

**MOVING PASSENGERS AND FREIGHT INTO THE
FUTURE: A REVIEW OF THE REPORT OF THE
NATIONAL SURFACE TRANSPORTATION POLICY
AND REVENUE STUDY COMMISSION**

HEARING

BEFORE THE

**COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE**

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

APRIL 22, 2008

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ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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MOVING PASSENGERS AND FREIGHT INTO THE FUTURE: A REVIEW OF THE REPORT OF THE NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION

TUESDAY, APRIL 22, 2008

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Committee met, pursuant to notice, at 2:36 p.m. in room SR-253, Russell Senate Office Building, Hon. Mark Pryor, presiding.

OPENING STATEMENT OF HON. MARK PRYOR, U.S. SENATOR FROM ARKANSAS

Senator PRYOR. The hearing will come to order, and I thank everyone for being here. We are going to have several Senators come today, we think, so I thought what I would go ahead and do is dive in with opening statements. I'll have a few moments on my opening statement and if Senator Stevens or his designee comes, we'll certainly allow them to offer an opening statement, and then we'll go down the list for our witnesses and give you all 5 minutes.

And also, Mr. Heminger has a plane to catch—is that right? So, I'll try to make sure that whatever Senators are here, we'll try to pummel you with questions first, and then let you get on your way.

Let me go ahead and say welcome. I'd like to thank everybody on the Committee, but certainly Senator Inouye and Senator Lautenberg for allowing me to chair this full Committee hearing.

We're here today to talk about "Moving Passengers and Freight into the Future." The focus of this hearing will be to review the report of the National Surface Transportation Policy and Revenue Study Commission, as required under Section 1909 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, that we call here SAFETEA-LU, and that's what I'm going to call it from here on out—I'm not going to go through the long, proper name of the legislation.

This hearing will serve as the kickoff for the Commerce Committee's deliberations on the upcoming reauthorization of the Federal surface transportation programs. As the Committee with jurisdiction over the entire transportation system, it will be particularly important for us to consider the impact of any proposed changes. While other Committee's will be focused on the discrete changes to their portions of the Federal surface transportation program, we have the responsibility of ensuring that the entire transportation

system—including our aviation, maritime, and surface systems—all work together.

During the development of SAFETEA-LU, from 2003 to 2005, Congress became increasingly aware that the Nation's surface transportation system, and the Federal programs that support it, were under significant stress. We had several hearings to that extent, by the way, during those years. And increasing congestion, dwindling capacity, aging infrastructure, persistent safety challenges and declining Federal transportation revenues all pointed to a crisis ahead. Recognizing the need to review the current Federal policies, and focusing on the challenge of preserving and expanding the Nation's surface transportation system to meet the transportation demands of the 21st century, Congress established this Study Commission to help us work through these issues in the future.

The purpose of the Commission was to conduct a comprehensive study of the current and future needs of the Nation's surface transportation system, and to provide recommendations to inform policymakers regarding the future role of the system in supporting a robust economy, accommodating a nation's growing population, and maintaining mobility and our existing quality of life.

Congress also asked the Commission to investigate mechanisms to finance the investments necessary to support this system in the future. Since its establishment in May 2006, the Commission has met multiple times to hear about the challenges facing America's surface transportation network.

Today, 5 of the 12 Commissioners will testify about the specific comments relating to freight mobility, highway, auto and truck safety, passenger and freight rail capacity and surface development, inter-modal transportation, and the integration of our surface, maritime, and aviation networks.

Again, I want to thank the Commission for your work, I know that you have done what the Congress asked you to do, and really help us look at these issues, and we will try to come to terms and listen to your recommendations, and today will be the starting point for that.

I do agree with the Commission's conclusion that the Nation has outgrown the current surface transportation system, that new financing options need to be employed to upgrade and expand our current system, and that new policy directives and legislative solutions are necessary for us, as a nation, to maintain and improve our system in the future.

I also share the Commission's prediction of dire consequences if policymakers fail to take significant action. We have already seen the consequences of a persistent, insufficient investment in surface transportation, deterioration of surface transportation assets, increased highway casualties, and growing congestion, that affects all modes of surface transportation and stifles economic development.

As Chairman of the Subcommittee on Consumer Affairs, I'm aware that we need to make sure that the changes we make will ensure the safety of the traveling public. As we develop surface transportation policy for the future, I do not want us to lose focus on the importance of reducing approximately 43,300 traffic deaths—including over 5,000 truck-related fatalities—which occur

in the United States each year. Promoting safe and educated driving, improving road conditions, and increasing research and development for safety technologies and techniques are all part of the formula for improving our surface transportation system.

It's my hope that Congress will work in a bipartisan way, not just today, but certainly in the future, as we try to look at our system, and hopefully break free of any political—partisan polarization that we might face here in the Congress and between the branches of government. I find the timing of this hearing will be critical, as we begin to draft the next reauthorization of the Highway Bill in the coming months, and the Committee continues its current effort to reauthorize the rail safety programs and Amtrak.

I very much look forward to hearing testimony from the witnesses, and I'll have several questions, and I know that my colleagues will, as well. With that, Senator Hutchison.

Senator HUTCHISON. I will defer to my Vice Chairman, if he's ready.

**STATEMENT OF HON. TED STEVENS,
U.S. SENATOR FROM ALASKA**

Senator STEVENS. Well, I just would put my statement in full in the record, if that's all right.

Senator PRYOR. Sure.

Senator STEVENS. Thank you.

[The prepared statement of Senator Stevens follows:]

PREPARED STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

Thank you, Senator Pryor, for holding this hearing, and thank you, Commissioners, for joining us today.

The Commission was established in Section 1909 of SAFETEA-LU and was charged by Congress with thoroughly reviewing the Nation's programs, and with preparing a conceptual plan that outlines a long-term transportation vision over the next 50 years.

The Commission held 22 hearings over 20 months of study and took testimony from over 300 witnesses.

Issues regarding an increase of the gas tax and the role of public-private partnerships, however, prevented the Commissioners from reaching unanimous recommendations.

However, there are areas of agreement among all the Commissioners. These recommendations have the greatest promise of influencing transportation policy in the future.

The Commissioners all recognize the importance of a strong, inter-connected transportation system to support our Nation's economic prosperity and growth.

To improve our transportation system, it will be necessary to simplify and streamline Federal transportation programs and funding categories. This will provide the states with more flexibility in how they spend their transportation dollars. Currently, it takes between 7 and 10 years to complete a highway project. This is entirely too long and makes completing projects more expensive.

I am looking forward to hearing from our witnesses today and learning how we can improve our transportation system now.

Thank you, again, Senator Pryor, for holding this hearing.

**STATEMENT OF HON. KAY BAILEY HUTCHISON,
U.S. SENATOR FROM TEXAS**

Senator HUTCHISON. Well, thank you very much for convening this panel, I'm very pleased to hear what the members of the Commission want to say. I have been sort of briefed by my constituent, Mr. Rose, who I think gave me a good overview of what you were

looking at, and I think that it was important to have this kind of Commission Report.

I come from the state that has the largest land mass in the continental United States, and the state with the most road miles, and that means we have vast agricultural regions, but we also have some of the fastest-growing cities in our country, and our productivity is being stifled when we don't have good transportation networks.

The Commission did a good job in laying out the predicament in which we find ourselves, and the challenges that we will face over the next 50 years. It is a sobering report.

I'm sure that we will begin to address some of these issues in the SAFETEA-LU legislation that will come forward next year—or the reauthorization of SAFETEA-LU. And while I find some of the solutions offered in the report to be interesting, I do have some significant concerns, which are non-starters here in Congress.

While there may be merit to indexing the Federal Gas Tax, a 25 cent or more per gallon increase in the tax is unacceptable. It is even more unacceptable in Texas where, as a donor State, we forego needed infrastructure improvements every year, by sending millions of gas dollars to other states. I cannot imagine a scenario where a tax increase of this magnitude would pass Congress, particularly with myself and other donor State colleagues supporting something that would make our situation of going into a hole, even deeper.

Now that the interstate highway system is complete, I think it's time for this practice of donating to other States to end. I wish you had taken up the issue of whether we still need the gas tax to come to the Federal Government and be redisbursed, inequitably, to some States, and a growth State like mine that is the biggest donor State in America, also one of the highest growth States in America, is doubly abusive.

So, I hope that that is dead on arrival here, and I will do everything I can to make sure that it is.

Additionally, I am concerned about the views on tolling, that were put forward. I do support the right of local communities to build new infrastructure through tolling. I support tolling if it is going to create an additional lane, where you keep the freeways that are already built, with the same number of free lanes. I just can't support the proposals to toll existing lanes. The Federal Government and the States built these roads using Federal funding with the commitment that they would remain "free" ways.

These existing roads are a public good built with public funding, and should not be converted to generate money for local entities to take away from the Federal taxpayers. So, I hope that that is not going to be something that also gets traction.

I do appreciate the Commission's recognition that transit and inter-city passenger rail must be part of a solution. I am disappointed that the Commission chose to focus much of its analysis of transit on maintaining the status quo and not as much on the investments necessary to truly improve and expand America's transit systems. No urban congestion program will work without improving the ratio of transit to vehicle trips in a given region.

I was pleased with the focus on passenger rail, and a thorough analysis of what it will take to build an extensive national passenger rail system, with the increased ridership necessary to sustain it. However, Amtrak is not mentioned, even once, in the Report. It is the lone national transportation provider supported by the Federal Government, and should be instrumental in the expansion of our passenger rail system.

So, I do think it is terrific that we had the Commission, with some very interesting proposals, and I think the issues are laid out very well. I hope that we can be a little more creative about addressing some of these issues, and of course, that's what Congress' responsibility is.

So, thank you very much.

Senator PRYOR. Senator Smith?

**STATEMENT OF HON. GORDON H. SMITH,
U.S. SENATOR FROM OREGON**

Senator SMITH. Mr. Chairman, for the record, Oregon isn't as big as Alaska or Texas, but we still have a lot of dirt between light bulbs up in the eastern parts, where I'm from.

But, I thank the Chair for holding this important hearing. I also want to thank our witnesses, all members of the National Surface Transportation Policy and Revenue Study Commission who agreed to be here today, and to testify.

The Commission was charged with an unenviable task of reviewing our Nation's transportation policy, and developing a plan to ensure that our surface transportation system is able to serve the interests of the United States well into the future.

It's clear, however, that our system is barely keeping up with today's demands. It is virtually impossible to travel the country and not encounter congestion and delays. I've seen some estimates that put the annual cost of these delays to the U.S. economy as high as \$78 billion.

In the Pacific Northwest, the bridge that connects Oregon and Washington is the most congested stretch of Interstate 5 outside of California. The I-5 river crossing experiences crash rates nearly two and a half times the statewide average for comparable facilities. Delays lasting two to 5 hours are not uncommon during peak hours of the commute over the 5-mile segment of the interstate that includes this crossing. And by 2030, congestion is expected to grow to 14 to 16 hours per day on this corridor, as vehicle traffic over the bridge is expected to increase by more than 40 percent.

The Columbia River Bridge needs to be replaced. This will be a massive project, costing millions of dollars, and taking years to complete—but it needs to go forward. This project is just one of many around the country, aimed at easing the congestion that threatens to otherwise strangle our economy, and force us to spend more time stuck in traffic, and less time with families.

The challenge we have is to figure out how to pay for these improvements. The Highway Trust Fund is depleted, and yet the Commission's Report states that we need to more than double our annual transportation expenditures in order to return our system to a state of good repair, and to create the advanced surface transportation infrastructure needed to keep our economy strong.

The Commission has put forward a number of proposals to fund the construction of our roads, highways and bridges. I look forward to hearing more about their ideas to fill the funding gap.

Finally, I want to commend the Commission for its focus on safety in the report. We lose 40,000 Americans a year to accidents on our Nation's highways. We have to, and we can, do better. I applaud the Commission for setting a goal of halving traffic fatalities by 2025. This is an ambitious goal, but I'm confident we can get there.

Mr. Chairman, thank you again for holding this hearing, and I look forward to hearing from our witnesses.

Senator PRYOR. Thank you. And in the interest of time, I'm going to greatly abbreviate your introductions.

First, let me say that Senator Stevens had to slip out, there's a portrait unveiling for Senator Daschle that starts—sometime in the next 30 minutes or so—and he had to run over there to be part of the pre-program for that. But he said he would submit his questions for the record as well as his statement, so there may be other Senators that do the same, without objection.

Let me go ahead and just introduce our first witness today. Mr. Jack Schenendorf, he's the Commission's Vice Chair, and he's Of Counsel at Covington & Burling.

Go ahead.

STATEMENT OF JACK SCHENENDORF, VICE CHAIR, NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION AND OF COUNSEL, COVINGTON & BURLING LLP

Mr. SCHENENDORF. Thank you, Senator Pryor.

Let me start by saying it's a real honor to be here and testifying before you, because I started my Congressional career on the House Transportation Committee, working for Congressman John Paul Hammerschmidt, and one of the first projects I worked on was Highway 71 in northwestern Arkansas, and I learned—not only the importance of transportation to an area, but how important that was in the national system, with Wal-Mart, and J.B. Hunt and the like—and so it was a real educational process.

I'm honored to be testifying today as the—in my capacity as the Vice Chair of the Commission. In summarizing the Commission's reports, I'd like to make three main points.

First, we have a national transportation crisis. Simply put, we have outgrown our aging surface transportation system. The future of our Nation's well-being, vitality and global economic leadership is at stake. We must, as a Nation, take significant, decisive action to create and sustain the preeminent surface transportation system in the world. This is a national problem that will require strong Federal leadership, and we must recognize the sobering financial reality of such an undertaking. We are recommending that all levels of government, and the private sector, invest at least \$225 billion annually for the next 50 years, to upgrade our existing transportation network to a state of good repair, and to build the more advanced facilities we will require to remain competitive.

We are spending less than 40 percent of that amount today. We cannot sit back and wait for the next generation to address these

ever-increasing needs—it will be too late. The crisis is now, and we have a responsibility and obligation to create a safer, more secure, and an ever-more productive system.

Second, we need fundamental reform. In addition to putting more money into the system, the Federal transportation program must be reformed. We do not believe that the Federal program should be reauthorized in its current form. Instead, we are calling for a new beginning.

We believe that a mission or sense of purpose must be restored to the Federal program. Since completion of the interstate system, the program has had no clear mission. It is now, essentially, a block grant model, with little or no accountability for specific outcomes. That's why we are recommending that the 108 existing surface transportation programs, and SAFETEA-LU and existing laws be replaced with 10 new Federal programs that are performance-driven, outcome-based, generally mode-neutral, and refocused to pursue objectives of genuine national interest. These programs include a State of Good Repair Program, a National Freight Program, Safety Program, Metropolitan Congestion Program, and other programs that will be discussed in more detail by my colleagues.

The way that these programs, I might note, are structured, will go a long way toward resolving the donor/donee issue, because we propose that the funding mechanisms and the distribution mechanisms be different than they are today, and I believe will go a long way toward addressing that problem.

The third point is that if we want a 21st century transportation system, we must be willing to pay for it. There is no free lunch when it comes to infrastructure investment. Policy changes, though necessary, will not be enough, on their own, to produce the transportation system the Nation needs in the 21st century. We will need a significant increase in public funding to keep America competitive, we will need additional private investment, we will need more tolling, and we will need the price for use of the system. Simply put, we must make use of all of the financial tools available to us.

In closing, let me just say that one of the things that struck us was our parents and grandparents—about 50 years ago—gave us a brand-new system in the interstate system that had excess capacity in it. They also de-regulated our freight rail system, which allowed our freight rail system and the excess capacity in it, along with the interstate system to serve our Nation well, and it's something that we have become used to, and is part of our fabric, and has been part of the reason that our economy has been as strong as it has been.

But as I mentioned before—that system is aging, and we have outgrown it, both rail and highway systems are congested, we have tremendous growth coming in the future, and it's—this generation is going to have to step up to the plate and do for future generations, what our grandparents and parents did for us.

Thank you.

[The prepared statement of Mr. Schenendorf follows:]

PREPARED STATEMENT OF JACK SCHENENDORF, VICE CHAIR, NATIONAL SURFACE
TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION AND OF COUNSEL,
COVINGTON & BURLING LLP

I am Jack Schenendorf. I am Of Counsel with Covington & Burling LLP in Washington, D.C. Prior to joining Covington, I served on the Republican staff of the House Transportation and Infrastructure Committee for 25 years. I also served on the Bush/Cheney Transition where I was Chief of the Transition Policy Team for the U.S. Department of Transportation and was responsible for reviewing all transportation policies and issues for the incoming Administration.

In 2006, Speaker Hastert appointed me to the National Surface Transportation Policy and Revenue Commission. I was subsequently elected Vice Chair by my fellow Commissioners. It is in that capacity that I am testifying before you today.

In the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy For Users (SAFETEA-LU), Congress established the National Surface Transportation Policy and Revenue Study Commission to undertake a thorough review of the Nation's transportation assets, policies, programs, and revenue mechanisms, and to prepare a conceptual plan that would harmonize these elements and outline a coherent, long-term transportation vision that would serve the needs of the Nation and its citizens.

This Commission has worked diligently to fulfill this charge, meeting and holding public hearings across the country during the intensive 20-month study period. On behalf of all of the Commissioners, I would like to thank our Chair, Secretary Mary Peters, who did an outstanding job in guiding us through this effort. She presided over the Commission with graciousness, wisdom, and a great deal of patience. And I would be remiss if I did not also thank all of the Department of Transportation staff assigned to the Commission—especially Chris Bonanti, Lydia Conrad, Ross Crichton, Eric Gabler, James March, David Marks, Mary Moehring, and Darren Timothy. Their professionalism, expertise and dedication were instrumental in our success. And a special thanks goes to our Executive Director, Susan Binder, for her hard work and for the sound guidance and advice she provided during our effort. We would not be here today were it not for her and her team.

Our findings and recommendations—calling for bold changes in policies, programs and institutions—are contained in our report, *Transportation for Tomorrow*. Our recommendations are the product of a bipartisan consensus of a diverse group of Commissioners—5 appointed by Republican officeholders and 4 appointed by Democratic officeholders; from both ends of the political spectrum and everywhere in between; from all regions of the country; a CEO of a company that relies on transportation services; a CEO of a trucking company; a CEO of a rail company; a state transportation official; and a local transportation official. But despite our different perspectives, we were able to coalesce around the findings and recommendations in the Commission's report.

My testimony today will focus on our vision and our four key recommendations.

Background

But first a few key findings:

- Conditions on America's surface transportation systems—our roads, bridges and highways, our passenger and freight rail facilities, our public transit networks—are deteriorating. The physical infrastructure itself is showing the signs of age. In almost all cases, the operational efficiency of our key transportation assets is slipping.
- In figures compiled by the Texas Transportation Institute, congestion cost the American economy an estimated \$78 billion in 2005, measured in terms of wasted fuel and workers' lost hours. Congestion causes the average peak-period traveler to spend an extra 38 hours of travel time and consume an additional 26 gallons of fuel.
- Over the next 50 years, the population of the United States will grow by some 120 million people, greatly intensifying the demand for transportation services by private individuals and by businesses. Most of that growth will occur in metropolitan areas. Congestion will increase and spread beyond the traditional morning and evening rush hours to affect ever-lengthening periods of each day.
- If, as expected, the world economy grows and becomes more globally integrated during the next half-century, the U.S. will experience higher trade volumes and greater pressures on its international gateways and domestic freight distribution network. Economic forecasts indicate that freight volumes will be 70 percent higher in 2020 than they were in 1998. Without improvements to key goods-movement networks, freight transportation will become increasingly inef-

efficient and unreliable, hampering the ability of American businesses to compete in the global marketplace.

- Travel on the Nation's surface transportation system is far too dangerous. In 2006, over 42,000 people lost their lives on American highways, and almost 2.6 million were injured.
- Overly onerous and procedure-bound environmental review processes can often serve to delay the speedy and cost-conscious delivery of important transportation improvements. Major highway projects take about 13 years from project initiation to completion, according to the Federal Highway Administration, and Federal Transit Administration figures indicate that the average project-development period for New Starts projects is in excess of 10 years.

Our Vision

Just as it helps to know your destination before starting off on a trip, our Commission believed at the outset that it is important to have in mind a vision of what the national surface transportation system might look like—or at least how we'd like it to function—in the middle of the 21st century.

We decided to aim high. We agreed among ourselves that our fundamental motivation should be to help the United States to *"create and sustain the pre-eminent surface transportation in the world."* That pledge has in the end allowed us to reach agreement on a surprisingly wide range of sweeping policy proposals.

Four Key Recommendations

The Commission respectfully makes the following key recommendations:

First, to keep America competitive, we are recommending a significant increase in investment in our national surface transportation system.

Any effort to address the future transportation needs of the United States must come to grips with the sobering financial reality of such an undertaking. We estimate that the U.S. needs to invest at least \$225 billion annually for the next 50 years to upgrade our existing transportation network to a good state of repair and to build the more advanced facilities we will require to remain competitive. We are spending less than 40 percent of this amount today.

The existence of an enormous investment gap is indisputable. It has been documented by study after study, including most recently the Urban Land Institute's Infrastructure 2007 Report, DOT's own Conditions and Needs Report, and various state studies. It has been documented by our Commission's analyses. It has been documented by the many witnesses we heard from in our hearings. And it is being documented every day by the American people as they sit in congestion on crumbling roads or ride on crowded and aging buses and trains.

The implications of this underinvestment, which has been going on for decades, are ominous. We saw with Katrina what happens when there is a pattern of underinvestment in infrastructure. Unless we close this investment gap soon, our surface transportation systems will face the same fate as New Orleans' levees. We must not let this happen.

To close this investment gap, we will need increased public funding. We will also need increased private investment. More tolling will need to be implemented and new and innovative ways of funding our future system will need to be employed. And we will need to price for the use of our system, which will help reduce investment needs.

Second, we are recommending that the Federal Government be a full partner—with states, local governments and the private sector—in addressing this looming transportation crisis.

The problem is simply too big for the states and local governments to handle by themselves, even with the help of the private sector. We believe that the Federal Government must continue to be part of the solution, both in terms of providing leadership and in terms of providing a fair share of the resources.

And it's not just that the problem is big. The Federal Government has a strong interest in our national transportation system. The system is of vital importance to our economy, our national defense and our emergency preparedness. Our transportation network is critical to the interstate and regional movement of people and goods, economic growth, global competitiveness, environmental sustainability, safety and our overall quality of life.

Third, we are recommending fundamental and wide-ranging reform of the Federal transportation program. We are recommending that the program be transformed into one that is performance-driven, outcome-based, generally mode-neutral, and re-focused to pursue objectives of genuine national interest.

In addition to putting more money into the system, the Federal transportation program must be reformed. We do not believe that the Federal program should be reauthorized in its current form. Instead, we are calling for *A New Beginning*.

No more restrictive categories. No more planning silos. Generally no more modal silos. And no more earmarks.

There are *three key elements* to this recommendation.

Element One: We believe that a mission or sense of purpose must be restored to the Federal program. Since completion of the Interstate System, the program has had no clear mission. It is now essentially a block grant model, with little or no accountability for specific outcomes. We believe that this must change.

We are recommending that the program be transformed into one that is performance-driven, outcome-based, free of earmarking, generally mode-neutral, and refocused to pursue objectives of genuine national interest. More specifically, we are recommending that the 108 existing surface transportation programs in SAFETEA-LU and related laws should be replaced with the following new Federal programs:

- A program designed to bring our existing highways, bridges and transit systems into a state-of-good-repair;
- A freight program designed to enhance U.S. global competitiveness;
- A program designed to reduce congestion in our largest metropolitan areas (population greater than one million) (*e.g.*, reduction of 20 percent by 2025);
- A program designed to improve access and mobility in smaller cities and rural areas;
- A program designed to improve safety by cutting fatalities (*e.g.*, by 50 percent by 2025);
- A program designed to provide high speed passenger rail service in the Nation's high-growth corridors (300–500 miles);
- A program designed for environmental stewardship;
- An energy security program designed to hasten the development of replacement fuels;
- A Federal lands program; and
- A coherent national research and development program.

These programs would give rise to a *national surface transportation strategic plan* that would guide Federal investment.

U.S. DOT, state and regional officials, and other stakeholders would establish performance standards in the Federal program areas outlined above and develop detailed plans to achieve those standards. Detailed cost estimates would also be developed. These plans would then be assembled into a national surface transportation strategic plan.

Federal investment would be directed by the national surface transportation strategic plan. Only projects called for in the plans would be eligible for Federal funding. And all levels of government would be accountable to the public for achieving the results promised.

The Commission acknowledges that this element of the recommendation represents a major departure from current law. Developing performance standards and integrating them into a performance-driven regimen will be challenging but we believe the rewards will be worth the effort. In addition to making better use of public monies to accomplish critical national objectives, the Commission's recommended approach of performance standards and economic justification would do much to restore public confidence in the transportation decision-making process. In such an environment, we believe Congress and the public would be more amenable to funding the Nation's transportation investment needs.

Element Two: The project delivery process must be reformed by retaining all current environmental safeguards, but significantly shortening the time it takes to complete reviews and obtain permits. Projects must be designed, approved and built as quickly as possible if we are to meet the transportation challenges of the 21st Century. This will save both time and money.

Element Three: We are recommending that Congress establish an independent National Surface Transportation Commission (NASTRAC), modeled after aspects of the Postal Regulatory Commission, the Base Closure and Realignment Commission, and state public utility commissions. The new Federal commission would perform two principal planning and financial functions:

- The NASTRAC would oversee various aspects of the development of the performance-based performance standards in the Federal program areas outlined

above and the detailed plans to achieve those standards, and it would approve the national transportation strategic plan.

- Once the national strategic plan has been approved, the NASTRAC would establish a Federal share to finance the plan and recommend an increase in the Federal fuel tax to fund that share, subject to congressional veto.

And fourth, to close the investment gap, we are recommending a wide range of revenue enhancements.

Unfortunately, there is no free lunch when it comes to infrastructure investment. Policy changes, though necessary, will not be enough on their own to produce the transportation system the Nation needs in the 21st century. Significant new funding also will be needed.

We are recommending significant changes in the way the program is financed. In the long-term, we envision transitioning from motor fuel taxes to a VMT tax; we include in our recommendations a number of provisions to hasten that transition. And in the interim, we would no longer rely almost exclusively on motor fuel taxes; instead, we would rely on a broad range of user-related fees and charges.

Here are our major revenue recommendations:

General Revenue Recommendations: We are making the following general revenue recommendations:

- It is imperative that all levels of government and the private sector contribute their appropriate shares if the United States is to have the pre-eminent surface transportation system in the world.
- We strongly support the principle of user financing that has been at the core of the Nation's transportation funding system for half a century.
- We are recommending continuation of the budgetary protections for the Highway Trust Fund, so that user fees benefit the people and industries that pay them.

Immediate Revenue Recommendations: We recommend that legislation be passed in 2008 to keep the Highway Account of the Highway Trust Fund solvent and prevent highway investment from falling below the levels guaranteed in SAFETEA-LU.

Mid-Term Revenue Recommendations: We are making the following specific recommendations with respect to transportation funding in the period between 2010 and 2025:

- The annual investment requirement to improve the condition and performance of all modes of surface transportation—highway, bridge, public transit, freight rail and intercity passenger rail—ranges between \$225–340 billion. The range depends upon the extent of peak-hour pricing implemented on congested urban highways in lieu of physical capacity expansion. To address this investment target by providing the traditional Federal share of 40 percent of total transportation capital funding, the Federal fuel tax needs to be raised by 25–40 cents per gallon. This increase should be phased in over a period of 5 years (5 to 8 cents per gallon per year). This rate increase should be indexed to the construction cost index.
- We are also recommending other Federal user-based fees to help address the funding shortfall, such as a freight fee for goods movement projects, dedication of a portion of existing customs duties, and ticket taxes for passenger rail improvements. Tax and regulatory policy also can play an incentivizing role in expanding freight and intermodal networks.
- In addition, we are recommending that Congress remove certain barriers to tolling and congestion pricing, under conditions that protect the public interest. This will give states and local governments that wish to make greater use of tolling and pricing the flexibility to do so. More specifically, we are recommending that Congress modify the current Federal prohibition against tolling on the Interstate System to allow:
 - tolling to fund new capacity on the Interstate System, as well as the flexibility to price the new capacity to manage its performance; and
 - congestion pricing on the Interstate System (both new and existing capacity) in metropolitan areas with populations greater than 1 million.
- We are recommending that Congress encourage the use of public-private partnerships, including concessions, for highways and other surface transportation modes. Public-private partnerships can serve as a means of attracting additional private investment to the surface transportation system, provided that

conditions are included to protect the public interest and the movement of interstate commerce.

- State and local governments have many different types of revenues to draw upon for their share of new investment. The Commission expects that state and local governments will have to raise motor fuel, motor vehicle, and other related user fees. In addition, many may take advantage of the expanded opportunities in tolling, congestion pricing and public-private partnerships that our recommendations propose.

Long-Term Revenue Recommendations: We are making the following specific recommendations for transportation funding in the post-2025 era:

- The motor fuel tax continues to be a viable revenue source for surface transportation at least through 2025. Thereafter, the most promising alternative revenue measure appears to be a vehicle miles traveled (VMT) fee, provided that substantial privacy and collection cost issues can be addressed. The next surface transportation authorization act should require a major national study to develop the specific mechanisms and strategies for transitioning to the VMT fee or another alternative to the motor fuel tax to fund surface transportation programs.

A Failure To Act Would Be Devastating

The surface transportation system of the United States is at a crossroads. The future of our Nation's well being, vitality and global economic leadership is at stake. We must take significant, decisive action now to create and sustain the pre-eminent surface transportation system in the world.

But some will question whether it is realistic to think that Congress will raise the gas tax by 25 to 40 cents per gallon over 5 years, given the current anti-tax increase sentiment in some quarters. The Commission's recommendation is based on our best judgment on what needs to be done to address our investment shortfall, without factoring in the political feasibility.

But it doesn't seem unreasonable to think that the public would be willing to support an increase of this magnitude to finance a reformed program that has a clear mission and is focused on projects in the national interest. In year five, the cost to the average motorist would be 41 cents to 66 cents per day—less than the price of a candy bar or about $\frac{1}{5}$ the cost of a cafe latte. This seems like a bargain when you consider that he or she will get for it: substantially reduced fatalities, highway and transit systems in a state of good repair, reduced congestion, a transportation system that can support a strong economy and job growth, and access for all Americans to all parts of our Nation. Moreover, forty-one or sixty-six cents a day also seems quite reasonable when you compare it to the projected \$5 to \$6 average per trip cost of using a 14-mile stretch of the Capital Beltway during rush hour—a project which some have called a “national model.”

But even more compelling is that a failure to act—that is, a failure to raise sufficient revenue to close the investment gap—would be devastating.

The United States would be unable to compete effectively in the global marketplace. Our status as an economic superpower would be jeopardized. Jobs would be lost. And as U.S. businesses are squeezed by foreign competitors, those jobs that remain would likely be lower paying.

Moreover, our quality of life would suffer substantially. We would have fewer travel options. We would spend more time in congestion. We would have to leave our families earlier in the morning and arrive home later at night. Going to and from the doctor would be more difficult as congestion extends to more and more roads and for longer and longer periods of time. Other errands and trips to school would be similarly affected. And as gridlock became common even in rural areas, vacations would become a nightmare. And the cost of maintaining our vehicles would increase as they are damaged by our crumbling infrastructure.

Eventually we would reach the point of catastrophic failures. Road closures. Bridge collapses. Long detours. Tragedies like the I-35 Bridge collapse in Minnesota would become all too common.

Fatalities and injuries would continue increasing and could reach alarming rates.

We cannot let this happen. We must find the political leadership and the political will to make the necessary reforms and the necessary investment. Raising revenues will not be easy. But we must do it, and we must do it soon.

A Call To Action

President Dwight D. Eisenhower had the foresight to understand how a system of interstate highways would transform the Nation. If there was ever a time to take a similarly daring look at a broadened surface transportation network, it is now.

The nation faces challenges similar to those of the Eisenhower era. However, the imperative for change due to the global economy is even stronger.

The good news is that we can do it. We believe that our recommendations, if enacted as a package, will give the American people the transportation system they need and deserve. We cannot just reform our way out of the transportation crisis; nor can we get the job done by sending lots more money coursing through a broken project delivery system. We need both reform *and* increased investment.

We cannot sit back and wait for the next generation to address these ever-increasing needs. It will be too late. The crisis is now and we have a responsibility and obligation to create a safer, more secure, and ever more productive system. We need to create and sustain the pre-eminent surface transportation system in the world. Now.

Senator PRYOR. Thank you.

Next we'll have the Honorable Frank Busalacchi, he's a Commission member, but he's also Secretary of the Wisconsin Department of Transportation.

**STATEMENT OF HON. FRANK J. BUSALACCHI, COMMISSIONER,
NATIONAL SURFACE TRANSPORTATION POLICY AND
REVIEW STUDY COMMISSION; SECRETARY, DEPARTMENT
OF TRANSPORTATION, STATE OF WISCONSIN AND CHAIRMAN,
STATES FOR PASSENGER RAIL COALITION**

Mr. BUSALACCHI. Good afternoon, Chairman Pryor, Members of the Committee, my name is Frank Busalacchi, I am Secretary of the Wisconsin Department of Transportation, and also the Chair of the States for Passenger Rail Coalition.

As a State DOT Secretary, I see firsthand how transportation affects our citizens lives. Serving on the Commission allowed me to consider how Federal policy could be crafted to best serve citizens nationwide, and to assure that States worked together to achieve national goals.

Commissioners came to the table with perspectives from every conceivable viewpoint. We held 10 public hearings across the Nation. We spent 3 days together at a retreat in 2007. We had many long and difficult conversations, but we came together to support the report before you, because we recognize our charge is critically important to the Nation.

We started with needs. The Commission analyzed information to project the Nation's transportation needs over the next 50 years. For highways and transit systems, this exercise was easier than for rail. U.S. DOT has been collecting highway and transit data for many years. For freight and passenger rail, the Commission relied on Commissioner Rose and me to compile needs information. I engaged a working group to provide an inter-city passenger rail analysis.

The group mapped the vision of the national rail system in 2050, and determined cost estimates to achieve that vision. Its focus is city-to-city connections in corridors of 500 miles or less.

The 2050 map is illustrative only, as individual states will be responsible for their own rail plans. Many States are already working on estimates and plans for new passenger rail service. With Federal support, these States will be empowered to implement their rail plans.

For the past 50 years, we have not adequately supported our passenger rail system. In response to testimony from State and local officials asking for additional public investment in rail, the Com-

mission adopted inter-city passenger rail, as part of its multi-modal vision for the future.

Of the 10 new programs recommended, inter-city passenger rail is the only modally focused program. The Federal Government would fund 80 percent of the program, similar to the funding partnership for highways, transit, and aviation.

We must create a healthy, vibrant passenger and freight rail system that moves people and freight. Rail has the added benefit of reducing carbon dioxide, and other emissions per passenger mile, compared with highway and air travel.

Gas prices are reaching \$4 a gallon, and people are moving to trains. Amtrak is consistently reporting more riders on its trains, most recently reporting ridership increases of 11 percent on State corridor trains.

The Senate understands the importance of inter-city rail, having twice approved the provisions of S. 294, authorizing a grant program for States to implement passenger rail service.

We need action now. Without a Federal funding partner, states will not be able to build passenger rail systems to accommodate the increasing demand from our citizens. When Commissioners came together, they quickly recognized the problems of a limited passenger rail system. Lack of transportation options in some cities, inadequate freight capacity, and traffic congestion in our urban areas.

There were strong voices, as well, for transportation challenges of rural America. Our transportation system is a network that passes through urban, suburban, and rural areas. Rural states generally have higher lane miles, and fewer people to support the upkeep of their roads. They have limited transit services, and inadequate vehicle miles traveled to support a privately managed toll system.

Connecting America—a national program for smaller cities and rural areas—assures that states with rural populations will continue to receive Federal transportation funds. All states, regardless of their population density, geographical size or economic status, depend on their transportation systems for their economic vitality, and quality of life. Without a Federal commitment to a program like Connecting America, between 20 and 25 States will miss out on the benefits of improved transportation.

Once the Commission identified the needs, we considered options for funding our multi-modal vision. For 50 years, the Highway Trust Fund has been the primary mechanism for funding our transportation system. But its revenues have not been raised in over 15 years, nor has the fund been indexed, to protect it from inflation.

Commissioners are concerned that the cash balance in the Highway Account of the Highway Trust Fund may fall to a negative \$1.4 billion by the year 2009.

I'm troubled by the President's 2009 budget proposal, and the lack of a long-term solution to assure the growth and predictability of future revenues. If Congress does not address this revenue shortfall in the Highway Trust Fund, my state's funding—assuming no corrective action, will drop by nearly \$100 million in the year 2009. All States will be similarly affected.

We spoke plenty in our Commission Report—there is no free lunch when it comes to financing. We recommend a variety of revenue sources, and we came down squarely on the side of “pay as you go” financing.

The Commission looked at long-term leases by private investment companies used to build interstate tolling projects. Our roads and transit systems are public assets, and should be protected. We should not allow private companies to take their profits from infrastructure built with public funds.

The current issues plaguing Wall Street and our economy, speak to this issue. The government must assure that the public is not assuming the risk of private sector investment decisions. It was a bold vision, and strong commitment to fund the Interstate that made it possible 50 years ago. Now, our highway and aviation systems are congested, and it’s time to create a truly multi-modal system.

It will take a strong Federal partner to help finance the Commission’s vision for the preeminent transportation system in the world.

Thank you.

[The prepared statement of Mr. Busalacchi follows:]

PREPARED STATEMENT OF HON. FRANK J. BUSALACCHI, COMMISSIONER, NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION; SECRETARY, DEPARTMENT OF TRANSPORTATION, STATE OF WISCONSIN AND CHAIRMAN, STATES FOR PASSENGER RAIL COALITION

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

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

The Commission’s Vision—Needs and the Federal Role

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

Commissioners came to the table with perspectives from every conceivable viewpoint. We held ten public hearings across the Nation. We spent 3 days together at a retreat in August 2007. We had many long and difficult conversations. In the end, we came together to support the report before you because we recognized our charge was critically important to the Nation. We also recognized that if we did not come together as Democratic, Republican, public sector and private sector members, we could not look Members of Congress in the eye and ask them to come together over the critical issue of transportation policy.

We started with needs. The Commission gathered and analyzed information to project the Nation’s transportation needs over the next 50 years. For highways and transit systems, this exercise was somewhat easier than for rail. We had the benefit of highway and transit data collected by U.S. DOT over many years. For both freight and passenger rail, the Commission relied on Commissioner Matt Rose and me to oversee the collection of needs data. For all surface transportation, the needs are staggering—a minimum of \$225 billion each year, potentially as much as \$338 billion. Counting all levels of government, our Nation currently spends less than \$90 billion each year.

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

The Commission spent a morning with representatives of the “Big Seven” organizations¹ last May, and the testimony of these organizations drove that point home to me. They told the Commission that only the Federal Government has the ability to move policy in big, national ways. Each state or city can work to be innovative, but national coordination, supported by funding, must come from the Federal level.

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

Finally, I believe that we must define the system first—and then determine what method, or methods, we'll use to pay for transportation. Different visions of the transportation system call for different funding sources and approaches. However, since release of the Commission's report, the discussion has focused on how we pay—should we toll, raise the gas tax, sell the system off to the private sector, or focus on an entirely new revenue approach? Not one of these options is compelling without a clear understanding of what our citizens need and what the system should look like. Only with that knowledge can we identify the associated costs, benefits, and stakeholders and better understand the pros and cons of each financing approach. No one benefits from a conversation about financing without understanding what it is we need to build.

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

The Commission's Vision—Program Elements

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

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

The Commission created a program structure that simplifies the existing complex array of Federal programs. We recommend that today's 100 programs be consoli-

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

dated to ten programs that are in the Federal interest.² The proposed programs are designed to address key Federal priorities while offering state and local governments flexibility in applying Federal funds to their needs.

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

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

Intercity Passenger Rail Program

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

Our Commission recognized that Federal policy and funding approaches have, unfortunately, led to a disinvestment in passenger rail over the past 50 years. Years ago, intercity passenger rail routes comprised the backbone of the country's transportation network. Freight rail is investing in its system, but based on a freight rail analysis,³ freight rail cannot economically justify sufficient investment in its infrastructure to address the demand for added freight rail capacity, much less added passenger rail capacity. We must create a healthy, vibrant passenger and freight rail system that can provide a key mobility option for people and freight. Rail has the added benefit of reducing carbon dioxide and other emissions per passenger mile compared to highway and air travel.

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

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

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

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

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

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

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

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

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

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

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

The Future of the Highway Trust Fund and Paying the Bill

Our final task was to address financing. Commissioners agreed that our Nation showed uncommon wisdom in establishing the Highway Trust Fund (HTF). The Clay Committee actually recommended debt financing, specifically bonding, as an approach to funding its ten-year highway plan. The Congress looked at this proposal and rejected it, believing instead that a pay-as-you-go system was in the best interest of the Nation. In light of the current issues with debt across our economy, we should all be grateful for your predecessors’ wisdom on this issue.

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

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

We recognized that in order to bring freight and passenger rail investments into the trust fund, the trust fund’s resources must be increased significantly. The recommendation of a gas tax increase of 25 to 40 cents over 5 years, with subsequent indexing to the Consumer Price Index, has been widely reported. Other recommended revenue increases to support the new STTF include an increase in container fees, custom duties, ticket taxes, and tax incentives for freight transportation businesses investing in transportation infrastructure. A carbon tax could be instituted or a cap-and-trade system adopted to reduce greenhouse gas (GHG) emissions. The Commission believes it is appropriate for transportation activities that contribute to reductions in GHG emissions to receive a proportionate share of these revenues.

The Commission looked carefully at private sector investment in large Interstate projects through the use of long-term leases. The Interstate and National Highway Systems were built with user fees paid for by the citizens of this Nation. Fundamentally, the Commission agreed that the roads and transit systems are not only a public asset; they are, more importantly, a public good. Public ownership assures that policymakers are responsible to citizens for the maintenance and improvement of our transportation assets. It also assures that the value of these assets—and the sizable public investment made in them—accrues to citizens. As these assets are

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

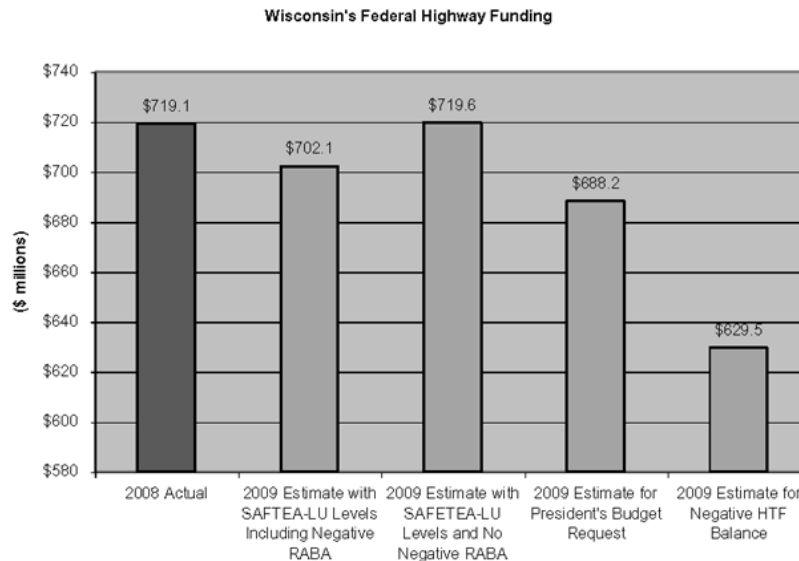
tolled to limit transportation demand, the mobility of our citizens and businesses is also limited. In my view, that is not a sound transportation vision for our Nation.

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

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

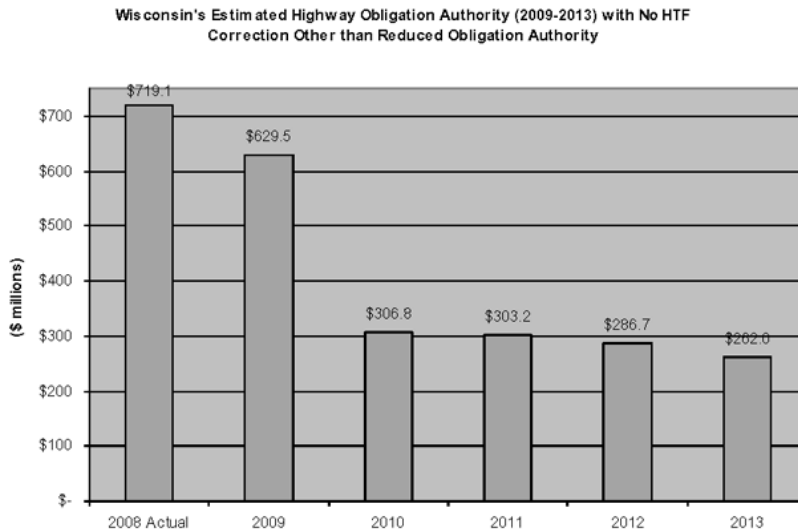
The Highway Trust Fund Challenge for Federal Fiscal Year 2009

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



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

⁶Krugman, Paul, “Partying Like It’s 1929,” *The New York Times*, March 21, 2008.



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

I am disappointed that the approach taken by the President's budget is to transfer funding from the HTF-Mass Transit Account to the HTF-Highway Account, moving the Transit Account deficit 1 year closer. I am troubled by the Administration's unwillingness to address the negative cash balance in the HTF-Highway Account. Like every challenge, if this issue were confronted earlier, the fix would have been easier. Instead, the burden of meeting this challenge is left for Congress, making the reauthorization discussion next year all the more difficult.

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

Senator PRYOR. Thank you.

Our next witness will be Mr. Steve Heminger, he's a Commission member, of course, and Executive Director of the Metropolitan Transportation Commission for the San Francisco Bay Area.

**STATEMENT OF STEVE HEMINGER, COMMISSIONER,
NATIONAL SURFACE TRANSPORTATION POLICY AND
REVENUE STUDY COMMISSION; AND EXECUTIVE DIRECTOR,
METROPOLITAN TRANSPORTATION COMMISSION**

Mr. HEMINGER. Mr. Chairman, and Senators, thank you for the opportunity to testify today, I do apologize about having to depart early, because of a change in my airline schedule plans.

If you have a hearing on airline travel, please invite me back.

[Laughter.]

Mr. HEMINGER. I can fill you up with a lot of information, I'm sure most Americans can these days.

In my brief testimony, I'd like to describe 2 of the 10 new Federal surface transportation investment areas which we propose to replace the 108 different spending categories in current law that Jack had described.

The first is in the area of congestion relief, and has the working title of Metropolitan Mobility. In simple terms, this new program is designed to decongest our major urban areas.

The Census Bureau tells us to expect 120 million more fellow citizens by the year 2050, and from a transportation point of view, that kind of growth wouldn't be too tough to handle, if it were spread across our vast country—but it won't be.

Most of these new Americans will live where most of today's Americans live—in metropolitan areas. These urban centers are the economic engines of the Nation, and they are bound to become even more vital, as America's population continues to urbanize and cluster near large cities.

In our report, we have focused on major metropolitan areas with more than 1 million residents. These 50 or so areas account for about 60 percent of the Nation's population in GDP, but these same areas capture an astonishing 90 percent of national market share for 3 key transportation indicators—traffic congestion, transit ridership, and population exposure to auto-related air pollution. In a nutshell, these major metros are where the transportation action is.

In 1982, only Los Angeles experienced congestion levels that exceeded 40 hours per year for the average commuter. Today, that level of traffic delay has spread to nearly 30 urban areas around the country. We think the Nation needs to set ambitious targets to reduce traffic congestion in these areas—not just slow the rate of increase.

In order to do so, metropolitan officials will surely need more resources, but they will need more authority, as well, to implement market-based strategies like congestion pricing, to help unclog some of our key commute and freight corridors. And with added resources and authority, we believe strongly, should come accountability, to meet the mobility targets they set. That's what our Commission report means, when we say performance-based, and outcome-driven. We believe it's time to stop complaining about traffic congestion, and start doing something about it.

The second area is in saving lives, and I was gratified that so many of you mentioned that in your opening remarks, and I'm afraid to say that, put bluntly, our track record on highway safety in America is a national tragedy. Every year, 40,000 of our fellow citizens die on the Nation's highways, which is equivalent to a 9/11 every month, month after month, year after year.

In addition to the horrible human costs, the economic consequences are enormous. According to a study released just last month by AAA, the annual cost of traffic crashes in lost earnings, medical bills, and other economic impacts is nearly 2.5 times the annual cost of traffic congestion, in the Nation's urban areas.

We constantly hear Federal officials claim that safety is job one, and the current Transportation Act is even named "SAFETEA," yet the carnage continues. With the exception of many rural roads that do need to be upgraded, our highways themselves are pretty safe—it's the drivers who are dangerous. Driver behavior is where we need to devote much more attention than we have in the past. Just as countries very similar to ours—like Great Britain and Aus-

tralia—have done so, and achieved much lower fatality rates than our own.

Our Commission report proposes an aggressive—but achievable—goal of cutting traffic fatalities in half by 2025. We can reach that goal, but only if the combined might and muscle of our Federal, State and local governments are brought to bear. If we do reach that goal, it would mean 20,000 more Americans every year would be able to tell their loved ones about their drive home from work each day.

In conclusion, Mr. Chairman, I do appreciate this opportunity to testify. I hope we are conveying to you today how strongly we feel, and what a great sense of urgency we feel in conveying this message about the worsening conditions of our Nation’s transportation infrastructure. The inefficiencies and under-investment that plague the Nation’s transportation network aren’t just about concrete, asphalt and steel—they jeopardize our national security, they damage our ability to compete in a global economy, and they harm our enviable quality of life.

These conditions—to use a phrase that Senator Hutchison used—are unacceptable. Our Commission spent 2 years looking for a near-term alternative to the gas tax, but we couldn’t find one. Our simple message to the Congress—and perhaps it’s an unpleasant one—is that if we want a better transportation system, we are going to have to pay for it.

Thank you.

[The prepared statement of Mr. Heminger follows:]

PREPARED STATEMENT OF STEVE HEMINGER, COMMISSIONER, NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION; AND EXECUTIVE DIRECTOR, METROPOLITAN TRANSPORTATION COMMISSION

Chairman Inouye, Vice Chairman Stevens and Members of the Committee. My name is Steve Heminger, and I am Executive Director of the Metropolitan Transportation Commission (MTC). MTC is the metropolitan planning organization for the nine-county San Francisco Bay Area. It allocates more than \$1 billion per year in funding for the operation, maintenance, and expansion of the region’s surface transportation network. MTC also serves as the Bay Area Toll Authority (BATA) responsible for administering all toll revenue from the seven state-owned bridges that span the Bay. BATA has a “AA” credit ratings and has issued over \$5 billion in toll revenue bonds to finance bridge, highway, and transit construction projects.

I was appointed to the National Surface Transportation Policy and Revenue Study Commission by House Speaker Nancy Pelosi. It was a rare privilege to serve on that Commission, just as it is a distinct honor to appear before this Committee today to discuss our commission’s findings and recommendations. In my brief testimony, I would like to describe two of the ten new Federal surface transportation programs which we propose to replace the 108 different spending categories in current law. These two new programs meet the rigorous test we developed for a new beginning in U.S. surface transportation policy: that the Federal investment strategy should be performance-driven, outcome-based, generally mode-neutral, and refocused to pursue objectives of genuine national interest.

1. Congestion Relief

The first of these new Federal investment programs has the working title of Metropolitan Mobility. In simple terms, it is designed to decongest our major urban areas. The Census Bureau tells us to expect 120 million more fellow citizens by the year 2050. From a transportation point of view, that kind of growth wouldn’t be too tough to handle if it were spread across our vast country. But it won’t be. Most of these new Americans will live where most of today’s Americans already live: in metropolitan areas. These urban centers are the economic engines of the nation, and they are bound to become even more vital as America’s population continues to urbanize and cluster near large cities.

In our commission report, *Transportation for Tomorrow*, we have focused on major metropolitan areas with more than 1 million residents (see Exhibit 1). These 50 or so areas account for about 60 percent of the Nation's population and GDP—that's impressive enough. But these same areas capture an astonishing 90 percent of national market share for three key transportation indicators: traffic congestion, transit ridership, and population exposure to auto-related air pollution (see Exhibit 2). In a nutshell, these major metros are where the action is.



Metros Capture Huge Market Share

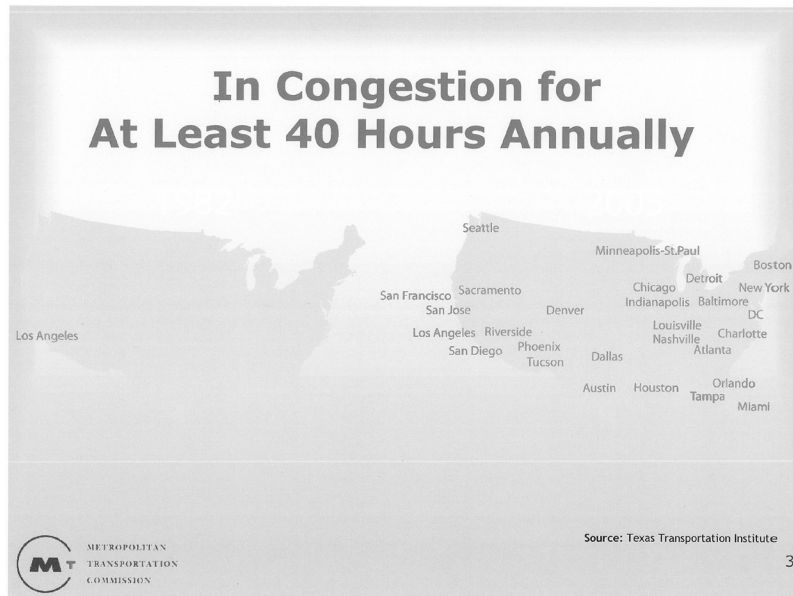
	10 Megaregions	Metro Areas > 1 Million
1 Share of U.S. Population	68%	58%
2 Share of Traffic Congestion	92%	97%
3 Share of GDP	78%	61%
4 Share of Transit Ridership	93%	92%
5 Share of Population Exposure to Criteria Pollutants	94%	88%

Sources: U.S. Census, Texas Transportation Institute, U.S. Conference of Mayors, EPA

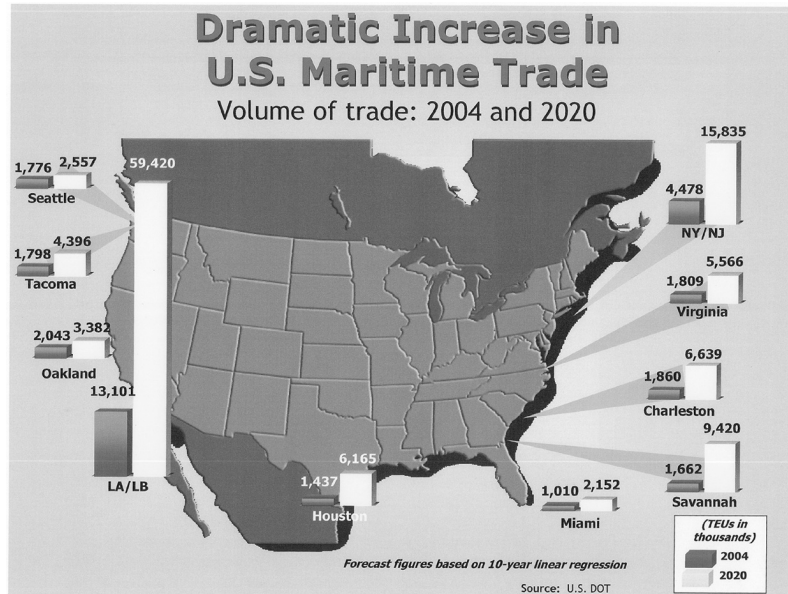
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In 1982, only Los Angeles experienced congestion levels that exceeded 40 hours per year for the average commuter. Today, that level of traffic delay has spread to

nearly 30 urban areas across the country (see Exhibit 3). We think the Nation should set ambitious targets to reduce traffic congestion in these areas—not just slow the rate of increase. In order to do so, metropolitan officials will need more resources. But they will need more authority as well—to implement market-based strategies like congestion pricing to help unclog some of our key commute and freight corridors. And with the added resources and authority should come accountability—to meet the mobility targets they set. That’s what our commission report means when we say “performance-based” and “outcome-driven”. We believe it’s time to stop complaining about traffic congestion, and start doing something about it. As former Transportation Secretary and former Congressman Norm Mineta has said: “Congestion is not a fact of life.”

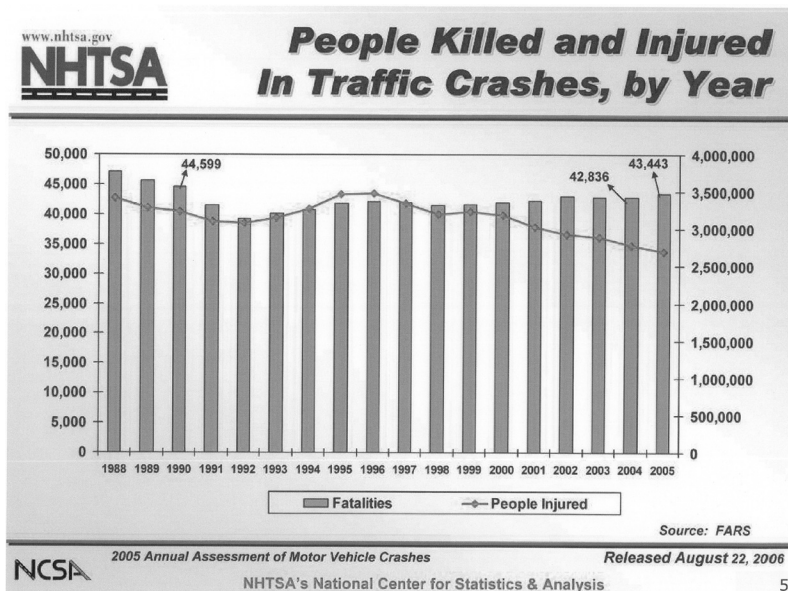


A principal cause of traffic congestion in our metropolitan areas is that trucks carrying goods and autos carrying commuters are competing for the same scarce road space. In addition, several major urban areas—including my own—are home to the Nation’s largest seaports where containerized cargo enters and exits the United States (see Exhibit 4). That is why our report advocates strategies to grow the market share of both freight and passenger travel that occurs on the Nation’s rail network. It is also why the linkage between the Metropolitan Mobility Program and the new Freight Transportation program we recommend will be so critical to the success of reducing urban traffic congestion.

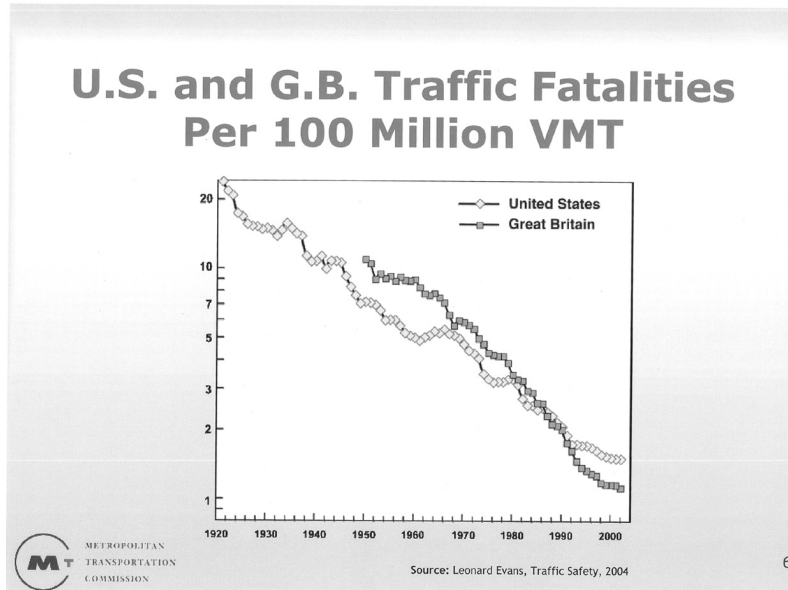


2. Saving Lives

Put bluntly, our track record on highway safety in America is a national tragedy. Every year 40,000 of our fellow citizens die on the Nation's highways—that's equivalent to a 9/11 every month, month after month, year after year (see Exhibit 5). In addition to the horrible human cost, the economic consequences are enormous. According to a study released just last month by the American Automobile Association, the annual cost of traffic crashes in lost earnings, medical bills, and other economic impacts is nearly two and a half times the annual cost of traffic congestion in the Nation's urban areas—\$164 billion for traffic crashes vs. \$68 billion for congestion.



We constantly hear Federal officials claim that safety is Job #1, and the current transportation act is even named SAFETEA, yet the carnage continues. With the exception of many rural roads that need to be upgraded, our highways themselves are pretty safe—it's the drivers who are dangerous. Driver behavior is where we need to devote much more attention than we have in the past, just as countries very similar to ours—like Great Britain and Australia—have done so and achieved much lower fatality rates than our own (see Exhibit 6).



Every state should have a primary seat belt law, but only half do. Every state should have a motorcycle helmet law, but only 20 do. Every state should have an ignition interlock law that prevents repeat drunk drivers from starting their car if they're not sober, but less than a handful do. And once those laws are passed, they need to be vigorously enforced to ensure compliance.

Our commission report proposes an aggressive but achievable goal of cutting traffic fatalities in half by 2025. We can reach that goal, but only if the combined might and muscle of our Federal, state, and local governments are brought to bear. If we do reach that goal, it would mean 20,000 more Americans every year would be able to tell their loved ones about their drive home from work each day.

Again, I appreciate the opportunity to testify before the Committee. My Commission colleagues and I feel a great sense of urgency in the message we convey to you today about the worsening condition of the Nation's transportation infrastructure. The inefficiencies and underinvestment that plague the Nation's transportation network aren't just about concrete, asphalt, and steel. They jeopardize our national security, damage our ability to compete in a global economy, and harm our enviable quality of life. We simply cannot afford to pass this problem onto the next generation. The time to act is now.

Senator PRYOR. Thank you.

Our next witness will be Mr. Matt Rose. He's Chairman, President, and Chief Executive Officer of BNSF Railway.

**STATEMENT OF MATTHEW K. ROSE, PRESIDENT AND CEO,
BNSF RAILWAY COMPANY, AND COMMISSIONER, NATIONAL
SURFACE TRANSPORTATION POLICY AND REVENUE STUDY
COMMISSION**

Mr. ROSE. Thank you, Mr. Chairman.

It's a pleasure to be here with you today, I'm sitting next to my colleague, Pat Quinn, who represented the ATA as CEO of U.S. Xpress, one of our largest shippers in the trucking industry. Pat and I spent a lot of time on this over the last couple of years, thinking about the freight side of what—what you all asked us to study. I brought a couple of slides, if the technology will come on here, in a minute. But what I want to do is just take you through a couple of facts of what we accumulated during this 2-year process.

The first one, really, begs the question of what's different right now for the next 25 years, versus the past 25 years? And simply said, the big difference is that we've really used up all of the excess capacity that we've had in both the highway system and the rail system.

Let me give you just a couple of examples. In the railroad system, over the last 25 years, we've actually reduced rail miles by almost 40 percent in this country. So, we've reduced rail miles by 40 percent, yet we've increased gross ton miles, or units of measure, by almost 65 percent.

In the highway system, we've actually increased highway miles by about 7 percent in terms of adding to our highway system, but look at what we've done in terms of VMTs, vehicle miles traveled, increasing almost 96 percent.

And so, where we found ourselves is really at the tipping point, in terms of all of the excess capacity. All of these various networks is now gone, and as we think about the next 25 years, it really is a significantly different business proposition, versus the past 25 years.

The next issue, really, that will drive what we firmly believe will be a transportation crisis, is really just the issue of compounding numbers of population growth, of trade growth, of GDP growth—whatever you want to look at. If you think about just what a 2 percent growth of GDP—which is something that we would all expect to rely on for this economy—you can see the type of numbers that that's going to relate to.

We're going to end up seeing our population grow to about 338 million people by the year 2020, again, that's going to only be a CAGR of about 1 percent, but look at what happens to the gross ton miles of the freight network—it's going to have to grow by about 2 percent, just to keep up with this normal growth in the economy.

Senator Smith mentioned the issue of congestion costs in our economy, Texas A&M actually studies congestive costs, which is a interesting proposition. Texas A&M will report right around that number the Senator mentioned, about \$70 billion a year.

And while that may not sound like a lot on a \$13 trillion economy, again, the congestive costs start to multiply, and by the year 2020, they're expecting for the economy to see about \$200 billion worth of congestive costs.

One of the other ways that our shippers, your manufacturing companies, the retailers of the country—they see these congestive costs when we measure supply chain costs as a percent of GDP. This number in our country has fallen every year for the past sev-

eral decades, to where the United States has the most efficient supply chain costs of anywhere in the world.

And you say, "Well, how does that relate?" Well, quite frankly, it allows us to be global traders, and it allows us to get our goods to places all around the world. We have done this through Just-In-Time, we've done this through excellent highway systems, railroad systems, all of these things.

You'll notice, though, the last couple of years, that line started to tick up. And that's, really, what the customers and what our consumers are starting to see—the transportation is actually becoming inverted, and actually starting to cost our economy, going forward.

Well, the Commission recommended a number of things for freight rails, specifically, to include tax incentives to stimulate more growth, rational regulation to make sure that the regulatory model that we're under would incentivize railroads like myself to be able to invest more in our rail property, and not less. Finally, the Commission took a mode-neutral approach against all of the programmatic reforms that I've outlined.

One of the great opportunities that, quite frankly, our society has is to rely more on freight rail, and this is a chart that shows the cumulative investment of the railroad industry over the last 10 years, and you can see the line in the year 2006 and the all-time record high of almost \$10 billion, if you add all of the various capital that we see flowing through the system.

And again, the line graph there represents return on invested capital. This business model, while it isn't perfect, it's working very, very well, as return on invested capital is increased for the railroad industry, you're seeing the railroads spend record levels of capital investment.

The other thing that, through the Commission, we did, for the first time ever, we put together the large Class I's, in a virtual sense, and looked at going out to the year 2035 and asked the basic question, "Will the railroads have enough capacity to handle that 2 percent CAGR growth for the next 25 and 30 years?" And what we found, that right now, if you think about that growth again—both population as well as GDP—the railroads will need to spend about \$135 billion through this period, through the year 2035, in our physical plant, to be able to handle this level of growth. Right now, at spending at record capital amounts, the railroads will spend about \$70 billion.

We would also expect through better productivity, to get an additional \$26 billion, because productivity is our friend in terms of capacity creation. We're totaling about \$96 billion, or \$100 billion, so that leaves us with a gap of about \$40 billion that the railroads need to find a way to solve for, to be able to handle the future rail capacity of our country.

So, the question obviously is, how do we close that gap? Senator Smith and others have been instrumental in helping us think through what will make railroads invest more money? And we've been proud to support the Senator's Capacity Expansion Act—which is really an investment tax credit that will incentivize railroads to go out and do things that they otherwise wouldn't have done.

You all just passed a stimulus bill here, recently, that had in it some accelerated depreciation, and railroad CEOs like myself did exactly what the smart economists told you we would do—we went out and we upped our capital program for this year by buying more locomotives and other things, that that would allow us to take advantage of those various tax instruments.

The other thing you'll hear from this Commission time and time again is the need to really develop—to develop a national freight program. Everywhere we went in the country, the thing that was most compelling, I think, to the Commissioners was how significant this issue was raised around a freight mobility crisis—not only on the highways—but also in the overall railroads. And examples of this are listed here. Things like rail corridor developments, inter-modal connectors, looking at implementation of train control technology—all of these things, again, define ways to increase the overall freight rail, and freight capacity of our overall network.

We studied a lot around public-private partnerships. We studied what would be the ideal-type public-private partnerships and what should be the principles around these public-private partnerships? And here are a couple of things the Commission recommended—everything from standardization of these public-private partnerships to making sure that there are no misallocation of public funds to these projects. Making sure that all of the grants and loans and public financing for rail-related projects doesn't supplant or diminish actual private investment that we see going on right now.

We also looked about the real, underlying realization of our global society now, and quite frankly, global trade is one thing that has really changed our transportation infrastructure, and we spend a lot of time discussing a freight fee, whether or not we could support something like that.

And we looked at a lot of different models, my favorite is to direct a portion of the Customs fee out of the current process, a 5 percent direction of a Customs fee into a national freight fee, would provide almost \$2 billion a year to apply to those bottlenecks that we have in these freight areas all over the country.

There's a lot of issues, though, when we think about a Customs fee—or any type of freight fee—that must come into play. First, it really must link and dedicate—as directly as possible—to the use of what you're trying to remediate. It's got to be predictable, it's got to be dedicated and sustained on a pay-as-you-go basis. And, it can't discriminate. It has to be—the ultimate consumer will bear the cost, and, most importantly, we believe it needs to be nationally coordinated.

As Frank mentioned, we spent a lot of time on passenger rail, and we did spend a lot of time looking at the regional passenger rail, because we believe this is the most efficient way to be able to take vehicles off the highway system, given also what we know is ahead of us in terms of greenhouse gases and our crisis on foreign oil imports.

With all of these things, there's a lot of warnings ahead in terms of when we start changing the actual funding of all of these various systems. There are some cautions. First, the public will not accept higher fuel taxes and other fees, if the system isn't overhauled. In

other words, every dollar of transportation that we spend in this country, has to go to remediating transportation issues.

Second, shippers will not accept any type of user fee, unless principles around those investments are fair and transparent. For example, inter-modal shippers should not pay for coal capacity expansion, and vice versa.

Third, railroads will not accept public funds with obligations not central to the investment, if strings are attached.

And fourth, we all agree that the lack of action will result in further degradation of our transportation efficiency, and ultimately affect our global competitiveness.

[The prepared statement of Mr. Rose follows:]

PREPARED STATEMENT OF MATTHEW K. ROSE, PRESIDENT AND CEO, BNSF RAILWAY COMPANY AND COMMISSIONER, NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION

Good morning Chairman Inouye, Vice Chairman Stevens and Members of the Committee. I want to thank you for the opportunity to appear before you today to discuss the National Surface Transportation Policy and Revenue Study Commission's report and findings.

At the outset, I would like to say that it has been an honor to serve on this Commission, and I was privileged to work with my fellow Commissioners, each of whom brought a unique perspective to our work and from which I learned a great deal. I would also like to thank Department of Transportation Secretary, Mary Peters; former Transportation Secretary, Norm Mineta; and acting Transportation Secretary, Maria Cino, for their collective leadership in chairing the Commission. I can tell you that considering the expertise and strongly held views of the Commissioners, leading this group was no small task.

My own perspective, of course, is shaped by my long career in the freight logistics business, and I should make it clear that I speak only for myself, as a Commissioner, and not for the railroad industry as a whole. The Commission's deliberations addressed a number of issues about which a railroad CEO naturally has some skepticism—such as expanding the highway system, a larger passenger rail program and a Federal freight program partially funded by a user fee. Thus, it was important to me that the Commission's recommendations, especially those for achieving freight and passenger mobility goals, were effective and not made at the expense of stakeholders in America's freight system. I believe the Commission generally has succeeded in this regard and that the Commission's proposals on these subjects should be carefully considered by Congress as it develops a comprehensive transportation program aimed at sustainably preserving mobility and economic growth.

Regardless of whether some or all of the Commission's recommendations are enacted by Congress, I believe this report is an unqualified success in demonstrating to Congress—and the drivers and consumers who elect them—that freight mobility is essential to jobs, global competitiveness and quality of life.

When the Commission began its deliberations and receiving the views of the public almost 2 years ago, it was clear to me that key transportation, economic development and academic experts understand how critical freight transportation is to the U.S. economy. Witness after witness from every part of the country underscored the importance of decongesting and expanding freight networks. Frankly, I was a little surprised and pleased at how the importance of freight mobility is increasingly appreciated outside of the logistics community.

Thus, goods movement became a fundamental element of the Commission's work. The Commission made policy and programmatic recommendations to promote efficient freight networks, in contrast to the nearly exclusive focus on passenger mobility in all of the preceding comprehensive surface transportation laws. In fairness, things are different today than they were even at the time of enactment of the last surface transportation bill. The Commission found that we are at a freight capacity tipping point. For all modes, freight capacity is tight, reflected in both higher costs to the supply chain and consumers and in the environmental impacts associated with congestion and increased volumes.

One of the most important byproducts of this report is the Cambridge Systematics/AAR Study, which benchmarks current U.S. freight rail capacity in key corridors and projects needed to expand capacity into the future, based on freight volume growth levels presumed by the Commission. Such a study has never been done

before; it was not necessary. Now, however, the economy is a reflection of the freight rail network, and policymakers should have a better understanding of what that means, the consequences of inaction and be given recommendations for a path forward.

As many of you on the dais know, I invariably ask elected officials to weigh policy proposals against whether implementation will result in more freight capacity, or less. The Cambridge Study tells us how much more freight rail capacity the country needs if we want to continue to realize the economic and environmental benefits of an efficient national freight rail network. Understanding future freight rail capacity needs will also help policymakers evaluate whether public policy proposals—on passenger rail, public-private partnerships, economic and other regulation—help achieve needed freight rail capacity expansion, the vast majority of which has been, and will continue to be, privately funded and maintained by the railroads.

The Commission concluded that freight rail capacity needs to be expanded systematically over the next 15, 30 and 50 years, and also determined that freight rail market share should be increased. Significantly, the Commission recognized that private investment is the key driver of freight rail network expansion. I know firsthand that if government regulation—economic, safety, security, environmental, labor—is not based in cost-benefit analysis and an understanding of the impact of implementation on re-investment, it will choke off private spending on expansion capital. Obviously, railroads are not the only private sector provider of transportation to whom this principle applies. Thus, the Commission found that rational regulatory policy is important to successfully promoting investment and productivity for all of the Nation's private sector providers of transportation. This is one of the most important conceptual underpinnings of the report.

The Commission also recognized the value of tax incentives in spurring needed investment in capacity expansion. It recommended a Federal investment tax credit as a way to expand rail network capacity. This has been proposed by the freight rail industry as a way to invest faster to meet market demand. The expansion tax credit, together with immediate expensing of the remaining 75 percent of capital investment, would reduce expansion project costs by approximately 30 percent. The net effect is that project return would increase by 3 percent to 4 percent, making the investment in expansion more likely and on an earlier timeline. It is enough of an incentive so that a good investment will be made earlier, but not excessive so as to spur a bad investment. The Commission's recommendation extends also to the maintenance tax credit needed by the short line industry.

Beyond tax policy, this Committee should also seriously consider the Commission's new freight mobility programmatic recommendations to the surface transportation programs. Specifically, the Commission recommended a freight program which is intended to afford broad flexibility to implement freight-related projects that are currently beyond the traditional modal authorizations. With regard to freight rail, the Commission recognized that there are projects that produce substantial public benefits but from which railroads would not benefit enough operationally to make the investment on their own. These projects might reduce vehicular congestion, transportation environmental impacts or even improve freight efficiency; however, there is a higher need for the railroad's finite investment dollar elsewhere. This proposed freight mobility program helps bridge the gap between the projects in which the railroads must invest to keep networks strong and expanding to meet market demand and projects that serve national, state and local freight mobility goals. Projects eligible for the freight mobility program would serve the public interest in improving mobility and eliminating chokepoints and their related environmental impacts.

The Commission envisioned eligible public-private partnership projects to include intermodal connectors, strategic national rail bridges where the cost of construction exceeds return on private invested capital, train control technology and assistance in corridor development. In addition, eligibility would include development of "green" intermodal facilities and operations, and on/near dock facilities, which can reduce vehicular congestion, emissions and noise and can improve safety.

Proposed projects would be the product of cooperation between freight railroads and the public sector—as they are now—but with the formality imposed by a National Freight Transportation Plan, which calls upon Federal, state, local and private stakeholders to evaluate projects using cost-benefit analysis. This process also will formally implement the principles recognized by the Commission that public entities and private entities should pay for their respective benefits, that publicly-funded projects should not require non-economic private investment or service, and that public investment should not supplant, diminish or strand private investment.

The Commission made a recommendation that more funding from a variety of sources should help pay for the projects undertaken through this program. These

include gas tax revenues, a portion of the existing Customs revenues, and potentially a freight fee and any carbon-related revenues that may result if Congress regulates green house gases. In addition, the Commission acknowledged that freight projects should receive funding from other programs—environmental, passenger rail, transit, metropolitan mobility—if they meet the goals of those programs.

I believe that, since trade is the key driver for these increasing volumes, Customs duties are an appropriate stream of revenue for funding a freight program. Customs duties, with established collection and administration, have the added benefit of not displacing freight between ports of entry. Dedicating 5 percent of current Customs duties for investment in freight projects would generate about \$1.8 billion annually and \$20 billion cumulatively through 2017. Dedicating 10 percent of current Customs revenues would yield \$3.6 billion annually and \$49 billion cumulatively through 2017.

The Commission was not specific about the form of any freight fee which Congress might authorize—such as a container fee, or waybill surcharge. However, it did correctly qualify that any fee considered by Congress should be designed to ensure that commerce is not burdened. At the same time, Congress should ensure that local and state proliferation of such fees are, in general, preempted. In addition, no mode of transportation or port of entry should be unduly advantaged or disadvantaged. A national freight fee is preferred to individual state fee initiatives that are now emerging in several states, which may inadvertently distort global trade flows and result in diverting congestion from one port region to another. A national fee is the best way of keeping a level playing field across national freight networks.

The Commission also found that a fee must be designed to ensure that the ultimate consumer bears the cost. This means that any freight fee is paid by the beneficial cargo owner, not transportation intermediaries such as steamship, trucking, or rail companies. An issue with fees assessed against carriers is their inability to pass these fees on in a competitive marketplace, which will result in reducing their ability to re-invest. Furthermore, the administrative burden to bill and collect a Federal freight fee should not be put on the private sector.

The Commission recognized that the payers of such a fee must realize the benefit of improved freight flows resulting from projects funded by the freight program. This is a fundamental user fee principle. It is essential to recognize that any freight fee is the shipper's money—private funding—which should be invested in ways that result in increased freight velocity, capacity and additional reliability. It will take additional revenues from all sources—including gas taxes, Customs duties and potentially revenues from any greenhouse gas regulatory program—to better meet the public's mobility and environmental goals.

I expect that freight stakeholders and Congress will have a strong debate about specifics of a freight fee and whether a “freight trust fund” should be created to administer it. The rail industry has long been opposed to that concept because there is little “trust” that the funds would flow to projects that meet the goals of an integrated goods-movement strategy—versus the political earmarking process. The Commission called upon Congress to create an accountable and transparent programmatic linkage between an assessed freight fee and the selection and funding of projects that facilitate growing trade-driven freight volumes.

In my opinion, conditions placed by Congress around the use of the freight fee will be critical to whether freight stakeholders are able to come to agreement on such a proposal. To ensure the wisest use of resources, the Commission recommended the development of a National Freight Plan and a NASTRAC to ensure that only effective, high priority projects would receive funding. In the absence of some kind of strong program governance for funding freight projects, I could not support any freight fee and related freight trust fund.

Next, I would like to address the passenger rail recommendations of the Commission's findings and recommendations. I believe that it is self-evident that passenger rail has a place in America's transportation future, given the energy and environmental challenges this country faces.

First and foremost, this country should raise its sights and view separated right of way, high-speed passenger rail as a starting point, rather than an end point, of its passenger rail vision. Incrementalism—where more passenger rail is added to existing freight networks until capacity is full—will be frustrating and potentially counterproductive in light of growing freight volumes. This Committee should commit itself to a bold vision of high-speed passenger rail in the next transportation bill.

However, the current reality is a system of joint use by freight and passenger rail. While the Commission envisions high speed rail, it also addressed the joint use model and, in so doing, was clear about the need to protect and expand the underlying freight network. Throughout the Commission's passenger rail discussions, it

recognized that it is nonsensical to impede operations and expansion of freight rail, the most fuel- and cost-efficient and environmentally friendly means of moving growing volumes, thus driving freight to the Nation's highways. That is an important externality in any cost-benefit analysis.

Specifically, the Commission upheld the principle that access by passenger providers to freight rail networks, where reasonable, must be negotiated at an arm's length with freight railroads, and the impact on present and future corridor capacity must be mitigated to ensure that rail freight capacity is not reduced, but enhanced. This recognizes that speed differences between passenger and freight trains and certain well-defined passenger service requirements must be taken into account and that there must be a fair assignment of costs based on the ongoing cost of passenger services. These costs include the cost of upgrading and maintaining track, signals and structures to support joint freight and passenger operations, and the costs associated with sealed or grade separated joint use corridors. Finally, it goes without saying that all host railroads must be adequately and comprehensively protected through indemnification and insurance for all risks associated with passenger rail service. In short, the Commission's vision recognizes that in order to be a true transportation alternative for Americans, passenger rail cannot be achieved on the cheap, as it has been to date.

I would like to point out the other findings and recommendations in the report that have positive implications for freight mobility. The Commission made extensive recommendations for streamlining the project permitting process and specifically recognized that privately funded freight rail projects often face the same costly challenges and delays. In our discussions, the importance of preserving Federal preemption in this regard was recognized. In addition, the Commission recommended an environmental stewardship program, which recognizes ways to improve the environmental impacts of freight operations. The recommendations envision tax incentives for deployment of cleaner locomotives, and funding for retrofitting locomotives with clean-burning technology.

I believe the Commission succeeded in this report in bringing the rail sector to the policy table in a way that has never been done before. The Commission recommends a more mode-neutral approach that allows policymakers to recognize freight rail's inherent cost effectiveness, fuel efficiency and environmental sustainability in program and project funding decisions. That's new, and it should help level the playing field between modes and result in greater benefits to drivers, communities and the environment.

In conclusion, it is a privilege to transmit the Commission's findings to you and formally conclude the work that Congress asked us to do. I am confident that the call to action which the Commission makes will be carefully evaluated by this committee, and that it will give careful attention to the freight mobility and passenger rail findings and recommendations of the Commission. I look forward to your deliberation of these findings, and those of others yet to come before you, as you prepare for what may be one of the most important reauthorization bills yet.

Senator SMITH. Mr. Chairman?

Senator PRYOR. Yes, sir?

Senator SMITH. May I ask Mr. Rose a question to clarify a number?

Senator PRYOR. Sure.

Senator SMITH. Matt, you indicated that we had added 6 percent to our surface transportation, highways, and like 90 percent increase in demand. What was the rail figure, again?

Mr. ROSE. It's down 39 percent in terms of rail miles, and up 65 percent in terms of gross ton miles.

Senator SMITH. And is it down in rail miles because we've taken a lot of shortline railroads? Why is it down 33 percent?

Mr. ROSE. You know, really, Senator, it's just—if you go back in the 1970s and the early 1980s, the system was in chaos. And you had a number of rail lines in bankruptcies, and a lot of those rail lines, quite frankly, became bike paths, and a lot of those are dormant right-of-ways, all across the country.

Senator SMITH. As you look at the increase in the capital investment that the railroads are making, will that number shrink?

Mr. ROSE. It will, but it will be like the highway miles, I mean, right now we're expanding—we're putting record capital in expansion of the number of miles we're adding. But, like at BNSF, we're talking about hundreds of rail miles, on a base of 33,000. So, it's just like the highways—you're going to see increase in rail miles, I believe, but it will be quite *de minimus*, in terms of the overall number.

And I think it's also important to point out, you know, while it sounds—it sounds dramatic, and it is, rail miles down 39 percent—a lot of those rail miles are not, of course, in the heavy metropolitan areas and these heavy trade lanes. And if you really, again, focus on what has really changed in our society, we used to be a production and a consumption society—now we're much more of a consumption society, so we've got these rail miles that used to serve these smaller areas, quite frankly, isn't where the big global trade is. And it's not where our agricultural exports are going, things like that.

Senator SMITH. Thank you.

Senator PRYOR. Thank you.

Next we have Mr. Patrick Quinn, he's Co-Chairman and President, U.S. Xpress Enterprises.

**STATEMENT OF PATRICK E. QUINN, CO-CHAIRMAN AND
PRESIDENT, U.S. XPRESS ENTERPRISES, INC. AND
COMMISSIONER, NATIONAL SURFACE TRANSPORTATION
POLICY AND REVENUE STUDY COMMISSION**

Mr. QUINN. Good afternoon.

My name is Pat Quinn and I am the Co-Chairman of U.S. Xpress Enterprises. U.S. Xpress Enterprises is headquartered in Chattanooga, Tennessee, and I also had the privilege of serving as the immediate past Chairman of the American Trucking Associations, the national trade association of the trucking industry. I was appointed to this Commission by Senator Bill Frist.

U.S. Xpress Enterprises is the Nation's third-largest, privately owned truckload carrier, with a fleet in excess of 7,500 tractors and 22,000 trailers. The company is one of the largest providers of expedited and time-definite services in the truckload industry and a leader in providing expedited inter-modal rail services with partners such as Mr. Rose's company, sitting here next to me.

Mr. Chairman, I came to this infrastructure commission with the goal of convincing my fellow Commissioners of the need for a new national transportation vision that put a priority on a freight system that would serve the needs of our Nation's economy. That vision would include a strong Federal role today, and continuing over the next 25 to 50 years.

I'm pleased to discover they didn't need any convincing. Even more importantly, we scheduled hearings around the country and heard testimony from a wide range of interested parties, we found out that the public really does not need any convincing. This may well be a case where the public is far ahead of the policymakers in understanding that our ability to move goods efficiently, safely, and in a timely manner needs to be a national priority.

In addition to the Commission's recommendations regarding freight movement as a national priority, I also would like to briefly comment on several other recommendations.

Regarding financing, the Commission report reasserts the long-standing Federal policy of user financing. Specifically, the report states that, “personal and commercial travelers should pay for the transportation systems and services they use in proportion to the costs associated with their use.”

Furthermore, the Commission report acknowledges that the primary funding source for highway infrastructure needs should remain the Federal fuel tax, both on gasoline and diesel fuel. And while the Commission report recognizes that alternatives to the tax may be necessary in 15 to 20 years, it also points out that the fuel tax has the following key attributes: low administrative and compliance costs; ability to generate substantial amounts of revenues; relative stability and predictability; and ease of implementation. I believe those principles should be the benchmark against which Congress evaluates future alternatives to the fuel tax.

Equally important, the Commission report recommends that Congress needs to enact strict criteria and conditions for the approval of any new tolling or privatization initiatives, in order to ensure that the public interest is protected. From the trucking industry’s perspective, the allure of privatization of our Nation’s highway infrastructure runs counter to the very needs of interstate commerce and a national highway network.

Obviously, reform of the program is important, and one of the most important recommendations of the Commission centers on the relationship between the need for additional revenues and the reform of the program. The Commission report also states that, “simply raising the Federal fuel tax and putting more money into the same programs will not be acceptable.” The Commission report clearly states that before any Federal financial support is increased, “the nation’s surface transportation programs must be fundamentally reformed.”

Those reforms include: Limiting the scope of programs eligible for Federal assistance to those having a true national interest; making State and local agencies receiving Federal funds accountable for meeting performance objectives; reducing unnecessary and wasteful project delivery requirements; and, requiring that major projects be subject to benefit-cost analysis.

Regarding safety, which is extremely important, certainly to my company and to the industry that participates as a major user of our Nation’s highway system, the Commission spent considerable time developing the recommendations regarding safety—and again, that’s a subject that’s important to me and to the members of this Committee—and specifically, we recommend that the U.S. Department of Transportation establish national safety standards, beginning with an ambitious but reachable goal—as Commissioner Heminger said—of cutting our fatalities in half from current levels by 2025.

And again, the Commission recommends performance standards for States to meet in order to ensure that this recommendation is not merely a headline but rather an achievable goal.

Thank you for the opportunity to testify today.

[The prepared statement of Mr. Quinn follows:]

PREPARED STATEMENT OF PATRICK E. QUINN, CO-CHAIRMAN AND PRESIDENT,
U.S. XPRESS ENTERPRISES, INC. AND COMMISSIONER, NATIONAL SURFACE
TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION

Good afternoon. My name is Pat Quinn and I am the Co-Chairman of U.S. Xpress Enterprises, headquartered in Chattanooga, Tennessee. I also am a past Chairman of the American Trucking Associations, the national trade association of the trucking industry. I was appointed to the National Surface Transportation Policy and Revenue Study Commission by former Tennessee Senator Bill Frist.

U.S. Xpress Enterprises is the Nation's third-largest, privately owned truckload carrier, with a fleet of 7,500 tractors and 22,000 trailers. U.S. Xpress provides dedicated, regional, and expedited team truckload services throughout North America, with regional capabilities in the West, Midwest, and Southeastern United States. The Company is one of the largest providers of expedited and time-definite services in the truckload industry and is a leader in providing expedited intermodal rail services.

Mr. Chairman, I came to the Infrastructure Commission with the goal of convincing my fellow Commissioners of the need for a new national transportation vision that put a priority on a freight system that would serve the needs of the Nation's economy. That vision would include a strong Federal role today and continuing over the next 25 to 50 years. I was pleased to discover they didn't need any convincing. Even more importantly as we scheduled hearings around the country and heard testimony from a wide range of interested parties, we found out the public didn't need any convincing. This may well be a case where the public is far ahead of the policy-makers in understanding that our ability to move goods efficiently, safely and in a timely manner needs to be a national priority.

In addition to the Commission's recommendations regarding freight movement as a national priority, I also would like to briefly comment on several other recommendations.

Financing

The Commission report reasserts the long-standing Federal policy of user financing. Specifically, the report states that, "personal and commercial travelers should pay for the transportation systems and services they use in proportion to the costs associated with their use." Furthermore, the Commission report acknowledges that the primary funding source for highway infrastructure needs should remain the Federal fuel tax, both on gasoline and diesel fuel. And while the Commission report recognizes that alternatives to the tax may be necessary in 15 to 20 years, it also points out that the fuel tax has the following key attributes: low administrative and compliance costs; ability to generate substantial amounts of revenue; relative stability and predictability; and ease of implementation. I believe those principles should be the benchmark against which Congress evaluates future alternatives to the fuel tax.

Equally important, the Commission report recommends that Congress needs to enact strict criteria and conditions for the approval of any new tolling or privatization initiatives in order to ensure that the public interest is protected. From the trucking industry's perspective, the allure of privatization of our Nation's highway infrastructure runs counter to the very needs of interstate commerce and a *national* highway network.

Reform of the Program

One of the most important recommendations of the Commission centers on the relationship between the need for additional revenues and reform of the program. The Commission report states that, "simply raising the Federal fuel tax and putting more money into the same programs will not be acceptable." The Commission report clearly states that before any Federal financial support is increased, "the Nation's surface transportation programs must be fundamentally reformed."

Those reforms include:

- Limiting the scope of programs eligible for Federal assistance to those having a true national interest.
- Making State and local agencies receiving Federal funds accountable for meeting performance objectives.
- Reducing unnecessary and wasteful project delivery requirements.
- Requiring that major projects be subject to benefit-cost analysis.

Safety

The Commission spent considerable time developing its recommendations regarding safety, a subject that is very important to the membership of this Committee.

Specifically, the Commission recommends that the USDOT establish national safety standards, beginning with an ambitious but reachable goal to cut surface transportation fatalities in half from current levels by 2025. And again, the Commission recommends performance standards for states to meet in order to ensure that this recommendation is not merely a headline but rather an achievable goal.

Thank you for this opportunity to testify today. I look forward to answering any questions you may have.

Senator PRYOR. Thank you.

Now, for those of you who missed my announcement earlier, Steve Heminger has to catch a flight, and he has to leave here in about 10 minutes. So, if you all have any questions specific to him, let's go ahead and ask.

I'll ask one, and I'm going to ask the same question to others after you leave. My question for you, Mr. Heminger, to start out, is a question that was in the news last week. There's been a proposal that's floated out there on having a holiday on the gas tax. And my question for you is, what impact would that have on you, if we did a gas tax holiday?

Mr. HEMINGER. Mr. Chairman, obviously, a lot of us work in the transportation field, and so one impact that comes immediately to mind is it would result in a substantial reduction available to take care of our infrastructure. This is at a time when the Highway Trust Fund is already about to enter a negative balance condition, so I can't imagine a worse time to suggest removing additional resources from that fund.

I also would speculate, perhaps, that if the intended effect is to provide some price relief to consumers, that will be up to the people who set the prices. And I think it's entirely plausible that the consumers would not really see any relief.

The one way I look at this, Mr. Chairman, and I'm not an economist, but when the Federal gas tax was last increased, it was 1993. In 1993, the average retail price of gas in the United States was a dollar, and now it's pushing \$3.50. In my town of San Francisco, it's pushing \$4.00. The tax hasn't caused the price to go up. There are a lot of other factors that have caused the price to go up.

And over that time, that \$2.00 increase in price has not resulted in a single improvement to our infrastructure system. And I think that's a crying shame. The place where we have relied up to now to finance our infrastructure system—the place where we built the interstate system—for the last 15 years, has essentially been inactive, and all of the revenues that have been generated through that price rise have gone other places. They've gone abroad—they've gone into plenty of things, everything, in fact, except improving the infrastructure for the people paying those fees.

So, while we understand that our recommendations in the area of the fuel tax and taxation are some strong medicine, one thing about the fuel tax is that if it does lead to a higher price, the people paying that higher price get a benefit for it—they receive something in return. And I think one reason that there is obviously a lot of concern in the country and the Congress about high fuel prices, is we're not getting anything for the high rate.

Senator PRYOR. OK.

Yes, sir?

Senator SMITH. Yes, Mr. Heminger, you mentioned that Australia and Great Britain, I believe—

Mr. HEMINGER. Yes, sir.

Senator SMITH.—have reduced their fatalities. How did they do it? What can we do to emulate that?

Mr. HEMINGER. A lot of it, Senator, has to do with driver behavior, and I acknowledge that this is some of the more sensitive areas for legislation and regulation, but the fact is, if you look around the United States, half of the States don't have a primary seat belt law, half of them don't have motorcycle helmet laws. Only a few of them have ignition interlock laws, which prevent a drunk driver from driving drunk.

That's really where Great Britain, Australia, a number of the European nations have pushed aggressively. They've passed tough laws, and they have enforced them, rigorously, and they have driven down fatality rates, significantly.

In the field they talk about the three E's—you know, Education, Enforcement and Engineering—and we've done pretty good on the first and the third, it's the enforcement part that we've had trouble with, because it does mean, sort of getting in the face of motorists out there who aren't obeying the laws, or who are driving recklessly.

Senator SMITH. So, it isn't an infrastructure thing, it's education, enforcement—

Mr. HEMINGER. Look, part of it has to do with the fact that we've got a big network. And we do have a lot of fatalities occur off of the interstate, on rural roads where there's a lot of engineering solutions that could be enacted. But a significant fraction of the 40,000 people dying every year are as a result of still, not wearing seatbelts, drunk driving, and the like. And that's where I think there is a lot of ground to be gained, here in the United States.

Senator SMITH. Thank you.

Senator PRYOR. Senator Thune?

**STATEMENT OF HON. JOHN THUNE,
U.S. SENATOR FROM SOUTH DAKOTA**

Senator THUNE. Mr. Chairman, I have to get somewhere else here in just a minute, too, but if I could, I'll pose this question to Mr. Heminger, and then if the others would answer it for the record, that would be great, too.

But, I'm just interested in kind of getting an overall sense of, you know, you obviously have studied these issues very closely over a long period of time, and there are some out there who have suggested that the Federal Government ought to reduce its role when it comes to our Nation's transportation system, and the way that we invest in it, and what-not. And I guess I'm just wondering what you think would happen if the Federal Government did just that? I mean, if there's a lot of talk about going to more toll roads, and that sort of thing, just kind of your overall impressions and response to that question?

Mr. HEMINGER. Senator, I think the short answer for most, if not all, of us here on the panel today—but certainly the 9 members of the Commission that signed the report—is that there is no substitute for Federal leadership. Federal leadership is what built the interstate system—we would not have an interstate system without Federal leadership. We would not have as robust a public transit

network—which is not robust enough—but we would not have what we've got without Federal leadership and support.

We really see no substitute—the Federal program, historically has provided about 40 percent of the capital funding. And while we endorse the notion of greater private sector involvement under reasonable conditions that protect the public interest, we don't think the private sector is going to replace 40 percent of the capital funding, which is what the Federal Government provides today.

We don't think it makes sense that we should take the Federal program and shove it down to the States and pretend that that somehow creates more money—it doesn't. In fact, in many places, it may create less funding, because a number of States restrict the ability to use gas tax funds on public transit, as an example. So there would be many places where public transit would see a reduction in funding, if there were some kind of turn-back or devolution of the tax rate.

So, we believe, essentially, that the current system under which private, local, State and Federal Governments all play a role, needs to continue, and that the Federal Government needs to lead the way.

Senator THUNE. Mr. Chairman, that's really the only question I have, but I just wanted to thank the Commission for your good work, and for your recommendations. And we obviously are looking very intently at some of those. We have a big problem in this country, we've got a big challenge ahead of us, we have a huge backlog of transportation needs, and those are going to have to be addressed. Whatever your mode of transportation is right now, we've got lots of capacity issues, I think, facing us in the future that are going to require a significant investment. And the question is how can we best accomplish that.

And there are some of us who have introduced some different ideas, I think some of us are going to have to think outside the box, Senator Wyden and I have a Build America Bonds Program that we would like to have considered, as well, I think that was a little bit outside the purview of what you were doing, but that's something that we think makes some sense in terms of getting some additional dollars into our infrastructure across this country, but in order for us to be competitive globally, we've got to figure out how to solve this problem, and address it.

Because it is key to our competitiveness, and I think people in this country have an expectation that this is something the government has a role with. And when it comes to infrastructure we've got to step up and do what needs to be done.

So, thank you again for your good work.

And thank you, Mr. Chairman for holding this hearing.

Senator PRYOR. You bet.

Listen, thank you Mr. Heminger, I know you need to slip out, and safe travels.

Let me go ahead and ask you, Mr. Schenendorf, what I asked in my first question, and that is, again, last week there was some discussion about a gas tax holiday. What impact would that have on you?

Mr. SCHENENDORF. Well, I would say that I agree with Commissioner Heminger's assessment. I think that there is, first, no guarantee that any of that money is going to actually flow to the user.

But even more importantly, I mean, I think it sends the wrong signal to the public. We need, if anything, to spend more on our infrastructure, and American's will benefit much—to a much greater degree if we're able to repair our roads, provide the capacity we need so that we can, basically, reduce congestion and make sure that we're economically competitive throughout the world, that we need to invest more—and suspending taxes just sends the wrong signal, in my judgment.

Senator PRYOR. Mr. Busalacchi?

Mr. BUSALACCHI. Well, Senator, my opinion on this is probably a little bit stronger than Jack's in that there is no easy fix to the problem that we have in this country. The problem that we have with transportation in this country is very complex. Having a short-term reduction of the gas tax is certainly not the solution to the problem.

We have a major issue with funding. We're asking for a huge increase to the Highway Trust Fund on an annual basis because of a number of complex issues. I don't believe that any kind of short-term fix that reduces the amount of dollars going into the Highway Trust Fund is going to solve the larger issues.

The decisions that are going to need to be made by Congress will be difficult. At the same time, as Commissioner Rose said earlier, we're going to have 120 million more people by the year 2050.

So we just don't have the issue of failing infrastructure; we're also going to need to accommodate more people. How are we going to compete in the world? It is a ruse to suggest that for 3 months or 4 months reduce the gas tax, and that will fix the problem.

The American people have to understand that what's going on here is very serious. We have to look at it that way. I'm not trying to get on a stump here. This is a serious issue for the country and I think it's short-sighted to think that reducing that tax for 3 months is going to solve the problem.

Senator PRYOR. Thank you.

Mr. Rose, did you have any comments on the gas tax holiday?

Mr. ROSE. No, I'd just add—I think that one thing we need to, at least what I read in—when I read the papers, was that the proposal was to take money out of the General Fund to put into the Highway Trust Fund, it wasn't to deplete the Highway Trust Fund. So, I'd just like to add that as a little bit of an add-on to—to this issue.

And I, again, I think it's hard to know whether or not the price of oil would come down by the 18.5 cents a gallon. I really viewed the whole concept more of a stimulus to get more money in people's pockets, but I think the—it was clear that money would not be taken out of the Trust Fund, it would be brought in from the General Fund.

Senator PRYOR. Mr. Quinn?

Mr. QUINN. Well obviously, you know, fuel for the trucking industry has almost become the highest cost, and for some companies it is higher than labor, it's always been traditionally the second highest cost.

And I just read a report late last week that said in the first quarter more than 900 trucking companies went out of business, most of them small firms. Obviously, you know, created probably—primarily by the cost of fuel. But I, you know, certainly companies are hurting and it could be helpful to some companies, but I—without more information as to how this might actually play out and reduce, you know, the cost at the pump for the users, I'm not sure. And again, it's a, you know, a 3-month situation. We really need more long-term solutions as to how to deal with this, I think, than a 3-month situation.

Senator PRYOR. All right. Let me follow up on that, if I may, with the entire panel, then I'll let Senator Smith ask some questions. I'd like to address the VMT, the Vehicle Miles Traveled.

Based on some of the data that you've showed us and have discussed, we see what's happened. What has the Commission decided or what did you discuss and what would you recommend, given the changing marketplace for vehicles today? Hybrids, plug-in electrics, and other type of vehicles, including ones that use ethanol, are coming on board that don't use any, or not much—traditional gasoline and diesel. What did you all talk about that?

Mr. SCHENENDORF. We recognize that that is an issue, and in the long term, we recommended taking all of the prudent steps today to try to move toward a VMT-related fee or tax as quickly as we can get there. There are still some substantial hurdles to being able to implement that kind of technology, privacy issues, evasion issues, administration issues, and, but nevertheless though, we recommended research, pilot projects in an effort to move as quickly in that direction as possible.

We do think that that's going to take a number of years, and we agree with the TRB study that this is probably 10, 15, 20 years away. And in that interim period that we're going to need to—and we're going to be able to—rely on the gas tax, but we did recommend trying to move toward a VMT-related fee as quickly as we can, with some TRB further studies and pilot projects in order to try and hasten that transition.

Senator PRYOR. Anyone else?

Mr. BUSALACCHI. Yes, Senator, I was able to go to Oregon and the University actually took me through their pilot program. It's a very interesting program, and I think they did a great job. The Commission recommended a short-term and long-term solution to our revenue issue. I believe that the VMT solution is more long-term, several years down the road.

As Jack had said, we have issues with privacy associated with the VMT concept. I do believe that, in the long-term, it's something that we need to seriously consider. This is a program that we can use, that could be successful, and respects the user pay principle—the people who use the system will pay for the system. I think that's everybody's goal.

I was very impressed by what Oregon is doing; it shows there is an approach out there that works.

Senator PRYOR. Senator Smith?

Senator SMITH. That's a good lead-in.

You know, it was very interesting that this—this test, this mileage fee concept and the road-user fee pilot program that Oregon

authorized. I was very interested to learn that they believe the technology exists to make it work, and that 91 percent of those involved in it said they would prefer it to the gas tax. I'm neither endorsing it or denouncing it, I'm just curious if you think that that may be a more equitable way to bear this future capital investment that we have ahead of us as a country.

Mr. SCHENENDORF. It certainly, if all of the problems can be overcome, it certainly has the potential to be that way, because you can then engage in different kinds of pricing, depending on the time—time of day, which particular road system you're on. So I think it does have a lot of potential, and I think, you know, we think our report moves as quickly as possible in that direction, recognizing it's still going to take some time to perfect it. And to turn over the fleets, because you have to have an entire fleet outfitted with the equipment that would be needed to—

Senator SMITH. We'd need a transition period.

Mr. SCHENENDORF. —right.

Senator SMITH. Mr. Schenendorf, you mentioned that if we did the gas tax holiday this summer that it wouldn't get to the consumer. Is that—I assume you're concluding that—at least I believe that's what you said—that the companies would just pocket that. Is that your—is that your conclusion?

Mr. SCHENENDORF. I think there's a good possibility that that would be the case. And I think we don't know for sure what would happen if the—because you don't actually pay at the gas pump. Those fees are paid much higher up the chain, and whether or not the prices would actually reflect the suspension of the 18.4 cents, I think is a question. So, it's—that I'm not sure that the consumer would actually see the full amount.

Senator SMITH. There'd certainly be a lot of political pressure to make sure that the consumer did see it, I imagine.

Mr. SCHENENDORF. Right, but there's so much fluctuation in the price of gasoline, I think it would be very hard to be able to absolutely ascertain, yes, it was passed through or no it wasn't.

Senator SMITH. Fair enough, thank you.

Mr. BUSALACCHI. Senator Smith, I think the other thing to remember is that from the point of view of a DOT person, a system like this can really provide us a lot of data on a regular basis, because we would know what roads people are using and how much they're using them. This information would be very helpful to each individual State if you're able to track, not just the miles traveled, but the roads being used. A system like this, really has a lot of potential.

Senator SMITH. If you examined the program at the University of Oregon, did they make a distinction between urban miles traveled versus rural miles traveled and account differently for that in term of cost?

Mr. BUSALACCHI. In the Oregon pilot there were only two or three gasoline stations that the drivers used. I think that all of this type of information could be included in a VMT.

Senator SMITH. Well, that is really the question I would have, if somebody from Pendleton, Oregon where there's a lot of, as I said, a lot of dirt between light bulbs—it just seems to me that in rural economies, where the economies frankly are much poorer than in

urban places, and the miles they have to travel with farm goods and things like that are much greater, they would be disproportionately disadvantaged, and there would have to be some kind of an adjustment between urban and rural in order to just simply make it fair, and to raise the revenues necessary.

Mr. SCHENENDORF. I think the system, you know, when people talk about the VMT fee and the future and what it might look like, I think it's meant to be designed in a way that would allow that exact type of thing to be done, where you really could tailor the charges to the kind of road, the kinds activities, and we have rural areas that have very light flow on it that would be at a much, potentially, lower rate than in urban areas where you've got a lot of congestion and it's a much higher price for use of those facilities.

Senator SMITH. The reason that that's important, and a lot of times folks in urban areas don't understand this, they feel like the rural areas are getting some big deal because we invest disproportionately a lot more concrete and asphalt in rural places. But for every 40 wheat farmers in Pendleton, there are thousands of jobs directly related in Portland, Oregon, an urban place, to haul in their wheat, and the getting it out to the world markets. So, there really is a need to enhance understanding of the interconnectedness and the mutual need between urban and rural people.

Thank you.

Senator PRYOR. Let me ask another question, if I may. Thank you, Senator Smith, appreciate you attending. I know this is one of the matters you discussed multiple times at the Commission level, and I understand there's a minority view on this topic as well, and that is the question of tolling. Who wants to explain to the Committee the nature of your discussions on tolling and where the sides were on that, and then what the Commission actually decided? Who wants to do that?

Mr. SCHENENDORF. I can take a first stab at it—

Senator SMITH. Sure.

Mr. SCHENENDORF.—if you'd like. On the question of tolling and pricing and public-private partnerships, which really means private tolling and private pricing, the difference of opinion, I think, was really one of degree. I think all of the Commissioners felt that those are financing tools that we're going to need to take advantage of as we try to build the transportation system for the 21st century.

The difference was, I think, that the dissenters viewed that really as almost the total solution, they were, you know, their basic position was that there ought to be devolution, the Federal Government should basically reduce its commitment, therefore they didn't, the use of a gas tax or a freight fee or everything was not an issue because the Federal Government wouldn't be part of the solution, and therefore, the way that the system would then be financed would be through tolling and private sector.

I think the majority of the Commissioners' view was that we needed to have a continuation of public funding being a big piece of the solution and the Federal Government provide the leadership, being a full partner, but that tolling and public-private partnerships and pricing were still going to be necessary to make the system work and were going to play an important part, just not the whole solution.

Mr. BUSALACCHI. Senator, I think in the Commission report, we left it up to the individual States, whether or not they wanted to embark on public-private partnerships and tolling and things like that. It's a State decision, quite frankly. If you use my State as an example, we've made a policy decision that we don't want toll roads, period. We don't think they're helpful. We think they punish people who have already paid for these roads. A large part of the commerce that flows in and out of our State is by truck; we're cognizant of the fact that the truckers would be affected as well.

We feel that in our State in particular tolling is problematical.

But having said that, tolling could be a solution for some states. It's not the total solution, in fact, it's a very, very small part of the tools that need to be in the revenue options toolbox.

Senator PRYOR. And Mr. Quinn, you look like you wanted to add something to the tolling discussion.

Mr. QUINN. Well, obviously to the trucking industry, tolling is a very serious issue, but I think the Commission rightfully decided that the tolling of existing interstates, that have been built and paid for with the current taxing structure, did not make sense. On new construction or new roads where you're given an option and it's not mandated, that may make sense and can be—again, as the other Commissioner said, it's part of a solution, it's part of a tool, it's not—there is no “the answer” for the problems and the financing that's necessary. But tolling of new construction may be helpful, HOV lanes, you know, hot lanes, things like that that can be, that perhaps can be helpful on new construction. We would be supportive of that.

Senator PRYOR. OK.

Let me ask, if I may, Mr. Rose, about freight fees. In your testimony or in something I read, you talked about freight fees and a national fee may be the best way to go about assessing the freight fees. I think the Committee would have several questions about how that would work, such as, who pays the fee, who collects the fee, et cetera. Could you elaborate on your thoughts on freight fees and then what the Commission concluded on the issue?

Mr. ROSE. Sure, Senator. Right now, at the major trade ports, there's a lot of individual municipalities, cities, States, all considering freight fees. Just in the San Pedro Port of Los Angeles/Long Beach, you've got an hours of the day fee, they're going to a new truck fee, they're going to a, potentially, a labor fee, they're going to a—building a new terminal, they're going to do a fee with that. I mean, we've got the Alameda Corridor fee.

And so, you know, one of the things about our commerce system, why there is a national need, is that if we allow people to tax commerce and tax transportation, we will end up, quite frankly, with a very disjointed economic reality. So what will happen is that freight will move around, thus causing more infrastructure requirements in areas that may or may not be the most efficient route.

The purpose of having, again, federally preempted, is for that reason. As far as having a common collection point, you can imagine if—if one of our customers was having to pay five or six different fees on a single load of freight, as well as—the last thing I think that we want to do is incentivize freight movements to go through other parts of the North American continent, *i.e.*, Mexico

or Canada, only then to come into a different port of entry that would not have the same level playing field, if you will, on a fee coming through a—or a load coming through a port.

So, what's really important to customers, shippers, retailers, those people who are paying the freight bill, is that, again, there's transparency and that these fees go to the actual transportation.

The best example of this is the Alameda corridor out in the Los Angeles area, where we built a 20 mile trench, if you will, \$2.5 billion, and we have an assessment of around \$18, it's inflated a little bit, \$18 per 20-foot equivalent, for every box that comes through those, an \$18 fee gets applied to it. And we didn't hear, quite frankly, any complaints against shippers—from shippers because everybody was able to see the \$2.5 billion.

What we see with some fees though, and the same thing that I think Pat was referring to, in terms of tolling, when those fees or those tolls go off the actual physical facility and go off to solve other problems, then, quite frankly and rightfully so, I believe, shippers feel like that they're—that they're being mistreated and that they don't believe that those fees are going to remediate transportation-type issues.

Senator PRYOR. OK.

Let me ask another question, and I'm not sure who this should go to, but let me try with Mr. Busalacchi and see if this is something he would like to comment on, or if one of the other Commissioners should respond.

I know in the discussions we've already had, the concept of performance standards has come up. I am interested to know how the Commission envisions performance standards working and what that really means. Are we looking at doing formulas, based on population or road usage? So, who's the best one to answer that?

Mr. SCHENENDORF. What we envisioned, all ten of the programs we envision as performance-based programs, and if they were enacted the way we envision them, by the Congress, the first step would be for the Federal Government and the States and the stakeholders to work out the metrics for each of these standards, so that you would have a measurable national metric for what it means to be in a state of good repair, or how we're going to measure congestion, or freight movement, depending on the particular program.

Once you had those standards then agreed to, each State would go out and would measure what they had to do and develop a plan for bringing their infrastructure into a state of good repair or what it's going to take in order—in that metropolitan area to reduce congestion by 20 percent, and what kinds of investment they would have to make, and they would cost that out.

They would provide a cost estimate, just the way the interstate system had a cost estimate for what it was going to cost to meet that performance standard. And then, nationally, you could use those costs to make—to distribute the funding so that each State would get its relative share of what it needed to meet the performance standard. You would also know nationally how much money you had to put into the program to achieve the performance standard over a certain number of years.

And so that as you funded that over time, you would basically have all the States progressing toward meeting the performance

standard over some period of time. That's precisely the model that was used for the interstate system, with cost estimates, and the interstate system was ultimately completed using that approach.

So, the model is the interstate system program, the actual metrics for the standards would be developed in a collaborative process, at the outset, by the Federal Government, States, and stakeholders.

Senator PRYOR. My sense on that is that's certainly an idea that we ought to talk about and discuss and see if we can find the right pathway to performance standards. But, the House and Senate will have some concerns about that program being set up appropriately and taking all the miscellaneous circumstances into account. I already know how colleagues can justify how money is currently being spent. But I do think it's a worthy idea to consider and if it works out and that's the direction we want to go, great. I want to thank the Commission for putting that on the table for discussion.

I don't remember which one of you in your opening statements mentioned the idea of Department of Transportation consolidation. I think there are 108 different Federal agencies and the Commission recommends that somehow they be condensed. I'm not sure if the recommendation is to condense that into ten programs or just sort of ten umbrellas, under which 108 agencies fit. I'm not quite sure what the best route is for consolidating. Why does the Commission think those need to be consolidated? I can understand why without hearing it, but I'd like to hear your thoughts and what the rationale was there. And then, when you end up with these ten, do you have the structure and the specifics in mind already? Do you have that blueprint done, or are we just talking concepts here?

Mr. SCHENENDORF. I—it was my statement. We basically are suggesting is that—we're proposing these 10 performance-based programs as a replacement for the existing programs. And the reason that we've done that is, when you have 108 funding streams and 108 priorities, you really don't have any priorities.

And so what we have tried to do is to say the Federal Government needs to refocus its program, it needs to have a sense of mission, and we defined that mission as these 10 programs, a program for state of good repair, a program to reduce congestion in major metropolitan areas, Commissioner Rose talked about the National Freight Program. So those are the 10 programs—a safety program—and those programs would reflect the Federal priorities, and then they would operate the way we just talked about, in developing the performance standards.

Senator PRYOR. So, if I can pick on two specific programs today, FMCSA and NHTSA, might those both go in the safety program?

Mr. SCHENENDORF. Those would be—those missions would be encompassed in the safety program.

Senator PRYOR. OK. What about if programs really have split missions, would you break up that some how and reconfigure that in some way?

Mr. SCHENENDORF. Yes, it would depend obviously on the—on the particular program, but we think that the 10 performance-based programs that we're recommending really cover all of the current missions in the 108, but just in a much more focused way, and in a way that ultimately the public will be better able to un-

derstand what the mission and States and local governments are going to have to come up with plans and programs that actually accomplish the transportation objectives laid out in those 10 performance-based programs.

Senator PRYOR. OK. I also noticed in the commission's report and findings, the idea of a National Surface Transportation Commission, which might be modeled after something they do at the Postal Service, and maybe even the BRAC. The idea would be to try to depoliticize the allocation of resources, is that fair?

Mr. SCHENENDORF. I think it was meant to try to depoliticize some of the more controversial things, really in raising the revenues that would be necessary in setting the funding levels, and like the Postal Rate Commission, the purpose of this Commission would not be to duplicate what DOT does in any fashion, but instead, would be there to oversee it and the basically say, "OK, this is the program Congress set out, here's how much it's going to cost, here's the level of taxes that you'll need," and then have Congress vote up or down on the level of revenue that would be necessary for the program that Congress put in place, and obviously Congress can change those requirements.

But it was supposed to be a helpful thing to kind of depoliticize what has been a very difficult political decision in raising the funding.

Senator PRYOR. So, just to walk me through that a little bit, the Commission's thought is that the Congress, and the President of course, would authorize a Commission that I think we call NASTRAC, to find and structure revenue sources and also have the ability to raise that revenue, in other words, to increase the gas tax or whatever the case may be. Is that correct?

Mr. SCHENENDORF. Not exactly, I mean, I think what they would do is kind of oversee the DOT process. And we talked before about these cost estimates that would come up. Each of these programs would basically have a cost associated with them, what it's going to take, and then what they would do is they would compile all those and say, "You know, in order to do what Congress has laid out in the statute over the next 15 years, it's going to take X billion dollars per year of investment in all of these programs, and that would mean that the Federal gas tax, if that's what Congress has said is going to be the funding source, would have to be raised, let's say, by, you know, four cents a gallon."

And then that four cents a gallon—they wouldn't actually raise it by four cents a gallon, but they would send it to Congress as the recommendation that it be raised by four cents a gallon, and then Congress would have to vote on that, just the way they vote on postal rate increases. It would be an up or down vote. Congress would make the final decisions, but this would be put in front of them as saying here's what it's going to cost to do what Congress laid out in the statute.

Senator PRYOR. Well, I notice all your colleagues here love to allow you to talk. You guys can chime in on this if you want to.

But, let me ask another question that is again part of your recommendations and part of the discussions that you had, and that is congestion relief and metropolitan mobility—those are very important things, obviously. But I think the way you have it struc-

tured, you focused on communities of a million or more in population.

For example, you mentioned the Northwest Arkansas corridor, in which the old Highway 71 traverses. By the way, when I was in college and law school, Highway 71 was so dangerous and so bad, so hard to drive, I actually used to take a road home called "the Pig Trail." So, you can imagine how bad that one was. Compared to 71, though, I thought it was preferable.

Nonetheless, the northwest part of our state is growing really exponentially—in the last 10 or 20 years it has really taken off, it's one of the fastest growing areas in the country—but they have a lot of congestion issues. They're far outgrowing and outpacing the infrastructure that we currently have there. Every time I go up there, I'll be stopped at a traffic light, and somebody will make me roll down the window, and say, "Hey, when are we going to get some more roads up here?"

But that area doesn't have a million people. So, what about an area that isn't at the million threshold, but is growing rapidly, and for whatever reason, needs some help on its infrastructure—how do you contemplate fixing it?

Mr. SCHENENDORF. We really have, of the 10 programs, two are really complementary to each other. One is the Metropolitan Mobility of a Million or More, the other is the Rural and Smaller Cities. So, for all the areas not covered by the Million or More—because we thought those were a special set of problems, that those areas of a million or more, it really needed a targeted, and somewhat different program, the rest of the State and smaller communities would be eligible under the other program, and that program itself would have congestion standards with respect to both access and mobility in those areas. And so they would get funding, as well, through the second program.

Senator PRYOR. I promise you every question I ask isn't going to be about Arkansas, but just as an example—and I know if other Senators were here they would have examples in their States, too—I'm not trying to make this Arkansas-centric, one of the 10 programs that you have, is called the Connecting America Through a National Access Program.

And, for example, in our State—and again, I know other States, if other Senators were here they could tell specifics from their State—but in my State, we have a planned, but far from completed project. In many areas, in most areas there's been almost no work done on it, at all, except for just a general planning. For example, Interstate 49, which would go down the western state border of Arkansas due north and south, very close to Oklahoma. And I-69, which would come through mostly in Mississippi, and then clip the southern quadrant of our State, and go through a little corner of our State and then go on down into Louisiana.

Those are two interstates that have not yet been built, they've been on the map and on the blackboard for a long time, but, we as a Nation, have never built them. Is that the way you envision—this Connecting America Program?

Mr. SCHENENDORF. Those kind of corridors—and there are many of them, throughout the country that need to be upgraded to four-lane, divided, interstate-type roads—would really, potentially, be

funded under two of the 10 programs—one is the one that you mentioned, the Rural Access, providing access to all parts of America, and tying all parts of America together, so that's one place.

But also on the freight—National Freight Program—some of those routes are going to be part of the corridors that need to be upgraded for freight movement throughout the country, so some of those corridors could be upgraded through that program, as well. So, you've got those two major programs that would be able to provide funding for those kinds of corridors.

Senator PRYOR. OK.

Let me go back, if I may, to one of your previous answers when I asked earlier about minority views. Not all of the Commissioners signed the report—I forgot, how many Commissioners were there, total? Twelve?

Mr. SCHENENDORF. Twelve.

Senator PRYOR. And what, all but 2 or 3 signed?

Mr. SCHENENDORF. Nine Commissioners approved the report, 3 dissented, of the 9 that approved it, 5 were appointed by Republicans, 4 by Democrats, includes a very diverse group from a very diverse political spectrum, all signed the report, supporting it.

Senator PRYOR. I don't want to say one person is more valuable than the next—but maybe the most significant name or position in the dissenting group is the current Secretary of Transportation, Mary Peters.

As I understand, her viewpoint, and the reason she didn't sign the report—and you all tell me if I'm wrong, but—as I understand it, is because she felt like the funding mechanism was too Federal tax-centric, is that fair to say?

Mr. SCHENENDORF. Well, I think the main difference was the role of the Federal Government, that basically, Secretary Peters and the other dissenters were arguing for a much diminished Federal role, that there wouldn't be any increase in funding at the Federal level, that the Federal mission would be more confined to, really, maybe just the interstate program, that they're not—wasn't the need for Federal assistance to transit or intercity passenger rail, and that all of those improvements were really the responsibility of State and local governments and the private sector.

So, it was really that role of the Federal Government that was the real distinction between the majority and the minority.

Senator PRYOR. Anybody have anything to add on that? On the dissenting view?

Mr. ROSE. I just, from my perspective, we were in agreement on a lot more things than we were in disagreement on. And it really came down to how best to collect, and where the primary responsibility—but an awful lot of the programs, from performance standards, to a lot of the various program reductions, we were all in agreement upon.

Senator PRYOR. And, Mr. Rose, was this a healthy process for you to go through? Did you think this process was good for the system?

Mr. ROSE. I think it is. What I believe one of our roles was, to give you a, at least a blueprint of some ideas, as you all debate and discuss the next funding. We hope that you will constantly be thumbing through the book and the suggestions, and at least know

that for 2 years, 12 people spent a lot of time, going around the country, listening to a lot of various organizations' constituents.

And while, at the end of the day, we really do believe that we've got a world-class transportation system, we know that, if you subscribe to, our economy is going to continue to grow, and that our population is going to continue to grow, we think we've got a really big issue coming toward us.

And we hope that—if nothing else—that you'll take a lot of the work that's been done, and reference it, as you all go through your various processes to design the future transportation network for our country.

Senator PRYOR. Let me ask, if I may, while I have you, Mr. Rose, on this railroad tax credit? You all talk about that, and I know that Senator Lott, when he was here, had a tax credit idea and a bill—could you elaborate what the Commission talked about, when it came to the tax credit?

Mr. ROSE. Sure. The—I think the real debate was around that we need more freight rail capacity. And as we looked at our study the first time, again, that these—the entire Class I network has never been modeled, if you will, as one U.S. railroad network, because these are privately held companies that all interconnect with each other.

But the study revealed that we're going to have to spend about \$140 billion through the year 2035. And even though the railroads are spending at record capital right now, we think that there's still going to be a gap there. And I believe that the most efficient, and the most rational way to do this, is through tax stimulus.

And the reason we believe that—and the reason I believe it—is that what we try to design in this program is a program that would simply stimulate investment to come sooner rather than later, but not so much of a stimulus that it would ever stimulate non-economic investment to be made.

And the other thing we made—that we were clear about—this isn't just for railroads. We have a lot of customers that, quite frankly, want to build rail storage capacity, rail expansion capacity—in some cases—

Senator PRYOR. And some of this deals with coal?

Mr. ROSE. Right.—it could be rail—it could be coal-storage yards. You know, we believe that there are customers that want to build out to another railroad, that would be used for this expansion capacity.

So let's say, it's the 25 percent off of expansion capacity only—so it's not for the maintenance and renewals of the ties and the ballast resurfacing that we do—and we believe that it would have a net-net very positive impact to get more rail capacity for our country.

Senator PRYOR. Good.

Before I let you all go, because many of our colleagues went to that Tom Daschle portrait unveiling, they left me with a lot of questions here, and that's why I'm asking all of the questions.

But, I do have one question, as we leave, and I don't know who's best to handle this, but you all talk about taking these 108 programs and consolidating them down into 10—does that also mean, and I'm not sure the report speaks to this directly—does

that also mean that the entire Department of Transportation should be reconfigured, and reorganized, and re-done to meet the challenges that they have today?

Mr. SCHENENDORF. Well, I think that it wouldn't be essential to do that, but I don't think that we think that that would be the next logical step. And I think we did recommend that at some point, once you consolidate these programs into performance-based, modally neutral programs, then it would make sense that the Department of Transportation restructure the Department in a way that was more compatible with the performance-based programs. But certainly, it wouldn't be essential to do that, you could take the first step of doing the performance-based.

Senator PRYOR. Great.

Did you all have anything else before I adjourn the hearing? Any other comments?

Mr. BUSALACCHI. I would just like to reaffirm a couple of things that I had said in my testimony about inter-city passenger rail. This is a very important piece of the Commission report. It's something that I believe very strongly that the country wants and needs. States have to have a Federal partner. States cannot expand inter-city rail without a Federal partner.

I believe that if we do it, and we expand our rail network, and we do it as the Commission report recommends, focusing on congested city-to-city pairs of 500 miles or less, we can help ourselves with energy independence, and global warming. It's something that we can do, but we're running low on time.

I know the Senator, before she left, had mentioned that we didn't say anything about Amtrak. Commissioners recognized that Amtrak—at the end of the day, may not be the only provider. I feel very strongly that we have to reauthorize Amtrak, and give them the money they need. We really need a Federal commitment, here, like the commitment we've made to highways and airports.

Thank you.

Senator PRYOR. You bet.

Anybody else before we adjourn?

Mr. QUINN. Mr. Chairman, just a couple of things. You know, transportation is so important to our Nation's economy—between the rail industry and the trucking industry—you know, we move the Nation's economy.

And the freight bottlenecks, the congestion that we're seeing on the highways today are costing billions of dollars a year. If we could transform, correct those situations, that actually frees money up, you know, for other development construction.

And they're becoming more critical every day as more and more vehicles are on our roads, and if the economy is going to grow, we simply have to solve these problems, immediately. It's a crisis out there today, and it's a crisis that grows bigger every day. And if you take Matt's—his 2 percent a year, and look what that does, compounded, this has to be addressed now, because it's costing us. The failure to act is what's going to cost us billions more dollars. It costs billions now, but the failure to do anything is going to be much more expensive than what we have to do.

Senator PRYOR. Right.

Mr. QUINN. Thank you.

Senator PRYOR. Well, thank you.

And let me just say this and—I'm sorry, did you?

Mr. SCHENENDORF. Well, I just wanted to add at the end here, on behalf of all of the Commissioners, thank you for having us up here and giving us this opportunity, and we stand ready to help in any way we can as you proceed forward.

Senator PRYOR. Well, thank you.

That's really what I was going to say, is that I want you to know that your work is not in vain, and we are going to start the process here at some point in the next several weeks. It will be up to Senator Inouye and Senator Stevens on how we proceed in the Committee.

But we're going to start that process of looking at our future highway needs, and getting prepared for the next highway bill, when that comes up, and your work, and all of your time and effort and energy will really be a starting point for discussion in a lot of areas.

I think your work has been valuable, and it's very much appreciated. We will leave the Committee record open for 2 weeks, we'll allow Senators who could not be here—or like Senator Stevens, had to leave early—to submit their questions for the record, so don't be surprised if the staff contacts you all, and asks you to get those responses back to us, but this is very important.

And it's like you said, our transportation system moves the economy, and it literally does. If we want to have that economic growth, like you all talked about, we have to have the right kind of transportation infrastructure there to make it happen, and to allow it to happen.

So, again, I want to thank you on behalf of the entire Committee, certainly Senator Inouye, Senator Lautenberg, Senator Stevens, Senator Hutchison, want to thank you all very, very much for being here, and all your time, and if there's anything else you'd like to submit for the record like more charts, please don't hesitate to do that, we look forward to working with you over the next several months.

The hearing is adjourned.

[Whereupon, at 4:22 p.m., the hearing was adjourned.]

A P P E N D I X

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DANIEL K. INOUE TO
JACK SCHENENDORF

Question 1. The Commission recommends a consolidation of the Federal surface transportation programs into 10 new program areas. One of those programs area is a safety program. How should this safety program be financed—by the users of the system?

Answer. The Commission applauds the Federal Government's work over the past four decades to improve transportation safety. There is no doubt that our Nation's surface transportation systems are much safer than they were in the early 1970s, thanks to cooperative efforts between the Federal Government, State and local partners, research institutions, and the private sector.

Much work, however, needs to be done, which is why the Commission's final report recommends more ambitious national safety standards and a goal to cut surface transportation fatalities in half from current levels by 2025. To accomplish this, the Commission recommends a National Safe Mobility Program. Like the other programs envisioned under a restructured surface transportation strategy, the Commission's final report recommends funding the National Safe Mobility Program through user fees. These user fees would come from the Highway Trust Fund—or its successor, a Surface Transportation Trust Fund—that includes revenue from a variety of sources, including fuel taxes.

The fatalities and injuries created by unsafe transportation impact many aspects of society at large, including public health, family welfare, and the economy. There is justification in having transportation users pay the cost for safety programs.

Question 2. The Commission also recommends creating a National Freight Program. Does the Commission recommend levying a waybill tax? Who does the Commission believe would be best to administer a waybill tax? Should these funds available for port-related infrastructure that feeds into the surface system, as currently there is no Federal program to financing port improvements?

Answer. Given the strong Federal interest in freight movement, the Commission recommended that Congress should make available a variety of funding sources to meet the needs of a freight transportation program which addresses chokepoints at major gateways and trade corridors. The freight program envisions port-side improvements, if they are part of comprehensive freight planning and yield the intended benefit of improving freight flow across the Nation's freight transportation networks.

At the Federal level, the Commission envisioned a variety of funding mechanisms, including increased gas tax revenues, tax credits, a portion of Customs duties revenues and a Federal freight fee. With regard to a Federal freight fee, the Commission reviewed a variety of fee options, including a freight waybill charge. It did not render a judgment on what type of specific fee would be the best to implement to help fund freight projects.

Throughout the deliberations of a fee, there was discussion of the fact that international trade is a "game changer" for freight flows, which informed the Commission's judgment that generating revenues from trade-related means is appropriate. Thus, the Commission focused on diverting a portion of Customs fees to freight projects. This approach has the advantage of an existing mechanism for collection and is a reasonable proxy for trade volumes flowing through freight networks and chokepoints. The Commission noted that if 5 percent of Customs duties were dedicated to freight transportation improvements, revenues would be approximately \$1.8 billion per year.

With regard to a container fee, the Commission noted that a container fee paradigm has in the past served to fund the public's share of public-private partnerships to develop needed freight infrastructure. The Alameda Corridor is the best example of this model. However, the Commission was careful to caution Congress that any such fee should be undertaken only with the creation of an accountable and trans-

parent programmatic linkage between any assessed fee and the selection of projects that facilitate increasing volumes of primarily trade-driven freight. The payers of such a fee must realize the benefit of improved freight flows resulting from projects funded by the freight program. Such a fee should be designed to ensure that commerce is not burdened by local and State proliferation of such fees; no mode of transportation or port of entry is disadvantaged and that the ultimate consumer bears the cost (*i.e.*, carriers do not assess, the government does, so that the cost cannot be borne by a carrier).

The Commission noted that private freight rail investment is the most significant source of investment in the freight network and that such investment would fall short of demand, despite current and projected record levels of infrastructure spending. Thus, the Commission recommended an investment tax credit to pull forward additional private investment and counseled against proposals that would reduce private freight railroad investment. A variety of witnesses before the Commission presented convincing arguments that this would include not only regulatory changes, but also increased taxes and fees on carriers.

Question 3. The Federal Highway Administration has estimated that large trucks do not pay their full cost in fuel taxes related to their use of and impact on Federal highways. Does the Commission recommend ensuring that all users fully pay their associated costs?

Answer. The Commission recognized that increasing the fuel tax without commensurate changes in truck taxes could exacerbate the current situation where heavy trucks pay less than their share of highway costs. Therefore, the Commission recommended that when adjusting Federal fuel tax rates, tax rates on existing Federal truck taxes should be adjusted proportionally to maintain the current allocation of highway cost responsibility.

