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COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

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Good morning Mr. Chairman; it is a pleasure to be here today to discuss the future of the Federal-aid highway program and specifically legislation for 1981 and beyond.

As you pointed out during my confirmation hearing on June 3rd, before the Committee on Environment and Public Works, this is an opportunity to apply creative thinking to the question of what we need in the way of highway legislation.

As I noted at that hearing, we are all keenly aware of the changing demands placed on our resources—inflation and scarce and expensive energy sources—and we are reassessing our approach to highway transportation. We also believe our highway program is playing a vital role in meeting the Nation's efforts to conserve energy, as well as to revitalizing our urban centers, contributing to better air quality, and providing economic development opportunities. With highways carrying 85 percent of all passenger miles of travel and offering the flexibility of travel our mobile society demands, it is imperative that we continue to plan and provide a system which responds to these needs. To begin this important reassessment process, we have been consulting with a wide range of State and local officials and a variety of public interest groups to get a better grip on the problems they face, and to solicit their recommendations for a more effective Federal-aid highway program. We have prepared a paper which provides an overview of the program and revenue options concerning this highway legislation. This paper has already been submitted to the Committee in preparation for today's hearing. I intend today to highlight and emphasize some of the main points and discuss some of the issues involved.

The 1981 legislative cycle will be a significant one in terms of highway finance and revenue policy for several reasons:

- The Trust Fund expires in 1985;
- Projections of highway revenues in general, and Federal gas tax revenues in particular, are down;

- o Highway authorizations for FY 82 need to be reassessed in light of the changing emphasis toward preserving the system;
- o Inflation is reducing the buying power of the highway dollar; and
- o Preliminary findings from the Section 506 Highway Cost Allocation Study will be submitted to the Congress in early 1981, and will provide a basis for further consideration of alternate tax structures and revenue sources.

Before I discuss specific highway program issues and options, I would like to set the framework for the discussion by placing the Nation's highway system in perspective.

Our highway transportation system—and the personal mobility, commerce, and economic development it facilitates—is a key national resource. While we all recognize its importance as users, perhaps we lose sight, sometimes, of its economic and social contribution as part of a national multi-modal transportation system. The system serves us in many areas of industrial growth and development, by providing for efficient, low-cost freight transfer and commerce. As such, it represents, along with our rail, air and water systems, part of the strategy to improve our national economic condition, not only through serving commerce, but also through its impact on economic activity and job production. Thus preserving the physical integrity and efficiency of the system—especially where it facilitates needed commerce—is a key aspect of our rationale for a continued Federal program of capital investment.

Of course, the system and its performance also play a part in our attempt to meet other national goals, including energy self sufficiency and inflation control. I want to emphasize the point that we must assure continued system performance by making necessary capital improvements to the highway system. If we defer such improvements as we have historically in other sectors of our transportation system we will find the basic system in such disrepair that it will be unable to adequately perform in any of the areas of economic and social activity we find important for the future.

Mr. Chairman, the Surface Transportation Assistance Act of 1978, the most recent major highway legislation, recognized the natural interaction of transportation systems which serve a Nation on the move. Combining highway, safety, and public transit titles in a single enactment, it is serving the public well. The Act provides for new and expanded services as the demand for greater and more efficient mobility continues. Mr. Chairman, as you have said, "(it) recognized the need for more expeditious completion of the Interstate System and for increased emphasis on rehabilitation and preservation of the existing highway networks, including a new impetus for bridge replacement and rehabilitation." (126 Cong. Rec 9148) I agree with you, that we must get on with the work of completing the Interstate and close the gaps in areas that are required for the greatest efficiency.

At this time I would like to briefly describe the current conditions and trends in performance of the components of the Federal-aid highway system as background for the development of our future program.

The Primary System, the oldest Federal-aid system connecting our major cities, includes 271,000 miles, with 90 percent located in rural areas. Over the last 10 years the States have put a high priority on its development, with nearly half of all State capital outlays (excluding the Interstate System) going into this system. It is generally built to high standards, and is in relatively good condition. However, we should note that there has been a decrease in the percent of capital invested over the 10 years and 60 percent of the pavement is now over 10 years old. There are many miles throughout the country with significant deficiencies. A portion of the urban segment of the system daily experiences severe congestion during peak periods. Improvements in design have been incorporated to respond to safety needs. In addition, 20 percent of the Primary System bridges have some deficiency, unrelated to pavement geometry. Primary programs must compete with all other on-system and off-system needs for the presently hard-pressed State dollar. A realistic analysis must conclude that the primary program and/or State-only program is barely meeting the growing rehabilitation needs of the Primary System and do not offer a feasible source of adequate funds for other needs such as Interstate 3R.

Any change in the Federal-aid Primary program will naturally have an impact on State priorities, because the combined Federal and State portion is now three-fourths of the capital program. In 1970, State-only funding provided 50 percent of capital improvement revenues; today 32 percent is State-only funding. It is difficult to predict how the States would respond to significant changes in Federal-aid levels in the future. There is no guarantee that an increase in Federal money would be met by corresponding increases by the States. Conversely, if the Federal program stabilizes, and in constant dollar terms declines over time, it is possible that State priorities would cause State funding to increase to compensate for the loss. The determining factor is the level of performance the individual States set for their State highways.

Unlike the Interstate System, which has uniform design and operating standards, the Primary System service level varies, depending on individual State preferences in the range of AASHTO standards and their ability to fund improvements to the highway network. Unless the Federal Government intends to set minimum acceptable levels of performance for the Primary System and then fund some portion of the cost to maintain these levels, the Federal role in the Primary System capital improvement program will be to assist the States by providing a base funding level. Each State could then determine how much or how little should be added to the base to meet their own priorities.

The Secondary System consists of 390,000 miles of intra-county collector routes. It serves 19 percent of all rural traffic and has had a decline in pavement condition over the last 10 years. Its capacity exceeds demand through 1990 and its geometrics have been improving. These routes are not intended to form an interconnected network of highways; instead they are collectors for travel onto and off the State arterial network, and in many instances still provide a link in the traditional farm-to-market route.

The System is providing adequate service for its comparatively low volume of traffic. However, 14 percent of the mileage is still unpaved, and the most common bridge deficiency is related to deck width. About 10 percent of the System is not generally safe because of narrow lanes and design deficiencies. The projected traffic increases on the System will have little effect, except for areas where abandoned rail lines cause an unexpected strain.

With present trends continuing, by 1995, 90 percent of the Secondary mileage will have incurred some level of deficiency. However, from an operational standpoint the impact of the Secondary routes on a nationwide highway network is marginal. The original Federal purpose of the program has certainly been accomplished as now about 86 percent of the routes are paved. Continued Federal involvement in this program might no longer be justified on the basis of system performance as to general safety needs and the movement of selected goods and, therefore, should probably be reassessed.

The Urban System, established as a separate Federal-aid program in 1970, is unique with a broad character encompassing any locally designated urban arterial or collector route not on another system. The System's funds are also eligible for use to fund mass transit equipment. While in generally good condition, peak period congestion is increasing and much recent policy focuses on the need for better management and integration of the highway and transit systems.

The need is for more efficient use of the existing system with emphasis on priorities atuned to our National urban policy. These include energy conservation, improving urban planning and management, with involvement of local governments, urban conservation, and minimizing adverse impacts on society and the environment. As this Subcommittee heard at the July 22 hearing on our Auto-Use Management proposal, there are many low cost Transportation Systems Management projects that can add appreciably to our energy savings. These include ridesharing programs, bicycle and pedestrian improvements, public education stressing efficient driving habits, among others. More emphasis on these kinds of programs, involving shared responsibilities with mass transit officials, will precipitate the actions needed to solve some of our urban problems of the 1980's.

Now in its third decade of construction, 96 percent of the Interstate System's designated 42,500 miles is open to traffic or under active construction. It is serving well its intended purpose and has provided the transportation link which has brought us together as a Country of truly interrelated States. However, the Interstate Cost Estimate has been escalating, and may exceed $50 billion in the 1981 estimate. The cost to complete the process as currently conceived, is no longer realistic. Let me provide some background.

In the 1973 Federal-Aid Highway Act, the Congress enacted Section 103(e) (4) of Title 23 which authorizes the States, in conjunction with local governments, to withdraw Interstate segments, subject to a Secretarial finding that the segment is non-essential. In so doing, the Congress effectively acknowledged that not all the remaining segments in urbanized areas are essential to the high performance system of intercity and interregional highways.

The 1976 Federal-Aid Highway Act emphasized completion of gap segments and the STAA of 1978 went one step further by mandating deadlines for submission of Environmental Impact Statements and commencement of construction. Any segments failing to meet these deadlines must be removed from the system. These actions by the Congress are significant because they indicate that the Congressional concept of Interstate completion is flexible. Congress has said whole segments generally may not be essential and that other whole segments should be removed if they fail to meet deadlines. We need now to consider another aspect of the completion question. Is it necessary for every segment to be built to the highest and latest standard? We believe that the judicious deletion of some construction items from the Interstate Cost Estimate would enable us to finish the initial construction of the System within a reasonable time frame, thus serving the basic intent of the Congress.

As we enter the decade of the 80's, we are concerned with preserving the Interstate System in its high level of service and condition. About 2,000 miles reaches pavement design-age per year. In addition, 23 percent is congested at peak periods and 13 percent of its bridges were deficient in the latest study.

Initially, post-Interstate completion work was to be part of the Federal-aid primary program, with maintenance a State responsibility. This policy was somewhat altered by the enactment of a separate Federally-funded Interstate program which shared responsibility with the States for resurfacing, restoration, and rehabilitation (3R) needs. The 3R program was authorized at $175 million annually for FY 80 and FY 81 increasing to $275 million in FY 82 and FY 83. In most cases though, funds simply will not be sufficient to meet the needs. The situation will become more severe and lack of work on these sections will ultimately require their full reconstruction, rather than the less costly 3R. Though the argument can be made that Federal-aid primary funds and State-only funds can or should be used to supplement 3R funds, experience tells us that this does not appear to be a realistic solution.

If we exclude Federal Interstate completion and 3R funds and the required State matching funds associated with Federal grants, the Interstate System has received less than 2 percent of its capital funds from other sources. Given the rapid increase in the costs of highway construction and the relatively low State priority on meeting Interstate 3R needs, it is unlikely that the Interstate System will capture more than the same 2 percent in the future. The system is almost entirely dependent on the Federal-aid program for capital investments.

Maintenance and 3R concerns represent a major interest of many highway interest groups. It is important to understand that in our terminology, maintenance is correction of minor deficiencies, not replacement of extensive road sections which have reached their service life or surpass capacity. In the maintenance area, State disbursements have exceeded cost increases. The States have used a major part of their available funds to carry out maintenance. We must remember that maintenance cannot substitute for needed 3R capital investment and it is in the 3R area that the States have not kept up because funding has not met cost increases.

The Bridge Program received a major increase and redirection as part of the '78 Act. Funds are aimed at replacement or rehabilitation of bridges on and off system. The 1979 Bridge Report shows 99,300 eligible bridges on the inventory at an estimated repair or replacement cost of $33.2 billion.

The categorical nature of this program makes it different from the other major programs, in that it is not "system oriented." This departure from past funding trends is itself a reflection of a very active Federal role in highway safety. However, there is a significant overlap between the bridge program and the Federal-aid system program because a large percentage of the bridge needs are also Federal-aid system needs and about 75 percent of the bridge program funds are invested in the Federal-aid systems. There may be advantages in eliminating this overlap; however, whatever program option is chosen, we are acutely aware of the inherent dangers involved with unsafe bridges and the effects of deficient bridges on the efficient movement of goods and services.

Highway safety is an integral part of our Federal-aid program as we continue to strive for a reduction in the number and severity of accidents. The categorical Highway Safety Improvement Program includes hazard elimination, rail-highway crossings, and pavement marking. Safety improvements , including the upgrading of features, represented an investment of about $1.6 billion in FY 79 on the Interstate, Primary, Secondary and Urban Systems.

Now let me again mention that we have been soliciting a wide range of public and private perspectives on the program. Department representatives have been consulting with local and State officials over the past few months . This process, I believe, has proven worthwhile in determining local needs, involving local interests in the Federal legislative process, and giving us a better view of the wide differences, as well as similarities, between regional needs in the country.

It is now time to turn the corner to a new direction, to meet new challenges, as we begin to shift emphasis in responding to new demands. I am pleased to have the opportunity today to discuss with you our objectives, and the possible courses we might take.

The traditional goals of the Federal-aid highway program have been to: (1) provide for an interstate highway network to serve the national defense and interstate travel; (2) develop with the States a national system that facilitates interstate commerce; (3) help balance interjurisdictional transportation; and (4) improve highway safety.

Current objectives we are also responding to include conserving energy, reducing inflation, minimizing adverse social, economic, and environmental effects, and revitalizing central cities, industrial centers, and declining population regions. We are concerned about improved equal employment opportunity and greater minority business participation.

The balancing of traditional Federal highway program goals, more recent national priorities, and the continued existence of a substantial Federal-aid highway system suggests the following five major objectives for the legislative proposal:

1. Improve national productivity by ensuring the Nation's highway systems are adequate to support national industrial growth and development.
2. Ensure that adequate resources are available for needed highway investment.
3. Ensure that highway taxes are equitable and efficient.
4. Improve the flexibility of State and local governments in meeting transportation needs and reduce Federal involvement in local transportation activities.
5. Assure continued improvement in highway safety.

Mr. Chairman, I believe the legislation you introduced, S. 2913, is a good vehicle for leading us in the right direction. Two factors are critical: most of the program terminates with the 1982 authorizations, which are apportioned to the States on October 1, 1981; and the Highway Trust Fund expires on September 30 1985, but the tax revenue ceases in 1984. An assessment of highway program options is especially timely since this Subcommittee and the Congress will be able to consider revenue sources as well as program authorizations in extending Federal-aid highway legislation beyond 1982.

The revenue and program decisions involve two interrelated issues: (1) performance of the existing systems and the Federal role in preserving and improving conditions, and (2) the source and amount of revenue which can be raised from various taxes to finance the highway program.

Since 1956, there has been a critical relationship between user-revenues and long-term Federal financial commitment in the Federal-aid highway program. Under the present financing system, users pay all or a portion of the cost of improving the system and equity is addressed by periodic adjustments in user taxes. While there appears to be a trend toward more non-user revenue financing for highways (particularly at the local level, but also at the State level), the Federal-aid program has been consistent in basing its program on a user-pays concept.

The Highway Trust Fund revenues are derived from three main sources. The 4-cent per gallon gasoline tax produces about $4 billion a year, and other user taxes on tires, diesel fuel, lubricating oil, truck sales, and truck use produce about $3 billion. Interest on the Trust Fund's cash balance will provide over $1 billion for this year.

The Trust Fund revenue outlook for the 1980's has changed markedly from that of the 1970's. With recent improvements in auto fuel efficiency, the decrease in highway travel, and the expected increase in gasohol consumption (which is tax exempt), the growth rate in tax revenues is expected to slow considerably. The average annual rate of growth during the 1970's was 4.5 percent compared to an expected annual growth rate of 1.5 percent between 1979 and 1984. In dollars, revenues will grow from $7.2 billion in 1979 to $7.7 billion in 1984. With future costs rising at least at this 1.5 percent a year level, a program operating at constant levels will deliver less each year.

There are four basic alternatives in long-term revenue policy:

- Stable Program. Maintain the Trust Fund and taxes and accept future program reductions due to decreasing fuel consumption and inflation;
- Expanded Tax Base. Keep the Trust Fund and increase user revenues through indexing to need or some other basis so that the program remains constant in real terms;
- General Fund Transfer. Provide for annual transfers from General Funding to the Trust Fund in amounts necessary to meet liquidating cash needs in the highway program.

- o <u>General Fund</u>. Terminate the Trust Fund and finance the highway program from general revenues without regard to user revenues.

To provide revenues for an increased program level, there are several alternatives—increasing the Trust Fund unit taxes, converting to an <u>ad valorem</u> gasoline tax as in Title II of S. 2913, indexing the motor fuel taxes to some measure of highway need, or developing new taxes, such as ton-mile or weight taxes.

If we retain the user tax system, then the results of the Cost Allocation Study, now in preparation, will help in examining the alternative user taxes as well as gas tax options. Cost responsibility, for the purpose of the study, is defined as the assignment of future highway costs, both the costs associated with the use of the existing system and those associated with additions to the system. Such cost allocation or responsibility assignment of each vehicle class consists of assessing both those costs which can be attributed to those vehicle classes and the remaining common or joint costs which cannot be attributed to particular vehicle classes or their roadway usage. As the highway program changes, both in terms of level and program mix, so the relative responsibilities of each class of user to cover Federal cost change. For instance, there may be inequity among various classes of users in the light of changing program emphasis on rehabilitation, and user charges would be adjusted accordingly.

It is necessary to point out that almost all highways on the Federal-aid system are owned, operated and maintained by the States or some local jurisdiction. Consequently, there are wide variations in how States and localities view the condition of their roads and what they determine to be their highway priorities. The Federal-aid program must remain flexible enough for the recipients of the funds to provide adequately for their unique conditions and priorities.

In dealing with the issue of future highway needs at the national level, questions must be asked concerning Federal involvement, funding commitment, and what criteria should be applied to a particular system. Should we assume that the Interstate System, for example, must have better overall pavement condition, fewer deficient bridges, and less congested mileage than the rest of the Primary System? Should we attempt to eliminate all highway deficiencies or should we, instead, change our criteria for defining a deficiency to account for normal depreciation of the highway facility? And if so, how do we meet future costs? Since the starting point for estimating needs is a set of criteria which identifies what is unacceptable, it is easy to see that the cost of future needs is very sensitive to what we are willing to accept. Currently, these criteria are based on decisions which balance engineering concerns with cost constraints. It may be that these criteria should be reexamined in light of current economic conditions and energy concerns. In addition, there are major differences in needs and problems in various parts of the country which require Federal assistance tailored to regional issues; for instance, the growing Southwest faces issues different from the established Northeast.

Understanding and defining the Federal role in the overall highway program is a key issue in considering and formulating the 1981 Federal-aid highway legislation. At the moment the Federal program faces a fundamental dilemma: it is being used to pursue an increasing number of programs and national objectives with shrinking funds. We need to focus again on the questions of what it is that we want to achieve through this program and how our objectives can be met most efficiently.

In sum, there are four major directions the Administration and Congress must address and bear in mind while deliberating the content of proposed legislation. They range from:

One, continue the range of programs in Title 23, and at current authorization levels, which would reduce real spending.

Two, maintain current programs in terms of constant dollars, by increasing revenues and authorizations.

Three, substantially modify the Federal role by phasing out or reducing Federal-aid programs and involvement. This could include a turnback to the States or reduction of Federal revenues, or a block grant relationship; or

Four, enlarge the Federal responsibility with a corresponding upgrading of standards, requiring a significant increase in highway-funding resources.

As I said at my confirmation hearing, I believe that fulfilling America's transportation needs is a national priority. The Federal Highway Administration—we at the Department of Transportation—are pleased to work with this Committee and the Congress toward the development of legislation that meets our Nation's needs. We approach this task with anticipation and optimism and appreciate your assistance.