over 150,000 jobs lost in the peak year. In Montana the reduction would mean a loss of 2,805 jobs – roughly equal to 25 percent of the new jobs created in Montana in 2001.

- ***The reduction would result in less funding for local projects and transit.*** For FY 2003 New Jersey plans to transfer two-thirds of its Congestion Mitigation and Air Quality (CMAQ) funding ($65 million out of $97 million) to transit. These funds would have to be proportionally constrained. Nebraska would have to delay approximately $45 million of State Highway System projects and about $15 million of Local System projects in FY 2003.

Mr. Chairman, these are but a few examples of the very real consequences of the cut in federal aid highway funding resulting from the most recent RABA calculation. The mechanism itself was created as a tool to ensure that the highway user revenues going into the Highway Trust Fund would be fully used for the federal aid highway and transit programs. Like any new mechanism – a new car design, the latest office technology or kitchen gadget -- sometimes defects and imperfections show up and must be fixed. We believe that Congress could not have foreseen – and certainly never intended – such an abrupt cutback in the highway program and its resulting devastating job losses at precisely the time of an economic downturn.

Mr. Chairman, we respectfully recommend that given the current economic conditions, the negative impacts to states, and the documented need for infrastructure investment, the federal aid highway program be sustained at the FY 2002 level of $31.8 billion. We further suggest that the current $19.3 billion cash balance in the Highway Trust Fund is more than sufficient to cover the $2.4 billion in additional outlays that would be required to sustain current highway program levels in FY 2003.

A Response

The public policy questions Congress needs to address are these. First, to assist in the nation's economic recovery does it not make sense to sustain highway funding at $31.8 billion? Second, are there reserves and cash flow in the Highway Trust Fund to make this possible in FY 2003? We believe that the answers are emphatically "Yes" and "Yes!"

Funds Are Available to Sustain FY 2002 Levels

Four years ago Congress agreed to the fundamental principle that all the receipts going into the Highway Account would be fully used for transportation purposes, and not be used to hide the deficit or offset other government expenditures. But today there is a $19.3 billion cash balance in the Highway Trust Fund. We seek to provide $8.6 billion in obligations to restore the highway funding to the FY 2002 level. The budget impact of this increase will only require $2.4 billion in outlays for FY 2003 – this will allow us to continue the momentum we have achieved in FY 2002.

The table displayed below shows receipts and expenditures for the Highway Account of the Highway Trust Fund for Fiscal Year 1998 thorough Fiscal Year 2003. Even accounting for unpaid obligations, it is clear that there is a substantial balance in the Highway Account with receipts exceeding outlays over the six-year period. Mr. Chairman, we respectfully urge the Congress and the Administration to honor their commitment to spend all the receipts going into the Trust Fund, unlock the balances that have built up and make a positive contribution to the current economic recession.

We recommend that the Budget Committee take two immediate steps in support of reaffirming Congress' commitment to the principle of spending all receipts to the Trust Fund. First, we urge you to request that the Congressional Budget Office develop independent estimates of the level of highway funding that the Highway Trust Fund can sustain while maintaining a sufficient balance to avoid a cash deficit. Second, as you craft your budget resolution for Fiscal Year 2003, we urge you to include sufficient funding to maintain highway funding at the FY 2002 level.

[1]Highway Account Receipts and Outlays

Fiscal year	Receipts	Outlays	Difference
1998	24.3	20.3	4.0
1999	33.8	23.1	10.7
2000	30.3	27.0	3.3
2001	26.9	29.1	-2.2
*2002	27.7	30.2	-2.5
*2003	28.6	30.6	-2.0
Subtotal	**171.6**	**160.3**	**11.3**
Balance from ISTEA	8.0		
Total	**179.6**	**160.3**	**19.3**

*Estimated

Note: The Highway account balance was $8 billion at the beginning of TEA-21. Therefore, the cash balance at the close of FY 2001 is $20.3 billion.

[1]Source: Federal Highway Administration

Firewalls and Revenue Aligned Budget Authority

As we look to reauthorization of TEA-21 and the future of the federal-aid highway program, we believe that it is essential to preserve and reaffirm the principle of a user-based transportation financing system in which all receipts are guaranteed to be used for the purposes for which they were intended.

To accomplish this, TEA-21 set highway obligations at levels based on then-current estimates of gasoline and related tax receipts, and established two mechanisms to guarantee spending. First, separate budgetary spending caps or "firewalls" were established in the Budget Enforcement Act for highway and transit spending. Second, TEA-21 included an adjustment mechanism, Revenue Aligned Budget Authority (RABA), to annually adjust the spending caps or "firewalls" based on updated revenue estimates, increasing or decreasing highway spending each year so that it would align itself with Highway Trust Fund receipts.

These tools – RABA and the "firewall" provisions -- were designed to provide the long-term fiscal stability needed for state and local highway and transit agencies to finance, design and execute multi-year multi-million dollar construction programs.

Mr. Chairman, we urge you and the Members of your Committee to maintain the "firewall" provision for highway and transit spending.

Refinement of the RABA Mechanism

Recent experience has demonstrated that there are unintended flaws in the RABA mechanism. Changes in economic conditions that result in minor adjustments to estimated receipts cause wide swings in highway funding levels. As with any new mechanism, it is appropriate that we carefully examine and refine the RABA mechanism, including its calculation methods and revenue estimating procedures. We recommend that Congress consider replacing the current calculation method with one that simply compares actual previous year receipts to the assumptions made at the time the bill passed, with the difference becoming the RABA adjustment.

Accuracy of the RABA Calculation

One serious concern that must be addressed is the accuracy of the process used by the Department of the Treasury to determine the revenue estimates used in calculating RABA. The correction of a $600 million error by the Department of Treasury has already reduced the proposed highway cutback to $8.6 billion. Recent information on FY 2001 truck sales and fuel tax revenues at the state level call into question the Treasury forecasts. For example, the American Trucking Associations indicates that its data shows truck sales down by 23% for 1991 as compared to the Treasury estimate of 50%. This leads us to believe that other adjustments in RABA could occur.

We recommend that you consider instituting reforms to the Department of Treasury's process for estimating tax receipts to the Highway Account. This is not the first time that the Department of Treasury has made costly errors. In 1994, a $1.3 billion error eventually cost $3.6 billion to correct. This most recent $600 million error leaves us with absolutely no confidence in their accounting methods. We are not alone in our concerns. In June 2000, the U.S. General Accounting Office released a report[1] in which they indicated that "Treasury's process for allocating tax receipts to the Highway Account of the Highway Trust Fund is complex and error prone." At the request of House Transportation and Infrastructure Chairman Don Young and Ranking Member James Oberstar, GAO is now engaged in a new review of Treasury's methods for estimating receipts to the Highway Account. We urge you carefully consider the results of GAO's review, and consider appropriate reforms during reauthorization.

Long-term Issues

In addition to the immediate impacts of reducing highway spending by more than a quarter, the RABA downward adjustment has longer-term consequences for the federal-aid highway program. If the obligation level for Fiscal Year 2003 is adjusted downward from $31.7 to $23.2 billion, then the $23 billion level will become the baseline for reauthorization of TEA-21. That would leave us at a starting point $8.6 billion below where we are today, and considerably lower that the $27.8 billion obligation level for FY 2003 contained in TEA-21. Starting in such a deep hole, would make it much more difficult to maintain the federal-aid highway program at current levels, and perhaps impossible to expand it.

Conclusions

In conclusion, I would like to state that the federal-aid highway program has been one of the most successful federal-state partnerships ever created. It has contributed to the nation's mobility safety, and to the unprecedented economic growth that the nation has experienced since the 1950's.

TEA-21 is a major step forward in providing much-needed funding to the nation's highway and transit program. It is essential that the RABA principle of fully spending Highway Trust Fund receipts and guaranteeing that spending be maintained. However, it is also essential that in a time of recession, the consequences of the RABA mechanism not be permitted to eliminate hundreds of thousands of jobs while setting back much-needed transportation projects nationwide.

We emphatically believe that there are sufficient receipts in the Highway Trust Fund to sustain a higher program level. Authorizing a higher level is consistent with TEA-21, which provided additional contract authority to the states to assure that the Congress could elect to increase the

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[1] Highway Funding: Problems with Highway Trust Fund Information Can Affect State Highway Funds (GAO/RCED/AIMD-00-148, June, 2000)

program above the guarantee. We urge the Congress to make this investment in America. We urge the Congress to deliver on the promise of TEA-21 to fully use all the revenues in the Highway Trust Fund.