S. HRG. 110–972

THE CONDITION OF OUR NATION'S INFRASTRUCTURE AND PROPOSALS FOR NEEDED IMPROVEMENTS

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

ADDITIONAL INVESTMENT PROGRAMS THAT ARE DESIGNED TO LEVERAGE PUBLIC AND PRIVATE INVESTMENT IN INFRASTRUCTURE

TUESDAY, MARCH 11, 2008

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C O N T E N T S

TUESDAY, MARCH 11, 2008

WITNESSES

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

THE CONDITION OF OUR NATION'S INFRASTRUCTURE AND PROPOSALS FOR NEEDED IMPROVEMENTS

TUESDAY, MARCH 11, 2008

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The Committee met, pursuant to notice, at 10:09 a.m., in room SD–538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order, and let me begin by thanking our witnesses for being here this morning on a subject matter that is gaining more and more interest every single day because of the obvious issues here.

What I am going to do is take a few minutes for an opening statement, turn to my friend and colleague from Alabama, Senator Shelby, for any opening comments he may have, as well as, of course, Chuck Hagel, who has been instrumental and tremendously helpful on this subject matter. Jack Reed is here as well, and anyone else who has short opening statements. Then we will get to our witnesses and have a good conversation this morning about an issue that is one of those areas which is developing strong bipartisan support, one of those things you do not see with great frequency around here, but the idea of doing something in the area of infrastructure seems to be moving in that direction.

We gather here this morning to examine the issue of paramount importance: the condition of our Nation's infrastructure and proposals for needed improvements to it. I believe this is an urgent priority for our Nation for two fundamental reasons: first, because the safety and health of all Americans is directly and adversely affected by the deterioration of our roads, bridges, mass transit, drinking water, wastewater removal, and other vital components of our national structure.

The National Highway Traffic Safety Administration reports that approximately 14,000 Americans die each year at least in part because our roads and bridges are crumbling before our very eyes. Congestion on our roads causes tons of carbon dioxide and other pollutants to be pumped into the atmosphere day after day. These emissions compromise the health of children and adults and contribute to global warming, which poses immense risks to the future of all humans.

Tens of millions of Americans receive drinking water in their homes every day from pipes over 100 years old. I would just point out as an aside here that the leading stories in this city over the last several days have been the quality of the drinking water in this city. There have been serious issues raised about it. People are now talking about buying bottled water here in the Nation's capital because of the contaminants allegedly which are in our drinking water here.

As I said, some of the pipes in our cities literally were built in the 19th century. Here in our Nation's capital, in Georgetown, one of the most exclusive areas in this city in terms of residential cost, wastewater is still conveyed through wooden sewage pipes that were built in the 19th century. That is the sewage system here in the Nation's capital, in Georgetown.

In the city of Milwaukee, over 400,000 people were sickened several years ago with flu-like symptoms caused by a strain of bacteria in the municipal drinking water system. The bacteria strain was eventually linked to inadequate treatment of the drinking water in that city.

If Americans needed any more proof of the health and safety risks they face from our crumbling infrastructure, they got it on August 1 of last year, when a major transportation artery in Minneapolis abruptly collapsed without warning, causing the deaths of 13 people and injuring 100 more.

The second reason why renewing our Nation's infrastructure is of utmost importance is that our national prosperity is at stake if we do not act. From the days of the Roman aqueducts to the present, a Nation's ability to grow and prosper has always relied upon its ability to effectively move people, goods, and information. Ask any American today how we are doing in achieving this objective, and chances are the response would be the same: We can do better.

When the average American spends 51.5 hours a year in traffic congestion, we can do better. When you have 33 percent of all urban and rural roads in poor, mediocre, or fair condition, obviously I think we can all do much better than that. And when the United States invests less than 2 percent of its gross domestic product on infrastructure, while countries like China and India invest between 7 and 12 percent, we can do far better than that.

There is no question in my mind then that our Nation's infrastructure needs are enormous and immediate. The question for us as policymakers is this: How do we meet these needs? Clearly, the status quo is not in and of itself sufficient. The American Society of Engineers estimates that an investment of $1.6 trillion over 5 years is required just to bring our current infrastructure to an acceptable level. That is just maintenance and repair. That is not doing anything new. That is just maintaining and repairing the existing infrastructure, $1.6 trillion. That translates into $320 billion a year just to upgrade existing structures to serve the needs of our Nation. At this moment in history, when we are contending with the prospect of significant long-term budget deficits, we must explore other creative and fiscally responsible ideas by which to fund our Nation's infrastructure needs.

Senator Chuck Hagel of Nebraska and I have offered one such idea: a national infrastructure bank which would establish a unique and powerful public-private partnership using limited Federal resources. It would leverage the significant resources and innovation of the private sector. It would tap the private sector's financial and intellectual power to meet our Nation's largest and most critical structural needs.

I note that, as today's witnesses demonstrate, support for this initiative spans the ideological spectrum, which, in my view, speaks to its promise. Some might say that our legislation is too expensive or that we cannot afford to implement such a policy. I would say, as many of our witnesses will this morning, we cannot afford not to implement it given these costs today at $1.6 trillion, as I will ask our witnesses at some point what projected costs would be 5 and 10 years from now if we failed to act at all.

The budget resolution on the Senate floor this week establishes a reserve fund for the specific purpose of meeting our infrastructure needs, and I want to commend Kent Conrad and Judd Gregg, the Chair and Ranking Member of the Budget Committee, for establishing that fund. It is evidence of a growing consensus in the U.S. Congress and the country that complacency can no longer substitute for action in this area.

So let us be clear. The cost of leading this challenge will be great. It is not insignificant at all. But the cost of failing to meet in our view is even greater, far greater. From the Erie Canal to the interstate highway system, every generation of Americans has answered the call to build a safe, stronger, and more prosperous America. Our time to do the same has come for this generation, and that time is short, and for the sake of our Nation's future, we cannot fail, in my view.

I appreciate the willingness of our witnesses this morning to share their insights with the Committee today, and we look forward to your testimony.

With that, let me turn to my Congress from Alabama.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

Today we are discussing, as the Chairman has pointed out, a very important issue confronting our Nation: infrastructure development. Infrastructure needs across the Nation are vast and vary from community to community. Our roads, bridges, airports, public transportation, and water and sewer systems are aging, and communities are outgrowing the capacity of existing structures, in some cases creating potentially dangerous public health situations.

Some have estimated the cost to address our aging national infrastructure to be about $1.6 trillion over 5 years, or $320 billion a year. By any measure, this would require a sizable commitment of Government resources. The demand on the Federal budget is not expected to contract in the coming years. It is clear that we must find a way to balance our significant infrastructure needs without other demands on our Federal, State, and local budgets. Therefore, I believe, as Chairman Dodd has pointed out, it is important that we continue to develop and pursue alternative ways of financing our infrastructure needs.

There are many ideas about how to do this, some of which will be discussed here today. I expect that as we continue to examine these ideas, others will emerge as well. Nevertheless, I believe we can all agree that this is a matter that we must address in a thoughtful and comprehensive way that considers the needs of rural and urban communities alike.

Thank you, Mr. Chairman, for calling this hearing.

Chairman DODD. Thank you very much.

Senator Hagel. Excuse me. I am sorry. Senator Menendez. Then we will go to Senator Hagel. Bob.

STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman. I want to thank you for holding this hearing on the tremendous infrastructure challenges we face, and I think this is a critical conversation to be had, and I am proud to be a cosponsor of your legislation.

The reality is that when we talk about infrastructure, we are not just talking about roads and bridges; we are talking about strengthening our communities, bolstering our economy, and making investments for the future of our Nation.

When our Nation's infrastructure is weak or crumbling, we are not talking about hypothetical effects. The impact is tangible. When infrastructure is neglected or less than sturdy, we see the effects in our neighborhoods on subway cars or as we travel down the highway. And, sadly, as we all learned recently, when a bridge crumbles, the result is not just cracked concrete. It is communities that are torn apart and lives that are lost.

And it should not take a tragic loss of life in Minnesota to make us realize that we already have needed investments that continue to slip from our list of national priorities. As the American Society of Civil Engineers has noted and reminds us, 25 percent of our Nation's bridges are either structurally deficient or functionally obsolete. This includes over 2,000 bridges in my home State of New Jersey. And when our infrastructure is hanging in the balance, so is our economy. According to a recent article in The Atlantic by Bruce Katz and Robert Puentes of the Brookings Institution, congestion of our roadways, railways, ports, and airports cost our economy $78 billion in 2005. Half of these costs were in the Nation's largest ten municipal areas, including the regions surrounding Philadelphia and New York City in my home State of New Jersey. This just shows how important it is that we not only provide the funding to meet our needs but that we target funding to the areas of greatest need and to the areas that will do most to boost our flagging economy.

And, finally, my State of New Jersey is just one prime example for the potential of economic growth that can be spurred by dedicated national efforts to finance infrastructure projects. The Northern New Jersey Port and Railyard System is an economic engine for the entire region. Some $150 billion in goods passes in and out of the ports of New York and New Jersey each year. Port commerce in New Jersey is responsible for more than 230,000 jobs throughout the region. But this economic engine cannot run by itself. In order to meet projected increases in the volume of cargo, it will require billions of dollars of investment to better connect our domestic markets to the port.

To help prepare our region for the challenges ahead, I have worked to secure over $80 million for something we call the Liberty Corridor Project, which is truly a multi-modal, multi-faceted project that merges commerce, rail cargo, innovation, and economic growth. The corridor not only clears critical choke points in our cargo rail system and makes critical railroad improvements, but it solidifies the region's place as a thriving economic center. None of this is possible without capital, without the vision to invest now for the future, and without seeing that each piece of the puzzle comes together to create a bigger plan. And we are looking at how we go beyond that. We are looking at a new passenger train tunnel across the Hudson River along with the Port Authority of New York and New Jersey, looking at how we connect in a time in which our regional context and regional approaches are so critical to unlocking the economic potential.

So these are just some dimensions of the challenge ahead, and, Mr. Chairman, we look forward to working with you to move it forward.

Chairman DODD. I thank the Senator very much, and I thank you for cosponsoring the bill as well. It is a big help to us.

To my co-author in this effort, Senator Chuck Hagel. Thank you, Chuck.

STATEMENT OF SENATOR CHUCK HAGEL

Senator HAGEL. Mr. Chairman, thank you, and I wish to also thank our witnesses for their time and efforts this morning. There are those who are here this morning, like John Hamry from CSIS, and others who, as you know, Mr. Chairman, had a lot to do with helping shape and frame the legislation that we have introduced, and to all of you who were so helpful and involved, we thank you very much.

In 1955, President Dwight Eisenhower said, "The uniting forces of our communication and transportation systems are dynamic elements of the very name we bear—United States. Without them, we would be a mere alliance of many separate parts."

We will hear from our witnesses today about the state of our Nation's infrastructure. Maintaining and upgrading our infrastructure to a 21st century standard is a national project that our political system needs to embrace for the competitiveness, safety, and unity of the Nation.

The Dodd-Hagel National Infrastructure Bank legislation is not the entire solution, but it can be a part of the solution. We are in need of new, creative 21st century solutions. The Federal Government does not and will not have the resources to appropriate the required funding necessary to meet our future national infrastructure needs. That has been well documented in study after study.

The legislation that we are considering this morning could provide the foundation for this 21st century framework to capitalize on our national infrastructure. The Infrastructure Bank, a public entity similar in nature to the Municipal Assistance Corporation that one of our witnesses, Ambassador Rohatyn, led in New York City in the 1970s and 1980s, would have the ability to leverage private capital to supplement the current levels of public spending. A public entity that can focus private sector investment onto public infrastructure could help provide the necessary investment for 21st century infrastructure in America.

Our global competitors are investing astounding amounts of capital into their infrastructure projects, and these countries have all recognized the need for private investment to supplement public financing for their infrastructure projects. One example: In 2005, public-private partnerships in the United Kingdom totaled almost $60 billion. That represents almost 20 percent of total infrastructure spending in the United Kingdom.

As Eisenhower recognized when he authorized the building of the interstate highway system, the United States must now recognize that the building and maintenance of our infrastructure is a critically important national priority. This legislation that we will discuss this morning can help our country make the needed new, long-term investments in infrastructure.

And I might add, Mr. Chairman, in a further commentary on your statement regarding the water system in Washington, D.C., we met yesterday with the Governor of Pennsylvania, and he went into some rather considerable detail on what he is facing in the State of Pennsylvania regarding infrastructure needs, basic infrastructure needs, over 100 years old. I do not think we need to go much beyond the local news here in Washington, in addition to the water system, as to the problems that we are seeing evolve regarding the transportation system in Northern Virginia. It was noted over the last couple of days that there is no money in the budget, will not be money available in the budgets of the States of Virginia and Maryland for these big projects. We surely do not have it at the Federal Government level. So what happens? Those critically important projects, just transportation, will be left on the drawing board. That will cut directly into our competitive position in the world.

So I think this is as big an issue, Mr. Chairman, that we will face. Certainly the next President in his or her administration is going to have to deal with this. And I am, again, thankful that we have not just witnesses but those who would come forward and help us deal with this issue because it affects every American.

Thank you.

Chairman DODD. Thank you, Senator, very much.

I want to particularly thank Senator Hagel. This was working with Felix Rohatyn and Warren Rudman, Bob Kerrey, CSIS, and I also want to recognize John Hamry in the audience as well over the last couple of years. I know that I was telling the story yesterday that last August we had finished up the work and were trying to decide when to announce this effort of ours. And I made a strong case to Senator Hagel that we probably ought to wait until September, that no one followed any news in August. Indeed, we had put in this strong effort and to have a press conference in August just was not going to get any attention on the subject matter. But Senator Hagel, as is the case, was persuasive and said we ought to do it in August, so we did it. We had a press conference together and announced this bill of ours.

Besides Senator Hagel and me, I think there were two other people who showed up to hear this brilliant idea that we had worked on for 2 years at 10 o'clock in the morning. By 5 o'clock in the afternoon, Senator Hagel and I were on almost every TV screen in America because tragically, at 4 o'clock, the bridge in Minneapolis went down. And once again, people's interest in this subject matter piqued, but as we have learned historically, it is usually out of tragedy that subject matters like this gather public attention and then fade once again as other issues dominate the news.

And so I want to thank him for his efforts. It has been just terrific to work with him, and I am going to say this privately to him, but we are all going to regret your departure from this body when you move on. But you have been great to work with, and I hope we can get something done in this Congress that will bear your name because it deserves it. You have been a great asset in this effort.

Senator Carper.

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Thanks, Mr. Chairman. Thanks for pulling this together on what we all agree is an important issue. Thank you all for joining us today and for your testimony and responses to our questions.

As we all know, we are facing worsening congestion in our roads and in our sky, in addition to limited capacity on our rail lines. Meanwhile, both the use and demand for freight and passenger rail are growing, and I for one think that is a good thing. Amtrak ridership was up some 15 percent, revenues were up some 15 percent in the first quarter of this fiscal year. It is clear to me that American people want more transit options and want better transit infrastructure in both urban and in rural areas, too.

We need to find ways to strengthen our current public works programs and also to fully meet our Federal commitments to States for infrastructure construction and repairs.

Focusing effective investments in our transportation infrastructure is not only good for travelers, but I think it is good for our economy. The administration has estimated that roughly 48,000 jobs are created for every billion dollars of transportation infrastructure investments—48,000 jobs. Last March, Senator Voinovich and I introduced the National Infrastructure Improvement Act. This legislation would create a commission, a blue-ribbon commission—something we are pretty good at doing around here, but this is one that will actually do some good—a blue-ribbon commission to examine the state of infrastructure throughout our country, including rail and including roads and bridges, but not trying to replicate the work that was done on another commission created out of SAFETEA–LU, but beyond that, but to tell us to look at flood control structures, water, wastewater, too, bridges and levees, too.

The commission would then make recommendations to the next Congress and to the next President about how to maintain our current infrastructure needs while meeting future needs and safety requirements. The idea is to prioritize what our infrastructure needs are and also to suggest how we might pay for them.

It is my hope that the analysis and the recommendations of this Commission would improve collaboration among Federal, State, and local governments, while allowing us to pinpoint infrastructure needs and priorities. The tragedy in Minneapolis, which the Chairman just alluded to, last year underscored the urgent need for such a commission and the reinvestment in our infrastructure nationwide. Our legislation has passed the Senate; it is pending in the House.

As I have often said, if a job is worth doing, it is worth paying for. I firmly believe that it is essential that all stakeholders in these matters come together and try to form some kind of consensus, not only what our long-term goals might be, but also how to get there and how we should pay for it.

As we all know, these are not simple issues. The state of our infrastructure significantly impacts the quality of our environment, the growth of our economy, and our daily quality of life. Given these high stakes, we must take bold and innovative actions to bring our transportation, our housing, our energy, and telecommunications sectors into the 21st century while it is still the 21st century.

I am grateful for the opportunity, Mr. Chairman, we have to hear today from our witnesses, and I look forward to their testimony. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Corker.

STATEMENT OF SENATOR BOB CORKER

Senator CORKER. Mr. Chairman, I thank you and Senator Hagel for bringing for this legislation. In my short tenure here in the Senate, I have noticed that we have a tendency to focus on the "urgent" instead of the "important" in many cases, and I appreciate both of you bringing attention to this. I look forward, as usual, to listening to these wonderful panelists. And I will not say anymore. I will wait to listen to them.

Thank you so much.

Chairman DODD. Well, thank you very much. I will leave the record open, by the way, for other members who come for any opening statements they would care to make this morning. And just let me state that all statements and supporting documentation from members as well as witnesses will be included in the record as well.

Let me briefly introduce our very good panel here this morning. David Mongan is the President of the American Society of Civil Engineers, has 35 years of experience as a civil engineer; past Chair of the Council on Federal Procurement of Architectural and Engineering Services. He received a Bachelor's degree (1971) and Master of Science degree (1976) in Civil Engineering from the University of Maryland and a Master's in Business Administration (1981) from Loyola College of Baltimore, Maryland. He received the Civil Engineer of the Year Award in 1998 from the ASCE Maryland Section and the Engineer of the Year Award in 1999 from the Engineering Society of Baltimore.

Felix Rohatyn is no stranger to this Committee. He has been before us on numerous occasions, and truth in advertising, he is a very good friend of mine, a good friend of Chuck Hagel's, as he is of many members, Democrats and Republicans, in the Congress and elsewhere. He is currently Vice Chairman of Lehman Brothers, previously served as the Ambassador to France. Prior to his appointment, Felix was Managing Director of Lazard Freres and became a partner in 1961. Probably best known—for many things, but not the least of which was his negotiations, which he led, enabling New York City to resolve its financial crisis in the late 1970s when he was Chairman of the Municipal Assistance Corporation. And Felix has been tireless in his concern about this subject matter, and we thank you immensely for your service to our country in numerous capacities at the local, State, and national level. So, Felix, it is an honor to have you before the Committee this morning as well.

Tracy Wolstencroft is a partner of Goldman Sachs, a member of the firm-wide Partnership Committee, the Investment Banking Operating Committee, and currently head of the Public Sector and Infrastructure Banking Group. His responsibilities at Goldman Sachs have included extensive senior management positions in the United States, Latin America, Japan, and China; a member of the Council on Foreign Relations, a member of the Board of Trustees of the National Geographic Society, the Nature Conservancy, and New York State Board, and he is also a member of the Board of Directors of the International Rescue Committee, and, Tracy, we thank you for your work in this area as well.

Ron Blackwell is the Chief Economist of the American Federation of Labor and Congress of Industrial Organizations, the AFL–CIO, where he coordinates the economic agenda. The federation represents the AFL–CIO on corporate and economic issues affecting American workers and union strategies. From 1996 to 2004, Ron was Director of the AFL–CIO Corporate Affairs Department. Before joining the labor movement, Ron was the academic dean in the Seminar College of the New York School of Social Research in New York, where he taught economics, politics, and philosophy. He serves on the Board of Directors of the Industrial Relations Research Association, the Research Advisory Council of the Economic Policy Institute, and the Board of Manufacturing and Engineering Design of the National Academies. I should point out, Ron—and we thank you for being here—I know that John Sweeney had hoped to be here this morning as well, along with Tom Donohue, I might add, of the Chamber of Commerce, but we are pleased to have you and have your background and experience as well.

Janet Kavinoky is the Director of Transportation Infrastructure in the Congressional and Public Affairs Division of the U.S. Chamber of Commerce. In this capacity, she serves as the Chamber's senior lobbyist and policy expert on all transportation infrastructure ideas. In addition, she is the Executive Director of the Americans for Transportation Mobility, a national business-labor-construction industry coalition that unifies transportation stakeholders to support increased Federal investment in interconnected multimodal transportation systems.

And with that, I thank all of you for joining us this morning. We will begin with you, Mr. Mongan, and your testimony. Again, I will ask you to try and keep it to around 5 to 7 minutes, if you can, so we can get to the questions.

STATEMENT OF DAVID G. MONGAN, PRESIDENT, AMERICAN SOCIETY OF CIVIL ENGINEERS

Mr. MONGAN. Mr. Chairman and Members of the Committee, good morning. I am David Mongan, current president of the American Society of Civil Engineers, and I am pleased to appear before you today to testify for ASCE on the condition of the Nation's infrastructure and proposals for needed improvements.

ASCE concluded in our 2005 Report Card for America's Infrastructure that the Nation's infrastructure deserved an overall grade of D.

We said then that America's aging and overburdened infrastructure threatens the economy and quality of life in every State, city, and town in the Nation. We estimated that it would take an investment of $1.6 trillion by 2010 to bring the Nation's aging, existing infrastructure into good working order.

Nothing approaching that level of investment has been made. We continue to underinvest in infrastructure at the national level. The total of all Federal spending for infrastructure as a percentage of our gross domestic product has steadily declined.

The American Society of State Highway and Transportation Officials concluded that total spending on America's roads and highways should be about $155 billion each year to improve transportation infrastructure conditions nationally. The Federal investment in 2008 totaled approximately $41 billion, barely a third of the investment needed.

The Congressional Budget Office recently estimated that America's investment in surface transportation infrastructure by all levels of government equaled about 1.5 percent of gross domestic product. In comparison, the Chinese Government invested an estimated 2.5 percent of GDP in highway construction alone in 2001.

In 2007, the Department of Transportation reported that the cost to maintain only the Nation's highways would require an annual investment of almost $80 billion in 2004 dollars by all levels of government.

Even at this level, however, congestion would worsen, according to the report, because it would finance too little new highway capacity.

The DOT report, however, may understate the need. The American Road and Transportation Builders believe that Federal highway spending in the next surface transportation bill would have to start at $54.5 billion in fiscal year 2010 and grow to $61.5 billion by fiscal year 2015 to maintain the physical condition and operating performance.

In January, the Environmental Protection Agency reported that we must invest at least $202 billion to prevent combined sewer and sanitary sewer overflows at the Nation's 16,000 publicly owned wastewater treatment works. In 2002, the EPA estimated that the projected gap in what 23 spend on treatment systems and what is needed will be between $330 billion and $450 billion by 2019. This investment "gap" in drinking water systems is equally stark: approximately $100 billion over 20 years.

The Corps of Engineers operates and maintains 240 locks at 195 locations along 12,000 miles of inland waterways. The average lock is 53 years old. Locks have a 50-year service life. It costs about $600 million to replace a lock. If we were to replace those that definitely need to be replaced, that are beyond their life, we would need to spend $72 billion. Simply to rehabilitate the other half would cost another $30 billion. That is more than $100 billion to invest to bring our antiquated waterway system into the 21st century.

At the current spending rate, the budget in the administration's fiscal year 2009 of $180 million annually, it would take the Corps 20 years simply to fund all of the inland waterways projects authorized in the WRDA 2007.

The National Infrastructure Bank Act of 2007, your S. 1926, would begin to address a problem that is rapidly approaching crisis levels—the physical deterioration of the Nation's infrastructure. The establishment of a National Infrastructure Bank. that would be an independent body to evaluate and finance capacity-building infrastructure projects of substantial regional and national importance is essential. We believe this bank of 2007, this act of 2007 is essential to beginning the long-term effort to maintain and replace the economically vital infrastructure systems across the Nation.

ASCE supports the establishment of a Federal multi-year capital budget for public works infrastructure construction and rehabilitation. This budget would be similar to those used by State and local governments. The capital budget must be separated from non-capital Federal expenditures. The current budgeting process at the Federal level has a short-term, 1- to 2-year, focus. Infrastructure, by its very nature, is long term.

Let me say a few words about the use of public-private partnerships in funding U.S. infrastructure.

Public-private partnerships are contractual relationships between public and private sectors in infrastructure development. They have been practiced worldwide in both developed and developing countries with multiple objectives including promoting infrastructure development, reducing costs, increasing construction and operation efficiencies, and improving service quality by incorporating private sector knowledge, expertise, and capital.

There are barriers to public-private partnerships: social; unfavorable economic and commercial conditions; procurement framework; lack of mature financing technologies; and others. But although those partnerships appear to provide some help for financially strapped communities to provide basic infrastructure, they do come at a price. The Government Accountability Office cautioned in February that these partnerships may be useful in boosting highway investments but that they are not a panacea

Thank you, Mr. Chairman. That concludes my testimony, and I would be pleased to answer any of the Committee's questions.

Chairman DODD. Well, thank you very, very much. I appreciate your work and your effort in this regard, and you have highlighted very, very well some of the growing costs you were talking about.

Felix, it is a pleasure to have you with us, and once again, thanks for coming down. I know you have got a touch of that flu a little bit.

STATEMENT OF FELIX G. ROHATYN, TRUSTEE, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. ROHATYN. I wanted to thank you, Mr. Chairman, and I wanted to say hello to Senator Shelby, whom I had the pleasure of seeing often, but not often enough, when I was stationed in Paris and he was coming back and forth dealing with intelligence matters.

Senator SHELBY. Thank you.

Mr. ROHATYN. Glad to see you again, Senator.

I do not really know where to start because, you know, I have been living with this issue for a long time, as you have, and when you really look at the reality of where we are, it is really so awesome, but you do not really know where to start because there are so many things that really have to be done. But we might as well face them.

I would like to talk about a couple of things that have been mentioned here which people do not pay very much attention to because they sound technical but they are very important. I am talking about the need for a capital budget in the United States. We cannot go on having an accounting system for the total world, for our business, et cetera, except for our Government, which treats investment the way—as an expense and, therefore, skews the whole budget process by telling people that we are spending money when, in effect, we are investing money. And when we actually do not invest and call it something else, we are equally at risk.

The bank that we are talking about was modeled on a number of institutions of a similar type that exist in the world. One is the European Investment Bank, which finances European infrastructure and, in particular, the high-speed rail network, which is the envy of the world. When you can go from Paris to London in 2 hours and not even realize you are in a train, you do two things: You transport people in comfort, and at the same time, you take a lot of pressure off the air system because it is better to go by train than to wait at the airport. So you have offsetting things which I think are worth talking about.

The other thing is I think there has to be a little more confidence in Government in order to accomplish anything, and especially something as large as infrastructure. I think one of the reasons that we are so far behind on infrastructure is that we have managed as a national pastime to turn Government into some kind of joke and, therefore, to think that whatever Government touches is gone. And I do not think you can invest for 30, 40, 50 years, as we are going to have to do in this matter, unless people begin to trust and have some faith in Government's ability to at least be a partner of the private sector in terms of this kind of thing.

And the importance of it, I can give you a small example. When we were dealing with New York City's bankruptcy and we were close to a solution. we needed some money from President Ford—not a lot, maybe a billion dollars. And we were raising $20, $25, $30 billion as a package from the labor unions, from the banks, and to some extent from the city. And we could not move anybody until

President Ford finally relented and gave us a credit line of about $1 billion seasonally, which in terms of what we were doing was a pittance. But as soon as the Federal role was spelled out and was involved, everybody came in—the unions, the banks, the institutions—and we were able to, A, avoid bankruptcy and with the result that speaks for itself, and show that Government on some of these issues has to be present. It cannot take a pass on this.

I think I would just like to also look at one or two other things. The worst category in my friend's balance sheet about the United States is school construction, which has a D. Now, we are a country that says we are a country that says we are going to teach the kids, we are not going to leave anybody behind, education is our biggest priority. But we are letting these kids study in buildings that have leaky roofs, where the cafeteria is almost floating away, where nobody pays any attention, and nobody talks about school construction. And yet I think that would be one of the things that I would certainly push as having a priority in terms of investments that can be made nationally.

Now, I know the issue of keeping education and all of the related things separate from Government, but I think building decent schools where the roofs are waterproof is not a luxury that we should be ashamed of, but something we should really go after.

I am a refugee. I came to this country in 1942, and I read a lot of American history because I came from a place where there was no history, or the history that existed was pretty bad. And I became fascinated to see what American Presidents did in terms of investing in the country, beginning with Jefferson and the Louisiana Purchase, following with Lincoln and the intercontinental railroad. And even going to things that do not appear to be hard assets, but at least as important, like the GI Bill of Rights, which educated this country and which housed it, actually with mortgages that were not re-settable, like some of our present models.

So I come to plead for the inclusion, the intelligent inclusion of Government. The Chinese are spending money hand over fist. They are building 80 airports in the next 10 years. They are building nuclear power. They are building 200,000 kilometers of rural roads over there. And we cannot compete with that unless we have a national effort and we devote the assets, but at the same time we are careful of the management of this bank, which will be very delicate issues: the earmarks, which have become a symbol of American budgeting, which I think is something we can well do without, in my view, and the money that will have to be put in, but it will clearly have to be put in by a partnership of business, labor, and Government.

And I was delighted to read the statement of my colleague here from Goldman Sachs with respect to a possible role for the private sector and the size of the potential commitments.

So I thank you, Senator, Mr. Chairman, I thank you, Senator Shelby, and my old friend, who is unfortunately leaving all of us, but hopefully he will not be too far away from us, Mr. Hagel.

Chairman DODD. Thank you very much. Felix, thank you for your comments this morning. In the prepared statement, which I urge my colleagues to look at, Felix explains, I think very clearly, exactly how the financial arrangement could work, at least under this idea, which is in a paragraph or so I think very succinctly describes how you leverage resources here to work for us. I appreciate your inclusion of that and your general comments this morning about the value of the investments that have been made historically on infrastructure.

I was telling a group of students the other day down on the front steps of the Capitol, as all of us from time to time meet with students from our State, that all during the conduct of the Civil War, Abraham Lincoln insisted that the work on the Nation's capital continue. And so even as troops were gathered on the other side of the Potomac threatening the city, the work went on. And the importance of investing in the infrastructure with the symbols of us were tremendously important as well, beyond just the jobs that were created or the work that needed to get done. And, of course, the intercontinental railroad, we were actually spending money investing in that railroad while we were also investing in the needs of the military and the Civil War. The case was made to him over and over again to stop that spending, but he insisted it go forward all during that crisis. And there are wonderful examples of that throughout history. So, Felix, we thank you for your historical perspective as well.

Mr. ROHATYN. If I could just quickly, since you mentioned the financials of the bank——

Chairman DODD. Yes, please.

Mr. ROHATYN. I sort of neglected to even mention it. I think—and we used the number of $60 billion as the original capital of the bank. But, obviously, the $60 billion is only the beginning of an investment program, and I think we think—and I am sure my colleagues agree with that—that this bank with a capital of $60 billion could be leveraged on a 3:1 basis very safely—very safely. That would give you another $180 billion to put on the top of the $60 billion, which is $240 billion. Then when you begin the partnership with the private sector, which will only be allowed in if they take a share of the investment, you can get to very important numbers very soon in a very safe way. And then at that point, the issue of management and being careful of the management and having it picked correctly, et cetera, becomes paramount.

But it is not an unimaginable thing to structure the finance of this bank, especially when you begin to think of all of this as an investment and not as an expenditure.

Chairman DODD. That is great.

Tracy, thank you for being with us.

STATEMENT OF TRACY WOLSTENCROFT, MANAGING DIRECTOR AND HEAD, PUBLIC SECTOR AND INFRASTRUCTURE BANKING, GOLDMAN, SACHS AND COMPANY

Mr. WOLSTENCROFT. Chairman Dodd, Senator Shelby, Members of the Committee, good morning. Thank you for the opportunity to appear before you today. My name is Tracy Wolstencroft. I am a Managing Director at Goldman Sachs and head of its Public Sector and Infrastructure business. I am pleased to share with you my perspective on the condition of the Nation's infrastructure and the proposals for needed improvements.

During my 22 years at Goldman Sachs, I have had the opportunity to live and work in markets around the world, and I have seen the commitment that other countries, as has been mentioned here this morning, have made to infrastructure. In mature industrial countries such as the United States, it is all too easy to take for granted our physical infrastructure. Today, the infrastructure investment deficit in the United States is among the largest in the world—estimated in the findings of the Dodd-Hagel bill at approximately $4 trillion over the next 20 years, and that is just for transit, water, highway, and housing alone.

Closing this deficit will not be easy, and it will not happen quickly. Governments at every level must play a major role in providing revenue streams and financing capacity—as in many ways they already do. For example, the Federal Government provides $40 to 50 billion each year for transportation, funded largely by the 18-cents-per-gallon gas tax. State and local governments primarily finance their needs through the tax-exempt bond market, a market that has currently $2 trillion dollars of outstanding obligations. But closing the infrastructure deficit will require tapping all available sources of capital: tax-exempt debt, Federal Government financing tools, and private sector funds as well.

Take, for example, the Capital Beltway. The Capital Beltway is less than 10 miles from where we are this morning. Every day more than 100,000 drivers use the Beltway, totaling approximately 20 million hours per year—often in slow-moving or bumper-to-bumper traffic. This congestion harms the region's economy, its environment, and its quality of life. But in December, the Commonwealth of Virginia finalized an agreement with a private consortium to construct two additional lanes in each direction along a 14-mile segment, together with other significant improvements, including two High Occupancy Toll, or HOT, lanes. This massive construction effort will create more than 4,000 jobs each of the next 5 years, providing a much-needed economic stimulus.

Additionally, this almost $2 billion project—like many others—could not have been financed through one source alone. In this case, the Commonwealth of Virginia is providing more than $400 million in grants; the Federal Government through the U.S. Department of Transportation is facilitating financing of about $600 million; there is an additional $600 million coming from the tax-exempt municipal bond market; and the private joint venture of Fluor Corporation and Transurban Group is contributing $350 million of capital.

This is just one example of why we at Goldman Sachs believe that, where appropriate, partnerships with the private sector can play an important role in supplementing taxpayer dollars. The Capital Beltway also illustrates the power of using market-based mechanisms supported by new technology such as open-road tolling and dynamic pricing to generate funding. Tolls paid to use the optional HOT lanes will provide the revenue stream necessary to build and maintain the improvements. As States grapple with fiscal pressures, it will in some cases be not only appropriate, but also necessary to rely on all of these capital tools.

Already, an increasing number of States are following the lead of nations such as the U.K. and Canada, as has been referenced in earlier comments, in leveraging user fees such as tolls or water charges to support tax-exempt and private financings, much as the utility industry charges fees to help finance new, clean power plants. When it comes to generating the revenues needed to pay for the massive up-front costs of infrastructure, there is no free lunch. This Nation needs the political will to make revenue decisions that may be unpopular, including in some instances instituting or increasing user fees such as tolls. And if governments are able to identify those revenues, they will be able to tap into huge pools of private capital, possibly leveraging State and local pension funds such as the California Public Employees' Retirement System, or CalPERS, which recently announced a pilot $2.5 billion allocation to infrastructure to "take advantage of major investment opportunities in the construction of roads, bridges, airports, utilities, water systems, and other projects."

As we explore creative ways for the private and public sectors to work together, so too there should be more innovation within the public sector. It is clear to me that initiatives along the lines of a federally sponsored bank such as that proposed in the Dodd-Hagel National Infrastructure Bank Act could act as an important catalyst. In addition to the tangible benefits of the Dodd-Hagel approach, I believe this bill also provides an important statement that our national leaders recognize the urgency of our infrastructure deficit and are prepared to make the issue a national priority.

I conclude by thanking Chairman Dodd, Senator Shelby, Senator Hagel, and Members of the Committee not only for inviting me to testify but. more importantly, for taking this progressive step toward helping the United States and its infrastructure deficit.

Chairman DODD. Thank you very much. Excellent testimony.

Ron, thank you for being with us this morning.

STATEMENT OF RON BLACKWELL, CHIEF ECONOMIST, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS (AFL–CIO)

Mr. BLACKWELL. Thank you, Senator Dodd, Ranking Member Shelby, and other Senators, for inviting us here to present the views of the AFL–CIO and the American labor movement on this very municipality issue.

The American economy is the most productive economy in history. It generates nearly $14 trillion in product and income. But key to our Nation's success and prosperity has been and I hope will continue to be the commitment, the productivity of American workers but also the world-class infrastructure that we have built over American history, as has been mentioned.

Unfortunately, our infrastructure is deteriorating, as Mr. Mongan mentioned, and the figure of $1.6 trillion of unmet need over a 5-year period is impressive, particularly when you consider the infrastructure systems we will need if we are going to successfully meet the fierce competition in a 21st century global economy.

As we meet today, however, we face an economic crisis that poses a number of serious and interrelated challenges. We must recover from the recession that now seems to be underway. We must find a more sustainable growth path for the economy other than asset-based inflation. We have to find a way to rebuild the global competitiveness of our country. And we have to find a way to more broadly share the prosperity that our country enjoys.

In different ways, the rebuilding of our Nation's infrastructure plays a crucial role in addressing each of these challenges, and we recommend to you to think about the work of this Committee in that context.

A bursting housing bubble last summer and the resulting crisis in the U.S. subprime mortgage market have triggered a full-blown credit crisis, which is now dragging the American economy into a recession and slowing world growth.

The Federal Reserve has responded promptly. The Congress has passed a stimulus package of $168 billion. And while these steps are welcome, we do not believe they will be sufficient to avert a recession, and, more importantly, they do not address the long-run challenges economically of our country that got us into this mess to begin with.

The AFL–CIO supports a second fiscal stimulus package that includes measures like extended unemployment and expansion of the food stamp program and money to States and localities to keep them from cutting their budgets to provide important services. But we also think there is a role here for putting forward some of the important infrastructure programs that we have, particularly in the area of rebuilding our country's schools. Seventy-five percent of our schools are in a dilapidated condition. I graduated from one such school in Alabama many, many years ago. But there is no excuse, as Felix pointed out, for us to have schools that are not up to top quality if we are asking our children to get an education, and that is one of the principal resources of this country.

But we also have deteriorating highways and bridges that are in the condition that we saw in Minnesota. For those projects that we can move really quickly, we need to be moving on them. This is spending money that is good for the economy, but it is also spending money on things that are important for our development.

The second challenge we face is to get our economic growth path on something other than asset inflation. Since the 1990s with equities, and since the 2000s with housing, we have been living on borrowed money. The only thing that is moving in this economy is debt-financed consumer spending. We are borrowing money from the central banks of our trading partners—in this case, some of the poorest countries in the world, ironically—in order to buy things in order to consume. We have to turn the driver for this economy away from consumption spending and away from debt-financed consumption spending. And I believe in public investment, but, of course, the key to that, of course, is sound macro policy, careful coordination of the Federal Reserve and the Treasury to focus on maximizing growth and consistent with reasonable price stability. But I think there is an important role here for public investment, and if the public investment is well planned and well timed, then, of course, it crowds in private investment and, therefore, complements it over the course of the business cycle. And, again, it is adding into—more importantly, it is adding into the productive capacity of the country long term. And the third thing about we have to focus—and this is perhaps most important—we have to focus on a world-class infrastructure if we have a hope of dealing with the competitive challenges this country is going to face. We are now borrowing $800 billion a year to pay for the things that we no longer produce but we still consume.

Nobody believes that is sustainable. Sooner or later, we are going to have to find a way to produce more of the value equivalent of what we consume, or we will be forced one way or another to consume less. I do not think the American people find that an acceptable course for the future of American history. I think we have to find a way to improve our competitiveness, and I think one of the keys to that is investing in the public infrastructure that the country has relied on historically to date to allow us to be—for economic activity and firms in the United States to be productive going into the future.

And, fourth, we have to restore some balance between workers and their employers in order for our prosperity to be more fairly shared. I think the fundamental thing there is we have got to have a minimum wage that is at least one-half of the average wage in the private sector, and we have to have an Employee Free Choice Act which allows workers to organize and bargain collectively for their share of economic growth. But I think here, too, public investment plays a very important point, and projects that are run on this kind of basis can generate enormous numbers of very good jobs. I think the Department of Transportation, as was mentioned, has estimated that each $1 billion of public investment generates almost 48,000 new jobs. If the DOT is right and Mr. Mongan is right, then if we just met our existing needs through this mechanism, we would be generating something like 15 million jobs that we do not have now over the course of the next 5 years.

America's workers are the most productive workers in the world. We are now working longer hours than workers in any other country, longer even than Japan that used to be famous in this regard. But, we believe, provided a world-class infrastructure and working with companies that share our commitment to the country, we believe that there is no reason why we cannot build a strong and internationally competitive American economy in the United States into the indefinite future.

Thank you again for the opportunity to present the views of the AFL–CIO.

Chairman DODD. Thank you very much.

Ms. Kavinoky.

STATEMENT OF JANET F. KAVINOKY, DIRECTOR, TRANSPORTATION INFRASTRUCTURE, AND EXECUTIVE DIRECTOR, AMERICANS FOR TRANSPORTATION MOBILITY, U.S. CHAMBER OF COMMERCE

Ms. KAVINOKY. Mr. Chairman, Mr. Ranking Member, distinguished Members of the Committee, thank you very much for the opportunity to testify on behalf of the U.S. Chamber of Commerce regarding the condition of our Nation's infrastructure and the proposals for needed improvements. My name is Janet Kavinoky. I am the Director of Transportation Infrastructure at the Chamber, as well as the Executive Director of the Americans for Transportation Mobility Coalition.

Today, my remarks are going to focus on the needs of the transportation system, but we know that from interstate highways to information superhighways, from airports and water ports to wastewater systems, from rail lines to transmission lines and power plants, our infrastructure is in crisis, and it is evident that now is the time to build a robust, thoughtful, and comprehensive plan for our world-class 21st century infrastructure.

We have to face this fundamental fact as a Nation: We are a growing people with a growing country and an aging infrastructure. We have to fix what we have, and then if we want more capacity, we have got to buy it. No one is giving roads or rails or runways away for free. We are going to have to find and invest more public dollars in our infrastructure. And there is no single answer to the question of how do we pay for it, and that is good, because it means we have options. But all of the options have to be on the table.

Yes, this means that, along with other things we are going to talk about today, we are going to have to consider an increase in the Federal fuels user fees, especially for highways and transit. This could take the form of a straightforward increase in a fee that hasn't been raised in 15 years—as long as the proceeds are appropriately dedicated. But this Nation cannot afford to rule out any funding sources.

In highways and transit alone, many reports have quantified the significant gap between needs and available resources. And my other panelists here today have focused on many other areas with tremendous needs.

We also know that all across infrastructure categories, simple inflation has eroded the purchasing power of available revenue sources, and measured up to construction cost inflation, the purchasing power is even less. The cost of materials used to fix pavements has increased 33 percent in the past 3 years. Steel, oil, and concrete are all more expensive, and many structures have reached the end of their useful design lives.

So the Chamber commends Senators Dodd and Hagel and others for their commitment to considering financing tools that broaden our views of how the Federal Government contributes to infrastructure investment.

While the Chamber will continue to fight for adequate systemic Federal funding to address our Nation's enormous needs, there is a need for additional options to supplement, not supplant, traditional revenue sources and funding approaches. We agree with Senator Dodd that the Federal Government is not doing enough to address important national and regional transportation issues from a systemic perspective.

The National Infrastructure Bank would create an independent entity tasked with evaluating and financing capacity-building infrastructure projects of substantial national and regional significance. In contrast, Section 1301 of SAFETEA–LU is really the first programmatic effort to address highways and transit projects of national and regional significance, and, unfortunately, inadequate funding diluted its impact and congressional earmarking of the entire program distorted its intent.

The National Infrastructure Bank Act would support projects with clear national benefits and complex State, local, and private institutional and financing challenges that require Federal assistance through a process outside of earmarking practices. By emphasizing infrastructure projects with a potential Federal investment of at least $75 million and evaluating projects based on factors such as economic impact, reduction in traffic congestion, and environmental benefits, this legislation would do much to ensure that projects are targeted and that planning is as comprehensive as possible.

The Nation's infrastructure is the backbone of the U.S. economy. It is the physical platform of the U.S. economy, and the needs are staggering. And it is clear that chronic underinvestment is a major contributing factor to the problems across all modes of transportation. However, the public must trust and have confidence that programs will deliver real solutions to real problems; otherwise, they are not going to support increased investment.

So the Chamber looks forward to returning to this Committee to discuss the next surface transportation authorization bill and the future of highway and transportation policy programs and funding, because this country's current approach to delivering infrastructure is not set up for today's robust economy or the economy of the future.

For our part, the Chamber is engaging the business community on infrastructure issues through our Let's Rebuild America Initiative and through the Americans for Transportation Mobility Coalition. We are waging battle in the media to make infrastructure a core national economic priority. We are educating and engaging the public, identifying regulations that get in the way of private investment, and speaking out on the need for increased public investment.

All transportation and infrastructure stakeholders have started coming to the table—public leaders, the private sector, and all modes, all industries, builders, carriers, users, and shippers alike. We are going to put an end to the intramural squabbles that have divided stakeholders. We have rolled up our sleeves and we have started to work. We are looking forward to working with you to rally around and unite the country around the urgent and compelling mission to rebuild America.

Thank you very much for the opportunity to be here today, and I look forward to answering your questions.

Chairman DODD. Well, thank you very, very much, and I thank all of you again for excellent testimony here this morning. And I will keep an eye on the clock here, too, for 6 or 7 minutes for each of us here, and since there are only about five or six of us here, we will be able to do this sort of informally.

Let me begin by asking a question. I do not know whether you have the answer in front of you or not, but to put this in perspective, I think we all understand. We have talked about the $1.6 trillion being fundamentally for maintenance and repair of the existing structures. There is nothing in that number, at least that I am aware of, that talks about any new investments here, talking about, Felix, what you raised, the issue of the high-speed rail systems between London and Paris, Brussels and Paris, for instance.

Today, people would not think of taking a flight given the efficiencies of being able to travel by rail in terms of efficiency of time.

But how has this number changed, if at all? Today we are talking about $1.6 trillion, putting aside the need for new investment. What was the number 5 years ago? And what would be the projected number for failure to act 5 years from now? Just looking at that maintenance number, to put this in some—give people some idea of how that number has changed and will change if we do not act. Any ideas at all? Tracy, I do not know, I look to you or Felix as——

Mr. ROHATYN. My recollection——

Chairman DODD. Do you want to turn that microphone on, Felix?

Mr. ROHATYN. I am sorry. My recollection is that over the years, as I was speaking from time to time to the U.S. Conference of Mayors—and they usually use the Society of Civil Engineers as their guidebooks—the deficit was increasing by about $200 billion every couple of years, something like that.

Chairman DODD. Yes. Do you have that?

Mr. MONGAN. When we did our report card in 2001, we estimated that the cost would be $1.3 trillion, and understand that about 40-plus percent of that is already being spent at all levels of government. So this is a total number, not just all new money but to supplement. So we need to be up to 1.3. We are now saying $1.6 trillion over 5 years, so you can see we have increased some $300 billion just in our estimate from 2001 to 2005. And I would say that when we do the report card next year and issue it in 2009, that number is going to approach well over $2 trillion.

Again, it is not all new money; about 40 percent is already there in State, local, and Federal budgets.

Mr. WOLSTENCROFT. Mr. Chairman, I might just add, just breaking down that number into a smaller project, but still a large one, if you look at what Denver is doing right now with their rapid transit initiatives, when that initiative was initially proposed, it was 2004, and they estimated a cost of $4.7 billion. Today, that is over $6 billion for all the inflation that goes with construction costs. So Denver is faced with a real practical example of increasing costs and now how do you fund that gap. In their case, they are going to take it from all different pools of capital, whether it be from the State, whether it be from the Federal Government, who is offering a grant, particularly because of the transient nature of what they are investing in.

There is also a potential for a private investor, and then there is pay-as-you-go on the back of sales tax that the community will incur. It is a small example in the trillions of dollars, but it is a very, I think, relevant example in terms of how that cost has moved. Within 3 years, it has gone up substantially.

Chairman DODD. Ron, did you have anything to add?

Mr. BLACKWELL. We do not have an independent estimate, but I would caution you against using simple extrapolations of historical trends, because we are entering a global labor market, and as Felix mentioned, in China, India, the former Soviet Union, they are building enormous capacity. So we are facing extremely fierce competitive conditions. You think of, for example, broadband where we are way down in the field in terms of our broadband technology, both coverage and the speed of the technology that we have in this country, or what we are going to need with energy independence or what we will need with environmental sustainability.

I just think it is going to be a qualitatively more serious advance, and when we have—even with the demand that we have, as I was suggesting, it is a demand which could be 15 million jobs a year, we have unemployment in the building trades that is double what it is for people overall. But we do not have enough construction personnel to produce at that level at this point in time, because I think you have a qualitatively different demand for our country.

Chairman DODD. So it is not just a matter of what costs were 4 or 5 years ago and what costs are today, but you are going to add this element of global competition and so forth that is going to exacerbate those numbers beyond that.

The number I have bandied about over the years when people have said what is the job production out of this, the number that comes back to me is somewhere in the neighborhood of 45,000 to 50,000 jobs per billion dollars on average of investment in "infrastructure." Is that a number—is that correct or roughly correct? Or is it unfair to try and draw those conclusions about employment?

Mr. BLACKWELL. That is the DOT estimate. I would assume this—it sounds high to me, frankly, but it does vary a lot over what kind of investment you are putting it into.

Chairman DODD. Yes. Janet, do you have a comment?

Ms. KAVINOKY. Mr. Chairman, that number of 47,500 jobs is actually jobs supported per billion dollars of investment, so it is direct, indirect, and induced. There is a real need, actually, for the basic economic research to update that kind of information and productivity information, because that number was first created in 1996 and has not been updated since then.

Chairman DODD. Who does that? Who would be the——

Ms. KAVINOKY. The Federal Highway Administration sponsored the original research, and it was only Federal highway construction dollars. It certainly does not take into account the potential jobs created and supported through other forms of infrastructure investment.

Chairman DODD. Let me ask you, I have looked at this, and we have been talking about the stimulus package and the one that we just enacted, and there have been some legitimate issues about how effective that stimulus package can be, and I suspect you may hear from my colleague from Tennessee his views on this. And I share some of them as well about the effect of all of this. But the issue was raised, in fact, in an op-ed piece in the New York Times by Stephen Roach, suggesting that investing in infrastructure could be an effective strategy in dealing with the current economic slowdown. Not that that ought to be the sole reason for it but, nonetheless, as an added benefit from all of this, and he said, "Fiscal initiatives should be directed at laying the groundwork for future growth, especially by upgrading our Nation's antiquated highways, bridges, and ports."

We have all talked about the importance of this for long-term economic growth, and I think everyone agrees with that. I would be interested in any quick response and whether or not you think there is any short-term benefit to such a series of ideas we are talking about here. Does anyone want to comment? Yes, Felix.

Mr. ROHATYN. One of the arguments usually made against infrastructure as a solution to economic downturns is that it takes too long to get going. I am not sure that now there is not so much stuff that is sort of in the drawers and ready to go if we had this kind of a plan that you could get—that you could gear up I think a lot more rapidly today than you might have 5, 6 years ago. And I certainly think that is worth including in your thinking, mostly because I personally am very pessimistic about the economy and, therefore, I think that we are facing a potentially very difficult downside to this recession that we have refused to admit we were in. And I think one of the things that might be helpful, both psychologically and practically, is putting on the table as many of these programs as possible in terms of quick-acting infrastructure like redoing some road—you know, things that are not terribly sophisticated, but doing it and creating a little management structure that will facilitate that.

Chairman DODD. Comments, Ron.

Mr. BLACKWELL. I would only add to that—and I mentioned it in my testimony—I think school repair is a good candidate.

Chairman DODD. I agree.

Mr. BLACKWELL. But I would also point out that if it is properly done, this is a much more stimulative measure than tax decreases, for example, which may or may not be spent and which may or may not be spent for goods that generate a stimulus in the American economy.

Chairman DODD. I point out here that the staff has just told me here that over $2 billion worth of transit projects have been identified and are ready to go within 6 months, according to the American Public Transit Association, so your point, Felix, that there is an existing backlog here that would not require a tremendous amount of time.

I noted here and I was listening, Ron, to your testimony talking about the energy costs, and we were just doing some numbers. I mentioned in my statement that there is in excess of 51 hours of travel time on our existing road system of sitting in congestion that consumers spend. That translates on a yearly basis to delays of 4.2 billion lost work hours, I might point out, 2.9 billion gallons of wasted fuel, and about $78 billion in congestion costs combined. We borrow $1 billion every day to buy foreign oil; 59 percent of the oil that we use is consumed in transportation costs. So you begin to think about transportation needs, diversifying, thinking about it holistically in a way. I mean, if we ended up having—I am not going to advocate this too loudly because I need it often enough, but if we had fewer shuttle flights going to New York from Washington, maybe more people would use the Acela and mass transit systems. And we do not—it is always a competition where you compete and end up not utilizing structures or finance them and subsidize them effectively enough. And it occurs to me here just in energy costs alone how infrastructure could make a huge inroad both in the consumption as well as the related problems associated with the burning of fossil fuels, just to make the point.

Let me turn to Senator Shelby.

Senator SHELBY. Thank you, Chairman Dodd.

Felix, good to have you here before the Committee again. You have been here in many capacities as an investment banker, as adviser to the President and so forth. I believe myself that you were probably one of the hardest working Ambassadors we have ever had, and I have seen a lot of Ambassadors. When you were Ambassador to France, because I met with you a number of times, you were traveling all over France. You were seeing how we could do business in France, what we needed to do and so forth. You know a lot about infrastructure, but more than that, you and Tracy know a lot about investments. You are investment bankers, basically.

I have no illusion about us passing taxes, more taxes, as what some people advocate right now, for our infrastructure needs. I do not think that Congress is going to move to do this because if you would add that to the cost of energy today, as oil has passed $100 a barrel, and probably going up, so forth, I do not know what we will do.

We all need—you are absolutely right, all of you, about infrastructure. Some of it needs rehabbing, and as we continue to grow with 300 million people, we are going to need new infrastructure. We are going to need new sewers, water plants, schools, highways, rail—you name it. And the question is: How do we get there? How can we afford it? Well, some people believe that financing is about leveraging, taking some money and leveraging it. And the toll roads, for example, we are looking—in my State of Alabama, the Governor had the Secretary of Transportation down recently about looking at two or three projects as possible toll roads that would be quicker, faster, and so forth, taking some money and leveraging it.

But I think we have got to look at every avenue of how do we finance this, because we are going to have to have it or we are going to fall behind down the road. I think you point that out.

So how do we leverage the money that we get, that we have? How do we attract investment into our infrastructure? Because if you have got a good project, you can get it financed. It will be financed. And look at the money in the world. Where is a lot of our money going to be? Senator Dodd alluded to it. We are importing, I have been told, about 65 percent of our oil. At the rate we are going, we will be importing 80 percent of our oil. We are exporting our wealth. We are creating great sums of wealth, sovereign wealth in countries. They are looking for a place to invest it. Why couldn't we leverage some of that for our infrastructure needs? Because we will still be in control of the infrastructure. It will be in our country, and if they could get a decent return off of it, how do we do that, Felix? You and Tracy.

Mr. ROHATYN. Well, Senator, I think you should be an investment banker, clearly, but I think——

Senator SHELBY. I would like to work with you.

Mr. ROHATYN. I would be delighted.

Senator SHELBY. You would not hire me, though. You would not hire me.

[Laughter.]

Mr. ROHATYN. I personally think that one of the things we are going to do sooner or later is to go borrow $1 trillion from the Chinese, because that is where the money is, just as we are going with these wealth funds to have the Arab countries and people make the investment. But nothing comes free, and the big advantage of infrastructure over marketable investment is that you cannot take it with you. So that if you have investors from countries that turn out to be not too friendly, they are not going to walk away with the infrastructure because it is very hard to move.

But ultimately I do think that we are going to have to have much closer cooperation with the NATO countries, with Europe, with China, with Japan on the financial level, and that our central banks ought to work together, or at least cooperate with each other so that we don't see part of Europe increasing interest rates while we reduce interest rates.

Now, that is a whole other subject, but clearly the money is not where we are at this point, so we have to try to get it back as peacefully as possible and as economically as possible. And that can cover a lot of possibilities.

Senator SHELBY. Tracy, how do we leverage some money, some public money, to build infrastructure that we cannot afford today but would be good investments——

Mr. WOLSTENCROFT. Well, Senator Shelby, I——

Senator SHELBY [continuing]. But that we must afford?

Mr. WOLSTENCROFT. I think one of our core takeaways from thinking about this is that we need to look to multiple sources of capital and think about ways to leverage any one component of it.

One comment I would just add to Felix's remarks is that the pension funds, in particular, are looking for long-term assets to offset their long-term liabilities. And when they look at infrastructure, why does CalPERS decide to allocate, albeit a small percentage, but a small percentage which is a large number $2.5 billion—why do they do that? Because they know if they invest in infrastructure there will be an inflation-protected mechanism embedded in that infrastructure investment. And that is very comforting to them for the comments the gentleman to my left has said about how these costs are moving.

So one point of leverage is all that private capital that is out there, whether directly or indirectly, that is interested in taking a long-term asset into their books to offset long-term liabilities.

The other point of leverage——

Senator SHELBY. Quality assets, too.

Mr. WOLSTENCROFT. And quality assets, too. This infrastructure is not going anywhere.

Senator SHELBY. Well, this would not be a subprime asset. This would be a quality asset, right?

Mr. WOLSTENCROFT. I do not know if I should say, "No comment," but——

[Laughter.]

Senator SHELBY. Well, you can answer any way you want to.

Chairman DODD. Don't go there, though.

Senator SHELBY. Well, I think we need to go there because what we——

Mr. WOLSTENCROFT. I will stick to infrastructure.

Senator SHELBY. If we had invested in America what we have invested in the subprime, all the institution, people, in our infrastructure, it would probably be a higher quality investment, and we would have created a heck of a lot more jobs, wouldn't we, Ron?

Mr. BLACKWELL. That is absolutely right.

Senator SHELBY. Go ahead.

Mr. WOLSTENCROFT. The only other part of leverage I would say is the actual projects themselves need to make sense, and one of the things that can be leveraged are the revenue streams that can come off of these assets. And there is a balance of what is the revenue stream and what is the political will to make that revenue stream happen.

Senator SHELBY. David.

Mr. MONGAN. If I could just add, there are a third of the States that by statute do not even allow public-private partnerships for transportation. So from our perspective, one of the things that has to happen is that we have got to correct that problem with those States to even allow——

Senator SHELBY. Statutorily, sure.

Mr. MONGAN [continuing]. This financing mechanism to be put in place.

Senator SHELBY. Well, I hope that my State of Alabama moves down that way fast.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, and those are very good questions. And one of the things in our bill, of course, is we talk about regional and national infrastructure needs and not so much the local ones, so that we are talking about large projects here, minimum projects of $75 million or more, I think is the number we have in our bill, to get beyond what would be local issues that ought to be resolved locally, entirely, but more the larger ones that we have in mind here.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. I appreciate all of the testimony of the witnesses. I think there is basically the proposition here that the longer it takes, the more it costs; the more it costs, the greater the deficit at the end of the day. And that does not include the deficit in the global competition context. So there is a whole continuum of challenges here, and it only grows bigger.

I want to take off—I did not intend to, but having listened to Senator Shelby's questions and having a little experience of what is going on in my home State of New Jersey, talk about political will. The reality is how we describe this. Senator Shelby says that the Congress does not have an appetite for any taxes to fund this, and I appreciate that. But it is how what we call, how we describe it. Certainly products that need to get to the market that take longer to get there, that have higher fuel costs, that is an indirect tax. We may not call it a tax, but ultimately it is a tax to the consumer.

Similarly, if we are going to use the capital assets of the Nation's roadways, for example, to go to the private marketplace and seek to capitalize on it or monetize on it, at the end of the day beyond the opportunities to have long-term stability in some of those investments, as you described, Mr. Wolstencroft, is also a desire for a rate of return, and that rate of return is not going to be, you know, simply the collection of existing toll revenues without some increases in them.

Is that a fair statement?

Mr. WOLSTENCROFT. Well, I would say that there are two rates of return on which this political will gets balanced. There is the economic rate of return on one side of the equation, and there is the social rate of return on the other. And one of the aspects, as you referenced in your own home State, that is being debated right now is if New Jersey were to do something, if there were the political will or political comfort to increase tolls with respect to the New Jersey Turnpike or the Garden State Parkway and that increased tolls were to be leveraged, what would that money be used for? And the comfort with which the citizens of New Jersey take from where would that money be spent, and in that case primarily on infrastructure-related projects, not the least of which could be the ARC tunnel underneath the Hudson River, then I think they can see that there is a return for them for which they are asked to pay an increase in their tolls. And then the financial return comes from that increased revenue stream, how much more capital can be leveraged against it.

Senator MENENDEZ. And that is a raging debate right now because even though the connection has been made between the investment of where those revenues would go, it largely would be for infrastructure and also to pay down a degree of debt, which, therefore, creates greater opportunities and annual revenue flows to be able to deal with less interest on debt. And yet we do not quite have a public who looks at it in that context.

So as we deal with the broader challenge, Mr. Chairman, that is why I particularly appreciate your bill, because while I think we should look at these opportunities, at the same time I recognize that notwithstanding political will, sometimes you just—I think part of our challenge is to get the public on board to understand that it is both short- and long-term investment in our country. And that is why I like the Chairman's bill because he talks about—along with Senator Hagel, they talk about this in a way that I think is important, which is in the context of investment, not just simply repairs and what-not but investment, and looking how that investment yields returns, financially, socially, employment, economically—I think there are many different dimensions, and I think we need to pursue that.

Speaking about rates of return, one of the things I am concerned about is I saw this Brookings Institution report, and it said something along the lines that our transportation dollar has declined from 20 percent of rate of return 30 years ago to as little as 1 percent today. Do we agree with that? Has anybody seen that report?

Ms. KAVINOKY. Yes, sir, I have seen that report, and, in fact, there have been a couple of others recently, including a report by Sir Rod Eddington in the U.K. that talk about the varying rates of return on different investments.

I think part of the reason you see that kind of decline—and I am not sure that if numerically that is correct—is because at one point we were building new capacity and we were actually adding infrastructure very broadly, and today we are talking about replacing it or rebuilding it. So when you are replacing something, you are not going to get that great a boost in productivity. But if you are talking about expanding capacity, which has to be part of this equation in infrastructure broadly, then you are going to see some real benefit.

Senator MENENDEZ. And that is why I am concerned about how the analysis goes. I think the rate of return is greater than that, and particularly the way the Chairman's bill is, I think it has a variety of factors to be factored in that improves the effective rate of return, and it is something that merits a lot of our consideration.

For example, a hundred of our Nation's metropolitan areas generate 75 percent of our economic output—75 percent of our economic output. They handle 75 percent of the sea cargo of our Nation and 80 percent of the air traffic. And yet nearly all of those metropolitan areas are experiencing increased congestion on the roads, in the skies, and on the rails. And so I look at your own testimony and see that you speak about how in the mega port of the East Coast, the port of New York and New Jersey, where most of that operation happens on the New Jersey side—I used to represent that specifically in the House, am privileged to represent it all now as the totality of the State. You say that that is going to triple in volume by 2020. We agree. But the problem is in order to achieve the benefit of that, you have to have the infrastructure nexus to make it work and to compete against Canadian ports and others, foreign ports that ultimately have huge investments—the Port Huron tunnel, the rail connections, natural deepwater ports, what we have to be dredging.

So these are, I believe, critical elements of how we have to talk about these issues, because certainly we recognize—you know, one of our initiatives is to create something we call the Liberty Corridor under the National Corridor Program. And it is using transportation dollars, Mr. Chairman, in a way that would leverage far beyond. It is to create a corridor in the country—it is already underway—that goes from idea to marketplace and does everything in between. So you do research and development, design, manufacture, export promotion, and the export through a world-class seaport and airport and, therefore, bring all of the synergies using transportation dollars as the nexus to create the corridor. But looking beyond, how else do you create a multiplier factor to add to the economic benefit?

And so I think when we look at this whole nature of infrastructure, I think there are many ways to consider the multiplier factor here and to promote it as part of the equation as to how we value these things. And we certainly look forward to working with many of you on that opportunity as well as with the Chairman.

Chairman DODD. That is a great point, and that is exactly what we are trying to do here as well. There is an ad on television—and I am going to presume it is accurate because all ads on television are accurate, as we know. But the one that suggests that—it is one of the train cargo companies that points out that they can carry one ton of cargo 430 miles for the cost of one gallon of gasoline. It puts a very—and I have checked with some people, and they tell me that is a fairly accurate statement. But just that idea that one ton of cargo traveling 430 miles at the cost of one gallon of gasoline exactly makes your point in the sense of the synergies here of looking at where the benefits, economic benefits, social benefits, environmental benefits, all of the issues that you want to be calculating when you think about these issues of alternative ideas that assist in delivering our goods and services and competing in a global marketplace.

Senator Hagel.

Senator HAGEL. Thank you, and to our witnesses, thank you again for your informed testimony. I want to make a general comment and then ask a question specifically focused on some of the testimony that you have given this morning as it relates to European and Asian nations as to how they are approaching their infrastructure and investing and forming effective public-private partnerships. But let me make this observation.

As I have listened to the five of you this morning, and I read your testimony this morning—the testimony was available—and as Senator Dodd and I and others have been involved with this over the last year and studying it, with the assistance of Felix and John Hamry and Warren Rudman and others, it has become clear to me that the larger context of what we are dealing with is going to have to be factored into how we approach these 21st century challenges requiring a 21st century frame of reference.

What I mean by that is that we are hostage here to a narrowness of channelized policies. That is what earmarks are. And the national interest somehow gets sidetracked because who is looking out for the national interest? Well, we are supposed to be, but it does not always work out that way.

All of these dynamics are woven into one fabric. Felix noted relationships with our European allies. You specifically noted NATO. Well, of course, it affects our investment. It affects our tax structures. And we cannot come at this just in an isolated frame of reference of this is infrastructure and everything else does not count or there is on peripheral vision here.

And I think that is the larger challenge that we have. Obviously, we have to focus on the things that Chris and I are trying to do in this bill, incentivize and break down these barriers, for example, as was noted by David a few minutes ago, States. Most States do not allow any kind of public-private partnership investment funding. There is an area. The relationships between States and the Federal Government, a myriad of studies that have to go into everything before we can do anything. We cannot site a nuclear power plant in this country, essentially, because we just keep getting it tied up in court, and it goes on and on. And I am not minimizing the seriousness of siting of a nuclear power plant that citizens have every right to challenge these things. But until we break through this narrowness and come at this in a much larger frame of reference, then what we are trying to attempt to do here is going to be trivialized and minimized.

Now, I know that is beyond the ability of this Committee to deal with that and all of you, but, nonetheless, to me at least, it is an important frame of reference to bring to this as we then start to work our way through how we have to proceed and harness the resources that are available. Certainly I think this country represents the most creative thinking of any nation maybe in the history of man over the last 200 years. It is a Nation of laws. It has the right structure. It has great wealth. It has got the biggest and, probably most importantly, the most flexible economy in the world. I would not trade our position in the world with any country, but I think we are losing sight here of how we harness that for the greater interest. Talk about schools. I mean, my goodness, we are undermining the very foundation of one of the reasons we are a great country—public education.

So I know you know these things, and so this leads me to this question, and I would start with Tracy's and Felix's answers, and anyone obviously who would like to join in on this and respond, I would appreciate it.

How has the U.K. made this work? How have some of these European nations made this work? The Chinese are different, I recognize that. That is a different system, and I am not advocating that system. But certainly with the free states of Europe, they have made something work here, and they are continuing to make it work. And where could those parallels be in what we are doing or should there be or how do they make it work? And what can we learn from that? We will start with you, Felix. Thank you.

Mr. ROHATYN. Well, Senator, I think—I wish I could answer that. That is a very, very difficult question. I think the structure of most of these countries is so different from ours—Germany, with a lender; the U.K., which operates quite differently; France, which is kind of frozen with their union-business relationship and the Government.

So what they have, I think, traded off in many ways is a rather freer economy in exchange for more security. So you have rather heavy social service systems and a social safety net that goes very far in exchange for a rather rigid relationship between business and labor, probably more rigid than anything we would think about.

But as I was thinking when you were talking about the big infrastructure projects that are coming up here and that are going to require big investments, that at that point maybe you do have to sit down with labor as well as business in order to strike some kind of understanding about the rules of the game and who are the winners, and hopefully without losers.

So, ultimately, that is what we did in New York City. We sat the unions down with the bankers at the table and the Governor and the mayor, and we negotiated sacrifice and benefit, and tried to kind of stabilize the two as much as possible.

I think maybe that is something we ought to look at at some point.

Senator HAGEL. Thank you.

Tracy.

Mr. WOLSTENCROFT. Senator Hagel, I think part of—there are several things that intersect here, one in the U.K. and then separately with respect to Asia. If you go back to the U.K., it was in the mid-1990s that they basically took a close look at how much they had been spending on infrastructure over the previous couple of decades. They realized they needed to spend more, and they did not have the capital to do it at the Federal level, if you will, at the public sector level. And so what they looked for are ways that they could, together with the private sector, combine forces. And at this point, there is the private finance initiative, or PFI, as they call it in the U.K., which document roughly 700 projects well over $100 billion that have been done in the intervening years, a lot of that with respect to schools and hospitals as well as transportation systems.

In part, they embraced the private sector because they saw it was an opportunity to get capital, and they did not have at that time the capital at their own Federal level equivalent or in the markets.

Second, it was an opportunity for them, if you will, to share business risk, both with respect to the operating of the asset on an ongoing basis, but also the startup of that project. And quite simply, the U.K. I think would say today that if they had not embraced this, the schools, some of the schools they have and hospitals they have, they just would not have been built because the business risk of building them at the time was, if you will, more comfortably borne in the private sector as well as the capital being sourced from that.

China is a different—as you referenced, totally different. You mentioned President Eisenhower in the beginning. I would argue that China is going through a period right now not that dissimilar to what we went through as a country post-World War II as they are building their infrastructure, whether that be roads, whether that be airports, in order to support a growing economy.

Senator HAGEL. Thank you.

David.

Mr. MONGAN. The environmental climate in the U.K. and France and other countries is very different than the environmental climate that we have in the United States. If we tried to build the interstate highway system today, we simply could not do it under our current climate or it would have taken, you know, a hundred years to do it.

I think we need to have the environmental community at the table also, along with business and Government, because we need to have their buy-in and we need to recognize that they have an important role in this process, and they should not be co-opted out of it.

Senator HAGEL. Thank you.

Ron.

Mr. BLACKWELL. No country is a model for any other country, but I believe that every country can learn something from the experience of every other country. The observation I would make is that those—China to Denmark, as different as they are from one another, they have two things in common to distinguish themselves from us, and that is important for this Committee. One of those is they have a national economic strategy, and the second ball is they have an investment strategy. And the two things are closely combined.

We have a school in Washington that believes that we cut taxes and hope for the best. We have another school that says we balance budgets and hope for the best. I would argue that looking at the competitive world that I see, neither one of those schools, or put them together, are going to get us down the road. To Mr. Menendez's point, we are consuming every ounce of family income in this country, on average. And we are borrowing it from our trading partners. How is that going to get us down the road? We have enormous advantages from where we stand, but we cannot stand still and expect the world to line up and allow us to borrow at the level that we are currently borrowing from the world. We have got to invest money. And if we are going to invest money, we are going to have to use many sources for that money, private and public. But you are going to have to use some public money from where we are right now.

But to get over the political hurdle, we are going to have to convince the American people that we are actually investing it, not simply spending it for a favorite project back home that we call investment, but something that can be certified in a credible way as contributing to our country's capacity to pull its weight in the world and exercise its role of economic leadership that only the United States can continue to play.

But I think it starts with a strategy beyond where we are now, and it centers on the need to invest the resources that we need to maintain the prosperity of our country.

Senator HAGEL. Thank you.

Janet, did you have anything?

Ms. KAVINOKY. You know, let me just mention, I think that my colleague here is absolutely right. When you look at the headlines from other countries that have come up, even from Mexico, for example, from India, from China, their national governments are making strong statements about the importance of infrastructure to their country, and they are following up those statements with real commitments of dollars.

We have been calling for in the transportation community and in the business community for years now a new vision for transportation, for example. But if you look over the last 30 years, there are a lot of really great vision statements that have been written, and they have been followed up by just hollow holes of no real action. So we do have to make a commitment in this country. We do have to say all of the funding and financing strategies are on the table. And I am proud to say that infrastructure is one of the places where the labor community and the business community work together. We sit down every month in the context of our coalition between the Chamber and three labor unions to talk about what we are doing on infrastructure, because we all know it is about the economy and it is about jobs. And that is one place where we can really come together.

Senator HAGEL. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Chuck, and that was a great question, and great answers to it as well. Before I turn to Bob Corker here, this is what—as someone who has been sitting here with Chuck and others for years here, we just do not deal with big ideas. It has been a lot of small bore politics for so long, and this is an idea that is not new. It has been kicking around forever. And the difference is with Felix and John and others over the last couple of years, pulling these ideas together, we have got an idea—it is not the only one. I should have made note at the outset of these comments, Ron Wyden and John Thune have a bill in on a bonding idea with transportation, which is not antithetical to this idea at all. In fact, it complements what we are talking about here, and I want to commend them for it. This is not the only idea, but it is one way to galvanize, I think, attention.

Chuck said something yesterday in a meeting we had with Ed Rendell and representatives of Mayor Bloomberg and Governor Schwarzenegger, and that was that what we are trying to do here is create a structure—I ought to let Chuck articulate this, but we are not going to try and micromanage this thing, but we want to put in place a structure here that would allow us to then begin to deal with this. And whether you are talking about $60 billion or $20 billion or $80 billion, we mention those numbers because of what we think we can generate, really put out an idea. The more important part of what we are talking about is creating a structure that would allow us to begin to deal with this issue on a national basis here with the full recognition that we are not going to do this through the appropriations process. Just forget about it. It is stupid to keep talking about it in that sense here. This is going to require private capital to come in. There is great wealth out there that we need to attract to bring into this system. And how do you do it in a way that allows us to prioritize what these projects ought to be, that are national in scope, that deal exactly with the underlying economic problems we face?

So the strategies in economic policies really need to be at the forefront. This creates at least an architecture by which you can deal with that. And that is the value of this idea more than anything else. And every day we wait on creating an architecture for this delays our ability to deal with these questions. So this is creating an architecture more than anything else, and I do not know if I am reflecting your views correctly enough, Chuck, but I thought it was a very good point you made. More than anything else, that is what we are interested in. We are not going to debate and argue about dollars here. Too often we get into that argument, and then we miss the larger picture, and that is, building the structures that will then allow us to be able to do this, so whatever level we determine we are capable of doing at any given moment.

Senator CORKER. Mr. Chairman, I thank you, and I think the two of you have actually done a great service bringing this forward. It is a privilege to be a Member of this Committee, especially post-Iowa. I want to tell you, we have had some awesome topics to discuss here over the last several months, and I really do appreciate the focus of this hearing and the ones we have had in the past.

Because of the batting order in this Committee, I have a chance to sort of hear most all the questions and many of the comments that are made by our panelists before I ever say anything. And I want to say to all of you, I think you have made excellent testimony, intelligent testimony. I know that some of your comments have been laced with little political comments that I think have been helpful, too. I know the comment about the earmarks is a good one. I can tell you as a new Member of the Senate, what we do with earmarks is tremendously irresponsible. There is no way that we can have any kind of continuum of infrastructure investment that makes sense as long as we do that. And I certainly hope that somehow or another we will have the will within this body to stop that as soon as possible or cause it to be coherent, which it absolutely is not.

I know the Chairman mentioned the stimulus package, and I will not pile on any more about that. I am sure that there is a lot of infrastructure that could have been built with what we discussed earlier.

I do want to mention one comment before I move to this bill. Ron, you made a great testimony. I know you mentioned the Freedom of Choice Act. I was not sure how that played into infrastructure exactly, but since you did bring up sort of a non sequitur, I did want to say that I was down in Colombia a couple weekends ago meeting with the President down there, who has done an outstanding job. I was hoping John Sweeney would be here, although I thought your testimony was outstanding. I do hope that somehow or another you all will quit leveraging the House on the Colombia Free Trade Agreement. I know that you mentioned the fact that we have a trade imbalance. This is an opportunity for us to manufacture and ship goods into our country tariff-free, and it is an embarrassment to our country that that bill is being held hostage. And I know that you all are planning a big roll on that, and I hope that somehow or another we will solve that problem. It is a tragedy to have such a great ally in Colombia and for us to be acting the way we are. So, please, with a smile on my face—I was a union card-carrying member when I started my career and have tremendous regard for your organization.

But on to the bill, I know that the Chairman mentioned that this is an architecture bill, and I would like to understand the merits of this actual arrangement. Is it because it is off balance sheet? Is it because of some of the procedures that Chuck Hagel just mentioned that keep us from being able to move ahead as quickly as possible? Is it because of the planning that would cause a bill like this to—I am talking about this specific bill. We all agree, and I think it is wonderful that labor and business and Government is coming together on this infrastructure piece. It is something that is important. But the bill itself, what is it about this particular bill that we think would actually increase investment? And if one of you could actually walk through a deal, take a billion dollar investment and sort of walk through the mechanics of how it works. Much of these hearings is about informing us, but it is also about informing the public. And if you could walk through an example, I think that would be outstanding.

Mr. WOLSTENCROFT. I will try to answer your question. The first overall comment with regard to your comments, Mr. Chairman, on the bill and infrastructure in general is that the way we would react to it, the way I would react to it, is that you are taking something where we have been playing defense and now saying let's have an offensive strategy here with respect to the investment in infrastructure for all the reasons that have been characterized this morning.

To us, one of the great aspects of this bill was it says there are multiple pools of capital out there that need to be relied on, and to take your question, I will go back to what I referenced at one point with respect to Denver RTD, which started off with a $4.8 billion estimated cost of financing for what is a 120-mile rail network for the broader Denver area, you know, up to Boulder and all the surrounding areas, both light rail as well as heavy rail. And when they went to the people of the Denver community, they said it is going to cost $4.8 billion, this is what we need from you. By the time they could actually start to build the network, that cost, for reasons related to inflation, as Ron and others have commented on, is now in excess of $6 billion.

So the first question is: Where do we get the money? And if they did not have multiple places to actually get that money from their constituents directly, from the State, from the Federal Government in the form of grants coming out of the Department of Transportation, and from the private sector, they would not be able to be moving forward as they are right now with respect to that project. And the nature of infrastructure investing almost by definition is a large number—I mentioned the Capital Beltway earlier, a $2.5 billion project—and there is a role the Government can play, and this bill contemplates this, which is not only to give capital but to promote innovation with respect to the stated infrastructure project, whether that be related to congestion pricing or that be to environmental. There is nothing wrong—you could argue that good infrastructure policy is good environmental policy for the reasons that we described this morning, and this bill is one component of—provides one component of where capital could come from inside the Federal Government. But I think it purposely says it is not the only place that is needed.

Senator CORKER. Go ahead, Ron.

Mr. BLACKWELL. I would just like to comment on what is attractive about this bill. from our point of view especially, is not only that it allows access to resources that would not otherwise be appropriate, but it does provide a single point of view from which all potential investment needs and projects can be evaluated across function and at different geographical levels and make decisions about it and hopefully have monitoring capability to follow these projects through to make sure they are adding the value we need, because I think that is essential to—these are big expensive items. We have to make sure that we get the biggest bang for the buck. We do not want to tax anybody any more than we have to. We do not want to tax anybody any less than we have to. But we have to make sure that if we spend the money that we are getting something out of it. And I think right now this structure does not exist in the Federal Government. There is no such perspective.

While I am making this kind of comment, I would strongly associate myself with the initial point which Mr. Rohatyn mentioned, which is that we have to have a capital account in the Federal budget. You could not run a business without a capital account. You could not run a union without a capital account. But we are trying to run the Federal Government without a capital account, and I just don't understand how we, you know, get down the road. But it seems to me this is—what is so exciting about this project is it establishes some point of view and a framework for thinking about these big expenditures which our country has to make, and if it is done right, it will give the credibility that the Government now does not have when it says that we need to spend X amount of dollars. And hard-pressed working families are saying, "I do not trust the Government to do that." This would be an instrument that would guide Government policy and give the American people and the American voters some confidence that the Government is trying to do the right thing.

Senator CORKER. Would one of you just walk through—take a $1 billion investment in a bridge, and explain to me how a deal—I know it is going to—each deal is going to have different components, but how would it actually work? At the end of the day, somebody has got to pay the investment back, and it is not unlike, it seems to me, funding a project with, you know, Treasury debt that, you know, somebody from China is funding anyways. But explain to me how a deal—how it additionally leverages money and causes the project to move along economically and in a better fashion? Maybe Ron or the Ambassador—not Ron, but Tracy or the Ambassador might be best at doing that.

Mr. WOLSTENCROFT. Well, there are two important aspects to the actual financing of, let's say, a $1 billion—whether it be a bridge or road, which is, first of all, what are the—what is the revenue stream coming off that infrastructure asset? And is it robust enough to allow for capital to be invested in that project knowing that they will earn some return or a return, whether that be capital in the form of a public-private partnership or that be capital in the form of Federal or State or other money?

But at the end of the day, that capital has to get paid back, and if that project, if that asset does not have an underlying revenue stream, an underlying cash-flow——

Senator CORKER. Through tolls or——

Mr. WOLSTENCROFT. Tolls, so there would be, I think, an easy conceptual mechanism.

Senator CORKER. What would be another mechanism to generate the revenue to pay Goldman back if he invested $200 million into a $1 billion bridge project?

Mr. WOLSTENCROFT. Well, tolls would certainly represent the most easily identifiable stream with respect to infrastructure assets as we are seeing this, for example, in the Pennsylvania Turnpike where a public-private partnership is being contemplated. It is certainly being seen with respect to what New Jersey is going through with the whole concept of a public benefit corp, which will, in effect, own the New Jersey public road system, the New Jersey Turnpike and the Garden State. And as you can see, as Senator Menendez references, there is quite a debate going on with respect to what will that revenue stream look like, what will that toll look like, and how will citizens become comfortable with it.

But the whole—one important takeaway is the whole investment interest in infrastructure assets is in part derived from a notion that that revenue stream will move as inflation does. And, therefore, an investor in that infrastructure asset will be inflation protected, if you will, with respect to the return. And that is in part why you see private equity expressing an interest or you see pension funds who are in some ways investing in private equity or by themselves interested in these assets.

Senator CORKER. What is——

Senator HAGEL. May I add one thing, Mr. Chairman? In answer to your question, tax credit bonds are also one of the mechanisms and incentives that would be used here, too, and this gets into, of course, Felix and Tracy's business. But many of these large financiers and investment institutions could use some flexibility in these tax credit bonds to apply where they have large debt obligations and so on, which gets into pretty high level finance, and that would be one of the options here as to why—to answer your question, why would something like this be attractive to a large investment firm. And you two may want to pick up on that in any way you would like, or leave it as it is. But that is an important part of the flexibility of what we would be talking about here, too.

Senator CORKER. Which that would be created by additional legislation to create some flexibility there, or is there——

Senator HAGEL. Well, it is in the bill. It is in the bill itself that gives this bank, this infrastructure bank—of course, it is backed—it is essentially similar to a GSE, guaranteed by the U.S. Government. We are not changing hands here. We would put together the bank under the leadership of five directors. We would put together the financing package, the structure of that package and the incentives that the investment or the investors would receive. But it is all laid out in the bill itself, Bob, and we would be glad to sit down with you and go over it.

Senator CORKER. So the bank would actually have the ability to, if you will, award Federal tax revenues that otherwise would be generated by not having tax credit bonds to cause this to work. And I am sure there would be some ceiling and floor on their ability to do that.

Senator HAGEL. It gives the bank the flexibility to make decisions within a framework and a context of what it is legally able to do and what it can operate within, what framework it can operate within to make those kinds of arrangements. And there is a long list of flexible deals, so there is not one rigid formula that is used to attract that investment.

Chairman DODD. Although we cap it at $60 billion.

Senator HAGEL. Yes, the overall cap. But these are numbers, too, as the Chairman would note, when we first put it together, this is just a bill right now. The testimony, I suspect, this morning that we heard may well alter some of this, too. I mean, if people come back, colleagues, with suggestions——

Chairman DODD. We ought to raise that $60 billion. You know, the $60 billion is the point at which you begin to leverage on outside capital. The value of that number relates to what does it leverage.

Senator HAGEL. Well, Felix addressed that, too. And, by the way, as you know, the Chairman of the Financial Services Committee in the House, Mr. Frank, is a cosponsor of this bill. So he is going to have some input on this, and I would hope that he will have some hearings soon as well. But this is just like any bill, Bob, in its initial pages and frameworks and——

Chairman DODD. It is $100 billion less than the stimulus package.

Senator CORKER. Well, you know, I am not going to have any more fun with you on that. I think we——

[Laughter.]

But I appreciate your continuing to bring it up because it——

Mr. WOLSTENCROFT. Senator Corker, I think there is—just to answer your question from a different dimension, there is also what is called availability-based payments, which is another way—apart from tolling, which is also used. The Port of Miami tunnel would be an example of this, where the Port of Miami, not that dissimilar to what Southern California did with an asset called the Alameda Corridor years ago, said how do we get traffic out of the ports into the country quicker, or how do we get it so that it is not going through the city of Los Angeles or how do we get it so it is not going through the city of Miami. In this particular case, Miami said, Where are we going to get the money to do this? And, importantly, where are we going to get someone who is prepared to take the risk to build this tunnel. In this particular case, they were able to find a French construction firm, Bouygues, who was prepared to do it, together with capital coming from Babcock & Brown, to say we will deliver this tunnel to you, and if we deliver it to you on the dimensions that we and you agree to—i.e., the public and private partnership—then the payment that we will ask from you is X. And so that is a case where the city or the State—it is really no typical infrastructure deal—would say we will pay you X, that is worth it to us, that is a good deal. And I think that raises another aspect of these infrastructure transactions. Clearly, the public-private—Felix referenced—no one is taking these hard assets away from us. They are investing in them. But an important asset that goes into the—in terms of what you get from the private sector is not only capital, but you are allowed to engage into a contract, and that contract can be a tremendous value in terms of laying out for you, well, what is going to happen to that asset over time, what will be the investment, what will be the capital expenditure that is ongoing. The Indiana Toll Road would be a perfect example of that where the initial proceeds were just under $4 billion, but the capital that is prepared to invest by the private sector in that road over time is hundreds of millions of dollars. And when that public-private partnership is entered into, you know that as part of the deal.

So part of this is making sure that both sides, but certainly the public sector gets a good deal.

Senator CORKER. Go ahead, Ron.

Mr. BLACKWELL. Just in this way, Tracy earlier mentioned a difference between the social return and the economic return. I am not sure exactly what he meant, but I would say that you need to think about the private return versus the public return when you think about public-private partnerships, because it seems to me that might be one of the factors that affects what is appropriate for the private partnerships. For example, the most successful public investment that I know of is the GI Bill, and the GI Bill educated these young men and women coming back from the Second World War. They were enormously more productive because of that. They earned enormously more income as a result of that. And they paid a tax return that was a very handsome return, as big as any I know, from that program.

That was not a private opportunity. That was just a pure public return. But it came back through the increased economic output of those people, and it even came back and accrued to the Government, which basically financed that deal through public channels.

It may well be the case when you are looking at large projects that some are appropriate for private finance, and others that are very important for the Nation may be suitable only for public finance.

Senator CORKER. Mr. Chairman, I know we are pressing up against everybody's lunch schedule. If I could ask just one more brief——

Chairman DODD. Certainly.

Senator CORKER. On the issue of inflation and the fact that the private sector investment over time has great benefit to the private sector investor because of the inflation aspect down the road, who generally sets the terms? In other words, if you invested X in a toll road, you know, you are one-off. I mean, it is just an investment that you have made. Who typically makes the decisions about the tolls increasing, if you will, and, therefore, your percentage of the take, if you will, increasing? How is that normally set up?

Mr. WOLSTENCROFT. Well, there are a number of constituencies that are part of that. Certainly inside the very States where that infrastructure asset is either going to be built or exists and now there is need for investment in that infrastructure, toll roads being a perfect example, New Jersey is right in the middle of this, where, if you will, that amount of toll increase is right now being debated as Governor Corzine goes from one town to another explaining why toll increases are necessary, and very specifically how the revenue stream that will result from that can be capitalized in a way that that money can then be used to invest in infrastructure for New Jersey, either transportation or otherwise. But it is set by the people, if you will, and then there is the private sector who ultimately decides is that a rate of increase, inflation or otherwise, that they can be comfortable with.

Senator CORKER. Mr. Chairman, thank you again. You all have made excellent testimony. This hearing could not be more timely, and I thank you for bringing it forward.

Chairman DODD. Well, thanks very, very much, and let me underscore the point about capital budgeting. I remember 20 years ago testifying before the House committees on a capital budget, and we talk about this every Congress or two, and nothing much happens. But I want to associate myself with the remarks of colleagues and others who have suggested that this is insane that we have gone as long as we have without a capital budget in this country and the problems associated with that.

Let me also mention on the earmark issue, I know the word has become a pejorative, but it is important to understand what it is. It is a reflection of exactly the absence of what we should be doing and what this bill tries to do. Most of the members that we serve with are not corrupt individuals trying to steal Federal money. I mean, what you are getting is a primal scream in many communities about infrastructure needs. And so whether it is building a hospital or a school or a road that needs help or whatever, these are not bad ideas, necessarily. And the fact that the system is so collapsed here that we do not have a process whereby we authorize and appropriate that comes forward, but deal with these monolithic, huge continuing resolutions and the like, that things get thrown on them. It is a failure of the system to actually deal with this intelligently in many ways.

That is not to say there are not wasteful programs that end up in earmarks, but an awful lot of them are decent ideas coming from local communities with legitimate needs that they have out there, and our system has collapsed to such a degree that we do not deal with it. And so you end up with people who are in a position, people who sit on the Appropriations Committee, to have an upper hand when it comes to getting those things included. So we are not making intelligent decisions about prioritizing where the needs ought to be. It ended up going—if you happen to sit in the right position, you get it, but I think it is important to keep that in mind. Why has this happened? Earmarks, where did they come from and what has occurred around here that has caused this explosion of this particular phenomenon that is occurring. And I think it is important to step back and understand that as well.

And, last, I want to just raise something again. Chuck brought this up a bit, I think, in some of your responses, and we do not include this in our legislation. But the issue of how we fast-track—we are talking about national and regional infrastructure needs, and obviously a lot of what we are talking about here has huge social implications. I was just looking at some numbers here. A third of all flights as a result of infrastructure needs were canceled or delayed last July because of infrastructure, human, air traffic control, lack of people on the ground. Thirty-five hundred of our dams are unsafe in the country—3,500 we are told. Traffic on our roads has gone up 40 percent in the last 7 or 8 years, and our capacity has only increased by less than 2 percent. So you are having a massive demand, and we are not keeping pace with it all.

I do not know if any of you have been on Route 95 in Connecticut, but if you are coming out of New York heading up to Boston on a Friday, or almost any day, it is a traffic jam, and you are sitting there. You can sit there literally for hours. And you talk about fuel loss, environmental impact, hours lost of work, all of the social implications as a result of a system that has just become totally incapable of dealing with the capacity that has increased it all.

So aside from the cost of having alternative systems that move people and what price you pay for that, the social benefits to our country, or whatever word you want, social benefits, cultural benefits, other environmental benefits, all I think can be at least ameliorated by dealing with these issues as well, which are critically important. But how we deal with the regulatory process in a way that would allow for things to move forward—and that is not to exclude people from the table. But you are going to have a problem getting that private investment if, in fact, it looks as though it is impossible to come to conclusions or that things can be so stopped or slowed to such a degree that it does not get done.

So we need to be thinking as well about how you deal with these issues in a way that will allow these large regional or national projects to go forward, considering the legitimate issues that we ought to weigh, but not becoming such an encumbrance that it makes it impossible for these to go forward. And that is an element here that we really have not tried to incorporate in this bill, but one that is going to have to be a part of our consideration as you go forward.

The last point I wanted to make, I do not know how many of you have ever read David McCullough's biography of Harry Truman, but one of the great chapters in that book is that period in Truman's life—I forget what the title was in Missouri, Road Commissioner or Secretary of Transportation, whatever it was. But he went out, and they were literally dealing with just thousands of miles of dirt roads. And he went out and literally went town to town, not unlike what Jon Corzine is doing—a former Member of this Committee, I might point out—in New Jersey. But he went out, and if people know where their dollars are going, the big problem you have, I think, with taxpayers, they see their taxes being raised, and where does it go? What am I getting for this? And I think if we are—in this area here, if people can see the correlation between whatever that fee may be or toll may be, then actually how their lives are improved dramatically, economic opportunities increase, jobs are produced, the country benefits. People are not stupid. You show that correlation and it is real enough to them, as Truman proved back with a very resistant constituency, obviously, to any increase in their taxes, but was able to demonstrate the economic benefit to that State because he went out and sold the idea and it worked. In a sense, that becomes the job of those of us who sit on this side of a dais as well.

The easy answer is to demagogue on these issues and only talk about the one-dimensional aspect here without talking about the multi-dimensional aspects of what our country can do for our citizenry in this generation by improving the infrastructure needs of our Nation. And that is really what Chuck and I are trying to achieve here, by creating that structure and that architecture that allows us then to begin to answer these questions without relying on an earmark system that is going to be the alternative in the absence of a national agenda that identifies this problem and provides the means by which we can solve it.

So any concluding comments any of you want to make here, by the way, on this, our panel?

[No response.]

Chairman DODD. Well, you have been great. Great witnesses. Felix, we thank you. You have been a champion of this idea. John Hamry behind you, sitting here, deserves special recognition as well for dedicating the CSIS resources to this.

Mr. ROHATYN. What about you, Mr. Chairman, and Senator Hagel, who have been carrying the ball on this?

Chairman DODD. Well, we are plugging away here, and I am going to sign up Bob Corker. He is going to be a major supporter of this bill, I just know it. I can feel it coming.

Senator CORKER. I love the idea of it. The capital budgeting, the planning, every aspect of it I really do like, and I hope that actually as part of this bill we will have a moratorium on earmarks so we can actually move ahead in an intelligent manner. But I appreciate your comments.

Thank you.

Chairman DODD. This Committee will stand adjourned.

[Whereupon, at 12:23 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

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Testimony Of

The American Society Of Civil Engineers

Before The

Committee On Banking, Housing, And Urban Affairs

United States Senate

On the

Condition of Our Nation's Infrastructure and Proposals for Needed Improvements

March 11, 2008

Mr. Chairman and Members of the Committee:

Good morning. I am David G. Mongan. I am the 2007-2008 President of the American Society of Civil Engineers (ASCE), and I am pleased to appear before you today to testify for ASCE on the condition of the nation's infrastructure and proposals for needed improvements.

The Problem of Failing Infrastructure

As you know, ASCE concluded in our 2005 Report Card for America's Infrastructure that the nation's infrastructure deserved an overall grade of "D."

We said then that America's aging and overburdened infrastructure threatens the economy and quality of life in every state, city, and town in the nation.
In addition, we estimated that it would take an investment of $1.6 trillion by 2010 to bring the nation's existing infrastructure into good working order.

Nothing approaching that level of investment has been made. Indeed, little has changed in the three years since we handed out that dismal grade, and establishing a long-term plan to finance the development and maintenance of our infrastructure remains a pressing national priority.

This nation continues to under invest in infrastructure at the national level. The total of all federal spending for infrastructure as a share of all federal spending has steadily declined over the last 30 years, according to the Congressional Budget Office (CBO).[1]

The problem is not unique to the United States.

In the United Kingdom, Her Majesty's government has concluded that it needs to make greater investment in infrastructure. "The Government is committed to reversing the legacy of under-investment in the nation's infrastructure. Major increases in capital investment in recent years have delivered continued improvements in health, education, transport and housing. This investment is set to continue, with public sector net investment set to be to 2¼ [percent] of [gross domestic product] from 2007 onwards—almost four times the level in 1997."[2]

In the European Community, the share of investment in transportation infrastructure alone decreased from 1.5 percent of GDP in the 1970s to 0.9 percent in the 1980s; and investment in ports and inland waterways has fallen to less than half its 1975 volume.

Japan has seen government fixed investment as a percent age of GDP decline, from almost 11 percent in the late 1970s to below seven percent at the start of the 1990s, according to a report by the Organization for Economic Cooperation and Development

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[1] Cong. Budget Office, *Trends in Public Spending on Infrastructure* (February 2008).
[2] HM Treasury, Public Spending and Reporting, at http://www.hm-treasury.gov.uk/documents/public_spending_reporting/psr_index.cfm (accessed Mar. 7, 2008).

(OECD) in 2007. The Japanese levels, however, are still well above the U.S. investment program.

In February, the French Senate recommended that the French government invest an additional €2 billion ($3.06 billion) annually starting in 2009 in transportation infrastructure. The report, "Transportation Infrastructure: Putting France on the Right Track," concluded that under investment in transportation infrastructure threatens the modernization of the French economy. "The French transportation system ... [is] in peril if a strong political consensus is not quickly reached to save the investments in the transportation infrastructure."[3]

At home, the problem remains a daunting one. We need cite only a few of the more pressing infrastructure investment needs.

Surface Transportation System

In 2005, we concluded that total spending on America's roads and highways should be about $94 billion each year to improve transportation infrastructure conditions nationally. The federal investment in 2006 totaled approximately $34 billion, barely a third of the investment needed.

The Congressional Budget Office (CBO) recently estimated that America's investment in surface transportation infrastructure by all levels of government in 2004 was $191 billion (in 2006 dollars), or 1.5 percent of gross domestic product (GDP).

[3] Commission des Affaires Économiques, *Infrastructures de transport: remettre la France sur la bonne voie* (2008), *at* http://www.senat.fr/rapcomdir/crecon.html (accessed Mar. 7, 2008).

The federal government provided about one-quarter of those funds, and states and localities provided the rest. Those funds were split about equally between spending for capital projects and operation and maintenance. Most of that spending was for roads. In comparison, the Chinese government invested an estimated 2.5 percent of GDP in highway construction in 2001, according to the American Road and Transportation Builders Association.

In 2007, the Department of Transportation reported that the cost to maintain the nation's highways would require an annual investment of $78.8 billion in 2004 dollars by all levels of government.

Even at this level, however, congestion would worsen, according to the report, because it would finance too little new highway capacity. The U.S. DOT report calculates an annual investment of $89.7 billion in 2004 dollars would be required to achieve this policy goal. Most of the additional $11 billion investment each year would be for new capacity.

The DOT report, however, may understate the need. The American Road and Transportation Builders Association believes that federal highway funding in the next surface transportation bill would have to start at $54.5 billion in FY 2010 and grow to $61.5 billion by FY 2015 to provide the federal share of the annual highway investment needed to maintain both physical conditions and operating performance.

Wastewater and Drinking-Water Systems

In January, the Environmental Protection Agency (EPA) reported that we must invest at least $202.5 billion just to prevent combined sewer overflows and sanitary sewer overflows at the nation's 16,000 publicly owned wastewater treatment works.

But in 2002, the EPA estimated that the projected gap in what is spent on sewage treatment systems and what is needed was between $331 billion and $450 billion by 2019. The investment "gap" for drinking-water systems was equally stark: $102 billion over 20 years.

Waterways Infrastructure

The Corps of Engineers operates and maintains 240 locks at 195 locations along 12,000 miles of inland waterways. The average lock on these waterways is 53 years old—past the 50-year service life.

It costs about $600 million to replace a lock. If we were to replace just half of the 240 locks that are known to be beyond their design life, we would need to spend $72 billion. Simply to rehabilitate the other half of the system would cost another $30 billion.

That's more than $100 billion just to bring our antiquated waterways into the 21st century.

At the annual rate of spending of $180 million in the administration's budget proposal for FY 2009, it would take the Corps 20 years simply to fund all the inland waterways projects authorized in WRDA 2007.

Solutions to the Problem

The National Infrastructure Bank Act of 2007 (S. 1926) would begin to address a problem that is rapidly approaching crisis levels—the physical deterioration of the nation's major public works systems.

Briefly, the legislation would establish a National Infrastructure Bank. The Bank would be an independent body designed to evaluate and finance "capacity-building" infrastructure projects of substantial regional and national significance.

Eligible infrastructure projects would be limited to publicly owned mass transit systems, public housing, roads, bridges, drinking-water systems, and sewage-treatment systems.

Sponsors— states, cities, counties, tribes, or an infrastructure agency such as a transit or wastewater treatment agency, or a consortium of these entities—would propose infrastructure projects. To be eligible, the projects would need a minimum federal investment of $75 million.

The National Infrastructure Bank would evaluate and finance "capacity-building" infrastructure projects of substantial regional and national significance, the bill would prime the pump to begin meeting the staggering investment needs for our infrastructure.

We believe the National Infrastructure Bank Act of 2007 is essential to beginning the long-term effort to maintain or replace economically vital infrastructure systems across the nation. This nation cannot afford to wait much longer to invest significant sums in its infrastructure, and this bill will help to lead the way.

Other Financing Options

ASCE supports the establishment of a federal multiyear capital budget for public works infrastructure construction and rehabilitation. This budget would be similar to those used by state and local governments. The capital budget must be separated from non-capital federal expenditures. The current budgeting process at the federal government level has a short-term, one- to two-year, focus. Infrastructure, by its very nature, is a long-term investment.

The current federal budget process does not differentiate between expenditures for current consumption and long-term assets. This causes major inefficiencies in the planning, design and construction process for long-term investments. A federal capital budget could create a mechanism to help reduce the constant conflict between short-term and long-term needs. It also would help increase public awareness of the problems and needs facing this country's physical infrastructure.

Without long-term financial assurance, the ability of the federal, state, and local governments to do effective infrastructure investment planning is constrained severely. In addition, we support:

- User fees (such as a motor fuel sales tax) indexed to the Consumer Price Index.
- Appropriations from general treasury funds, issuance of revenue bonds, and tax-exempt financing at state and local levels.
- Trust funds or alternative reliable funding sources established at the local, state and regional levels, including use of sales tax, impact fees, vehicle registration fees, toll revenues, and mileage based user fees be developed to

augment allocations from federal trust funds, general treasuries funds and bonds.

- Public-private partnerships, state infrastructure banks, bonding and other innovative financing mechanisms as appropriate for the leveraging of available transportation program dollars, but not in excess of, or as a means to supplant user fee increases.
- The use of budgetary firewalls to eliminate the diversion of user revenues for non-infrastructure purposes.

Public-Private Partnerships

In closing, we need to say a few words about the use of public-private partnerships in providing financial assistance to U.S. infrastructure.

Public–private partnerships (PPPs) are contractual relationships between public and private sectors in infrastructure development. They have been defined as "a cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards."

PPPs have been practiced worldwide in both developed and developing countries with multiple objectives including promoting infrastructure development, reducing costs, increasing construction and operation efficiencies, and improving service quality by incorporating private sector knowledge, expertise, and capital.[4]

[4] Xueqing Zhang, M.ASCE, Factor Analysis of Public Clients' Best-Value Objective in Public–Privately Partnered Infrastructure Projects, 132 ASCE J. CONSTR. ENG'G & MGMT 956 (2006).

These PPPs span a spectrum of contractual models from straight contracting out to outright privatization, with increasing responsibilities and risks allocated to the private sector. However, no matter which PPP model is used, the regulatory control remains the responsibility of the public sector, which determines the kind of public works and services to be acquired and the quality and cost requirements on the delivery of such works and services, and takes necessary remedial actions for substandard performance.[5]

Our research has discovered a wide range of barriers to public–private partnerships in infrastructure development. These are broadly classified as to (1) social, political,.and legal risk; (2) unfavorable economic and commercial conditions; (3) inefficient public procurement framework; (4) lack of mature financial engineering techniques; (5) problems related to the public sector; and (6) problems related to the private sector.[6]

As a matter of policy, ASCE has concluded that:

- Any public revenue derived from PPPs must be dedicated exclusively to comparable infrastructure facilities in the state or locality where the project is based.
- PPP contracts must include performance criteria that address long-term viability, life cycle costs and residual value.
- Transparency must be a key element in all aspects of contract development, including all terms and conditions in the contract. There should be public

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[5] Id.

[6] Zhang, Paving the Way for Public–Private Partnerships in Infrastructure Development, 131 ASCE J. CONSTR. ENG'G & MGMT 71 (2005).

participation and compliance with all applicable planning and design standards, and environmental requirements.

And, although these partnerships are increasingly popular at the state level and are believed to offer some help for financially strapped communities to provide basic infrastructure, that help can come at a price to the public.[7]

The Government Accountability Office (GAO) cautioned in February that these partnerships may be useful in boosting highway investments but that they are not a panacea.

> Highway public-private partnerships have resulted in advantages for state and local governments, such as obtaining new facilities and value from existing facilities without using public funding. The public can potentially obtain other benefits, such as sharing risks with the private sector, more efficient operations and management of facilities, and, through the use of tolling, increased mobility and more cost effective investment decisions. There are also potential costs and trade-offs—there is no "free" money in public-private partnerships and it is likely that tolls on a privately operated highway will increase to a greater extent than they would on a publicly operated toll road. There is also the risk of tolls being set that exceed the costs of the facility, including a reasonable rate of return, should a private concessionaire gain market power because of the lack of viable travel alternatives. Highway public-private partnerships are also potentially more costly to the public than traditional procurement methods and the public sector gives up a measure of control, such as the ability to influence toll rates.[8]

In the field of water infrastructure, for example, New Jersey American Water, a wholly owned subsidiary of American Water, a private, for-profit corporation, operates investor-owned drinking-water systems that supply water to more than 2.6 million people in New Jersey.

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[7] A recent survey found that 36 states have some type of legislation specifically authorizing public-private partnerships for infrastructure projects. Virtually all of the laws address the use of PPPs on transportation projects (highways, toll roads, and bridges). A few states also authorize PPPs for other infrastructure, including wastewater treatment plants, ports, airports, prisons, schools, sports stadiums, and others. *See* Michael E. Pikiel Jr. and Lillian Plata, *A Survey of PPP Legislation across the United States in* GLOBAL INFRASTRUCTURE (2008).

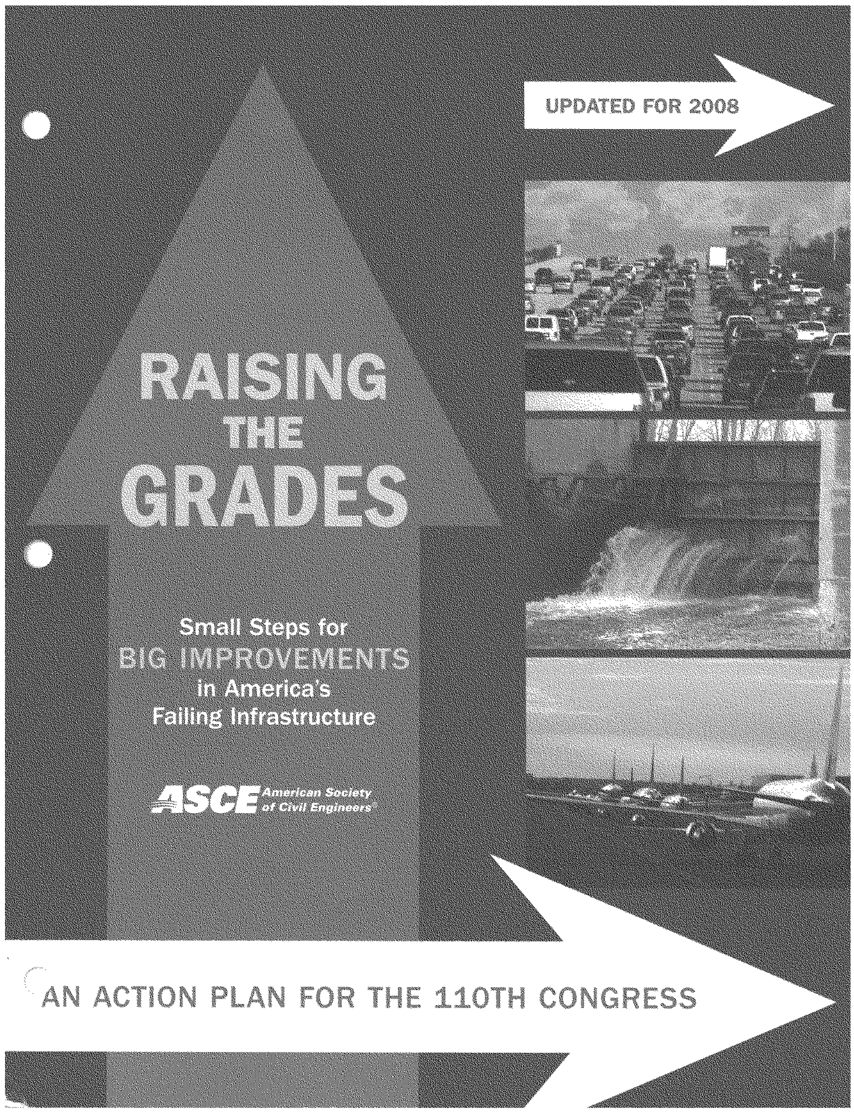
[8] Government Accountability Office, *Highway Public-Private Partnerships: More Rigorous Up-front Analysis Could Better Secure Potential Benefits and protect the Public Interest* (February 2008).

In January, New Jersey American announced that it is seeking an increase in water rates to raise an estimated $350 million to pay for the cost of replacing outdated infrastructure. The proposed rate escalation will increase the cost of water for the average residential customer consuming 21,000 gallons quarterly from $106.20 to $145.71—about 37 percent.

"Replacing aging infrastructure and improving our supply capacity and water production facilities to meet increasing demand are the main drivers of this necessary rate increase," said the company's press release.

Thank you, Mr. Chairman, that concludes my testimony. I would be pleased to answer the Committee's questions.

# # #


UPDATED FOR 2008
RAISING
THE
GRADES
Small Steps for
BIG IMPROVEMENTS
in America's
Failing Infrastructure
ASCE American Society of Civil Engineers
AN ACTION PLAN FOR THE 110TH CONGRESS

RAISING THE GRADES

THE ISSUE

With each passing day, aging infrastructure threatens America's economy and our quality of life. ASCE's most recent *Report Card for America's Infrastructure* gave our critical foundations an overall grade of D. Establishing a comprehensive, long-term infrastructure development and maintenance plan must become a priority for leaders at the federal, state and local levels. In the short term, small steps can be taken by the 110th Congress to begin improving our nation's failing infrastructure.

THE COST

Most recently, ASCE estimated that the U.S. needs to invest **$1.6 trillion** in federal, state and local funds over a five-year period to bring the nation's infrastructure to a good condition—one that meets the needs of our current population. It is not all new money. Much of it is already allocated in existing budgets. However, existing funds have been repeatedly raided to pay for other programs. We estimate that approximately one-third of the total current investment needed will be new funding. It is also important to remember that the $1.6 trillion does not account for future population growth.

THE ACTION PLAN

Over the last year, Congress has worked to achieve the goals set by the Infrastructure Action Plan.

Among the completed successes:

- SAFETEA-LU funding guarantees,
- Small Watershed Dam funding and
- the Water Resources Development Act.

Still in process:

- the National Infrastructure Improvement Act,
- FAA Reauthorization
- the Dam Rehabilitation and Repair Act and
- the Water Quality Financing Act.

These successes are admirable and represent significant improvements to our nation's infrastructure, but a great deal of work remains. Use this updated Infrastructure Action Plan as a status report and a checklist for this year's work.

National Infrastructure	**The House must enact the National Infrastructure Improvement Act to establish the National Commission on Infrastructure of the United States. Additionally, Congress must enact the National Infrastructure Bank Act to finance infrastructure projects.**	The Commission would study the present condition of the nation's various infrastructure systems and report to Congress by 2009 on the capacity of our infrastructure to support the national economy, the age of the systems and possible methods to finance improvements. The National Infrastructure Bank Act would establish an independent entity of the federal government to provide funding for qualified infrastructure projects.
Aviation	**Congress must reauthorize funding for the Airport and Airway Trust Fund and enact an increase in user fees as necessary for continued funding of the Airport Improvement Program.**	The National Plan of Integrated Airport Systems estimates that over the next five years (2005–2009) $39.5 billion will be needed to meet the infrastructure demands of all segments of civil aviation. The FAA estimates that commercial airlines will carry a billion passengers annually within ten years. More immediately, in 2007 inadequate infrastructure contributed to record delays and cancellations. The current funding authority has been extended, but with the projected increase in passenger traffic, airports are at risk for seasonal and peak-period delays.
Bridges, Roads and Transit	**Congress must fully fund surface transportation programs authorized under SAFETEA-LU. Congress must use all funds that accumulate in the Highway Trust Fund to invest in the nation's surface transportation program and fix the shortfall in the Trust Fund. Congress must enact the National Highway System Bridge Reconstruction Initiative to repair and replace aging bridges.**	Poor road conditions cost U.S. motorists $67 billion a year in repairs and operating costs—$333 per motorist. Americans spend 4.2 billion hours a year stuck in traffic, at a cost of $78.2 billion a year to the economy. At the same time, transit ridership has grown at a faster pace than highway use. Total federal spending of approximately $60 billion annually is well below the $155.5 billion needed annually to improve surface transportation infrastructure conditions nationally. Between 2003 and 2007, the percentage of the nation's 599,893 bridges rated structurally deficient or functionally obsolete decreased slightly from 27.1% to 25.59%.
Brownfields	**Congress must reauthorize the Brownfields Revitalization and Environmental Restoration Act of 2002 in order to provide continued federal funding for the redevelopment of brownfields sites.**	According to the U.S. Conference of Mayors, 172 cities estimated that they collectively have more than 23,810 brownfields sites, with the average size of a brownfield site being between five and 15 acres. Also, 158 cities collectively estimated that their brownfield properties comprised 96,039 acres of land, representing potential new jobs and land tax revenue.
Dams and Levees	**The Senate must enact the Dam Rehabilitation and Repair Act to address the most critical non-federal public dams. Congress must enact a national levee safety program, including a nationwide inventory of levees and mandatory inspection requirements.**	State dam safety officials estimate that $10 billion is needed to repair the most critical dams over the next 12 years. Also, state dam safety programs have identified more than 3,300 unsafe or deficient dams, many of which are susceptible to large flood events or earthquakes. The U.S. Army Corps of Engineers reported in early 2007 that nearly 150 U.S. levees pose an unacceptable risk of failing in a major flood, mainly due to poor maintenance. The nation cannot afford to wait for another flooding catastrophe like the one that followed Hurricane Katrina in 2005.
Drinking Water and Wastewater	**Congress must enact the Water Quality Financing Act of 2007 to provide vitally needed federal aid through the State Revolving Loan Fund (CWSRF) program. Congress must authorize $1 billion in annual funding for the Safe Drinking Water Act State Revolving Loan Fund (DWSRF).**	The EPA estimates that nearly $1 trillion is needed in critical drinking water and wastewater investments over the next two decades. Specifically, the EPA's 2004 Clean Watersheds Needs Survey calls for an estimated investment of $134.4 billion for wastewater treatment and collection systems, $54.8 billion for combined sewer outflows, and $9 billion for storm water management. At risk are the gains that have been made in cleaning up the nation's rivers, lakes, and streams since the enactment of the Clean Water Act in 1972.
and Waterways	**Congress must enact a Water Resources Development Act (WRDA) that requires a more comprehensive approach to water resources projects constructed by the U.S. Army Corps of Engineers. Congress must ensure the integrity of the Inland Waterways Trust Fund.**	Of the 257 locks on the more than 12,000 miles of inland waterways operated by the U.S. Army Corps of Engineers, nearly 50 percent are functionally obsolete. By 2020, that number will increase to 80 percent. The cost to replace the present system of locks is more than $125 billion.

ASCE's updated Report Card for America's Infrastructure will be released in March 2009.

2005 Report Card FOR AMERICA'S Infrastructure

Aviation	D+
Bridges	C
Dams	D
Drinking Water	D-
Energy	D
Hazardous Waste	D
Navigable Waterways	D-
Public Parks & Recreation	C-
Rail	C-
Roads	D
Schools	D
Security	I
Solid Waste	C+
Transit	D+
Wastewater	D-
America's Infrastructure GPA	D
Total Investment Needs	$1.6 Trillion

Estimated 5-year need
(does not include security investment needs)

Each category was evaluated on the basis of condition and performance, capacity vs. need, and funding vs. need.

A = Exceptional
B = Good
C = Mediocre
D = Poor
F = Failing
I = Incomplete

110TH CONGRESS INFRASTRUCTURE SCORECARD

LEGISLATIVE ACTION STEP TO HELP RAISE THE GRADES	H	S	E
National Infrastructure			
National Infrastructure Improvement Act	☐	☑	☐
National Infrastructure Bank Act	☐	☐	☐
Aviation			
FAA Reauthorization	☑	☐	☐
Bridges, Roads and Transit			
SAFETEA-LU Guarantees for FY2008	☑	☑	☑
SAFETEA-LU Guarantees for FY2009	☐	☐	☐
Highway Trust Fund Fix	☐	☐	☐
National Highway Bridge Reconstruction and Inspection Act	☐	☐	☐
Brownfields			
Brownfields Revitalization Act	☐	☐	☐
Dams and Levees			
Dam Rehabilitation & Repair Act	☑	☐	☐
Dam Safety Act–Full Funding for FY2008	☐	☐	☐
Dam Safety Act–Full Funding for FY2009	☐	☐	☐
Small Watershed Dam Rehabilitation Funding FY2008	☑	☑	☑
Small Watershed Dam FY2009 funding	☐	☐	☐
National Levee Safety Program Act	☐	☑	☐
Drinking Water and Wastewater			
Water Quality Financing Act	☑	☐	☐
Safe Drinking Water Act Reauthorization	☐	☐	☐
Inland Waterways			
Water Resources Development Act (WRDA 2007)	☑	☑	☑
WRDA 2008	☐	☐	☐

H=House S=Senate E=Enacted

Join our Facebook group "Save America's Infrastructure"

Learn about the failing infrastructure in your state by visiting www.asce.org/reportcard.

Visit the Blog "Our Failing Infrastructure" at www.asce.org/govrel/bl

CASE STUDIES IN FAILING AND IMPROVING INFRASTRUCTURE

San Francisco Bay Area

Congestion on the Bay Area roads costs the average individual commuter 60 hours in wasted time each year and a combined cost to the economy of nearly $7.4 billion according to the Texas Transportation Institute.

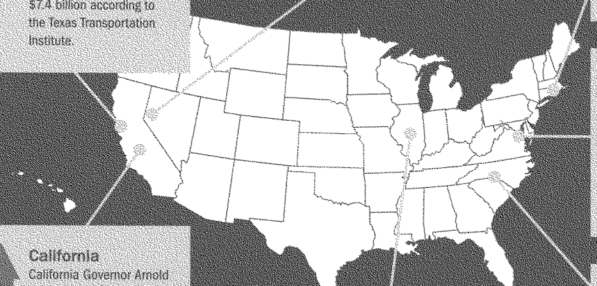
Fernley, Nevada

JANUARY 2008

Following heavy rains and damage from burrowing animals, an irrigation canal's levee failed and flooded over 300 homes.

Rhode Island

The U.S. Bureau of Transportation Statistics estimates that 53% of Rhode Island's bridges are structurally deficient or functionally obsolete, the highest rate in the nation.



Washington, DC

Still in its construction phase, the new Woodrow Wilson Bridge is the centerpiece of efforts to ease congestion on the Capital Beltway between Virginia and Maryland.

California

California Governor Arnold Schwarzenegger announced in February 2008 a $211 million investment in critical levee improvement. ASCE's 2006 Report Card for California's Infrastructure gave the state's levees a grade of "F."

Illinois

The U.S. Environmental Protection Agency estimates that Illinois needs $13.4 billion in clean water investment.

Charlotte, North Carolina

As part of a plan to reinvigorate business, mitigate traffic congestion and create a more walkable city center, Charlotte this year began light rail service.

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EMBARGOED UNTIL 3/11/2008

Statement
by Felix G. Rohatyn
to the
U.S. Senate Banking Committee
Senator Christopher Dodd, Chairman
March 11, 2008

Mr. Chairman and members of the Committee,

I appreciate the opportunity to testify here on behalf of the Commission on Public Infrastructure, which Senator Warren Rudman and I had the honor of co-chairing. We are gratified that the work of this commission, and the principles for infrastructure investment that it established, played a meaningful role in the creation of the National Infrastructure Bank Act of 2007. Mr. Chairman, we also would like to thank the Center for Strategic and International Studies for sponsoring our bipartisan commission, and we thank our fellow commissioners, including you and Senator Hagel, for helping us explore new ways to address the crisis of America's crumbling infrastructure.

As you know, Mr. Chairman, our commission proposed a new type of government effort to spur the rebuilding of public infrastructure—a National Infrastructure Bank that will refocus our national infrastructure policy on those projects that generate the most significant returns. Such a new facility would allow us to treat the renewal of our country's roads and bridges, schools and water lines, airports and air traffic control systems, ports and water projects, as investments, and not simply as budget expenditures.

Our Commission's recommendation would create a federal entity that will more effectively finance infrastructure projects of substantial national or regional significance using public and private capital. The National Infrastructure Bank Act that you and Senator Hagel have authored could do exactly that, and we strongly urge its passage.

The Infrastructure Bank's initial capital of $60 billion would be deployed so as to bring in billions of additional dollars from outside investors and other partners. The Bank should have the authority to issue bonds with maturities of up to 50 years, among its other financing capabilities. These long bonds would be backed by repayment of the loans the Bank made to state and local governments, and would therefore align the financing of infrastructure investments with the benefits they create. If the bank were to provide subsidies, whether through credit insurance, interest rate discounts, or even grants to accompany its lending, these would be transparent, using credit scoring. To the extent that the bank provided non-subsidized lending, it would be self-financing. Tens of thousands of private sector jobs would be created over time, helping to provide strong economic growth.

The American Society of Civil Engineers forecasts a total infrastructure investment need of $1.6 trillion over the next 5 years. The Infrastructure Bank could be an important factor in support of such a program.

Mr. Chairman, our commission also applauds Senator Hagel and you for proposing an Infrastructure Bank whose financial governance, project selection and delivery would be focused on funding those projects with the highest economic returns. Right now, road, water, airport and other funding candidates are evaluated using widely disparate assumptions for capital costs, discount rates and other characteristics, if they are evaluated at all. And many projects are funded using fixed cost shares that don't reflect different local conditions. Moreover, the Bank has the prospect of being unencumbered by earmarks that benefit localities but neglect national and regional priorities. The Bank would, therefore, be modeled after modern investment banks, or, in fact, the European Investment Bank, whose financing of public projects has created a superb and efficient European infrastructure, including a high-speed rail network that is a model of efficiency.

While the private sector drives our economy, our government—since the beginning of the Republic—has played an indispensable role as the lead investor in America's transport, infrastructure and education. Thomas Jefferson's purchase of Louisiana, the canals of upstate New York and the railroads that linked our industrial cities to our heartland, with the powerful support of Abraham Lincoln, were vital national investments. So were the land-grant colleges, the GI Bill, as well as President Eisenhower's interstate highway system and FDR's mobilization for WWII. Indeed, Presidents Jefferson, Lincoln, Franklin Roosevelt and Eisenhower proved that public investment can generate vast returns.

Our bipartisan commission reflects the strong support for this idea among both Democrats and Republicans, as well as business and labor. We know that our public infrastructure crisis is no less serious for being silent. To fix it, we call for federal action that is big enough and smart enough.

The American people deserve railways that are as good as Europe's, ports that work as efficiently as modern Asian port facilities and public schools that are not in ruins. Indeed, as our investment in infrastructure falls behind our needs, *The Economist* reports that China will invest $200 billion in its railways between 2006 and 2010—the largest investment in railroad capacity made by any country since the 19th century—this in addition to having built 53,000 kilometers of expressways since the 1990's, and plans over the next twelve years to construct 300,000 kilometers of roads in rural China, as well as 97 new airports. Meanwhile here at home—according to the Brookings Institution—our congested roads, in 2005 alone, cost us $78 billion in lost productivity and higher freight charges.

There will be some, Mr. Chairman, who will say that we cannot afford to meet our infrastructure needs, that our budget deficits are too large and that our borrowing is too great. The reality, Mr. Chairman, is that we cannot afford <u>not</u> to do this. Every year that we delay will cause additional deficits and additional losses in productivity and employment. One of the most basic accounting concepts is the difference between capital investments on the one hand, and operating expenses on the other. It is true that our operating expenses are excessive and possibly out of control, much of it due to the war in Iraq. On the other hand, our capital investments are woefully inadequate and can be leveraged in a number of ways through the National Infrastructure Bank.

To compete in the global economy, improve our quality of life and raise our standard of living, we must successfully rebuild America's public infrastructure. It is with a sense of urgency that we call upon the members of this committee, from both sides of the aisle, to begin this process by approving the National Infrastructure Bank Act of 2007. In so doing, you will follow in the footsteps of great American leaders who adopted a fresh perspective on our national wealth and how to increase it.

On behalf of Senator Rudman and myself, I wish to thank you, Mr. Chairman, for the attention that you and the members of your Committee are giving to this important issue.

Testimony before the Senate Committee on Banking, Housing, and Urban Affairs

Hearing on the Condition on the Nation's Infrastructure and Proposals for Needed Improvements

Tracy Wolstencroft, Managing Director

and head of Public Sector and Infrastructure Banking; Goldman, Sachs & Co.

March 11, 2008

Chairman Dodd, Senator Shelby, and members of the Committee, good morning, and thank you for the opportunity to appear before you today. My name is Tracy Wolstencroft. I am a Managing Director at Goldman Sachs, and head of its Public Sector and Infrastructure business. I am pleased to share with you my perspective on the condition of the nation's infrastructure and proposals for needed improvements.

During my 22 years at Goldman Sachs, I have had the opportunity to live and work in markets around the world, and I have seen the commitment other countries have made to infrastructure. In mature industrial countries such as the United States, it is all too easy to take for granted our vast physical infrastructure. Today, the infrastructure investment deficit in the United States is among the largest in the world – estimated in the findings of the Dodd-Hagel bill at more than $4 trillion for highway, transit, water, and housing alone.

Closing this deficit will not be easy, and it will not happen quickly. Governments at every level must play a major role in providing revenue streams and financing capacity – as in many ways they already do. For example, the federal government provides $40 to 50 billion each year for transportation, funded largely by the 18 cents-per-gallon gas tax. State and local governments primarily finance their needs through the tax-exempt bond market, which currently has about $2 trillion dollars of outstanding obligations. But closing the infrastructure deficit will require tapping *all* available sources of capital: tax-exempt debt, federal government funding tools, *and* private sector funds.

Take for example the Capital Beltway, which is less than ten miles from where we are this morning. Every day more than a hundred thousand drivers use the Beltway, totaling approximately 20 million hours per year – often in slow-moving or bumper-to-bumper traffic. This congestion harms the region's economy, its environment, and its quality of life. But in December, the Commonwealth of Virginia finalized an agreement with a private consortium to construct two additional lanes in each direction along a 14-mile segment, together with other significant improvements and two High Occupancy Toll, or HOT, lanes. This massive construction effort will create more than 4,000 jobs each of the next five years, providing a much-needed economic stimulus.

This almost $2 billion project – like many others – could not have been financed through one source alone. It underscores the need for diverse capital sources, and shows how local governments, the federal government, and the private sector can pool their efforts to offer the most efficient financing. In this case, the Commonwealth of Virginia is providing more than $400 million in grants, the federal government through the U.S. Department of Transportation is facilitating financing of about $600 million, the municipal bond market is providing an additional $600 million, and the private joint venture of Fluor Corporation and Transurban Group is contributing $350 million of equity.

This is just one example of why we at Goldman Sachs believe that, where appropriate, partnerships with the private sector can play an important role in supplementing taxpayer dollars. The Capital Beltway also illustrates the power of using market-based mechanisms supported by new technology such as open-road tolling and dynamic pricing to generate funding. Tolls paid to use the optional HOT lanes will provide the revenue stream necessary to build and maintain the improvements. As states grapple with fiscal pressures, it will in some cases be not only appropriate, but also necessary to rely on such tools.

Already, an increasing number of states are following the lead of nations such as the UK and Canada in leveraging user fees such as tolls or water charges to support tax-exempt and private financings, much as utility fees help to finance new, clean power plants. When it comes to generating the revenues needed to pay for the massive upfront costs of infrastructure, there is no free lunch. This nation needs the political will to make revenue decisions that may be unpopular, including in some instances instituting or increasing user fees such as tolls. And if governments are able to identify those revenues, they will be able to tap into huge pools of private capital, possibly leveraging State and local pension funds such as the California Public Employees' Retirement System, or CALPERS, which recently announced a pilot $2.5 billion allocation to infrastructure to "take advantage of major investment opportunities in the construction of roads, bridges, airports, utilities, water systems and other projects."

As we explore creative ways for the private and public sectors to work together, so too there should be more innovation *within* the public sector. It is clear to me that initiatives along the lines of a federally-sponsored bank such as that proposed in the Dodd-Hagel National Infrastructure Bank Act could act as an important catalyst. In addition to the tangible benefits of the Dodd-Hagel approach, I believe this bill also provides an important statement that our national leaders recognize the urgency of our infrastructure deficit, and are prepared to make the issue a national priority.

To touch briefly on S1926, we believe that the concept of a federally sponsored Infrastructure Bank can serve as a catalyst in four ways. First, pursuant to Section 203 of the bill, the Bank would offer various tools to help project sponsors obtain a competitive and often lower overall cost of financing. Second, as a government entity, the Bank can provide a reliable source of financing when it is most needed: in times of market dislocation and economic stress.

Third, per Section 202, the Bank can bring greater discipline to the process of selecting which infrastructure investments to fund, and in so doing better allocate scarce resources to projects of greatest national or regional significance. Fourth, the Bank could use the inducement of federal financing to encourage innovation in infrastructure funding. Fifth, and perhaps most important, the Bank could serve the constructive purpose of drawing greater public and private attention to this area of pressing need.

Notwithstanding these benefits, we should be mindful of the critical role of risk management to the Bank, including the possibility that it could suffer from adverse selection, or in other words, that it could attract a disproportionate share of applications from projects with weak funding support. It is imperative that the management and directors have extensive experience in credit due diligence, in order to ensure that the Bank is a careful steward of the responsibility that accompanies the grant of the federal government's full faith and credit.

We at Goldman Sachs believe that there are a variety of approaches – including but certainly not limited to private sector participation – that must be combined if we are to close our infrastructure deficit. But importantly there are also a wide variety of benefits, including higher productivity, better quality of life, a cleaner environment, and of course job creation – which is especially important in the current economic environment.

I would like to conclude by thanking Chairman Dodd, Senator Shelby, Senator Hagel and the members of this committee not only for inviting me to testify, but more importantly, for taking this progressive step toward helping the United States and its infrastructure deficit.

The State of the Economy and the Importance of Rebuilding Our Nation's Infrastructure

Testimony of Ron Blackwell
Chief Economist
American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)

Before the Senate Committee on Banking, Housing and Urban Affairs

March 11, 2008

Thank you, Chairman Dodd, ranking member Shelby and other members of the Committee. I welcome the opportunity to be here today to testify on behalf of the 10 million members of the AFL-CIO and share our views on the state of the economy and the importance of rebuilding our nation's deteriorating infrastructure.

The American economy is the richest economy in history, generating nearly $14 trillion a year in product and income. Key to the success of our economy has been the productivity of our workforce and the quality of our nation's information, communications and transportation infrastructure.

Unfortunately, our infrastructure is deteriorating seriously in a number of areas and in others is not developing in ways required to succeed in a 21st century global economy. The American Society of Civil Engineers (ASCE), who grades the state of our nation's infrastructure a "D," estimates a current five-year need of $1.6 trillion just to maintain the infrastructure we already have. Maintaining and developing our nation's infrastructure is key to the future of American prosperity.

As me meet today, however, we face an economic crisis that poses a number of serious, and closely related, economic challenges, both acute and chronic. We must recover from the recession that now seems to be underway We must find a more sustainable growth path for the economy that does not depend on asset inflation. We must rebuild the global competitiveness of the American economy. And we must assure that the benefits of American prosperity are more broadly shared with America's working families.

In different ways, maintaining and developing our nation's infrastructure plays a crucial role in addressing each of these challenges. Our success in shaping infrastructure policy to help address these challenges is crucial to the future of American prosperity, and we urge the Committee to consider its work in light of these economic challenges.

The first, and most acute, economic challenge is to recover from recession. Growth slowed sharply toward the end of 2007 and the economy began to shed jobs early this year. The economy shed 85,000 jobs in the past two months and private sector employment has fallen for three successive months. The current unemployment rate at 4.8 percent would be closer to 6.8 percent if labor force participation were at pre-recession levels.

An increasing number of private sector economists are estimating that a recession is already underway If they are right, as I believe they are, we are seeing the end of the first economic expansion on record in which average family incomes have not recovered their pre-recession levels. In 2006, real median family income was $58,407, compared with $59,088 in 2000.

A bursting housing bubble last summer and the resulting crisis in the U.S. sub-prime mortgage market have triggered a full–blown credit crisis, which is now dragging the American economy into a recession of uncertain depth and duration and slowing economic growth globally.

Housing prices already have fallen 10 percent and may fall another 10 to 20 percent over the next two years, leaving 10 million families with negative equity in their homes, causing more than 2 million foreclosures and destroying trillions of dollars of household wealth. The Federal Reserve reports that household wealth declined by $900 billion in the last quarter of 2007 alone. This massive loss of wealth is undermining consumer spending and business investment.

The Federal Reserve moved aggressively to lower the federal fund rate by 2.25 percentage points and is signaling more cuts to come. Congress also passed a $168 billion fiscal stimulus package featuring a tax rebate for families and tax cuts for business. While these steps are helpful in mitigating some of the worst effects of the slowdown, they are not sufficient, in our view, to avert recession, nor do they deal with the fundamental economic imbalances at the root of the current economic crisis.

The AFL-CIO supports a second fiscal stimulus package including several measures excluded from the initial package. The new package should include an extension of unemployment insurance, expansion of the food stamp program and federal aid to states and cities to prevent further cutbacks of vital public services.

We also support front-loading public investment in infrastructure to maintain our schools and repair crumbling bridges and deteriorating highways. Spending that puts people to work on projects we desperately need is more likely to stimulate the domestic economy than tax cuts that may be saved or spent largely on imported consumer goods.

The second challenge we face is to find a sustainable basis for American economic growth. Even before the recent economic slowdown, working families were struggling to maintain their living standards by working longer hours and more jobs, by sending more family members to work, drawing down their savings and borrowing against the equity in their homes. In terms of jobs, wages, health care and pensions, the recovery from the 2001 recession was the weakest of any recovery since the Second World War, weaker even than the jobless recovery of the early 1990s.

Debt-financed consumer spending has provided most of the momentum the economy has shown over the past seven years. Stagnant wages and incomes left consumers borrowing against the expected rise in the value of their homes to maintain their families' living standards. Household savings fell below 1 percent, levels not seen since the worst years of the Great Depression.

It is important to bear in mind that the two most recent economic expansions – the recovery from the 1990 recession and the recovery from the 2001 recession – were very different than previous recoveries since the Second World War. Earlier recoveries were ended through actions by the Federal Reserve to stanch inflation. The last two recoveries, like many in the pre-WWII period, ended with the bursting of asset bubbles – equities in 2000 and housing in 2007 The problem with relying on asset inflation to power growth is that the growth they power is weak and unsustainable. The most recent recovery, like its predecessor, was weak and ended with the bursting of an asset bubble.

As we emerge from the current recession, we must put American economic growth on a stronger and more sustainable basis than that provided by asset inflation. One school of thought in Washington argues that we should just lower taxes and wait for private investment to power economic growth. Another school believes that private investment responds best to balanced federal budgets. While there is truth in each of these views, neither is complete or adequate as a formula for a strong American economy.

The AFL-CIO believes that while taxes should be no higher than they need to be to meet our nation's needs, they certainly should be no less. And while it is important to balance our public budgets, we must allow sufficient flexibility in doing so to balance demand to counteract the business cycle and finance the maintenance and development of our nation's essential public infrastructure.

First and foremost, providing a sound basis for American economic growth requires careful coordination of fiscal and monetary policy between the Federal Reserve and the Treasury to maintain maximum growth and full-employment consistent with reasonable price stability This requires, particularly on the part of the Federal Reserve, a careful monitoring of developing asset bubbles so they do not undermine the strength and stability of economic growth.

Second, in our view, public investment to maintain and develop our nation's infrastructure is a crucial complement to sound macro-economic policy Public investment can stimulate private investment demand through the business cycle. But more important, public investment augments the economy's productive capacity, the principal source of our nation's economic growth.

The third challenge is to restore American competitiveness in a global economy. Misguided domestic and international economic policies of the past three decades have produced an unbalanced economy that has seriously reduced the role of government in guiding the economy and radically shifted bargaining power from workers to their employers. These imbalances are the source of the current economic crisis and must be addressed in order to meet the crisis.

Currently we must borrow nearly $800 billion a year to pay for the things we consume as a nation that we no longer produce. We have lost almost 3.5 million good manufacturing jobs since 2000, many the result of our unbalanced trade.

Moreover, China and other Asian trading partners are manipulating their currencies to maintain their competitive advantages. The huge trade surpluses of these countries have produced a global savings glut that is fueling asset inflation in the United States. The demand for U.S assets from these countries has fed the unsustainable housing bubble on which our fragile growth has depended over the past seven years.

No one believes that the imbalance in our external account is sustainable. We must find a way to produce more of the value equivalent of what we consume or we will be forced, one way or another, to consume less. The key to correcting our nation's external imbalance is to restore the competitiveness of the American economy.

To restore the competitiveness of the American economy, we must change our trade, tax and exchange rate policies to level the playing field for domestic producers. But we must also greatly expand our commitment to the education and training of America's workers. We must also invest in maintaining and developing the world-class information, communication and transportation infrastructure so essential for a competitive economy.

Fourth, we must restore balance between workers and their employers to allow workers an equitable share of our nation's prosperity. The truth is, as weak as the current recovery has been, America's workers are suffering what is now a generation-long stagnation of wages and rising economic insecurity.

Our wealthiest families have benefited as never before from the economic policies of the past three decades, but working families have been left behind. Productivity has increased 67 percent since 1980, but wages have barely budged. Median family incomes are only 19 percent higher today than they were three decades ago, and only because workers are working longer hours and families are sending more members into the workforce. Only the top 10 percent of families have seen their income rise at or above the rate of productivity growth.

As a result, incomes and wealth are more unequally distributed in America than in any other developed country and are more unequal today than at any time since the 1920s. Even more alarming, American intergenerational economic mobility is falling and is already lower today than in many European countries. The American Dream is fading for millions of working families.

To assure more equitable growth we must raise the minimum wage and pass the Employee Free Choice Act to allow all America's workers to exercise their fundamental rights to organize and bargain collectively.

But infrastructure investment can also play an important role in creating millions of good jobs. According to Department of Transportation, each one billion dollars of infrastructure investment creates 47,500 jobs. If ASCE's five-year estimate of a needed $1.6 trillion for infrastructure investment is correct, it implies the creation of over 15 million jobs a year. To assure that the jobs created are good jobs, workers employed in infrastructure projects should be paid prevailing wages.

Public investment in infrastructure is essential for restoring strong and sustainable economic growth essential for ensuring American prosperity, but it must also contribute to ensuring that the resulting prosperity is broadly shared.

As essential as a world-class infrastructure is for the future of American prosperity, there remain the important questions of can we afford it, and how we should organize our public institutions to achieve it?

There is no question that maintaining and developing world-class infrastructure systems will be expensive to finance. The ASCE estimate of $1.6 trillion over five years is focused only on maintaining the infrastructure we have. It does not include estimates for the systems we will need to meet future needs in critical information, communications and transportation technologies, nor the emerging areas of energy independence and environmental sustainability

Decisions on financing infrastructure need to be taken on rigorous cost-benefit analysis and monitored continuously by democratically accountable authorities to maximize their effectiveness and avoid duplication and waste. The costs are enormous but they are financing costs, not simple expenditures. As investments, they are expected to pay for themselves in increased economic value and even tax revenue. The real question concerning cost is not whether we can afford a world-class infrastructure as we enter the fiercely competitive global economy of the 21st century, but whether we can afford not to invest in one. There is no alternative. But we believe that major infrastructure investments achieve the greatest economic impact at the least cost consistent with other pressing national needs.

Currently infrastructure investment decisions are not well coordinated functionally, nor between federal, state and local authorities. As a result, many infrastructure projects may serve local needs but may not well serve important regional or national priorities. To prioritize major infrastructure investment projects functionally, geographically and over time, we need a federal authority whose mission it is to identify and prioritize major infrastructure needs and help arrange appropriate funding consistent with other pressing national priorities. The AFL-CIO strongly supports the Dodd-Hagel bill to establish the National Infrastructure Bank Act for these purposes.

America's workers are the most productive workers in the world. And they work longer hours than workers in any other developed country Provided a world-class infrastructure and cooperation from business that shares their commitment to our country, there is no reason we cannot build a strong and internationally competitive American economy whose prosperity is broadly shared.

Thank you again for the opportunity to be with you today and share the views of the American labor movement.

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Statement of the U.S. Chamber of Commerce

ON:	**CONDITION OF OUR NATION'S INFRASTRUCTURE AND PROPOSALS FOR NEEDED IMPROVEMENTS**
TO:	**SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE**
BY:	**JANET F. KAVINOKY** **DIRECTOR, TRANSPORTATION INFRASTRUCTURE AND EXECUTIVE DIRECTOR, AMERICANS FOR TRANSPORTATION MOBILITY** **U.S. CHAMBER OF COMMERCE**
DATE:	**MARCH 11, 2008**

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96% of the Chamber's members are small businesses with 100 or fewer employees; 70% have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business—manufacturing, retailing, services, construction, wholesaling, and finance—is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. The Chamber believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 96 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Testimony of Janet F. Kavinoky

Director, Transportation Infrastructure and
Executive Director, Americans for Transportation Mobility Coalition
On behalf of the U.S. Chamber of Commerce

March 11, 2008

Before the Senate Banking, Housing and Urban Affairs Committee

Introduction

Mr. Chairman, distinguished members of the Senate Banking, Housing and Urban Affairs Committee, thank you very much for the opportunity to testify on behalf of the U.S. Chamber of Commerce regarding the condition of our nation's infrastructure and proposals for needed improvements.

My name is Janet Kavinoky. I am the Director of Transportation Infrastructure and the Executive Director of the Americans for Transportation Mobility Coalition at the Chamber. The Chamber is the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region.

There is abundant evidence that America's infrastructure is not only showing its age, but also showing that it lacks capacity to handle the volume of people and goods moving today. From exploding steam pipes under New York streets, to record level flight delays in the skies across the country, it is evident that now is the time to move on a robust, thoughtful, and comprehensive plan to build, maintain, and fund a world-class 21st century infrastructure. As the recently-issued report of the National Surface Transportation Policy and Revenue Study Commission (NSTPRSC) says, "the time is now." We cannot treat infrastructure like other problems or programs where you can wait until the very last minute and then write a big check. Infrastructure projects require foresight and years of careful planning.

My remarks today will focus on the needs of the nation's transportation system. In particular, the Chamber believes that continued underinvestment and business-as-usual transportation policies and programs will have a detrimental impact on the ability of the United States to compete in the world economy and on the everyday lives of Americans. As policy and financing proposals emerge over the next several months, the Chamber will examine the recommendations closely and evaluate whether these changes will enable the U.S. transportation system to adapt and meet the needs of an evolving global economy. Before speaking specifically to transportation needs, let's look for a moment at the conditions of our infrastructure.

Infrastructure Needs

- Road traffic has already shot up 40% between 1990 and 2005 while capacity has increased just 2% and is expected to skyrocket in coming years.
- Our transit systems earned a D+ rating from the American Society of Civil Engineers (ASCE). Transit investment is falling even as transit use increased faster than any other mode of transportation—up 21%—between 1993 and 2002. As the Committee discusses bridge needs, it is important to note that according to the *2006 Conditions and Performance Report* issued by U.S. DOT the percentage of elevated transit structures in adequate or better

condition decreased from 91 percent in 2002 to 84 percent in 2004, and the percentage in substandard or worse condition increased from 9 to 16 percent.

- The antiquated air traffic control system is a contributing factor to a third of all U.S. flights being cancelled or delayed in July this year. U.S. airlines could have one billion customers by 2015 and more passengers mean more planes. The use of smaller regional jets and the growth in business and general aviation are also factors in congestion. The costs of inaction are steep—aviation delays cost $9 billion in 2000 and are on target to hit more than $30 billion by 2015. There is also the cost no one likes to talk about—the potential for significant loss of life in midair or on overcrowded runways.

- Ports are straining under the weight of cargo volumes that are doubling or tripling. By 2020, every major U.S. container port is projected to at least double the volume of cargo it was designed to handle. Select East Coast ports will triple in volume, and some West Coast ports will quadruple.

- Rail infrastructure requires nearly $200 billion over the next 20 years to maintain existing infrastructure and to accommodate freight growth.

- Our inland waterways need serious attention—removing obstructions, widening channels, and replacing locks. The number of dams deemed unsafe by our civil engineers has risen 33% to more than 3,500 since 1998.

- American Association of State Highway and Transportation Officials (AASHTO) has estimated that intercity passenger rail corridors will require $60 billion in capital investment over the next 20 years to maintain existing infrastructure and to expand capacity.

- As our economy becomes increasingly driven by information, fast and reliable telecommunications networks have become indispensible. Everywhere you look, Americans are plugging in to the Internet—over 80 percent of U.S. zip codes were served by four or more broadband service providers by the end of 2006. Likewise, use of wireless communications has exploded from 16 million subscribers at the end of 1993 to 243 million subscribers today.

- Yet, for all of these advances, the United States is still falling behind. Japan offers more affordable broadband service that is eight to 30 times as fast as in the U.S. Some experts believe that if America does not catch up in the broadband race, innovation will shift offshore.
- Our energy needs are going to increase by a third between now and 2030. Yet we haven't built a new refinery in this country since the 1970s. We have locked away many of our domestic energy resources. We allow not-in-my-backyard protests to stand in the way of liquefied natural gas facilities, power plants, pipelines, and other facilities.
- While electricity demand has increased by about 25% since 1990, construction of transmission facilities has decreased about 30%. The nuclear power industry—which could put hundreds of thousands of Americans to work building new plants—has been stymied because of slow permitting and Congress' refusal to open the Yucca Mountain waste facility.
- Our wastewater systems are also in poor condition. According to the Environmental Protection Agency, we could need as much as $390 billion every year over the next 20 years to repair obsolete drinking water and wastewater systems.

So from interstate highways to the Information Superhighway ... from airports to water ports to wastewater systems … from rail lines to transmission lines to power plants … our infrastructure is in a state of crisis.

The Role of Transportation in our Economy

Freight and Goods Movement

Manufactured goods and cargo move through the United States on a system primarily consisting of ports, roads, rail, and inland waterways. On a typical day, about 43 million tons of goods valued at $29 billion moved nearly 12 billion ton-miles on the nation's interconnected transportation network. Bridges serve as critical links in the system. The supply chain is viewed from initial point of origin to the final destination with frequent junctures in between. To keep competitive domestically and internationally, many U.S. businesses have developed complex logistics systems to minimize inventory and ensure maximum efficiency of their supply chains. However, as congestion increases throughout the U.S. transportation system, these supply chains and cargo shipments are frequently disrupted and the cost of doing business increases.

The growth in international trade is overwhelming U.S. intermodal freight capacity. Over the next 30 years, domestic freight volume is forecast to double and international freight volume entering U.S. ports may quadruple, according to AASHTO.

According to the Federal Highway Administration's (FHWA) recent report, *An Initial Assessment of Freight Bottlenecks on Highways,* "if the U.S. economy grows at a conservative annual rate of 2.5 to 3% over the next 20 years, domestic freight tonnage will almost double and the volume of freight moving through the largest international gateways may triple or quadruple.... Without new strategies to increase capacity, congestion...may impose an unacceptably high cost on the nation's economy and productivity."

Labor shortages and increased security requirements born from 9/11 are compounding these capacity constraints and increasing congestion at key entry, exit, and throughput points throughout the country.

Doug Duncan, CEO of FedEx Freight and a Chamber member, summed up the freight community's acute interest in infrastructure, "I'm afraid if things don't turn around soon, we'll begin turning the clock back on many of the improvements that these supply chains have made and begin to restrain commerce instead of support commerce."

There is a clear federal role in prioritizing investment in new capacity and operational improvements in global gateways and trade corridors in support of interstate and international commerce. In order to improve the free flow of goods every level of government should work to:

- Improve road connections between ports and intermodal freight facilities and the national highway system;
- Improve connectivity and capacity so that railroads can efficiently and reliably move cargo between ports and inland points;

- Develop a national intermodal transportation network so that cargo can flow at speed among multiple alternative routes;
- Help prioritize infrastructure improvements of long-term network plans and projects of national significance and then reserve funding for such projects; and
- Eliminate bottlenecks on the National Highway System.

If we fail to address these transportation infrastructure challenges, we will lose jobs and industries to other nations. Our global competitors are building and rebuilding while America is standing still. China, India, and the developing world are building at a staggering pace. China spends 9% of its GDP on infrastructure; India, 5% and rising. While they started well behind us, they are catching up fast. The United States has spent less than 2% on average as a percentage of GDP since 1980. We cannot expect to remain competitive with that level of investment.

Passenger Transportation and Personal Mobility

From a passenger transportation perspective, mobility, congestion relief, and connectivity are the key objectives that deserve national focus and resources. Congestion threatens employers and area economic development. Traffic has already shot up 40% between 1990 and 2005 and is expected to skyrocket in coming years while capacity has increased just 2%. The fastest growing segment of our economy is the services industry, for which human capital is essential, but employers in all industries rely on transportation systems to connect them to their workforce and to connect that workforce with suppliers and customers around the country and the world. Rising housing costs continue to push workers out of central areas, increasing commute times and costs.

On average, 30% of workers now leave their home counties to commute to work compared to less than 24% in 1990. Unfortunately, increasing congestion is disrupting these important connections and imposing additional costs on the workforce and employers alike.

State and local chambers of commerce remind us constantly that the citizens in their communities need transportation choices, and those options are a valued aspect of economic development strategies. Public transportation, such as buses, rapid transit, and commuter rail systems, are important solutions to the growing congestion crisis in the United States, but chronic underinvestment is leaving these systems strained under increasing use. From 1995 through 2006, public transportation ridership increased by 30%, a growth rate higher than the 12% increase in U.S. population and higher than the 24% growth in use of the nation's highways over the same period. Although Americans took 10.1 billion trips on local public transportation in 2006, only 54 percent of American households have access to public transportation of any kind as they plan their daily travel according to a 2005 Bureau of the Census survey. These statistics are much worse in rural areas.

If we fail to act, we will pollute our air and destroy the free, mobile way of life we cherish. Thirty-six percent of America's major urban highways are congested. Congestion costs drivers $78 billion a year in wasted time and fuel costs. Americans spend 4.2 billion hours a year stuck in traffic and while their car engines are idling, they are pumping thousands of tons of pollution into the air every day.

Addressing the Needs

Vision, National Plan and Federal Role

This country has a transportation system that is overworked, under-funded, increasingly unsafe, and without a strategic vision. Since the passage of SAFETEA-LU, the transportation community has been calling for a "new vision" for transportation at the federal level. Stakeholders—including the Chamber—asserted that without this vision, federal policies will not be sufficiently focused in order to truly address problems that threaten economic growth and quality of life. Without a vision, a compelling case cannot be made to the public for increased investment. Without a vision, the ill-defined programs will continue to be increasingly susceptible to earmarks that do not reflect actual priorities.

The NSTPRSC proposed a vision to "create and sustain the preeminent surface transportation system in the world." When defining the national interest, the NSTPRSC tells us that facilities need to be maintained, systems are appropriately priced, travel options are plentiful and reliable, freight movement is valued, safety is assured, transportation decisions consider resource impacts and regulatory policy is rational. It would be difficult for anyone to disagree with most elements of this vision of the future. It remains to be seen what specific responsibilities federal, state and local governments, as well as the private sector, will have toward achieving that vision and advancing the national interest, and that is at the crux of this NSTPRSC's work.

However, more than a vision, we need a national plan. We agree with Chairman Dodd that the federal government is not doing enough to address important national and regional transportation issues from a systemic perspective. As Ranking Member John Mica (R-FL-07) aptly articulated in an op-ed in *The Hill* in 2007, "[t]he federal government must take a lead role in developing a national strategic transportation plan for the next 50 years that makes the most efficient use of every transportation mode and incorporates the expertise and resources of both private and public sectors." This country's current approach to delivering transportation infrastructure is not set up for today's robust economy or the economy of the future. The next era in surface transportation requires a multi-modal and intermodal approach that supports competition in the global economy, an aim that emphasizes the need for the federal government to play an important role.

Every level of government must step up to the plate and make commitments to expand capacity through better utilization of existing infrastructure and creation of additional infrastructure. The federal government, however, bears a significant part of the responsibility when ensuring that:

- National needs are met;
- Legacy assets, including the Interstate Highway System, are maintained and improved to guarantee continued nationwide connectivity;
- Utilization of existing networks is maximized, which is, in part, a function of investment in technology; and
- Infrastructure investment is aligned with the needs that arise from the global economy, trade policies, and the flow of interstate commerce.

The federal government must perform a critical role:

- Working through difficult intergovernmental relationships;
- Providing resources for complex, multi-state or multi-jurisdictional projects; and
- Encouraging the public and private sectors to pursue innovations that improve infrastructure performance, financing, or development.

The federal government must also ensure that projects can actually be built in a timely manner. It is appalling that major highway projects take approximately 13 years to advance from project initiation to completion. As a nation, we've allowed governments at all levels to pile on complex and overlapping regulations. No one objects to timely environmental reviews, and we all support strong health and safety protections, but red tape and lawsuits can bring the most common sense improvements to a grinding halt. No matter what funding or financing proposals are adopted, if policies are not oriented to speeding project delivery while adequately addressing environmental and community impacts, the nation will not succeed in meeting its infrastructure needs. This must be a top priority in the next surface transportation authorization and in other legislation related to infrastructure.

Funding and Financing

We have to face this fundamental fact as a nation: we are a growing people and a growing country with aging infrastructure. We have to fix what we have, and then, if we want a new road, a new runway, or a new transit system, we've got to buy it. No one is giving them away for free. There is no question that we are going to have to find and invest more public dollars in our infrastructure. We must have an honest national dialogue on how and where we are going to find the public money to meet critical infrastructure needs. There is no single answer to the question, "how do we pay for it?" That's good, because it means we have options, and *all* the options must be on the table.

Along with other options, we are going to have to consider an increase in the federal fuels user fees. This could take the form of a straightforward increase in a fee that hasn't been raised in 15 years—as long as the proceeds are dedicated to transportation.

This nation can't afford to rule out any funding sources. Across all infrastructure categories, simple inflation has eroded the purchasing power of available revenue sources, and measured up again construction cost inflation, the purchasing power is even less. The cost of materials used to fix pavements has increased 33% in the past three years. Steel, oil, and concrete are all more expensive.

In highways and transit alone, a National Chamber Foundation report titled *Future Highway and Public Transportation Financing Study* concluded as much, and several subsequent studies including U.S. DOT's own *Conditions and Performance Report* quantify the significant gap between needs and available resources. According to the Transportation Research Board's (TRB) National Cooperative Highway Research Program's (NCHRP) study *Future Financing Options to Meet Highway and Transit Needs*, there is an average annual gap of over $50 billion in capital, operations and maintenance funding to maintain the nation's highway and transit systems from 2007 to 2017, and an average annual gap of over $100 billion to "improve" these systems.

National Infrastructure Bank Act of 2007

While the Chamber will continue to fight for adequate systemic federal funding to address our nation's enormous infrastructure needs, it is clear that the financing options available for projects of regional and national significance need to be enhanced. Section 1301 of SAFETEA-LU was the first programmatic effort to address highway and transit projects of national and regional significance. Unfortunately, congressional earmarking of the entire program diluted its impact and distorted its intent. For federal programs to effectively tackle these projects, it is our belief that a process needs to be established outside the earmarking practices that emphasizes major projects with clear national benefits that may be constrained by complex state, local and private institutional and financing challenges.

The Chamber commends Chairman Dodd and Senator Hagel for their commitment to considering financing tools that broaden our views of how the federal government contributes to infrastructure investment. We agree with Senator Hagel that, "we can no longer defer the tough choices necessary to modernize our national infrastructure. This will require a huge financial commitment, and new systems through which we fund infrastructure projects will be imperative."

S. 1926 would address this need by creating the National Infrastructure Bank – an independent entity of the government tasked with evaluating and financing capacity-building infrastructure projects of substantial regional and national significance. Projects of consideration would include, publicly-owned mass transit systems, housing properties, roads, bridges, drinking water systems, and wastewater systems.

By emphasizing infrastructure projects with a potential federal investment of at least $75 million and evaluating projects based on factors such as economic impact, reduction in traffic congestion, and environmental benefits, this bill would do much to ensure projects of national and regional significance are targeted and that planning is as comprehensive as possible.

The nation's infrastructure system is the backbone of the U.S. economy and the needs of this system are staggering. To ensure this system can keep pace with the demands of our economy and way of life, we need to develop comprehensive strategies to ensure our investments are coordinated amongst key stakeholders at the local, state and federal levels and capitalize on the availability of private resources. S. 1926 would make great strides towards meeting those goals.

Policy and Program Reforms Needed

It is clear that chronic underinvestment is a major contributing factor to the problems across all modes of transportation. However, the public must trust and have confidence that transportation programs will deliver real solutions to real problems; otherwise they will not support increased investment.

We must do more to ensure that public dollars are spent wisely, which means ending waste and targeting the highest priority projects. Misuse of funding, a lack of resource prioritization, and poor comprehensive planning must be addressed. It means a sensible mix of projects based on actual needs and not on politics or ideologies—for example, more road construction in some communities, more investment in mass transit in others. It also means ending the practice of diverting money intended for infrastructure to other programs. Politicians should start paying a price when they skim money from dedicated transportation funds to pay for projects of their own choosing. It breaks trust with the taxpayers who expect their user fees to go toward their intended purposes. State governments are particularly guilty of this practice. In Texas, the legislature's budget for the next two fiscal years will divert $1.6 billion in infrastructure funding to other needs— that amount is up 15% from the previous budget cycle and a major step in the wrong direction. Texas is hardly alone among the states.

In addition to increasing revenues, cutting waste and ensuring that infrastructure dollars are spent as promised, we can also use public dollars to leverage the growing interest in public-private partnerships and other innovative financing arrangements.

In short, as Congress prepares for SAFETEA-LU reauthorization and considers other infrastructure proposals, the Chamber will continue to encourage Congress to spend infrastructure dollars more wisely, invest in new technologies, ensure that states do not divert their transportation funding away from its intended use in the name of "flexibility," increase public funding, encourage public-private partnerships at the state and local levels, and attract more private investment for projects.

Highway Trust Fund Shortfall

It is also critical to mention that the Chamber's top priority this year is to ensure that the Highway Trust Fund shortfall expected in fiscal year 2009 is addressed. SAFETEA-LU guaranteed at least $223 billion for federal highway program investments through FY2009. This investment level was predicated on a forecast of anticipated revenues collected for the Highway Trust Fund's Highway Account over the life of SAFETEA-LU.

In February, the Bush Administration forecasted that revenues for the Highway Account will fall short of meeting these commitments by nearly $4 billion during FY2009, the last year of SAFETEA-LU authorizations. As a result of the multi-year outlay pattern of the Highway Trust Fund, the resulting cut in the 2009 Federal-aid Highway Program would be much larger than this shortfall—approximately four times larger.

The nation's highway system has significant capital, operating, and maintenance needs and state departments of transportation and metropolitan planning organizations have developed long term transportation investment plans based on anticipated SAFETEA-LU guaranteed funding levels. As such a reduction in funds would disrupt projects already underway.

Therefore, we strongly encourage Congress to ensure that Highway Trust Fund revenues are sufficient to support the guaranteed funding levels in SAFETEA-LU. Congress should not ensure the solvency of the Highway Trust Fund by borrowing from the Mass Transit Account or cutting the obligation limitation for the Federal-aid Highway Program. We commend Senate Finance Committee Chairman Baucus for his work on this issue and encourage the entire Senate to consider Highway Trust Fund solvency measures as soon as possible.

The Chamber's Commitment: Let's Rebuild America

If we really want to move this country off the dime and build a modern and safe infrastructure, then the business community must step up to the plate and lead. The Chamber has made a significant commitment of money, people, research, programs, and strong political action around a sustained, long-term campaign to rebuild the economic platform of our nation. We call this our "Let's Rebuild America" initiative.

Those of us who have worked on infrastructure for many years have learned that on this issue public attention spans are short. Government decision making is slow and diffuse. Politicians rarely look beyond the needs of their own states and districts. The news media mostly yawn unless there is a tragedy.

So we are employing every resource at our disposal—our policy expertise, our lobbying clout, our grassroots capabilities, and our communications channels. We are appealing to every

American who is sick of blackouts, tired of congestion, fed up with rising costs, and concerned about their safety.

Since August of 2007, the Chamber has waged battle in the media to make infrastructure a core national economic priority; launched a grassroots campaign to support Chambers and associations across the country in their efforts to educate the public and lawmakers about the critical importance of infrastructure; begun to identify regulations that get in the way of private investment; and spoke out on the need for increased public investment.

This year, the schedule is ambitious. In March, the Chamber is launching a series of transportation and trade events around the nation. In April, the Americans for Transportation Mobility (ATM) coalition and the Chamber are releasing a comprehensive report articulating the transportation challenge as relates to the economy, and we will be pleased to brief Committee members on the findings of that report. During the Chamber's Regional Government Affairs Conferences in June, the ATM coalition will sponsor two sessions that will educate representatives from local and state chambers on the challenges and solutions for surface transportation funding. As presidential candidates continue their campaigns, we will challenge them to take up infrastructure as a central theme. Later this year, the Chamber will highlight the capacity crisis with the RAND Corporation Supply Chain Policy Center, and there is even more in store. The people of our country must know, and be reminded again and again, that we can create good American jobs, clean the air, succeed in a global economy, preserve a good quality of life, and save innocent lives by investing in our infrastructure.

All transportation and infrastructure stakeholders have started coming to the table—public leaders, the private sector, and all modes, all industries, builders, carriers, users, and shippers alike. We are going to put an end to the intramural squabbles that have divided stakeholders—mode versus mode, shipper versus carrier, urban versus rural, and region versus region. We've rolled up our sleeves and started to work. We are going to rally and unite around an urgent and compelling mission—to rebuild America.

Mr. Chairman and members of the Committee, thank you very much for the opportunity to be here today. I'll be happy to answer any questions you may have.

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RESPONSE TO WRITTEN QUESTIONS OF SENATOR JOHNSON FROM DAVID G. MONGAN

Under S. 1926 the minimum threshold for a project to be eligible for assistance appears to be $75 million and there is a preference for projects that can attract private interest leveraging. In South Dakota, however, a $20 million project is a big project, and with around 10 people per square mile, my state does not have the traffic densities that are needed for viable highway toll projects. Yet there are important infrastructure needs in South Dakota that will serve national and regional interests. S. 1926 represents a thoughtful approach to helping meet infrastructure needs but, as noted, it seems that projects in a state like mine have been more or less left out. I'm optimistic that this can be rectified without changing the basic approach of the bill. So, I am looking at developing language to add to the bill with some type of alternate criteria for projects in low population density states, which I may define as a state with a population density of 25 or fewer persons per square mile. I have the following questions regarding alternate criteria for projects in a low population density state:

ASCE believes that the bill could be amended to allow a federal dollar threshold for Bank-funded projects to be set on a sliding scale based on population to account for different types of projects in states with different infrastructure needs. There need not be a fixed dollar amount for each type of infrastructure or for each project within a given infrastructure category across all states without regard for local needs or resources. The key to the allocation of funds is found in the ratings system that directs Bank funds toward projects of regional or national significance, that improve the environment, or that promote economic growth.

Q.1a. Assuming a highway project threshold in such states in the range of $15–20 million, what thresholds would you suggest for the other types of eligible projects (water, etc.), or should the thresholds all be the same?

A.1a. The threshold for wastewater and drinking-water infrastructure could be in the range of $3 million to $5 million, depending upon immediate watershed needs and the size of the population served. Some projects now receive only $500,000 or $1 million from EPA grants, but ASCE believes these sums do not begin to close the national investment gap.

Q.1b. If one were to set an even lower dollar threshold for projects on Indian Reservations, what might that be?

A.1b. The threshold should remain the same for projects designed to serve similar populations (i.e., rural communities) with similar infrastructure needs, regardless of whether they are located within Tribal lands.

Q.1c. Congestion reduction is not an appropriate evaluation criteria for projects in a state like mine. And, as noted, we don't have the population or traffic densities to make leveraging very practical. Assuming that congestion reduction and leveraging were made not applicable to review of projects in a low population density state, are there any other criteria in S. 1926 that you would recommend be made inapplicable to review of projects from a low population density state, in order to ensure that projects from such a state would have as fair a chance of approval as projects from elsewhere?

A.1c. A possibly useful metric for highway construction projects could employ vehicle miles traveled per 100,000 residents in order to establish a national formula on a sliding scale for the distribution of Bank funds. This would shift the focus from pure population measures.

Q.2. What other suggestions do you have for enhancing infrastructure investment in a low population density state?

A.2. ASCE is currently supporting the creation of a federal water infrastructure trust fund that could distribute money through the State Revolving Loan Fund (SRF) programs established under the Clean Water Act and the Safe Drinking Water Act. The proposed legislation (as yet not introduced in Congress) would provide assistance to rural and small publicly owned utilities in planning, developing, and obtaining financing for eligible projects.

In addition, ASCE supports enactment of the Dam Rehabilitation and Repair Act (S. 2238), which authorizes the Federal Emergency Management Agency to spend $200 million over five years to upgrade high-hazard dams. Although these dams are rated as hazardous solely due to their proximity to populated areas, the funding itself is not allocated based on state population.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM DAVID G. MONGAN

Q.1. As I understand it, under S. 1926, a project is ineligible unless it involves a Federal commitment of at least $75 million. In a rural state, $20 million is a big project and $50 million is a very big project. In rural states, projects can be much less expensive than $75 million and still be regionally or nationally significant. To avoid excluding projects in large tracts of America from eligibility under the bill, I would consider setting a separate, lower dollar threshold for projects in a low population density state. I don't see any reason why such an approach would adversely impact the basic thrust of the bill. Do you?

A.1. ASCE believes that the bill could be amended to allow a federal dollar threshold for Bank-funded projects to be set on a sliding scale based on population to account for different types of projects in states with different infrastructure needs. There need not be a fixed dollar amount for each type of infrastructure or for each project within a given infrastructure category across all states without regard for local needs or resources. The key to the allocation of funds is found in the ratings system that directs Bank funds toward projects of regional or national significance, that improve the environment, or that promote economic growth.

Q.2. I believe that infrastructure legislation should be responsive to the needs of all the states and must distribute funds, both for highways and transit uses, in a way that recognizes the national interest in and across rural states, not just in more populated states. I don't see a clear prospect that this could be the case under S. 1926 absent a change in the project dollar threshold as indicated above. What are other changes to that bill, perhaps as part of a set of provisions for projects in low population density states, that would help ensure that projects in low population density states have as reasonable a chance of obtaining approval as projects from more densely populated states and areas?

A.2. The bill could be amended to provide for varying Bank allocations based on population, as is the case with current federal gasoline tax distributions to the states. The goal is to provide equal access to financial assistance to all areas of the country within the infrastructure categories covered by the Act.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR JOHNSON FROM FELIX G. ROHATYN

Q.1. Under S. 1926 the minimum threshold for a project to be eligible for assistance appears to be $75 million and there is a preference for projects that can attract private interest leveraging. In South Dakota, however, a $20 million project is a big project, and with around 10 people per square mile, my state does not have the traffic densities that are needed for viable highway toll projects. Yet there are important infrastructure needs in South Dakota that will serve national and regional interests. S. 1926 represents a thoughtful approach to helping meet infrastructure needs but, as noted, it seems that projects in a state like mine have been more or less left out. I'm optimistic that this can be rectified without changing the basic approach of the bill. So, I am looking at developing language to add to the bill with some type of alternate criteria for projects in low population density states, which I may define as a state with a population density of 25 or fewer persons per square mile. I have the following questions regarding alternate criteria for projects in a low population density state:

Q.1.a. Assuming a highway project threshold in such states in the range of $15–$20 million, what thresholds would you suggest for the other types of eligible projects (water, etc.), or should the thresholds all be the same?

A.1.a. As I noted in responding to Senator Crapo's concerns, I fully agree with him and Senator Johnson that the national infrastructure bank must fund projects in low-population states and regions. Regarding the first part of Senator Johnson's question, I believe that dollar thresholds for all projects should be the same in order to achieve the best possible allocation of federal investment dollars. But if this creates a potential bias in favor of big projects with only limited non-local benefits, I would suggest that projects be accepted for review if they are of a certain dollar size or are represented to have national (non-local) benefits in excess of a certain level.

Q.1.b. If one were to set an even lower dollar threshold for projects on Indian Reservations, what might that be?

A.1.b. Projects on Indian Reservations should be subject to the same threshold and criteria. If Congress were to seek subsidies for these projects, they should be separately accounted for and appropriated, preferably as part of the application for Bank assistance.

Q.1.c. Congestion reduction is not an appropriate evaluation criteria for projects in a state like mine. And, as noted, we don't have the population or traffic densities to make leveraging very practical. Assuming that congestion reduction and leveraging were made not applicable to review of projects in a low population density state, are there any other criteria in S. 1926 that you would recommend be made inapplicable to review of projects from a low population density state, in order to ensure that projects from such a state would have as fair a chance of approval as projects from elsewhere?

A.1.c. It is probably the case that projects in low-density areas—for example, rural highway segments—do not alleviate congestion to the extent that urban projects may, but they are more likely to ease commercial traffic for out-of-state users. That is, a highway in a rural area benefits non-local people more than projects in an urban area. I think this is a leveling factor in the allocation of investment dollars.

Q.2. What other suggestions do you have for enhancing infrastructure investment in a low population density state?

A.2. I also would favor block grants to states for projects of smaller scope than those of interest to the Bank. Moreover, states could create their own financial institutions analogous to the Bank for local needs.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM FELIX G. ROHATYN

Q.1. As I understand it, under S. 1926, a project is ineligible unless it involves a Federal commitment of at least $75 million. In a rural state, $20 million is a big project and $50 million is a very big project. In rural states, projects can be much less expensive than $75 million and still be regionally or nationally significant. To avoid excluding projects in large tracts of America from eligibility under the bill, I would consider setting a separate, lower dollar threshold for projects in a low population density state. I don't see any reason why such an approach would adversely impact the basic thrust of the bill. Do you?

A.1. I completely agree with Senator Crapo that the national infrastructure bank should not exclude projects in low population states. I would suggest, however, that rather than set up different rules based on population density, we develop a formula that establishes a threshold federal commitment or purported federal benefits over a different threshold. This would account for the likelihood that, for example, interstate highway improvements in low-density areas would have proportionately greater non-local benefits than comparable projects in major urban areas. I also would favor a population-based block grant to states for projects below these thresholds, which also would help states with relatively smaller projects.

Q.2. I believe that infrastructure legislation should be responsive to the needs of all the states and must distribute funds, both for highways and transit uses, in a way that recognizes the national interest in and across rural states, not just in more populated states. I don't see a clear prospect that this could be the case under S. 1926 absent a change in the project dollar threshold as indicated above. What are other changes to that bill, perhaps as part of a set of provisions for projects in low population density states, that would help ensure that projects in low population density states have as reasonable a chance of obtaining approval as projects from more densely populated states and areas?

A.2. My answer to the first question applies here as well. In addition, I would note that in contrast to low-density states, high-density states will have greater capability to support projects locally. For that reason, I would hesitate to create specific carve-outs for states in different situations at this point. The point of the proposal is to invest federal dollars in the best possible manner, and it is not clear to me that, given the changes I proposed in answering Senator Crapo's first question, low-density states would be at a severe disadvantage in terms of unmet needs.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR JOHNSON FROM TRACY WOLSTENCROFT

Under S.1926 the minimum threshold for a project to be eligible for assistance appears to be $75 million and there is a preference for projects that can attract private interest leveraging. In South Dakota, however, a $20 million project is a big project, and with around 10 people per square mile, my state does not have the traffic densities that are needed for viable highway toll projects. Yet there are important infrastructure heeds in South Dakota that will serve national and regional interests. S. 1926 represents a thoughtful approach to helping meet infrastructure needs but, as noted, it seems that projects in a state like mine have been more or less left out. I'm optimistic that this can be rectified without changing the basic approach of the bill. So I am looking at developing language to add to the bill with some type of alternate criteria for projects in low population density states, which I may define as a state with a population density of 25 or fewer persons per square mile. I have the following questions regarding alternate criteria for projects In a low population density state:

Q.1.a. Assuming a highway project threshold in such states in the range of $15–$20 million, what thresholds would you suggest for the other types of eligible projects (water, etc.), or should the thresholds all be the same?

A.1.a. I believe the setting of minimum thresholds is a policy decision best left to the Congress. In the interest of simplicity; a single minimum threshold may be advisable.

Q.1.b. If one were to set an even lower dollar threshold for projects on Indian Reservations, what might that be?

A.1.b. I have no specific expertise to add on the appropriate threshold for projects on Indian Reservations.

Q.1.c. Congestion reduction is not an appropriate evaluation criteria for projects in a state like mine. And as noted, we don't have the population or traffic densities to make leveraging very practical. Assuming that congestion reduction and leveraging were made not applicable to review of projects in a low population density state, are there any other criteria in S. 1926 that you would recommend be made inapplicable to review of projects from a low population density state, in order to ensure that projects from such a state would have as fair a chance of approval as projects from elsewhere?

A.1.c. Congestion reduction is just one of a series of criteria outlined in S. 1926, many of which should apply equally to projects in low population density states—including for example the promotion of economic growth, environmental improvement, and mobility improvements.

Q.2. What other suggestions do you have for enhancing infrastructure investment in a low population density state?

A.2. The key task for enhancing infrastructure investment in a low population density state—as with any state—is to identify funding sources to pay for this investment Although the National Infrastructure Bank may provide federal financing support (e.g., loans with low interest rates), ultimately any project must be paid for (or loans must be repaid with) a funding source such as state tax revenues or user fees such as tolls. In addition, as you know Federal law permits the establishment of State Infrastructure Banks to enable the creation of revolving loan funds capitalized by Federal grants.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM TRACY WOLSTENCROFT

Q.1. As I understand it, under S. 1926, a project is ineligible unless it involves a Federal commitment of at least $75 million. In a rural state, $20 million is a big project and $50 million is a very big project. In rural states, projects can be much less expensive than $75 million and still be regionally or nationally significant. To avoid excluding projects in large tracts of America from eligibility under the bill, I would consider setting a separate, lower dollar threshold for projects in a low population density state. I don't see any reason why such an approach would adversely impact the basic thrust of the bill. Do you?

A.1. The criteria in S. 1928 establish that the definition of "qualified infrastructure projects" should be limited to those projects of "regional or national significance," as this will help to ensure that federal support is directed to projects that will have the greatest impact on the various public policy objectives defined in the legislation. I defer to the Congress to define the appropriate dollar threshold, and to decide whether or not to set different minimum thresholds for different types of states (e.g., by population density).

Q.2. I believe that infrastructure legislation should be responsive to the needs of all states and must distribute funds, both for highways and transit uses, in a way that recognizes the national interest in and across rural states, not just in more populated states. I don't see a clear prospect that this could be the case under S. 1926 absent a change in the project dollar threshold as indicated above. What are other changes to that bill, perhaps as part of a set of provisions for projects in low population density states, that would help ensure that projects in low population density states have as reasonable a chance of obtaining approval as projects from more densely populated states and areas?

A.2. I would defer to the Congress on the policy decision of whether or not to support smaller projects in low population density states. Should the Congress decide to do so, one option would be the provision of technical assistance to help in securing alternative financing sources.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM JANET F. KAVINOKY

Q.1. As I understand it, under S. 1926, a project is ineligible unless it involves a Federal commitment of at least $75 million. In a rural state, $20 million is a big project and $50 million is a very big project. In rural states, projects can be much less expensive than $75 million and still be regionally or nationally significant. To avoid excluding projects in large tracts of America from eligibility under the bill, I would consider setting a separate, lower dollar threshold for projects in a low population density state. I don't see any reason why such an approach would adversely impact the basic thrust of the bill. Do you?

A.1. The Chamber recognizes that that the absolute size of a project is not always related to its national or regional significance. For example, the Federal Aid Highway Program allows states with varying budgets to classify certain projects as large-scale, although they may cost significantly different amounts.

If the goal of S. 1926 is to make assistance available to any project of regional or national significance, the Chamber supports alternative criteria beyond dollar amount to determine the project's significance and eligibility for a financing commitment from a national infrastructure bank. For example, if a state is the entity requesting financing assistance in the form of direct loans, letters of credit or loan guarantees, the size of a project relative to the state's budget, or the potential economic impact of the project relative to the state's economic footprint could be taken into account.

Q.2. I believe that infrastructure legislation should be responsive to the needs of all the states and must distribute funds, both for highways and transit uses, in a way that recognizes the national interest in and across rural states, not just in more populated states. I don't see a clear prospect that this could be the case under S. 1926 absent a change in the project dollar threshold as indicated above. What are other changes to that bill, perhaps as part of a set of provisions for projects in low population density states, that would help ensure that projects in low population density states have as reasonable a chance of obtaining approval as projects from more densely populated states and areas?

A.2. The Chamber recognizes that this is a common dilemma in national legislation. There are a wide variety of quantitative and qualitative criteria that could be taken into account beyond a project dollar threshold. Examples include a quantitative cost-per-capita measure and a qualitative assessment of the importance of the project to the regional and national economy. An effective cost-benefit analysis would need to be relative to size, population served, and a host of other factors.

However, the Chamber believes that a national infrastructure bank should be a financial institution that is explicitly chartered with providing financing to large projects of regional and national significance; by definition, financing implies the need for projects that can generate revenue streams to repay lenders or provide returns to equity holders. Therefore, it would meet only certain infrastructure needs and should not be considered a substitute for direct, user-fee based Federal funding through highway and transit authorization bills. A national infrastructure bank is only one of the tools that could be used to meet transportation and other infrastructure needs. Given the purpose of S. 1926, it is reasonable to assume that many projects in low-population density states will not meet the requirements of national or regional significance, no matter how flexible the criteria is.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR JOHNSON FROM JANET F. KAVINOKY

Q.1. Under S. 1926 the minimum threshold for a project to be eligible for assistance appears to be $75 million and there is a preference for projects that can attract private interest leveraging. In South Dakota, however, a $20 million project is a big project, and with around 10 people per square mile, my state does not have the traffic densities that are needed for viable highway toll projects. Yet there are important infrastructure needs in South Dakota that will serve national and regional interests. S. 1926 represents a thoughtful approach to helping meet infrastructure needs but, as noted, it seems that projects in a state like mine have been more or less left out. I'm optimistic that this can be rectified without changing the basic approach of the bill. So, I am looking at developing language to add to the bill with some type of alternate criteria for projects in low population density states, which I may define as a state with a population density of 25 or fewer persons per square mile. I have the following questions regarding alternate criteria for projects in a low population density state: Assuming a highway project threshold in such states in the range of $15–20 million, what thresholds would you suggest for the other types of eligible projects (water, etc.), or should the thresholds all be the same?

A.1. The costs of different types of infrastructure projects are likely to vary, and the Chamber believes that setting different thresholds for various types of infrastructure is reasonable. The Chamber does not have the type of data to sufficiently advise you on specific thresholds, but recommends you consult with the American Society of Civil Engineers, a group that is well versed in all kinds of infrastructure, and would have the expertise and figures to assist you in determining such numbers.

Projects that are regionally or nationally significant but cannot generate sufficient revenue streams to be considered for project financing can—and should—be addressed in traditional infrastructure authorization bills.

Q.2. If one were to set an even lower dollar threshold for projects on Indian Reservations, what might that be?

A.2. The purpose of the infrastructure bank is to take feasible projects that can draw private capital, and serve as a lender of last resort. This bank is not designed to replace the Federal Aid Highway Program, to be a federal grant program, or to spread money broadly around the country. Rather, it is designed so that critical projects of national and regional significance have sufficient funding to be completed. The Chamber believes that concerns over projects on Indian Reservations are better suited to be addressed in the next surface transportation authorization.

Q.3. Congestion reduction is not an appropriate evaluation criteria for projects in a state like mine. And, as noted, we don't have the population or traffic densities to make leveraging very practical. Assuming that congestion reduction and leveraging were made not applicable to review of projects in a low population density state, are there any other criteria in S. 1926 that you would recommend be made inapplicable to review of projects from a low population density state, in order to ensure that projects from such a state would have as fair a chance of approval as projects from elsewhere?

A.3. Without changing the fundamental purpose of the bill and significantly altering the role of the federal government, some projects will remain ineligible for funding from the bank. However, there are projects outside of congestion reduction that may match the intent of the legislation. The Chamber believes that the role of the federal government is to ensure that national needs are met and to follow its constitutional obligation to protect interstate commerce. For example, projects enhancing the connectivity of major economic regions to one another and connecting less populated areas to economic centers are certainly in the national interest. Furthermore, the federal government bears a significant part of the responsibility to ensure that legacy assets, such as the Interstate Highway System, are maintained and improved and to maximize utilization of existing networks. Any of these projects may fit the criteria for a project of regional or national significance.

Q.4. What other suggestions do you have for enhancing infrastructure investment in a low population density state?

A.4. Every funding option and financing strategy must be on the table in order to provide the needed infrastructure in any state. Perhaps the single most important issue at all levels of government is fiscal stability: identifying stable revenue streams for direct pay-as-you-go investment or those that can be leveraged for project financing. In addition, speeding project delivery times and removing barriers to investment will also expand the opportunity to maintain, modernize and expand infrastructure.

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

National
Urban League

Empowering Communities.
Changing Lives.

STATEMENT FOR THE RECORD OF

MARC H. MORIAL

PRESIDENT AND CEO
NATIONAL URBAN LEAGUE, INC.

Before the

SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Hearing on

THE CONDITION OF OUR NATION'S INFRASTRUCTURE AND PROPOSALS FOR NEEDED IMPROVEMENTS

March 11, 2008

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THE CONDITION OF OUR NATION'S INFRASTRUCTURE AND PROPOSALS FOR NEEDED IMPROVEMENTS

March 11, 2008

Mr. Chairman, as President and CEO of the National Urban League (NUL), I am pleased to submit a statement for the record in support of S. 1926, the "National Infrastructure Bank Act of 2007." I congratulate you and Senator Hagel for your leadership and longstanding work on identifying strategies to address our nation's infrastructure crisis. We believe that S. 1926 could play an important role in our economically underserved urban areas – especially in the cities where our 101 Urban League affiliates are located around the country in 36 states and the District of Columbia.

S. 1926 would establish the National Infrastructure Bank as an independent entity of the Government, tasked with evaluating and financing capacity-building infrastructure projects of substantial regional and national significance. According to the legislation, infrastructure projects that would come under the bank's consideration are publicly-owned mass transit systems, housing properties (such as public housing), roads, bridges, drinking water systems, and wastewater systems. Study after study has documented the current conditions of each of these vital infrastructure systems, the most notable being the American Society of Civil Engineers' (ASCE) 2005 Infrastructure Report Card (a new edition of the Report Card is expected in 2009). As you know, the ASCE Report Card assigned an overall grade of D to 15 infrastructure categories on the basis of condition, performance, capacity, and funding. In addition, the ASCE report also concluded in 2005 that the total price tag to adequately address all of America's infrastructure needs would be $1.6 trillion over a five-year period. The ASCE further notes in a recent Special Report on "The Infrastructure Crisis" that the 2005 figure excluded security needs, which have not yet been adequately assessed. [1]

[1] "The Infrastructure Crisis," by Robert L. Reid, ASCE ce Magazine, American Society of Civil Engineers, Special Report, January 2008.

Recognizing the role that infrastructure investment can play as a "job - creation machine," the National Urban League called for the concept of an infrastructure bank when we released our blueprint for economic equality, *The Opportunity Compact,* at our Annual Conference last July 2007 in St. Louis, Missouri. The *Compact* is a comprehensive set of principles and policy recommendations set forth by the National Urban League designed to empower all Americans to be full participants in the economic and social mainstream of this nation. It is the culmination of extensive research and policy analysis by the National Urban League Policy Institute (NULPI) and is based upon the input of dozens of policy experts from academia, public policy think tanks, non-profit service and advocacy organizations, the business sector, and the Urban League movement. As the foundation for such a plan, the NUL has clearly identified four cornerstones that reflect the values represented by the American dream: (1) The Opportunity to Thrive (Children), (2) The Opportunity to Earn (Jobs), (3) The Opportunity to Own (Housing) and (4) The Opportunity to Prosper (Entrepreneurship). **[I have attached a copy of *The Opportunity Compact* for inclusion in the record following my statement.]**

Under the "The Opportunity to Earn" of the *Compact,* the NUL believes that every willing adult in America should have a job that allows them to earn a decent wage and provide a reasonable standard of living for themselves and their families. Among other recommendations, the NUL called for the creation of an **Urban Infrastructure Bank** to fund reinvestment in urban communities. The Urban Infrastructure Bank would be financed by a stream of federal bond revenue used to create a large pool of funds to rebuild schools, water, wastewater, parks, playgrounds, community centers, recreation centers, as well as streets in economically underserved urban areas. Such a bank would allow a significant infusion of capital expenditures into employment generating activities in urban communities where African American and other minorities reside. ***The National Urban League therefore recommends improving S. 1926 by including a requirement that jobs generated through the National Infrastructure Bank be first made available to disadvantaged residents of local urban communities where the infrastructure projects are located.***

In the area of public transportation, the benefits of infrastructure investment would mean not only *job creation*, but also *job access* for especially low-income workers:

- Job Creation: According to the Surface Transportation Policy Partnership (STPP), a study by Cambridge Systematics finds that 314 jobs and a $30 million gain in sales for businesses are created for each $10 million invested in transit capital funding, and over 570 jobs are created for each $10 million in the short run. While new highway construction does lead to an increase in employment, these jobs are mostly for non-local workers who come to an area for a specific job and then leave when completed. However, transit investments create a wealth of employment opportunities in the short *and* the long run. Of the 350,000 people directly employed by public transportation systems, more than 50 percent are operators or conductors. In addition, 10,000 to 20,000 professionals work under contract to public transportation systems or are employed by companies and government offices that support these systems. Thousands of others are employed in related services (i.e., engineering, manufacturing, construction, retail, etc.).

- Job Access: Investment in public transportation can also help connect isolated inner city residents with suburban job centers. In their Survey Series (February 2005), The Brookings Institution found that African Americans are more geographically isolated from jobs than any other group, particularly in the Midwest. With the exception of Oakland and New Haven, all the cities with the greatest job mismatch for African Americans are cities where Urban League affiliates are located (Detroit, Chicago, Newark, Philadelphia, St. Louis, Cleveland, Los Angeles, Cincinnati, San Diego, Indianapolis, Houston, Dallas, and Atlanta. [2] According to STPP, low-income workers spend up to 36 percent of their household budget on transportation services, mostly to gain access to job sites. The STPP notes that "compact cities with good transit services, as well as excellent para-transit services in rural areas, can significantly improve the jobs-housing balance and reduce the cost of job access, especially to low-income families." That, "the equitable distribution of transportation services to provide job access to all Americans must be a central goal of transportation policy." [3]

- In addition to job creation and job access, investment in public transportation has important positive implications for education. According to a report by the American Public Transportation Association, approximately 12 percent of public transportation users are en route to schools of various types; school districts, educators and concerned parents are relying on expanded public transportation services. [4]

The National Infrastructure Bank can also play a key investment role in two other aspects of urban life in desperate need of attention, namely our crumbling public schools and our nation's deteriorating public housing developments. :

- According to the Education Statistics Quarterly, [5] in 1998, the average public school building in the United States was 42 years old. The mean age ranged

[2] "Job Sprawl and the Spatial Mismatch between Blacks and Jobs," by Michael A. Stoll, Metropolitan Policy Program, The Brookings Institution, Survey Series, February 2005.
[3] "Transportation and Jobs," Surface Transportation Policy Project, fact sheet, see http://www.transact.org/library/factsheets/jobs.asp
[4] McCollum Management Company. Transit Performance Monitoring System (TPMS) Results, Summary Report for Phases I and II. Washington: American Public Transportation Association, Federal Transit Administration, February 2002.
[5] "How Old Are America's Public Schools?" by Cassandra Rowand, Education Statistics Quarterly, Vol 1, Issue1, Topic: Elementary/Secondary Education, 1998.

from 46 years in the Northeast and Central states [where many of our Urban League affiliates are located], to 37 years in the Southeast.

- As outlined in S. 1926, the Department of Housing and Urban Development (HUD) reports that there are 1.2 million units of public housing with critical capital needs totaling $18 billion. In a time when there is such a critical shortage of rental housing for our poorest citizens, meeting the capital needs of public housing must be among the priority infrastructure projects financed by a national infrastructure bank.

The public-private investment activities generated by an Infrastructure Bank also have important implications for **economic opportunity for urban minority businesses** where the projects are financed. Under the "Opportunity to Prosper" of the National Urban League's *Opportunity Compact*, we believe that every individual in America who possesses entrepreneurial vision, ingenuity, drive and desire should have access to the resources needed to establish and grow a viable business enterprise. ***Therefore, the National Urban League recommends further improving S. 1926 by requiring explicit language pertaining to strong enforcement of federal minority business opportunity goals to ensure minority participation in the public-private investment activities generated by the infrastructure bank.***

Mr. Chairman, I thank you for the opportunity to submit a statement for the hearing record on this important national initiative and I look forward to working with you to move this legislation towards enactment this year.

National Urban League *(www.nul.org). Established in 1910, the National Urban League is the nation's oldest and largest civil rights organization devoted to empowering African Americans to thrive in the economic and social mainstream. Today, the National Urban League, headquartered in New York City, spearheads the non-partisan efforts of its 101 local affiliates in 36 states and the District of Columbia, providing direct services to more than 800,000 people annually, and impacting millions more through its advocacy and research.*

THE OPPORTUNITY COMPACT

Blueprint for Economic Equality

National Urban League Policy Institute
Valerie Rawlston Wilson, PhD, Renee Hanson and Mark McArdle

INTRODUCTION TO THE OPPORTUNITY COMPACT

Opportunity* ▪ *noun
: a good chance for advancement or progress
Compact* ▪ *noun
: a signed written agreement between two or more parties to perform some action

WHAT IS THE OPPORTUNITY COMPACT?

The Opportunity Compact is a comprehensive set of principles and policy recommendations set forth by the National Urban League (NUL) designed to empower all Americans to be full participants in the economic and social mainstream of this nation. In pursuit of this end, NUL 1) identifies principles that reflect the values inherent in the American dream; 2) examines the conditions that have separated a significant portion of the American population - particularly the poor and disadvantaged residents of urban communities - from accessing that dream; 3) proposes, for honest evaluation and discussion, several policy recommendations intended to bridge the gap between conceptualization and realization of the American dream.

The Opportunity Compact is the culmination of extensive research and policy analysis by the National Urban League Policy Institute (NULPI) and is based upon the input of dozens of policy experts from academia, public policy think tanks, non-profit service and advocacy organizations, the business sector, and the Urban League movement. Among other things, the NULPI hosted a series of five roundtable discussions and obtained feedback and recommendations from numerous experts concerning the development of a coherent and comprehensive plan for empowering the nation's urban communities. As the foundation for such a plan, NUL has clearly identified four cornerstones that reflect the values represented by the American dream: (1) The Opportunity to Thrive (Children), (2) The Opportunity to Earn (Jobs), (3) The Opportunity to Own (Housing) and (4) The Opportunity to Prosper (Entrepreneurship). These cornerstones are supported by a list of ten policy priorities.

WHO ARE THE ENTITIES INVOLVED?

The words *opportunity* and *compact,* as defined above, offer a concise and self-explanatory description of what *The Opportunity Compact* represents – an agreement between interested parties to take actions that will improve the chances for advancement and progress of those living in America's cities. The diversity of talents, experiences, ideas and interests represented in the population of the United States is the greatest asset this country possesses. As such, NUL believes that the collaborative efforts of private citizens, national, state and local governments, community-based service providers and the business community will expand opportunities for advancement and progress among the poor, disadvantaged and underserved. The policy recommendations offered in this report are not a laundry list of things for the federal government to perform on behalf of a select group of citizens. Rather, there is a role for all parties – public and private - to play as we together seek to strengthen our nation by maximizing the potential of all our citizens.

WHAT IS THE DESIRED OUTCOME?

The National Urban League embarked upon the task of developing *The Opportunity Compact* with the goal of drawing upon the strength of NUL's ninety-seven year history as the nation's oldest and largest community-based movement for social and economic empowerment to reassert the organization as a proactive and effective agent in the development of public policy. This document serves as a vehicle through which to assert specific principles and policy recommendations as the foundation for a plan of action to address the challenges faced by those in urban communities throughout the country. As such, this document is also intended to elicit serious responses from the 2008 presidential candidates, legislators, the private sector, the public and other community-based organizations with the ultimate objective of putting in place a comprehensive plan for advancing the promise of America's cities. By generating new ideas, initiating productive partnerships and fostering collaboration, *The Opportunity Compact* seeks to expand access to the incentives and rewards that act as the driving force behind what makes this country great – personal responsibility, initiative and hard work.

CORNERSTONES & GUIDING PRINCIPLES OF THE OPPORTUNITY COMPACT

There are four cornerstones to *The Opportunity Compact*:

1. **Opportunity to Thrive (Children)**

   - Every child in America deserves to live a life free of poverty that includes a safe home environment, adequate nutrition, and affordable quality health care.

   - Every child in America deserves a quality education that will prepare them to compete in an increasingly global marketplace.

2. **Opportunity to Earn (Jobs)**

   - Every willing adult in America should have a job that allows them to earn a decent wage and provide a reasonable standard of living for themselves and their families.

   - Every adult in America should have equal access to the resources that enhance employability and job mobility, including postsecondary education and other investments in human capital.

3. **Opportunity to Own (Housing)**

   - Every adult in America should have access to the financial security that comes from owning a home.

4. **Opportunity to Prosper (Entrepreneurship)**

   - Every individual in America who possesses entrepreneurial vision, ingenuity, drive and desire should have access to the resources needed to establish and grow a viable business enterprise.

TOP TEN POLICY PRIORITIES OF THE OPPORTUNITY COMPACT

Opportunity to Thrive (Children)

1. Commit to mandatory early childhood education beginning at age three as well as guarantee access to college for all.

2. Close the gaps in the health insurance system to ensure universal healthcare for all children.

3. Establish policies that provide tools for working families to become economically self-sufficient.

Opportunity to Earn (Jobs)

4. Create an urban infrastructure bank to fund reinvestment in urban communities (e.g. parks, schools, roads).

5. Increase economic self-sufficiency by indexing the minimum wage to the rate of inflation and expanding the Earned Income Tax Credit to benefit more working families.

6. Expand "second chance" programs for high school drop outs, ex-offenders and at-risk youth to secure GEDs, job training and employment.

Opportunity to Own (Housing)

7. Adopt the "Homebuyer's Bill of Rights" as recommended by the National Urban League.

8. Reform public housing to assure continuing national commitment to low-income families.

Opportunity to Prosper (Entrepreneurship)

9. Strongly enforce federal minority business opportunity goals to ensure greater minority participation in government contracting.

10. Build capacity of minority business through expansion of micro-financing, equity financing and the development of strategic alliances with major corporations.

IMPLEMENTATION OF THE TOP TEN POLICY PRIORITIES

Opportunity to Thrive (Children)

1. **Commit to mandatory early childhood education beginning at age three as well as guarantee access to college for all.**

All children must enter school ready to take advantage of teaching and learning. According "Years of Promise", the report of the Carnegie Task Force on the Primary Grades, these early years are crucial in a young person's life when a firm foundation is laid for healthy development and lifelong learning. The National Urban League recommends that all three- and four-year olds have access to full day, developmentally appropriate, high quality early childhood education. Incentives should be put in place to encourage all service providers to become NAEYC (National Association for the Education of Young Children) accredited.

In addition to a commitment to education in early childhood, The National Urban League also recognizes that although the current system of K-12 education as a free public right may have been sufficient at a time when a high school education qualified people for most jobs in this nation, it is no longer enough. In a competitive global economy, more training, education and skills are needed for the jobs of the future. A program which provides sufficient per student funds to pay for basic tuition at most public universities (at least for two years) is a necessary component of a system that meets the needs of the future.

2. **Close the gaps in the health insurance system to ensure universal healthcare for all children.**

While Medicaid and the State Children's Health Insurance Program (SCHIP) have made tremendous progress in improving children's health insurance coverage, nine million children in America, almost 90 percent living in working households and a majority in two-parent families, are still uninsured. If enacted, the *All Healthy Children Act* (H.R. 1688) would close the coverage gap by simplifying and consolidating Medicaid and SCHIP while expanding eligibility for more children as well as pregnant women below 300% of poverty. In addition to the provision of health insurance, The National Urban League also recommends that the policies advancing universal healthcare encompass improvements in access and quality of care in poor communities.

3. **Establish policies that provide tools for working families to become economically self-sufficient**

Family support policies are a crucial part of moving low-income families into economic self-sufficiency. Since many of the country's low-income families are headed by single mothers, the National Urban League urges the creation and implementation of policies that include, but are not limited to, quality child and infant care, transportation assistance, education and training programs that encourage, rather than penalize, additional skills attainment, and paid leave time for all working parents as proposed by the *Healthy Families Act.* The National Urban League also urges reconsideration of the 5-year lifetime limit for Temporary Assistance for Needy Families (TANF).

Opportunity to Earn (Jobs)

4. **Create an Urban Infrastructure Bank to fund reinvestment in urban communities (i.e. parks, schools, roads).**

The Urban Infrastructure Bank would be financed by a stream of federal bond revenue used to create a large pool of funds to rebuild schools, water, wastewater, parks, playgrounds, community centers, recreation centers, as well as streets in economically underserved urban areas. Such a bank would allow a significant infusion of capital expenditures into employment generating activities in urban communities.

5. **Increase economic self-sufficiency by indexing the minimum wage to the rate of inflation and expanding the Earned Income Tax Credit (EITC) to benefit more working families.**

The National Urban League has consistently supported increases in the federal minimum wage and has called for future increases to be indexed to inflation so that workers never again have to beg politicians to protect their income during the economy's inevitable ups and downs. At least four states currently index their minimum wage to prices; maintaining purchasing power for minimum wage workers without creating adverse effects for the broader state economy.

As accomplished through the EITC, alleviating the tax burden and supplementing the wages of low-income working families have been effective means of encouraging economic self-sufficiency through employment. The National Urban League recommends building upon the success of the EITC through: 1) simplification of the process for claiming the credit; 2) more outreach to eligible families who have not claimed the credit; and 3) increasing the size of benefits for all eligible families, including those without minor children and those with three or more minor children, in such a way that further reduces poverty and hardship among working families.

6. **Expand "second chance" programs for high school drop outs, ex-offenders and at-risk youth to secure GEDs, job training and employment.**

"Second chance" programs may include anything from blended high schools that provide flexibility for non-traditional students by integrating academic and career education to the development of a comprehensive reentry mechanism for ex-offenders that includes housing, job training, adult basic education, psychological counseling and drug treatment. The evidence suggests that local agencies could play an important intermediary role with employers in low-wage labor markets by providing job placement, transportation, basic skill enhancements, and assistance in developing career advancement strategies for low-wage adults. In addition to these "second chance" efforts it is also important to have in place a well-defined pipeline that facilitates the transition of socially and economically disadvantaged youth into the labor force through college, apprenticeships or internships.

Opportunity to Own (Housing)

7. **Adopt the "Homeowner's Bill of Rights" as recommended by the National Urban League.**

The National Urban League Homebuyer's Bill Of Rights asserts that every homebuyer in America should have: 1) The right to save for homeownership tax free; 2) The right to high quality homeownership education; 3) The right to truth and transparency in credit reporting; 4) The right to production of affordable housing for working families; 5) The right to be free from predatory lending; and 6) The right to aggressive enforcement of fair housing laws. The full list of recommendations for accomplishing these goals can be found on the National Urban League's website: (www.nul.org/PressReleases/2007/2007PR389.html).

8. **Reform public housing to assure continuing national commitment to low-income families**

In the judgment of the National Urban League, the HOPE VI program, while well-intentioned, is broken and in need of overhaul. Therefore, the National Urban League proposes a return to the core stated tenets of the program: *to transform public housing communities from islands of despair and poverty into a vital and integral part of larger neighborhoods; and, to create an environment that encourages and supports individual and family movement toward self-sufficiency.* The following actions are important in accomplishing this end: 1) HUD should be required to publish an updated list of public housing developments eligible for HOPE VI funds according to a new definition of 'severe distress' created in collaboration with public housing residents, housing advocates, housing experts, and others; 2) All public housing units subject to demolition or redevelopment under HOPE VI should be replaced with new public housing units on a one-for-one basis; 3) HUD should be required to issue regulations governing the administration of HOPE VI redevelopment activities, which should provide enforceable, on-going rights of resident participation; 4) Public housing residents should be guaranteed the right to occupy units redeveloped under HOPE VI, and the relocation rights of displaced residents should be strengthened and clarified.

Opportunity to Prosper (Entrepreneurship)

9. **Strongly enforce federal minority business opportunity goals to ensure greater minority participation in government contracting.**

In addition to the enforcement of established minority contracting goals, it is also imperative that these goals are updated and revised as the marketplace changes and grows. Compliance with established goals should be supplemented by appropriate matching between government agencies and potential minority contractors as well as maintenance of an appropriate mix of contracts attainable to businesses of various sizes. The National Urban League also calls for greater transparency in the government contracting process by making RFPs easier to access, conducting ongoing disparity studies, and providing truth in procurement spending through disclosure of the competitive and non-competitive bidding processes.

10. Build capacity of minority business through expansion of micro-financing, equity financing and the development of strategic alliances with major corporations.

Capacity building is an important part of sustaining a profitable business enterprise of any scale. The National Urban League proposes three distinct methods for providing access to the capital necessary to sustain and grow a business at any stage of development. These methods include: 1) micro-financing, which provides small business loans (typically under $100,000) to microentrepreneurs (those with five or fewer employees); 2) equity financing (money acquired from investors or the small-business owner) for businesses seeking to expand beyond the scale of a small-business; and 3) strategic alliances between major corporations and larger-scaled minority-owned businesses in search of the kind of synergistic relationships necessary for major industry presence and scale.

MAKING THE CASE

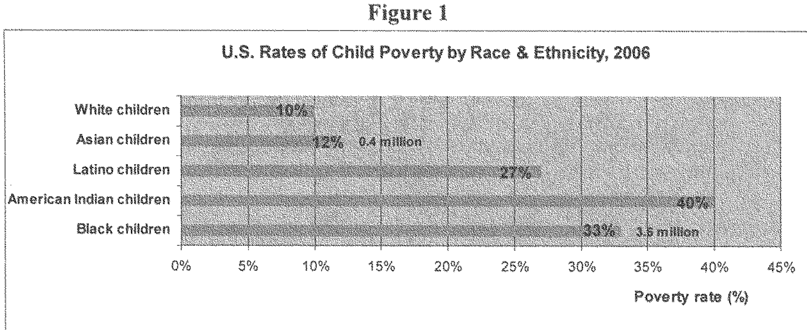
The Opportunity to Thrive (Children)

America's performance, relative to other global leaders, in the provision of services to children offers a sobering picture of our national priorities. According to UNICEF, among developed countries, the United States ranks 20 out of 24 in children's material well-being, 14 out of 24 in children's educational well-being, and last in children's health and safety[i]. These international comparisons only tell part of the story about the unforgiving injustices that minority children face daily due to disproportionate rates of poverty, inadequate education and a lack of accessibility to healthcare.

U.S. Childhood Poverty

On a daily basis we see the harsh and brutal toll that poverty has on the children of third-world countries. As a world leader, America along with the United Nations has made eradicating poverty a priority in less-developed countries. However, given the resources available in the United States, the statistics on childhood poverty in this country are alarming and inexcusable. Despite moderate economic growth, about 1.3 million more children were living in poverty in 2005 than in 2000.

Figure 1



Source: National Center for Children in Poverty, 2007

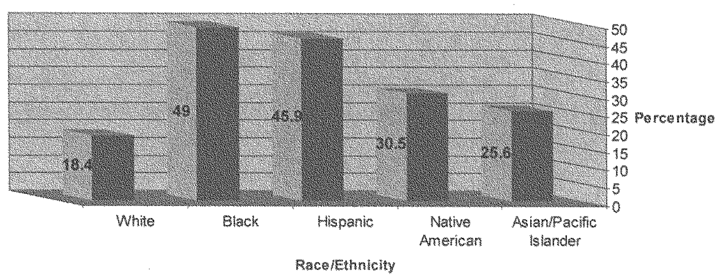
The fact that nearly 13 million American children live in families with incomes below the federal poverty level doesn't tell the entire story of disparities based on locale and race. Children in urban areas are more likely to live in low-income families than are rural or suburban children and the rate of poverty for African-American children (33%) is second only to that of American Indian children (Figure 1). The poverty disproportionately experienced by minority children and families have led to experiences in poor education and school facilities, a lack of quality health care, isolation in poor, segregated urban neighborhoods, and high unemployment and underemployment of family members.

Education and the Achievement Gap

Despite the goals of the No Child Left Behind (NCLB) Act, African-American and Latino students continue to lag behind their white and Asian American peers on national standardized achievement tests. However, the achievement gap is not the result of innate differences in ability. Rather, the disadvantages many minority students face on a daily basis can have a serious impact on their educational experiences. For example, minority students often attend high-poverty, poorly resourced schools with less rigorous curricula[ii] (Figure 2). They also experience the injustices of overrepresentation in special education classes and under-representation in gifted and advanced placement classes[iii]. In addition to inadequate resources, minority students are more likely to be taught by poorly

Figure 2

Poverty Rate of School Where Average Primary School Student Attends by Race/Ethnicity 2003-2004



Source: National Center for Education Statistics, Common Core of Data. Public Elementary/Secondary School Universe Survey

qualified or inexperienced teachers[iv]. Research also suggests students of color may experience bias, such as lower teacher expectations and less challenging academic standards than their white counterparts[v].

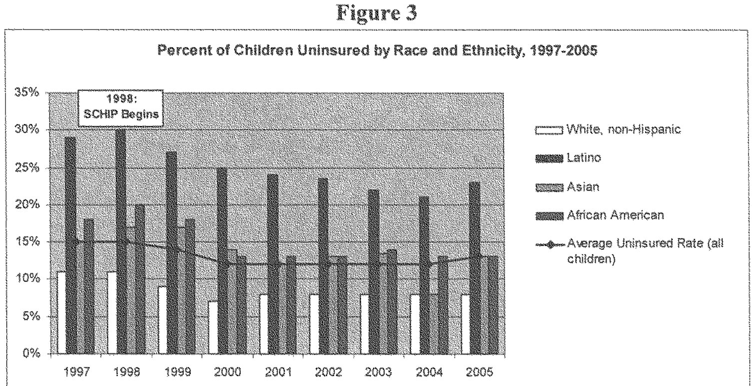
The gaps that exist in grade school often have their roots in the early stages of child development. Before entering kindergarten, the average cognitive scores of pre-school age children in the highest socioeconomic group are 60% above the average scores of children in the lowest socioeconomic group[vi]. At age 4, children who live below the poverty line are 18 months behind what is normal for their group; by age 10 that gap is still present[vii]. Third graders are supposed to know about 12,000 words; however, third grade children from low-income families with uneducated parents have vocabularies around 4,000 words, one-third as many as their middle-income peers[viii]. These statistics eventually translate into achievement gaps in high school as well. Statistics show that 12th grade African-American and Latino students have reading and math skills that are almost equivalent to eighth-grade white students[ix].

Health Disparities and Healthcare for Poor Families

Poor and minority children, especially African-American and Latino children, continue to lag behind whites and affluent children in almost every health indicator. Poor children and children of color are at a disproportionate risk for exposure to environmental hazards like lead paints, dampness and mold, and inadequate ventilation. As a result, African Americans and Latinos are two to six times more likely than whites to die from asthma[x] and African-American children are 5 times more likely than white children to suffer from lead poisoning[xi]. The pandemic of childhood obesity is also more common among African-American children. In 2003-2004, a quarter of non-Hispanic black females ages 12 to 19 were overweight, compared to 15 percent of non-Hispanic whites and 14 percent of Mexican American youth[xii]. Children who are overweight run the risk of developing type-2 diabetes, cardiovascular problems and arthritis.

Children from communities of color are less likely to have employer-based coverage and are more dependent upon government programs such as Medicaid and the State Children's Health Insurance Program (SCHIP) which provide a safety net for the growing number of families without private health insurance. Slightly more than half of insured African-American (51.3%) and Latino children (50.3%) are covered by these programs[xiii]. However, even since the inception of SCHIP, African Americans remain twice as likely than whites to go uninsured, while Latinos remain three times as likely to go uninsured than whites (Figure 3). The sad reality is that 74% of the 8 million Americans who went uninsured in 2004 were eligible for coverage.

Figure 3



Source: Families USA analysis of U.S. Census Bureau Current Population Survey

Uninsured African-American children are also at higher risk for reduced access to health care. For example, they are 26 percent more likely to have delayed medical care due to cost and have an 81 percent higher likelihood of having no usual place of health care[xiv].

The Opportunity to Earn (Jobs)

The Economic Plight of Working Families

The existence of a relatively large middle class makes the United States unique among nations and represents a real opportunity for social and economic mobility as a bridge between the extremes of poverty and wealth. For many Americans, attainment of middle class status has become synonymous with achieving the "American dream;" a dream rooted in a shared work ethic and sense of independence which says that there is value in work that empowers people to be responsible for their own well-being. By their own hard work people are able to provide certain necessities and comforts for themselves and their families including economic security, a safe home, a quality education for their children, reliable health care, and a comfortable retirement. This strong sense of independence, however, is balanced by a sense of fairness and social connectedness, as demonstrated by the public provision of certain types of safety nets.

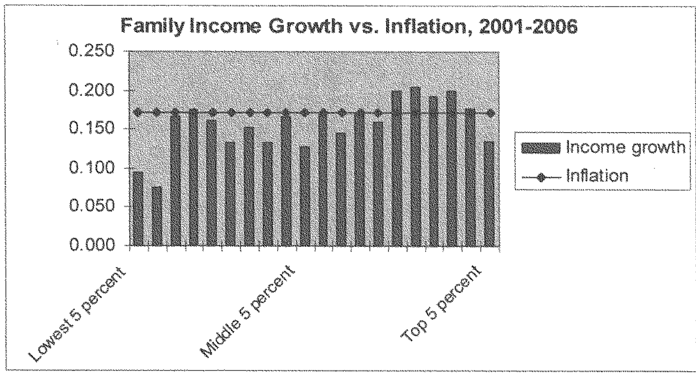
Maintaining the economic security of middle class families, as well as access into the middle class for lower income families, is a vital part of preserving the very principles that make this country unique. It is also a vital part of eliminating gaps in income, wealth and educational attainment within this country that are too often defined along racial lines. Unfortunately, for a growing segment of the population, particularly working and middle-class families, economic security has grown increasingly difficult to maintain. In fact, according to a 2006 report from the Center for American Progress, the increase in downward short-term mobility from 1997-98 to 2003-04 was driven by the experiences of middle-class households (those earning between $34,510 and $89,300 in 2004 dollars)[xv]. On the other hand, households in the top quintile saw no increase in downward short-term mobility, and households in the top decile ($122,880 and up) saw a *reduction* in the frequency of large negative income shocks[xvi]. Some of the factors affecting the economic well-being of working families include low wage growth, rising costs of food, housing, medical care, child care, higher education and gasoline, and the disappearance of employer-provided pensions and health care benefits.

The following tables and graphs offer some insight into the economic plight of America's working families[xvii], with special attention directed toward differences between white and non-white working families.

Income Growth and Changes in the Cost of Living

Working families have experienced a dramatic increase in the cost of living, while wage growth has failed to keep pace with these increases. For example, between 2000 and 2006, overall inflation increased by 17%[xviii]. This was accompanied by a less than 17% increase in the median family earnings of many low- and moderate-income working families (Figure 4). Between 2001 and 2006, there were especially dramatic increases in the price of goods such as gasoline (79%), college tuition and fees (45%), child care (26%), and medical care (23%).

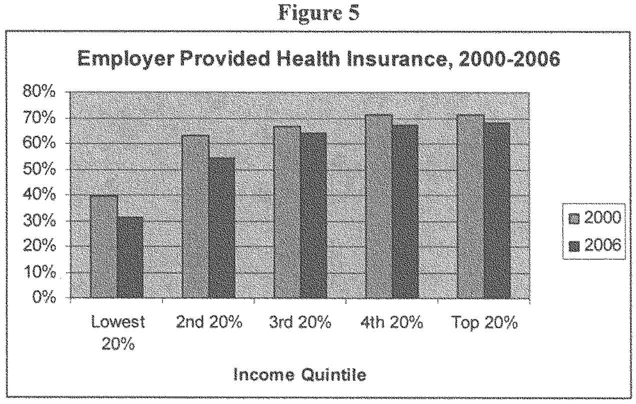
Figure 4



Source: NULPI analysis of U.S. Census Bureau Current Population Survey, March 2001 and 2007

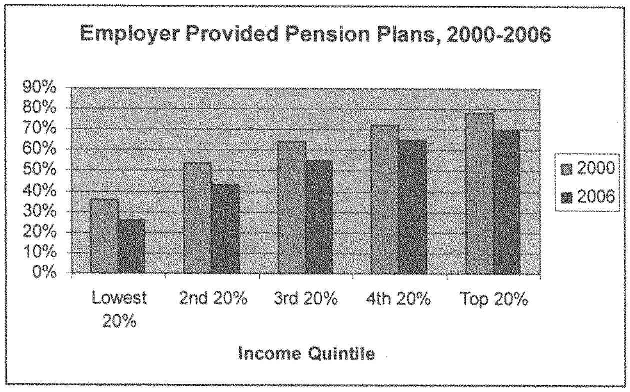
In addition to the wages earned through employment that enable families to pay for basic necessities like housing, food and clothing, health insurance coverage and pensions have also historically been closely linked to employment. The likelihood of receiving either of these benefits increases with a family's income which is representative of the fact that workers in better paying jobs are more likely to have access to employer-provided health insurance and pensions However, between 2000 and 2006 the percentage of working families with access to these benefits decreased across the board (Figures 5 & 6). At all levels of income, Hispanic workers are least likely to work for an employer that provides these benefits[xix].

Figure 5



Source: NULPI analysis of U.S. Census Bureau Current Population Survey, March 2001 and 2007

Figure 6



Source: NULPI analysis of U.S. Census Bureau Current Population Survey, March 2007

Poverty

Based on data from the 2007 March Supplement of the Current Population Survey (CPS), in 2006, 7% of working families were living below the poverty threshold, while more than one-fourth (26%) of working families lived below 200 percent of poverty (Figure 7). Working families with a minority parent were three to four times as likely to be in poverty as families with a white parent (Figure 8). This statistic has intergenerational implications. Research suggests that African-American children born in the bottom quartile are almost twice as likely to remain there as adults as white children born to parents with identical incomes[xx]. These differences persist even after controlling for parental background factors, such as whether the household was female-headed or receiving public assistance.

Figure 7

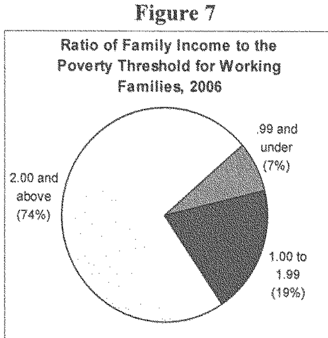
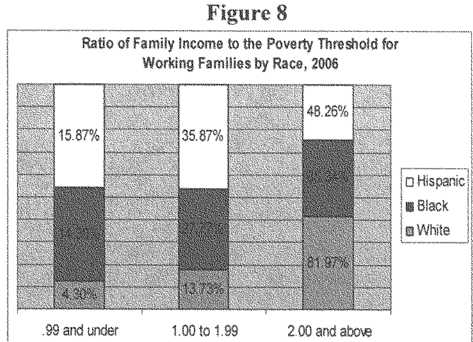


Figure 8



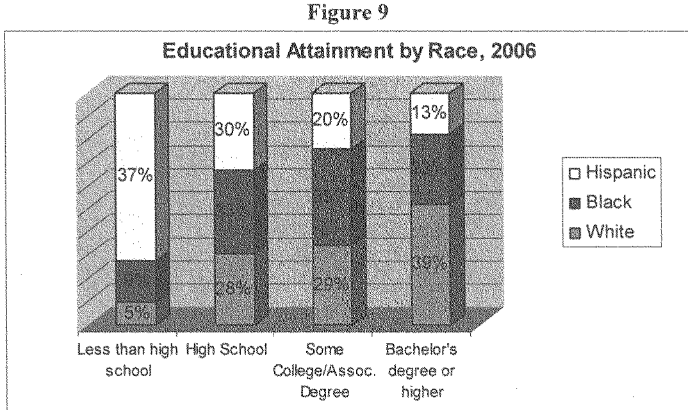
Source: NULPI analysis of U.S. Census Bureau Current Population Survey, March 2007

Family Composition and Educational Attainment

Two of the underlying factors in the existence of economic disparities along racial lines are differences in family composition and educational attainment. Family composition has a major effect on the number of wage earners in a home and thus the family's total income. Less than one-fourth of families in the lowest 20% of the income distribution have more than one member in the labor force, compared to 77% of families in the top 20 percent. In terms of family composition, more than half (54%) of African-American working families are headed by a married couple compared to 82% of white and 78% of Hispanic families. Over three-fourths (78%) of all single parent working families are headed by a female[xxi].

Educational attainment is also closely related to earnings. For example, according to 2006 estimates from the Bureau of Labor Statistics, individuals with a bachelor's degree earn more than one and a half times as much as high school graduates and more than twice as much as those without a high school diploma. Also, the black-white earnings gap narrows considerably when you compare median earnings of blacks and whites with a bachelor's degree or higher[xxii]. In 2006, 39% of adults in white working families had a bachelor's degree or higher, compared to 22% of African-American working families and 13% of Hispanic working families. (Figure 9).

Figure 9



Source: NULPI analysis of U.S. Census Bureau Current Population Survey, March 2007

Occupations of Adults in Working Families

Finally, the majority of non-white adults in working families are employed in service occupations (23% of African-American and 22% of Hispanic workers) while the majority of whites (24%) are employed in professional occupations[xxiii]. This too reflects differences in average educational attainment and much of the resulting differences in family income by race. However, based upon research in *The State of Black America 2006*, there is a general pattern of exclusion in the most desired management and professional occupations even for black males with the requisite educational qualifications. This pattern, known as "crowding out", also holds for the sales and office occupations[xxiv]. As a matter of fact, only 14% (67 out of 475) of occupations in the U.S. exhibit no "crowding out" and the average wage across "crowded" occupations is 74% lower than the average wage across "crowded out" occupations[xxv].

Invisible Men: The Urgent Problems of Low-Income African-American Males

The State of Black America 2007 was dedicated to various aspects of the plight of African-American males. In many ways, two different worlds exist for African-American males. In one world, the number of black men graduating from college has quadrupled since the passage of the 1964 Civil Rights Act; in the other, more black men are earning high school equivalency diplomas in prison each year than are graduating from college. In one world, black families consisting of a father and a mother have a median family income nearly equal to white families; in the other, more than half of the nation's 5.6 million black boys live in fatherless households, 40 percent of which are impoverished[xxvi]. The existence of these two worlds is both an example of what is possible, and a warning about the consequences of marginalization, racism and inequality.

Unemployment

Although the unemployment rate for all racial and ethnic groups follows the economic cycle (higher during recessions, lower during recoveries), black male unemployment is consistently higher than any other group and usually twice that of whites (Figure 10). If broken down by age group, one-third of black teens were unemployed in 2007, compared with only 16% of white teens (Figure 11). Although unemployment declines as men age, black unemployment is still double that of whites for each age group. These high rates of unemployment among black males have been attributed to a lack of skills necessary for participation in today's mainstream labor force, a shortage of relatively well-paying jobs for those with less than a college education, and disproportionately high rates of incarceration, accompanied by discrimination by employers against former prisoners.

Figure 10

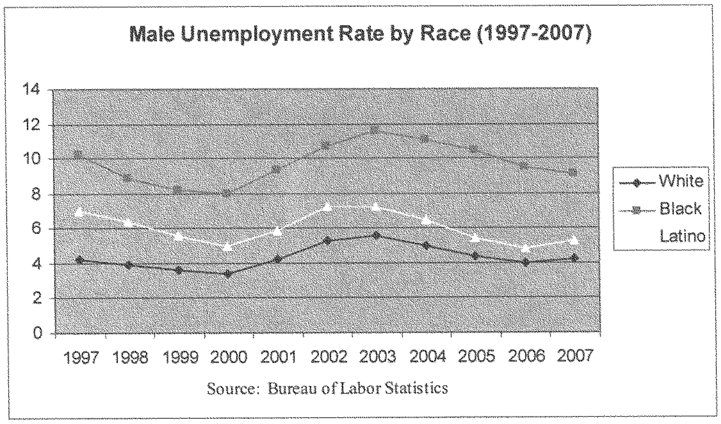


Figure 11

Education

One explanation for why black men experience higher rates of unemployment is the fact that the average level of educational attainment is lower for this group. In many inner cities, more than half of all black men do not finish high school[xxvii], and in 2004, 72 percent of black male high school dropouts in their twenties were jobless[xxviii]. In 2007, nearly 13 percent of all black men over age 25 had no high school diploma compared with only 7 percent of white men (Figure 12). At the upper end of the educational spectrum, black men attain master's degrees, PhD's and professional degrees at half the rate of white men. It has been well-documented that education is a major determinant of earning power and employability. In 2006 college graduates (bachelor's degree) earned over twice as much as high school dropouts and the unemployment rate of those without a high school diploma was nearly three times the unemployment rate of those with a bachelor's degree (Figure 13).

Figure 12

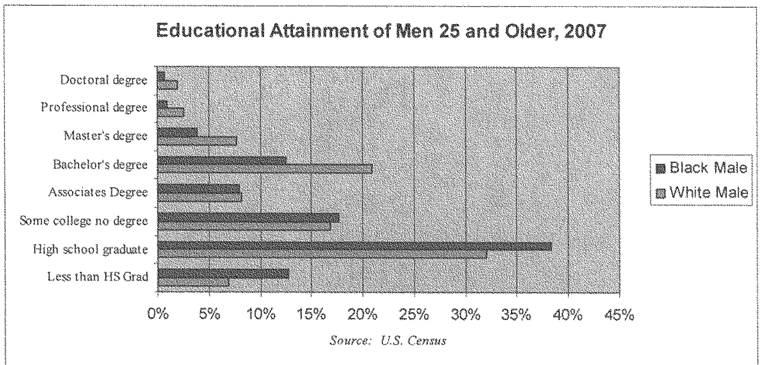
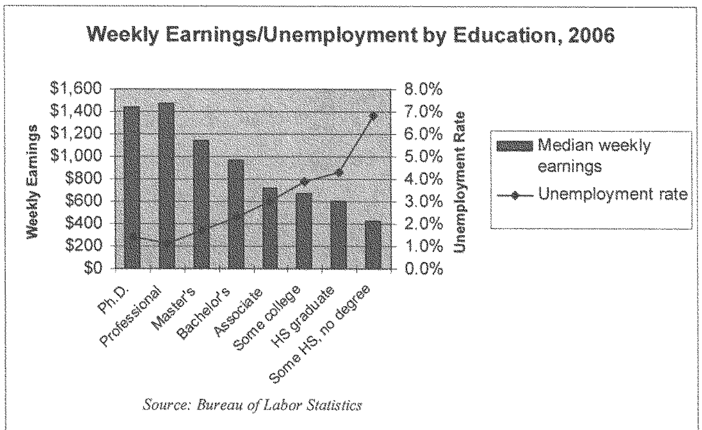


Figure 13



Incarceration

Another contributing factor to higher unemployment for black men is their much higher incarceration rates. Although comprising only 12 percent of the U.S. population, 37 percent of all prison inmates were black in 2006 (Figure 14), and the black incarceration rate was *over 6 times* the incarceration rate for whites (Figure 15). The rate of incarceration is highest for men between the ages of 25 and 29, when over 7% of black men are in prison, compared with only 1% of white men (Figure 16). The rate of incarceration among black males has been increasing since the 1990s due in large part to harsher punishments for repeat offenders (e.g. "three strikes law") and drug laws that impose harsher sentences on those found in possession of crack cocaine. In 2005, drug offenders comprised 20 percent of state prisoners and almost 55 percent of federal prisoners[xxix]. The U.S. now has the highest reported incarceration rate in the world, at 737 inmates per 100,000 persons in the population (followed by Russia at 611 per 100,000). A history of incarceration not only interferes with educational attainment, but also becomes a significant employment barrier; therefore, the effect of even a short imprisonment lasts a lifetime.

Figure 14

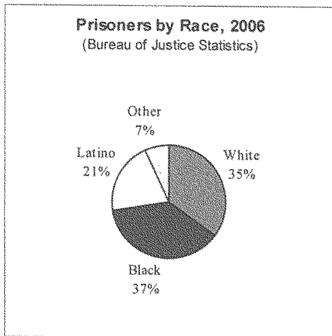


Figure 15

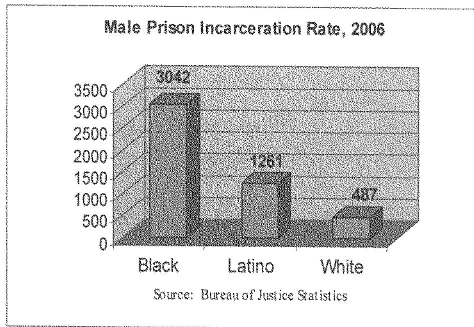
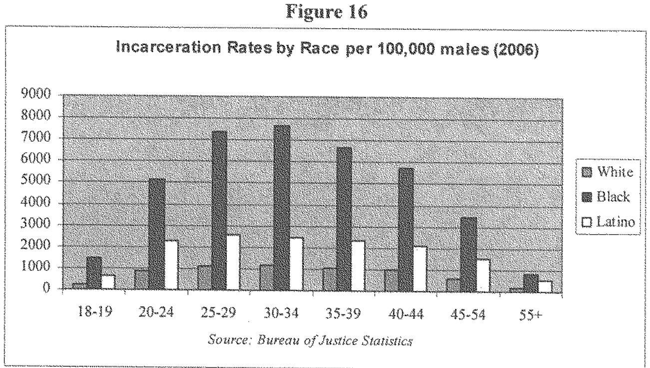


Figure 16



The Opportunity to Own (Housing)

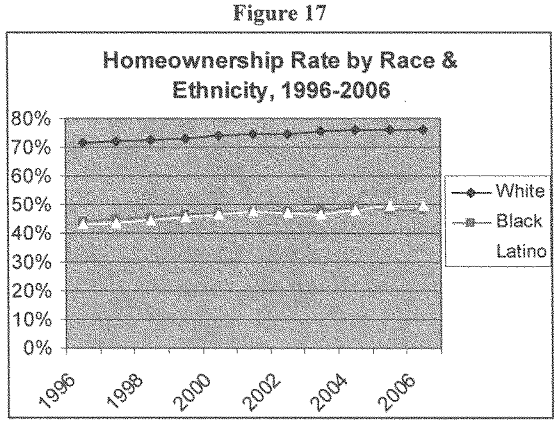
For most Americans, the largest single asset they will ever own will be their home. Homeownership means greater personal wealth; therefore, empowering more Americans to become responsible homeowners takes us a step closer to closing the wealth gap that exists between blacks and whites in the United States. In addition to the economic benefits, homeownership has also been linked to educational gains for children, increased civic participation and even health benefits[xxx].

Unfortunately, race has proven to be a prevailing factor in securing the neccesary capital for home ownership. Many minority buyers face the problems of discrimatory lending practices, decreased housing affordability, high rates of home foreclosures, and increased incidence of high-cost loans.

Homeownership Rates

According to the U.S. Census, nearly 70 percent of Americans owned their homes in 2006 – down slightly from the all time high in 2004. Yet there are troubling disparities in homeownership rates when segmented by race (Figure 17). After increasing for the previous ten years, homeownership declined for blacks between 2004 and 2006 (from 49.1% in 2004 to 47.9% in 2006; nearly 28 points below non-Hispanic whites).

Figure 17



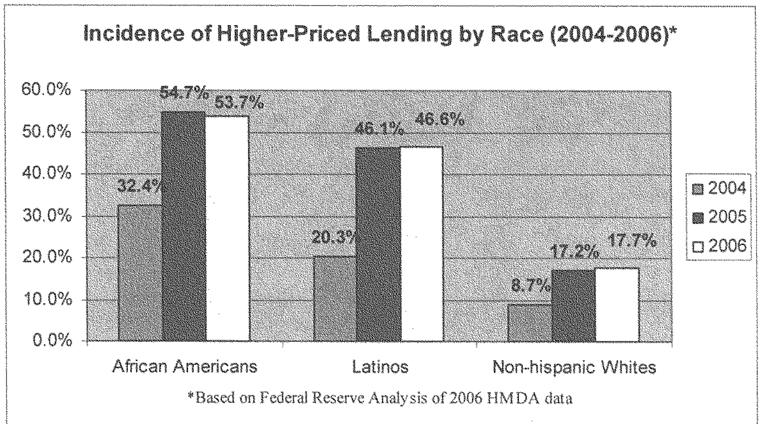
Source: U.S. Census

The **National Urban League Homebuyer's Bill Of Rights,** released in March 2007, identifies four major obstacles standing in the way of more Americans owning their own homes: 1) lack of net savings for down payments and closing costs; 2) lack of information on how to shop for homes and apply for loans; 3) lack of quality affordable units in livable locations; and 4) lack of consumer protection. Other studies have found that lower homeownership rates for African Americans are related to lower application rates, which in turn were caused by differences in the role that families play in helping to generate mortgage down payments, as well as differences in wealth, income and marital status[xxxi].

Lending Practices

The now deflating housing bubble was preceded by a lending industry that could be characterized by three main trends: (1) an increase in lending products, (2) more places to get a loan, and (3) a distinct need for housing counseling. Compared with only a handful of products available ten years ago, there are now a myriad of lending products including interest-only loans, reverse mortgages, and 15-year loans with balloon payments. Whereas commercial banks were once the primary providers of home loans, mortgage brokers now account for half of all originations and 70% of originations in the subprime market[xxxii]. With the loosening of lending standards, minimal oversight of brokers and far more options, there is a greater chance that a borrower can be placed in an inappropriate loan. For example, between 35 percent and 50 percent of those with subprime loans could have qualified for a prime loan[xxxiii].

Figure 18



According to Home Mortgage Disclosure Act (HMDA) data, in 2006 there was a 36 percentage point gap between African Americans and whites in the incidence of high-priced loans, compared to a gap of 23.7 percentage points in 2004 (Figure 18). A Federal Reserve study found that almost 17.4 points of the difference is due to choice of bank resulting from aggressive marketing, lack of consumer education or fewer local lending choices. Six points of the difference was due to borrower characteristics in the data such as loan size and income, while the remaining 12.6 points of the difference could not be explained by available lender or borrower characteristics.

Housing Segregation and Discrimination

While racial segregation has decreased over the last three decades, in part due to fair housing enforcement, segregation still persists in many areas and neighborhoods that are predominately minority are much more likely to be poor. On average, homes in predominantly minority neighborhoods are often worth less (according to one study, 18% less value), even accounting for differences in income[xxxiv]. The Census Bureau's *Racial and Ethnic Segregation in the United States* identifies only 8 of 220 metropolitan areas which had an increase in black-white segregation, while 203 experienced a decrease.

NFHA believes that there are at least 3.7 million violations of the fair housing act against minorities in rental and sales alone, but less than one percent is reported or even detected. Support for fair housing enforcement has remained essentially level over the last few years, despite continued evidence of discrimination in rental, sales and lending markets.

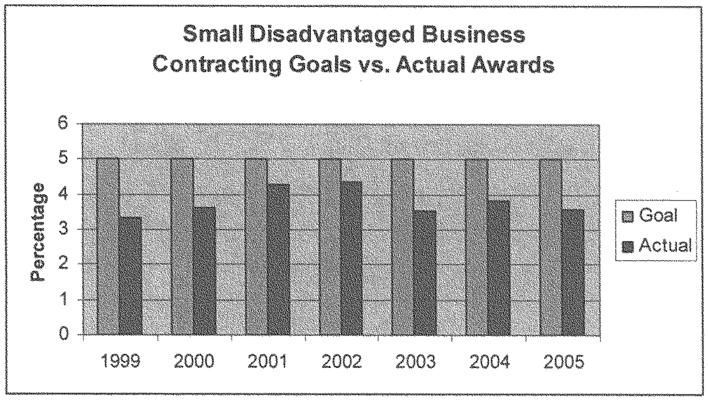
The Opportunity to Prosper (Entrepreneurship)

Minority business enterprises (MBE) are defined as business entities in which minorities own 51 percent or more of the stock or equity. In 2002, MBEs represented 18 percent (4.1 million) of classifiable firms, grossed 8 percent of all annual gross receipts ($668 billion), and employed 9 percent of all paid employees (4.7 million)[xxxv]. In that same year, there were 1.2 million African-American-owned firms in the U.S. employing 754,000 persons and generating $89 billion in revenue[xxxvi]. The importance of minority-owned businesses to urban economic development is well documented. Minority-owned firms are more likely to locate in urban communities, making them more likely to hire minority workers, lowering local unemployment rates. They are also more likely to purchase from minority-owned suppliers, contributing to the growth of other minority-owned businesses. Despite these benefits, MBEs continue to face a number of barriers to firm formation and growth including lack of financial capital, lack of social capital, lower human capital endowments, and limited access of minorities to broader consumer markets[xxxvii].

Government Contracting of Minority Business Enterprises

Procurement provides governments with a powerful way of promoting opportunities for MBEs and counteracting the effects of discrimination. Although set-aside programs exist at all levels of government including federal, state, city, county and special district[xxxviii], the established contracting goals often go unmet. A widely cited 1996 disparity study[xxxix] by the Urban Institute reported that at the state and local government levels, minority-owned firms received only $0.57 for every dollar they would be expected to receive based on their availability[xl]. The House Small Business Committee reports that since the beginning of the *Scorecard* report in 1999, failure of the federal government to meet its 5 percent small disadvantaged business goal has cost minority entrepreneurs $21.2 billion in contracting opportunities (Figure 19).

Figure 19



Source: House Small Business Committee, *Scorecard VII*

The three main barriers to minority participation in government contracting are contract bundling, subcontracting and coding errors. Bundling contracts is the act of combining 2 or more contracts into a large single agreement. This has most often pushed smaller minority-owned firms out of the competition while subcontracting has most often benefited prime contractors over (typically minority) subcontractors. Procurement data can also be distorted by coding errors in that companies coded as "small" are sometimes misidentified as such or in fact no longer qualify as small as a result of having been acquired by larger businesses during the course of the contract.

Small Business Financing

Loan markets have become more competitive over the past decade due to an expanding nationwide market for credit lines & credit cards along with the entry of large regional banks in local markets. Although banks are the most often used credit source for small firms in general,minority firm owners are less likely to have bank loans of any kind[xli]. Research has also found that African-American and Latino firm owners face significantly greater loan denial probabilities than white male firm owners and are often charged higher interest rates[xlii].

In recent years, microfinancing has grown in popularity as source of capital for microenterprises (a business with five or fewer employees), which account for 94 percent of all firms and are overwhelmingly owned by minorities and women. Patterned after the successful Grameen Bank in Bangladesh, microfinancing promises great benefits. The Aspen Institute has estimated that it can be implemented at one-tenth of the cost of creating opportunities through tax breaks and other public subsidies. However, there are some challenges to microfinancing, including the fact that competition limits interest rates U.S. microlenders can charge, making it less profitable than in developing nations, and U.S. businesses typically have greater capital requirements and need larger-sized loans faster.

CONCLUSION

The Opportunity to Thrive. The Opportunity to Earn. The Opportunity to Own. The Opportunity to Prosper. Each of these opportunities for upward economic and social mobility are available in few other countries outside the United States. Therefore, maintaining equal access to these opportunities is a vital part of preserving the very principles that make this country unique and will prove to be an effective way to eliminate gaps in income, wealth and educational attainment within this country that are too often defined along the lines of race or socioeconomic status.

Although this document serves as a vehicle through which to develop a serious plan of action to address the persistent inequalities faced by those in urban communities; all Americans, regardless of place of residence or racial identity, can benefit from the policy recommendations presented in *The Opportunity Compact*. Furthermore, there is a role for all parties to play -- private citizens, national, state and local governments, community-based service providers and the business community -- as we together seek to strengthen our nation by maximizing the potential of all its citizens. By generating new ideas, initiating productive partnerships and fostering collaboration, *The Opportunity Compact* seeks to expand access to the incentives and rewards that act as the driving force behind what makes this country great – personal responsibility, initiative and hard work.

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[i] See UNICEF. "Child Poverty in Perspective: An Overview of child well-being in rich countries," Innocenti Report Card 7, 2007.
[ii] See Christopher B. Knaus. "Still Segregated, Still Unequal: Analyzing the Impact of No Child Left Behind on African-American Students." In *The State of Black America 2007*. National Urban League. 2007.
[iiiii] See Caroline Rothert. "Achievement Gaps and No Child Left Behind." *Youth Law News*. April – June 2005.
[iv] Ibid.
[v] Ibid.
[vi] See Lisa G. Klein and Jane Knitzer. "Promoting Effective Early Learning: What Every Policymaker and Educator Should Know." National Center for Children in Poverty. January 2007.
[vii] Ibid.
[viii] Ibid.
[ix] See Caroline Rothert. "Achievement Gaps and No Child Left Behind." *Youth Law News*. April – June 2005.
[x] National Institute of Allergy and Infectious Diseases. 2002.
[xi] See "Update: Blood Lead Levels in the United States, 1991-1994." *Morbidity and Mortality Weekly Report*, 46(7). Centers for Disease Control. 1997.
[xii] See Cynthia Ogden et al. "Prevalence of Overweight and Obesity in the United States, 1999-2004." *Journal of the American Medical Association*. April 2006.
[xiii] See Kaiser Family Foundation. "SCHIP and Children's Health Coverage: Leveling the Playing Field for Minority Children." December 2006. (www.kff.org)
[xiv] See Children's Defense Fund. *The State of America's Children: Yearbook 2004*. July 2004.
[xv] See Tom Hertz. "Understanding Mobility in America." Center for American Progress publication. April 2006.
[xvi] Ibid
[xvii] For the purpose of this analysis, a family is defined as a married couple or single parent primary family with at least one child under the age of 18. A family is considered working if in the last 12 months, family members age 15 and older have a combined work effort of at least 39 weeks or a combined work effort of at least 26 weeks plus one unemployed parent actively looking for work in the past four weeks.
[xviii] All inflation estimates in this paragraph are based upon the Consumer Price Index for All Urban Consumers (CPI-U).
[xix] Based on NULPI analysis of U.S. Census Bureau Current Population Survey, March 2007.
[xx] See Tom Hertz. "Understanding Mobility in America." Center for American Progress publication. April 2006.
[xxi] Based on NULPI analysis of U.S. Census Bureau Current Population Survey, March Supplement, 2007.
[xxii] See http://nces.ed.gov/programs/coe/2006/section2/table.asp?tableID=475
[xxiii] Based on NULPI analysis of U.S. Census Bureau Current Population Survey, March 2007.
[xxiv] See Darrick Hamilton. "The Racial Composition of American Jobs." In *The State of Black America 2006 report*. National Urban League. 2006.
[xxv] Ibid.
[xxvi] See Michael A. Fletcher. "At the Corner of Progress and Peril." *The Washington Post*. June 2, 2006.
[xxvii] See Gary Orfield, ed. *Dropouts in America: Confronting the Graduation Rate Crisis*. Harvard Education Press. 2004.
[xxviii] See Bruce Western. *Punishment and Inequality in America*. Russell Sage Foundation. 2006
[xxix] Bureau of Justice Statistics
[xxx] National Association of Realtors. 2006.
[xxxi] See Kerwin Kofi Charles and Erik Hurst. "The Transition to Home Ownership and the Black-White Wealth Gap". *The Review of Economics and Statistics*. March, 2000; Donald Haurin, et al. "Homeownership Gaps Among Low-Income and Minority Households". Ohio State University Working Papers, 07-02. January, 2007.
[xxxii] See "Residential Mortgage Origination Channels." *MBA Research Data Notes*. September 2006.
[xxxiii] Fannie Mae, 2001.
[xxxiv] See David Rusk. "The Segregation Tax: The Cost of Racial Segregation to Black Homeowners". Brookings Institution. 2001.

[xxxv] See *The State of Minority Business Enterprises*. Minority Business Development Agency. August 2006.
[xxxvi] Ibid.
[xxxvii] See Maria Enchautegui, et. al. "Do Minority-Owned Businesses Get a Fair Share of Government Contracts?" Urban Institute. 1996.
[xxxviii] Special district includes airports, water, sanitation, parks and schools.
[xxxix] Disparity is measured by comparing the percentage of all government contract dollars received by minority-owned (women-owned) businesses to the percentage of all businesses "ready, willing and able" to carry out government contracts that are minority-owned (women-owned).
[xl] See Maria Enchautegui, et. al. "Do Minority-Owned Businesses Get a Fair Share of Government Contracts?" Urban Institute. 1996.
[xli] See Karlyn Mitchell and Douglas Pearce. "Availability of Financing to Small Firms Using the Survey of Small Business Finances." For SBA Office of Advocacy. May 2005.
[xlii] Ibid.