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Mr. Chairman, Members of the Committee, Good Morning.

It is a pleasure to be here to present the views of the Department of Transportation on H.R. 45 and other pending port development legislative proposals.

I think that the best way for me to proceed is to first present the Administration's proposal for port development and discuss the principles on which it is based. I can then comment on other proposals in light of these principles.

We all know that needed progress in port development has been deadlocked for several years by disagreement over how new port improvements are to be financed. I want to assure you that we in the Administration find this state of affairs every bit as deplorable as you do. We agree that the timely improvement and adequate maintenance of our ports and harbors is important to our economy and to the future growth of our foreign trade.

The Department believes that the Administration's proposal opens the way out of this impasse, and provides both the near and long term means for resolving our port financing problems. Under the Department of Army's proposal, any projects that are economically justified will be able to go forward, since state or local authorities would be authorized, if they so choose, to levy user fees on the traffic utilizing the navigation improvements. With these fees, a project sponsor would be able to recoup the share, i.e., the non-federal share, of the cost of an improvement project that meets the tests of need and a positive return of benefits over costs. Similarly, the Army's proposal ensures that needed maintenance will not be delayed by controversy over the federal budget.

Let me discuss the way in which the port program would work under this bill. The federal share of operating and maintenance costs for projects with channel depths of 14 feet or less, and for channel depths of more than 14 feet but with annual commercial tonnage of less than one million tons would be 30 percent. For all other projects, i.e., the bulk of America's major ports, the non-federal share would be 100 percent of all operation and maintenance costs assigned to navigation purposes, except the non-federal share would be limited by a ceiling of 125 percent of any average national operation and maintenance cost.

The percentages for non-federal shares for new construction would be 70 percent for depths of 45 feet or less. For depths greater than 45 feet, the non-federal sponsor would bear the entire incremental cost of going beyond 45 feet.

I realize that, at first blush, this looks like an abandonment of what has been viewed in some quarters as the federal government's historic responsibility for waterside port development. However, this is not the case. While the Administration is certainly proposing to transfer a large measure of financing responsibility for port maintenance and improvement to non-federal authorities it is also proposing to give those authorities the means to meet that responsibility.

The key to this proposal is the provision of authority to non-federal entities to levy fees on the commercial traffic using the projects in question. This provision is carefully drafted. The bill provides that a public hearing must be held before establishment of such fees, and that such fees should reflect "to a reasonable degree the benefits provided by the project to a particular class of type of vessel." These are important features since they will help ensure that the equities of any locally imposed cost recovery scheme would have to be publicly and carefully considered. Finally, any fee schedule would have to be approved by the Secretary of the Army.

As it applies to new construction, this authority would allow non-federal sponsors to recover the cost of economically justified projects. If a port improvement project truly adds to the efficiency of the transportation system and benefits outweigh the cost, the traffic using these improvements can afford to pay for the non-federal share.

Provision of this cost recovery authority to local authorities, together with the lower federal share of port costs, will permit the accomplishment of three important goals.

— First, as already noted, economically justified projects will be able to move forward, and needed maintenance dredging will be ensured.

- -- Second, there will be a general expansion of the role of the local port authorities in economic decision-making about the volume of the development of this vital element of our transportation system -- our ports. When the federal government must be involved in making economic decisions, it should do so, insofar as possible on a marketplace basis, and this proposal will help us do just that.

- -- Third, there will be a shift in the burden of financing port maintenance and development from the federal government, and hence the general taxpayer, to local authorities, and, thereby to users (unless those authorities opt not to employ their user fee authority). The federal deficit will be reduced, and a smaller proportion of people's incomes will be taken into the federal taxing, borrowing and spending mechanism.

Let me enlarge a little on the first goal. While the deepening of certain coal ports could be the most dramatic result of the adoption of this proposal, guaranteeing the proper level of maintenance is just as important. A stable source of funding and a regular and predictable program for the maintenance of existing channels is of critical importance to the continued effective operation of all our ports. Indeed, it seems that it is only through cost sharing that this kind of stability can be obtained. Through their user fee authority, ports will be able to ensure long-term stability in the funding of their maintenance programs.

Effective marketplace decision-making, the second goal, is very important not only from this Administration's philosophical point of view, but also from the standpoint of the wise and efficient use of our economy's resources. We need to have more stringent standards for public transportation investments, both on economic efficiency and on budgetary grounds. Carrying out a project that is not justified is a waste of our society's resources. The Army's cost sharing proposal provides an important measure of protection against this kind of waste. If the costs of a project have to be recovered from the users of the project, then both the federal government and local sponsors have to go through decision-making processes similar to the process the private sector has to go through when making an investment decision. A judgment, based on hardheaded analysis, will have to be made as to whether the project can recover the necessary share of the costs from the traffic using that port. Even if local sponsors choose not to recover the costs from users, they must still do their own analysis and make their own judgment as to whether the economic benefits of the navigation improvement are worth the costs.

I should also point out that cost sharing in port development exemplifies a basic tenet of this Administration. There is no reason why Federal revenues from the general taxpayer should be used to pay the costs of government-provided services and facilities when the users of those services are able to meet the costs and there is no overriding social objective to be served by providing a subsidy. In the transportation context, the Administration's view is that such overriding objectives are present, to a limited degree, in the case of mass transit, but not otherwise. We see no point in subsidizing intercity passenger movements, whether by air, highway or rail. Freight, which is presumably moving as part of a business enterprise intended to make a profit, should certainly pay its own way.

The Department of Transportation is proud of its record of avoiding, and bringing to an end, unnecessary subsidies. Highway users, as a group, have traditionally covered 100 percent of the federal government's highway expenditures through user charges. We recently succeeded in increasing the user fees paid by the heaviest trucks. While there is, in our judgment, still some cross-subsidy from light vehicles to heavy vehicles, the situation was greatly improved by the recent charges.

Commercial aviation has traditionally covered its share of the air system costs, and continues to do so under legislation enacted in the last Congress. Private aviation has long lagged in its contribution to system costs, but recent increases in aviation fuel taxes have brought this group closer to full coverage of their costs, too.

The policy towards the freight carrying railroads is equally clear, and that is "no subsidy." We are about to return Conrail to the private sector. Over the last few years, some Federal financial assistance in the form of loans has been extended to certain marginal, Midwest rail carriers. There is also a program of federal payments to the states for branch line subsidies. The Administration is not seeking to continue these programs, once presently available funds are exhausted. All of these measures were intended to deal with specific, temporary problems, and are winding down as they are no longer needed.

Our third goal, shifting the burden of port financing off the federal budget, is part of the Administration's fundamental drive towards a reduced fiscal role for the federal government. I think that everybody must recognize that it is going to be difficult, if not impossible, to make transportation investments out of general federal revenues, no matter how well justified those investments may be in an economic or cost benefit sense. This is the source of the port development deadlock, and cost sharing can get us out of it, both by providing the financing for truly needed and economically justified investments, and by dampening pressures for marginal and unjustified projects.

Although current world market conditions have dampened the near term prospects for U.S. coal exports, this country has a clear opportunity to remain one of the world's major sources of steam coal in the coming decades. In order to exploit this opportunity fully, we will eventually need deeper channels for some of our major coal ports. It is only with cost sharing in place that the Administration will be able to support such projects. Achieving a high level of American steam coal exports is important not only for our balance of trade and level of employment, it is also important to our foreign policy and our national security that our allies not be dependent on less secure sources for energy, but have another energy source that they can count on and use at a reasonable price.

Let me now comment on H.R. 45. From our point of view, the most important feature of this bill is the proposal for 50 percent cost sharing on improvement cost attributable to deepening channels to depths greater than 45 feet. This bill does not provide any cost sharing on other improvement projects or for operations and maintenance. The proposal for 50 percent cost sharing on channels deeper than 45 feet is a step in the direction of the Administration's position and certainly a welcome step. It remains, however, far short of meeting the Administration's goals as reflected in the Department of Army's bill. Thus, both from the viewpoint of sound government finance and that of a balanced and positive national transportation policy, the Department of Transportation urges the favorable consideration of the Department of the Army's bill.

I will be pleased to answer any questions that you may have.