

**Testimony of T. Peter Ruane
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“Building American Transportation Infrastructure Through Innovative Funding”

Committee on Commerce, Science & Transportation

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Chairman Rockefeller, Senator Hutchison, and members of the Committee, my name is Pete Ruane and I am the president and CEO of the American Road and Transportation Builders Association (ARTBA).

ARTBA, which celebrated its 100th anniversary in 2002, has over 5,000 member firms and member public agencies from across the nation. They belong to ARTBA because they support strong federal investment in transportation improvement programs to meet the needs and demands of the American public and business community. The industry we represent generates more than \$380 billion annually in U.S. economic activity and sustains 3.4 million American jobs.¹

We commend the committee for convening today’s hearing and appreciate you allowing us to take part in this important discussion on how to help meet the nation’s transportation infrastructure needs.

The Time to Act is Now

One of the most attractive benefits of major public investments in transportation infrastructure is they create tangible capital assets that are long-lived. In addition to creating jobs and generating tax revenues throughout the economy during the construction cycle, these investments provide infrastructure improvements that foster and facilitate continuing economic growth over many years beyond the initial investment.

The greatest long-term economic returns can often be found in strategic investments that facilitate business activity, especially in industries that depend on the transportation network. Infrastructure investments aimed at reducing traffic congestion or providing faster point-to-point travel, for example, can increase productivity by reducing travel time.

Given the recent economic recession and the challenges our country continues to face in terms of unemployment, particularly in the construction sector, passing a robust federal surface transportation bill will help sustain and create jobs and support future economic growth.

¹ ARTBA, “U.S. Transportation Construction Industry Profile,” <http://www.artba.org/economics--research/studies--analyses/>.

Current transportation infrastructure investments generate over \$380 billion in annual economic activity for the nation – which is nearly 3 percent of U.S. Gross Domestic Product. This activity supports nearly 3.4 million jobs throughout the U.S. economy with a payroll of over \$159.3 billion. This includes approximately 1.7 million direct jobs for transportation construction workers and supplier firms. As those 1.7 million people spend their wages by going out to restaurants, buying cars or trucks, purchasing groceries or consuming housing, their spending supports an additional 1.7 million jobs in other sectors of the U.S. economy.

Unfortunately, the politicization of the American Recovery & Reinvestment Act (ARRA) has led some to question the job creation/sustaining benefits of federal transportation investment. While there have been a great deal of flawed claims that the ARRA's transportation investments did not work, the simple fact is that transportation is virtually the only construction activity that did not suffer a downturn during the recent recession—almost solely because of the Recovery Act. The measure provided a critical one-time injection of federal investment into transportation improvements. In so doing, it preserved thousands of jobs that would otherwise have disappeared and the improvements resulting from the 14,000 Recovery Act construction projects will benefit communities and businesses for years to come. But the full potential of the Act was undermined by the collapse of private sector construction activity and cuts in state and local transportation construction investment over the last two years. In fact, a recent U.S. Government Accountability Office publication references a preliminary U.S. Department of Transportation report that found 21 states did not meet the ARRA's maintenance of effort requirement and reduced dedicated revenues for transportation at the same time the Recovery Act boosted federal transportation investment.

But direct employment is only the tip of the iceberg. Even more important are the jobs and economic activity that could not exist without our nation's modern transportation infrastructure. Every manufacturing plant in the U.S., every retail store, every plumber and service worker, every trucker and millions of other jobs depend on highways, airports and railroads for inputs and to deliver products to customers. If we let our transportation system decay, American workers across the economy will be hurt. There are approximately 78.6 million American jobs in just tourism, manufacturing, transportation and warehousing, agriculture, general construction, mining, retailing and wholesaling alone that are dependent on the work done by the U.S. transportation construction industry. These dependent industries provide a total payroll in excess of \$2.8 trillion.

The U.S. is experiencing intense competition from emerging economies around the world. Our transportation infrastructure is critical to our competitiveness. We have started with a great advantage – the investment America made in the Interstate Highways. But we are losing that advantage as China, India and Europe are all investing more in new capacity than we are because they recognize the importance of transportation infrastructure to their economic competitiveness.

In China, infrastructure spending has increased an average of 20 percent each year over the last two decades. China, which is roughly the same size as the continental U.S., has built over 30,000 miles of new expressways in the last 10 years. Their highway system is expected to

extend over 53,000 miles by 2020, surpassing the current 47,000 miles of Interstate in the United States.²

One of the most powerful things Congress can do to support existing jobs, create new jobs and strengthen the foundation of U.S. economic competitiveness is to pass a robust multi-year reauthorization of the federal highway and transit programs in 2011.

Investment vs. Spending

The financial requirements to rebuild and improve the nation's highway, bridge and public transportation systems are well documented. In 2008, the congressionally-mandated National Surface Transportation Policy and Revenue Study Commission estimated total unmet annual surface transportation needs were in the range of \$225 to \$340 billion. When compared with current revenue projections for the Highway Trust Fund, the gap between needs and current resources is staggering. Much of the current climate and debate that exists in Washington, D.C., and state legislatures across the country fails to differentiate the benefits between types of public spending.

Mr. Chairman, firms in the transportation construction industry that I represent secure their work largely through a low bid competition. As such, they are keenly aware of the bottom line and the need to control costs. At the same time, they also know that without strategic investments in capital and personnel, their companies will not grow or be prepared to respond to future market conditions.

That simple, but incredibly important, truth seems to be overlooked in many of the discussions about the need to cut federal spending. Notwithstanding the political rhetoric on both sides, there is a difference between investment and spending in the business world and this is certainly true about the federal transportation programs. Daunting needs and revenue assessments should not mask the reality that we cannot have a growing economy with a failing surface transportation infrastructure. Furthermore, the longer the status quo persists, the further performance of our highway and public transportation facilities will deteriorate and the more expensive they will become to fix.

To that end, the most important thing members of Congress can do at this stage is to jumpstart the surface transportation reauthorization debate as soon as possible with tangible legislation. As this process moves forward, we urge all parties to focus on achieving clearly defined national transportation goals and to keep an open mind about the investment levels necessary to meet long-term objectives.

While increased investment from all levels of government is necessary to help boost the performance of the nation's surface transportation network, there are also substantial opportunities to deliver transportation improvements through greater utilization of public-private partnerships and federal policy reforms.

Capturing the Value of Innovation

² Wall Street Journal, "China Bets Highway Will Drive Its Growth," November 11, 2008.

The federal highway and public transportation programs have been incredibly successful. In fact, the Brookings Institution cites the U.S.'s highway system as one of the top 10 accomplishments of the federal government. This impressive achievement notwithstanding, past success cannot serve as a rationalization for the status quo. As is the case in the business world, elected officials should constantly be looking for new and innovative opportunities to deliver services.

The increasing involvement of the private sector in project financing and delivery over the last 20 years has been a welcome and much-needed addition to the overall effort to improve the nation's surface transportation network. Public-private partnerships (P3s) offer not only a source of supplementary resources for transportation facilities, but also the entrepreneurial power of the private sector to improve efficiency in managing these endeavors.

ARTBA members have decades of experience across the broad range of transportation P3s. In fact, the ARTBA P3 Division has been on the cutting edge in promoting these types of opportunities since its inception more than 20 years ago. ARTBA remains an ardent supporter of P3s and federal policy reforms to increase their role in supplementing core public sector transportation investments. However, the potential contribution of P3s to the nation's overall surface transportation challenges must be considered in the proper context.

According to a report ARTBA commissioned from "Public Works Financing" Editor William Reinhardt, 24 states have used innovative procurement methods and/or public-private financing mechanisms since 1989 to build at least 96 transportation projects valued at more than \$54 billion. Sixty-five percent of these projects have come in eight states: Florida, California, Texas, Colorado, Virginia, Minnesota, North Carolina and South Carolina.

Unfortunately, 26 states have not yet taken advantage of a P3 process for transportation improvements. In fact, almost half of the states have not yet approved P3 enabling legislation and, therefore, are not able to take advantage of these opportunities.

Mr. Chairman, I would like to request Mr. Reinhardt's full paper be included in today's hearing record.

P3 projects are certainly a key component of the total solution to the nation's transportation infrastructure challenge, but they also currently have limited applications which vary by state. To further encourage the use of transportation P3s and leverage private sector resources in the next surface transportation reauthorization bill, ARTBA recommends that Congress:

- Enhance TIFIA—The Transportation Infrastructure Finance & Innovation Act (TIFIA) has leveraged \$7.9 billion of federal credit assistance to support \$29 billion of total project investment by all parties. This is a return of more than three-to-one and even greater progress could be made by increasing the resources allocated to the TIFIA program.
- Expand PABs—Private Activity Bonds (PABs) to support highway and intermodal activities have generated great interest and activity since this eligibility was established in 2005. The current authorization expires once the \$15 billion cap is reached and this

authorization should be extended to allow further use of PABs to support infrastructure improvements.

- Restore Build America Bonds—The successful Build America Bonds (BAB) program has lapsed. The continuing state budget difficulties and the record of BAB support for transportation improvements make a compelling case for renewal.
- Eliminate Restrictions on Tolling—States should be given maximum flexibility to impose tolls to generate revenues from new and existing roadways, including the Interstate Highway System, to support needed infrastructure improvements. Expanded opportunities to utilize tolling, however, should include a specific prohibition against using the generated revenues for non-transportation activities.
- Educate Public Officials—The reauthorization bill should include enhanced strategies to encourage state and local officials to take advantage of opportunities to utilize P3s to advance transportation projects. They could range from technical assistance on individual projects to enacting state P3 enabling legislation.

Like a number of members of this Committee, ARTBA also supports the concept of a national infrastructure bank to help fund large, national or regionally significant transportation projects. Such a mechanism would fill a clear void in federal transportation policy as these types of endeavors typically fall outside the scope of existing programs.

While an infrastructure bank can clearly be an additive tool to complement the core surface transportation programs, there are a number of issues still to be resolved. While an infrastructure bank is frequently discussed in the context of the surface transportation reauthorization bill, a number of infrastructure bank proposals are broad-based and would extend far beyond the areas of transportation.

I am not suggesting the merits of this concept would not apply to other types of infrastructure development, but rather that the application of the bank to transportation should be clear. State departments of transportation and the industry I represent rely on the predictability of federal surface transportation investments. While a broad-based infrastructure bank may be critically important, the fact is that transportation may or may not benefit from such a construct and that should be clear up front.

Attracting private investment is frequently cited as a reason to establish a national infrastructure bank. Certainly, there is a significant role for private investment to play in supplementing federal investment. However, we caution against thinking the private sector alone is a solution to the nation's infrastructure deficit.

As mentioned earlier, a large number of states do not allow for public-private partnerships. About half of all states have P3 enabling legislation and within that population, there are varying levels of flexibility to use P3s—some allow for broad infrastructure investment while others are limited to consideration of P3s for a single project. ARTBA is working with the National Conference of State Legislatures (NCSL) to provide informational resources to interested state legislatures to advance the use of P3s nationwide. For more detail on various state P3 enabling laws, I would refer you to a report we partnered to create with the NCSL, available at <http://www.ncsl.org/default.aspx?tabid=20321>.

When considering a national infrastructure bank, there are also several specific organizational issues to address. For instance, how would an infrastructure bank be distinguished from other federal programs that offer loans and credit assistance to transportation infrastructure programs, such as the successful Transportation Infrastructure Finance and Innovation Act (TIFIA) program? The TIFIA program supports regional and nationally significant projects, most of which have a revenue stream to pay back the financial assistance.

Addressing the nation's transportation challenges will not get easier over time and it is incumbent on all parties to explore traditional and innovative approaches to fulfill this core function of the federal government. The infrastructure bank is a creative proposal that may very well help advance certain types of needed transportation improvements. My comments about the infrastructure bank are in no way intended to be critical, but an attempt to ensure that all involved stakeholders have reasonable expectations about such a mechanism. We will work closely with members of this Committee as you move forward.

Surface Transportation Reauthorization

Mr. Chairman, as important as increased federal transportation investment is to strengthening the nation's economy and overcoming our job creation challenges, we must acknowledge that investments in this area are at a crossroads. The failure to generate increased revenues to support the 2005 surface transportation reauthorization bill created a situation where Highway Trust Fund spending significantly exceeded incoming revenues. The combination of this unsustainable approach with the 2008 recession put the trust fund on the brink of insolvency. While the fund was able to meet its obligations through a series of general fund transfers to recoup previously foregone revenue, existing levels of highway, public transportation and transportation safety investment can no longer be maintained.

The House of Representatives has received significant notoriety in recent days for plans to cut surface transportation by as much as 35 percent. All should be clear that this approach is not the result of hostility toward these investments, but a reflection of the Highway Trust Fund's financial outlook. The hard truth is that we can no longer bypass the need to generate new revenues to support surface transportation investment without seeing adverse effects.

In contrast, the bipartisan leaders of the Senate Environment and Public Works Committee are developing a two-year surface transportation reauthorization bill that would maintain FY 2009 levels of highway investment plus inflation. If all committees of jurisdiction pursue similar parameters, we understand the total level of investment in such a multi-year surface transportation bill would be \$109 billion, which would require \$12 billion in new revenues.

I am well aware of the political environment and the challenge of generating new resources for any area of discretionary spending. I am also aware that members of Congress on both sides of the aisle are claiming we must protect jobs and generate new ones. I am also aware that many elected officials feel like they were elected to cut spending, but have yet to see one proclaim they were elected to cut jobs.

Certainly, increased involvement from the private sector in addressing the nation's transportation challenges can help in the areas where such projects are viable. Make no mistake about it, however, if Congress fails to generate or provide revenues to complement incoming Highway Trust Fund receipts, jobs will be lost in every state.

Conclusion

Mr. Chairman, members of the committee, again I commend you for convening today's hearing and thank you for inviting the American Road & Transportation Builders Association to participate.

The nation's economic recovery is fragile and its surface transportation network is at a crossroads. We certainly recognize writing and enacting a multi-year reauthorization bill will not be easy, but this legislation has the potential to not only create jobs, but generate long-term economic productivity—two of the key challenges currently plaguing our nation's economy.

The most important thing Congress can do at this stage, however, is to produce legislation and move forward. To that end, I urge all members of this panel to work to produce a bipartisan reauthorization bill and support generating the necessary revenues to, at minimum, maintain current levels of surface transportation investment. Delaying action will only exacerbate the problem.

I would be happy to answer any questions.